CHAPTER-1

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Performance is usually defined as the extent to which an organizational member contributes to achieving the goals of the organization. It is defined as "the process of identifying, evaluating and developing the work performance of the employee in the organization, so that organizational goals and objectives are effectively achieved while, at the same time, benefiting employees in terms of recognition, receiving feedback, and offering career guidance" (Lansbury, 1988). The terms performance assessment, performance evaluation, performance management are also used to describe the process. Performance management focuses on ways to motivate employees to improve their performance. The goal of the performance management process is performance improvement, initially at the level of the individual employee and ultimately at the level of the organization.

Performance appraisal is the systematic, periodic and an impartial rating of an employee’s excellence in the matters pertaining to his present job and his potential for a better job. The work performance of the subordinate is examined and discussed in the form of a periodic interview with a structured formal interaction between a subordinate and supervisor to identify weaknesses and strengths of the subordinate as well as opportunities for improvement and skills development. The performance of each and every individual employee plays a major role to achieve organizational goals and to sustain its growth in the present competitive world.

Performance appraisal is a formal structured system of measuring and evaluating employee’s job related behaviors and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee organization and society all benefit. The employee’s performance should assess continuously to make their contribution to higher extend. Effective appraisal system address clarity, openness, and
recognize productivity through rewards be cognizant of appraiser leadership qualities
& Creamer, 1997). Performance appraisal must be culturally compatible and it should be
at throughout the organization, it must be sensitive to each of the cultural environments in
it exists. An appraisal system must be reflective of the organization’s values, and must
age those behaviors’ that enable it to achieve its goals. Getting workers to exert effort,
ing individual workers to the most appropriate jobs, setting pay, deciding which workers
be retained and which should be promoted all require that management judge the
rance of workers. This judgment requires learning about worker productivity, the process of
oring. In some establishments, this process may be informal and in others it may be
ightforward because of the nature of technology. The most common approach to monitoring
formance appraisal is formal system.
formance appraisal usually involves ‘evaluating performance based on the judgments and
ions of subordinates, peers, supervisors, other managers and even workers themselves.

Objectives of Performance Appraisal System:-

In the words of Yong, 1996 performance appraisal is an evaluation and grading exercise undertaken
an organization on all its employees either periodically or annually, on the outcomes of
formance based on the job content, job requirement and personal behavior in the position. In the
ords of McGregor, 1987 Performance appraisal objectives can be classified in a number of ways.
- Administration: It provides an orderly way of determining promotions, transfers and salary
creases.
- Informative: It helps to Supply the data to the management regarding the performance of
individual on his or her performance.
Motivational: Creating a learning experience that motivates staff to develop themselves and improve their performance.

Typically modern performance appraisal systems are employed to achieve several objectives that include: Improvement in the communication between supervisor and subordinate through the use of feedback between them. Identification of the scope for performance improvement. Identification of individual training and development needs. Identification of the potential of individuals for promotion, placement, decisions, as the basis for remuneration and reward, on the basis of performance. As a powerful means of managerial control, through the setting of objectives and a review of success or failure (Edmonstone, 1996; Longenecker, 1997).

12 Need of Performance Appraisal System: - There are many reasons, why an organization needs a formal performance appraisal system; it is needed to take smart decisions regarding salary increases, promotions, demotions, terminations and transfers (Longenecker, 1999). In the words of Valence, 1999 performance appraisal system is a tool that can assess and suggest improvements in employee productivity. Performance appraisal system is important for organizations, as it mainly focuses on employees to develop their capabilities. Moreover, it does not only do capacity building but it helps managers in timely predictions and taking actions promptly to uncertain changes (Cokin, 2004).

13 Performance Appraisal System and Performance Improvement: - Although the relationship between appraisals and performance may not be a direct and causal one, performance appraisal enhance role clarity, communication effectiveness, merit pay and administration, expectancy and instrumentality estimates, perceptions of equity, Increase in role clarity can affect both the
performance expectancy and performance/reward instrumentality estimates. Thus, by reducing ambiguity performance appraisals may positively influence the levels of motivation exhibited by employees (Duhinsky, Jolson, Michaels, Kotahe, and Lim, 1993). The performance appraisal is a technique that has been credited with improving performance (Bagozzi, 1980; DeCarlo & Leigh, 1996) and building both job satisfaction and organizational commitment which has been related to lower levels of turnover (Babakus, Cravens, Johnston, & Moncrief, 1996; Babin & Boles, 1996; Brown & Peterson, 1994; Churchill, Ford, Hartley, & Walker, 1985). More frequent appraisals and feedback help employees to see how they are improving, and this should increase their motivation to improve further. Appraisals are generally considered to have a positive influence on performance, but they also may have a negative impact on motivation, role perceptions, and turnover when they are poorly designed or administered. The ultimate goal of performance appraisal should be to provide information that will best enable managers to improve employee performance. Thus, ideally, the performance appraisal provides information to help managers manage in such a way that employee performance improves (Angelo S. DeNisi and Robert D. Prihara, 2006). Providing the employee with feedback is widely recognized as a crucial activity. Such feedback may encourage and enable self-development and thus will be instrumental for the organization as a whole and will lead to improve the performance.

Purpose to Conduct Performance Appraisal:-

There are numerous reasons to conduct performance evaluation. Performance appraisal is conducted to affect employee behavior through the feedback process, or to justify some sort of human resource management action such as termination, transfer, promotion, etc. However, many other benefits may also occur from the information yielded by the appraisal. These benefits include increases in

Performance Appraisal systems are used for two main purposes: To serve a variety of management decisions such as decision-making about promotions, training needs, salaries, etc, To enhance developmental processes of employees or as an evaluation instrument.

There are two typical performance appraisal uses: evaluative and developmental. The evaluative function includes the use of performance appraisal for salary administration, promotion decisions, retention-termination decisions, recognition of individual performance, layoffs, and the identification of poor performance. Developmental functions include the identification of individual training needs, providing performance feedback, determining transfers and assignments, and the identification of individual strengths and weaknesses (Wendy R. Boswell, John W. Boudreau, 2000).

13 Methods of Performance Appraisal:
There are three existent approaches for measuring performance appraisal (Dickenson and Robbins, 1998). These are

1) Absolute standards
2) Relative standards
3) Objectives.

Absolute Standards:-In this employee are compared to a standard, and their evaluation is independent of any other employee in a week group. It includes essay appraisal method. The critical
silent appraisal, the checklist, the graphic rating scale, forced choice and behaviorally anchored rating scales.

Relative Standard: In this individuals are compared against other Individuals. These methods are relative standards rather than absolute measuring device. The most popular relative standard method is group order ranking, individual ranking and paired comparison.

Objectives: The third approach to appraisal makes use of objectives. Employees are evaluated on how well they accomplished a specific set of objectives that have been determined to be critical in the successful completion of their job. This approach is frequently referred to as Management by Objectives (MBO). Management by objectives is a process that converts organizational objectives into individual objectives. It consists of four steps goal setting, action planning, self-control and periodic reviews (Ingham, 1995).

Guidelines For Employee Performance Appraisal:–

Goal Setting: Goal setting has been powerful motivational tool. Goal setting consists of performance goals that are specific, moderately challenging and accepted. Goal setting within performance appraisal has been associated with greater appraisal satisfaction and increased performance (Dobbins et al, 1990).

Employee Participation: If the employees perceive the appraisal system as biased and unfair then it is unlikely that they will accept the outcomes of the system. Participation gives an opportunity to the employees to raise their voice into the appraisal process. Performance standards, criteria for evaluation and the evaluation form itself all can be developed with the help of employees. Greater employee participation generates an atmosphere of cooperation and support, which facilitates the
development of a coaching or counseling relationship, thereby reducing appraisal related tension

- Developing Performance Standards:- Standards to be developed that measure the essential job
duties and responsibilities. Employee participation facilitates developing reliable, valid, fair and
useful performance standards.

- Sound Performance Appraisal Interview:- If the appraisal interview is conducted poorly, the
efficacy of the appraisal system is lost. The interviewer must be aware about sensitivity to employee
needs for privacy and confidentiality. It is of utmost importance to provide undivided attention
during the interview and reserve adequate time for a full discussion of the issues (Roberts, 1994).

- Revise Performance Appraisal Process:- It is important to systematically and regularly review
system operations to make sure that process and practices are being followed are effective.
Examples of measures that can be used to assess the health of your appraisal system include
employee acceptance and trust of the appraisal system (Longenecken and Fink, 1999).

Employee performance appraisal system can be considered as a tool that can measure and suggest
how to improve productivity (Vallance, 1999).

- Self Evaluation: - Employees' who have an opportunity to assess their own performance often come
up with creative solutions that would not have surfaced in the one-sided managerial evaluation
(McCarthy, 2000).

- Management Feedback:-Evaluating each employee as average, without specifically mentioning
strengths and weaknesses, diminishes the value of the appraisal process. When an employee's
strengths and weaknesses are explained, the employee can build on his or her strengths and correct
his or her weaknesses. Employees' cannot improve their job performance unless they are told where
their performance is inadequate (Camardella, 2003).
Help User-Friendly Procedure:- Performance criteria and rating procedure should be simple and they should be well understood by the raters and rates. It should be user friendly. Performance criteria should encompass the key aspects of employee’s job. If any key aspect is ignored, then it sends the message that is unimportant and can be ignored.

Design Specific and Relevant Appraisals:- Appraisal system will be successful only when the items appraised address the requirements and essential functions of job. The criteria used should be specific and directly related to the job (McCarthy, 2000).

Evaluator Training:- Main reason for employee and supervisor’s frustration with the performance appraisal forces is that large number of managers are poorly trained in how to give feedback to employees.

The following benefits of a successful appraisal system such as it Helps taking stocks of an employee’s overall performance, Enables employee to pinpoint strength and spot weakness, Provides an opportunity to motivate employee and encourage for superior performance, Lets determine any need for further training, Helps setting goals for future superior performance.

Rating Errors in Performance Appraisal System:-

Performance appraisals require the rater to objectively reach a conclusion about performance. The use of ratings assumes that the rater is reasonably objective and accurate (Ivancevich, 2001). Raters have their own rose-coloured glasses with which they “objectively” view their subordinates. These biases produce rating errors, or deviations between the “true” rating an employee deserves and the actual rating assigned. Rating errors reduce the reliability, validity, and utility of performance appraisal systems. Biases in performance ratings manifest themselves in many forms. Some of the most common types of rater biases are:-
Halo error occurs when the rater perceives one factor as having paramount importance and gives a good rating to an employee based on this one factor. The rater fails to discriminate between the employee's strong points and weak points. Halo is carried over from one dimension to the other.

Yerkes-Dodson Effect: This is the exact opposite of the halo effect, whereby the appraiser gives an unfavorable rating to overall job performance essentially because the appraisee has performed poorly in one particular aspect of the job which the appraiser considers all-important.

Central Tendency: This occurs when a rater avoids using high or low ratings and assigns average ratings. The rater may believe that all the employees are equal, and do not want to rock the boat. The result is a failure to reflect the true range of differences among the employees.

Standards of Evaluation: Problems with evaluation standards arise because of perceptual differences in the meaning of the words used to evaluate employees. Thus, good, satisfactory, and excellent may mean different things to different raters.

Leniency Effect: Giving undeserved high ratings is referred to as leniency. This behavior is often motivated by a desire to avoid controversy over the appraisal. The downside of this error is that poor performers may get good ratings and this could create resentment among the good performers.

Strictness Effect: Being unduly critical of an employee's work performance is referred to as strictness. Some managers apply an evaluation more rigorously than the company's standards.

Contrast Effect: This occurs when another employee's performance influences the ratings that are given to someone else. For example, when performance of an average employee is evaluated immediately after the performance of an outstanding employee, the rater might end up rating the average person as "below average" or "poor".
Similar-to-me Error:- This error reflects a tendency on the part of raters to judge employees more favorably who they perceive as similar to themselves. It has been shown that the more closely an employee resembles the supervisor in attitude or background, the stronger the tendency of the supervisor to judge that person positively.

Neutral Bias:- Consciously or unconsciously, a rater may systematically rate certain employees higher or lower than others on the basis of race, origin, gender, age or other factors.

Recency Effect:- This error occurs when a rater overemphasizes an employee’s most recent behavior. Most supervisors do not have the time or resources to closely monitor an employee’s performance over a year or make detailed notes. Before the appraisal, the rater is forced to consult memory, which is clearer and more dependable in the months leading up to review, as opposed to the earlier part of the rating period.

Relationship Effect:- Employees’ in high-quality trusting relationships with supervisors receive higher ratings regardless of how long they have worked for the supervisor, whereas employees in distant, low-quality relationships do better than average when the relationship is long-term.

Problems in Conducting Performance Appraisal:-

In the words of Cardy, 1998 performance appraisal process is "a difficult and error-ridden task." However it is an important task that affects both the individual and the organization. Performance evaluation is a sensitive matter, if the assessment is negative, it often elicit negative psychological responses such as resistance, denial, aggression, or discouragement. Thus high perceptions of evaluative performance appraisal use may result in negative feelings about the appraisal (Drenth, 1984).
Performance appraisal system tends to have several problems. Rater’s evaluations are often
decisively biased by their cognitive and motivational states, supervisors often apply different
standards with different employees which results in inconsistent, unreliable and invalid evaluations.
Performance evaluations are often perceived by employees and supervisors with "fear and
loathing." Two possible explanations for the fear and loathing are the absence of a "sense of
worthship" and an absence of rewards for properly completing the process (Thomas and Bretz
1994). The employee reactions to appraisals can be an important condition to improve the
employee’s performance. In fact, appraisal reactions such as satisfaction, acceptability, and
motivation are cited as an important trend in the appraisal process (Levy and Williams, 2004).

INDUSTRY PROFILE - HINDUSTAN UNILEVER LIMITED

Hindustan Unilever Limited is an India-based fast moving consumer goods company. The Company
operates in seven divisions: soaps & detergents, personal products, food, exports business, water,
Hindustan Unilever network and beauty & wellness division. The personal products category of the
Company consists of hair care, skin care, oral care, deodorants and color cosmetics. The foods
portfolio of the Company consists of beverages tea and coffee, processed foods Kissan, Knorr and
Kamala range of products, ice creams and bakery products, modern foods. The Company
operates the beauty and wellness services segment through a network of franchised Lakme Beauty
Salons. During fiscal year 2010, the Company divested its entire shareholding in Shamnagar Estates
Private Limited.

Hindustan Lever Limited’s distribution network comprises about 4,000 redistribution stockists,
covering 6.3 million retail outlets reaching the entire urban population and about 250 million rural
consumers. HLL is also one of India's largest exporters. It has been recognized as a Golden Super
The Trading House by the Government of India. Presently, HLL has over 16,000 employees’ including over 1,200 managers. In the late 19th and early 20th century Unilever used to export its products to India. This process began in 1888 with the export of Sunlight soap, which was followed by Lifebuoy in 1895 and other famous brands like Pears, Lux and Vim soon after. HLL offered 10% of equity to the Indian public and it was the first among the foreign subsidiaries to do so. Currently, Unilever holds 51.55% equity in the company while the rest of the shareholding is distributed among about 380,000 individual shareholders and financial institutions.

Hypothesis and Principle of HUL: Principles of HUL states that to succeed requires "the highest standards of corporate behavior towards everyone they work with, the communities they touch and the environment on which they have an impact." They are conducting their operations with integrity and with respect for the many people, organizations and an environment. They aim to make a positive impact in many ways: through their brands, their commercial operations and relationships, through voluntary contributions and through the various other ways in which they engage with society. They are also committed to continuously improving the way they manage their environmental impact and are working towards their longer-term goal of developing a sustainable business. Their corporate purpose sets out their aspirations in running their business. They work with suppliers who have values similar to their own and work to the same standards they do. Their business partner code, aligned to their own Code of business principles, comprises ten principles covering business integrity and responsibilities relating to employees, consumers and the environment.

Fundamental Principle of HUL Structure: Fundamental principal determining HUL structure is to infuse speed and flexibility in decision-making and implementation, with empowered managers across the company’s nationwide operations. The Board of Directors as repositories of the corporate
own act as a guardian to the Company as also the protectors of shareholder’s interest. The day-
day management of affairs of the Company is vested with the Management Committee which is
subordinate to the overall superintendence and control of the Board.

Achievements of HUL: HUL is one of the country’s largest exporters; it has been recognized as a
Golden Star Trading House by the Government of India. In 2007, Hindustan Unilever was
certified as the most respected company in India for the past 25 years by Business world, one of India’s
leading business magazines. HUL has produced many business leaders for corporate India. HUL is
one of the eight Indian companies to be featured on the Forbes list of World’s Most Reputed
companies in 2007. HUL was ranked 39th in The Brand Trust Report 2011 published by Trust
Research Advisory. Fair and Lovely creams also was listed in the same report.

Services of HUL: HUL also renders services to the community, focusing on health
& hygiene education, empowerment of women and water management. It is also involved in
education and rehabilitation of underprivileged children, care for the destitute and HIV-positive
and rural development. HUL has also responded to national calamities, for instance with relief and
rehabilitation after the tsunami caused devastation in South India. In 2001, the company embarked
on a programme called Shakti, through which it creates micro-enterprises for rural women. Shakti
also includes health and hygiene education through the Shakti Vani Programme, which now covers
15 states in India with over 45,000 women entrepreneurs in 135,000 villages. By the end of 2010,
Shakti aims to have 100,000 Shakti entrepreneurs covering 500,000 villages, touching the lives of
over 600 million people. HUL is also running a rural health programme an Lifebuoy Swasthya
Chetana.
HUL Mission is to add Vitality to life. They meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life. Their deep roots in local culture and markets around the world give them strong relationships with consumers and are the foundation for their future growth. They will bring their wealth of knowledge and international expertise to the services of local consumers. Their long-term success requires a total commitment to exceptional standards of performance and productivity, to working together effectively and willingness to embrace new ideas and learn continuously. They believe that succeed requires the highest standards of corporate behavior towards everyone they work with, the communities they touch and the environment on which they have an impact. This is their road to sustainable, profitable growth, creating long-term value for their shareholders, their people and their business partners.

HUL Vision: The four pillars of HUL Vision set out the long term direction for the company where they want to go and how they are going to get there;

- They work to create a better future every day
- They help people feel good, look good and get more out of life with brands and services that are good for them and good for others.
- They will inspire people to take small everyday actions that can add up to a big difference for the world.
- They will develop new ways of doing business with the aim of doubling the size of their company while reducing their environmental impact.

They always believed in the power of their brands to improve the quality of people’s lives and in doing the right thing. As their business grows, so do their responsibilities. They recognize that
and challenges such as climate change concern them all. Considering the wider impact of their
actions is embedded in their values and is a fundamental part of who they are.

COMPANY PROFILE - HINDUSTAN UNILEVER LIMITED

Hindustan Unilever limited, Rajpura, situated near focal point, Rajpura. Mr. Devender Sabharwal is
corporation executive. It is established in 1978 with the name of stiffen chemicals then it
became Hindustan Unilever chemical Limited (HUCL) during 1995. After HUCL it became HLL.
2006 it became HUL. Its Managing director is Mr. P. Jagdish. Its CEO is Mr. Bk Shriniwas, Its HR
and is Mr. Gurpreet Singh Mann. Its Production manager is Mr. Satwinder Singh and Commercial
manager is Mr. Manoj Shetty. Total employees’ in the company are around 700-800 which includes
both permanent employees’ as well as temporary employees’. Temporary employees’ of company
are given training and then they become permanent employees’ of company.

It is involved in manufacturing and supplying of laundry detergent, antibacterial soaps, detergent
soap, medicated soaps, herbal bath soaps, medicated antibacterial soaps, washing detergent
powders, powder liquid detergent. Its main business is in manufacturing and supplying detergent
powder. It also produces Kisan gem, Tomato ketchup, mayo etc.

The vision that inspires HUL is to meet everyday needs of people everywhere to anticipate the
aspirations of their customers and to respond creatively and competitively with branded products
and services which raise the quality of life. This objective is achieved through the brands that the
company markets.

HUL has a significant advantage in the fact that it is a cost-efficient sourcing area for Unilever.
This company is mainly focusing in manufacturing and supplying detergent powder.
HUL would continue to drive market growth by employing a strategy to understand the consumer.