CHAPTER-2

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Performance appraisal systems began from the time of world war as simple method of income allocation. Today, performance appraisal is considered indispensable for every organization. Performance appraisal is a process by which a superior evaluates and judges the work performance of subordinate. Performance appraisal systems include the processes and procedures involved in implementing, managing, and communicating the events involved in performance appraisal.

Numerous organizations employ a formal or informal assessment system that measures employee performance and contribution (Carroll & Schneier, 1982). In many cases it is a formal process and an integral part of the personnel management policy. Over the years several appraisal methods of performance appraisal have developed and the trend has been from highly subjective to results oriented appraisals. These methods can be broadly classified under two categories: Traditional methods and modern methods. Performance Management is about improving the employees' performance in an organization and how it can be managed to complete their job efficiently. If employees are not satisfied with performance appraisal system they will not see the added value (Bennett & Beatty, 1984).

Performance appraisal system aims to evaluate the job performance of employees so that appropriate corrective action and management decisions can be taken. As performance appraisal is part of organizational control, the component of the control system is indispensable in the performance appraisal system. In general, a basic control system consists of control standards, measurement and corrective actions (Newman, Warren & McGill, 1987). Performance appraisal system accomplishes goals of the organization. A goal is a statement of expected results in the performance appraisal process. Goals and objectives are methods by which job expectations can be
Goals can describe as: conditions that will exist at the end of a period, the time frame set for the desired results and, the resources required in achieving results. Goals should be established with employee participation and designed to reflect their abilities and training (Maddux, 1977). Setting of goals and objectives is important because employees’ may not understand that current behavior is not producing desired results. In establishing goals with employees’ it is important to remember that the goals must be obtainable by the employee.

Performance evaluation is a special form of evaluation, comparing employees’ actual performance against expected outcomes, a process to assess an employee’s performance over a period of time (Baker, 1988). Performance appraisal can be the most powerful tool to enhance subordinate’s productivity (Baker, 1988).

Performance appraisal is a specific evaluation with respect to an individual’s progress in completing justified tasks (Denhardt, 1991). In its broadest sense performance appraisal serves three major purposes within an organization: administration, development and communication (Butler, Ferris & Kopier, 1991).

Performance is defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction and economic contributions (Bernadin et al, 1995). Performance appraisal is a system that will drive the organization to achieve its goals. Some organizations think that performance appraisal is the performance management, which is a wrong perception as the performance appraisal is part of the performance management system.

Performance is the accomplishment, execution, carrying out, working out of anything ordered or undertaken. Performance means both behaviors and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors
also outcomes; the product of mental and physical effort applied to tasks and can be judged from results. Performance appraisal satisfaction is a key factor leading job satisfaction (Bassii & Ashbaugh 1995; Murphy & Cleveland 1995). Performance appraisal is a way through which the manager can keep in touch with employees’ (Devill, 1995). Performance is a multidimensional construct, the measurement of which varies depending on a variety of factors (Kies & Holton, 1995).

Performance appraisal is often used simultaneously with that performance management (Heinestone, 1996). In the words of Karol, 1996 performance appraisal includes a communication between a manager and an employee expressly for the purposes of evaluating that employee’s past job performance and discussing relevant areas for future job performance. Appraisals are based on the standards of the customers’ goals and not the goals of the rater or subordinate. It links business objectives, day-to-day performance, development and compensation. It is also linked to feedback and training.

Feedback from multisource e.g. managers, peers, subordinates and upward feedback can be a valuable source of information on performance (Church and Bracken, 1997). Performance appraisal is also referred to as performance assessment, performance review, performance evaluation, performance management (Valance and Fellow, 1999).

Employee performance appraisal system is the formal, systematic assessment of how well employees are performing in their jobs in relation to established standards, including communication of that assessment to the employee and the organization. The goal of the performance appraisal process is to improve the quality of work and the individual employees involved in the work. Performance appraisal, if done properly, can strengthen the organization as it prepares and develops the personnel in that organization. The sum total of the individual
Performance is the performance of the organization (Edwards, 2000). Performance appraisal is a rated process in which, for a specified period of time, all or a group of an employee's work factors or traits are individually rated, judged, or described by a rater and the results are kept by organization (Coens and Jenkins, 2000).

Performance appraisal system is the vehicle that permits an employee to progress from one specific pay to another with the established pay range. Performance appraisal system are essential to see that employee is performing job adequately enough to move to next higher pay step (Klein, 2001).

Performance appraisal is a plan for future and to discuss ways to do tasks efficiently and effectively should not be used against people as a tool for punishment (Cole, 2001). It is a process of guiding an employee future work goals and objectives, reviewing job performance and work behaviors, assessing progress towards the predetermined work goals and discussing the employees training and development. Performance appraisal is systematic in nature; it is logical objective assessment of how well an individual has performed a job. Effective performance appraisal system depends on well defined standards of accomplishment that are measured in accordance with systematic approach that eliminates subjectivity. Job standards are the yardsticks by which job accomplishments are measured. Performance appraisal if properly developed has many organizational uses other than simply awarding pay increases. It can be used to heighten communication between supervisor and subordinate to enhance employee motivation through feedback on progress, to identify individuals with the potential for promotion to position of greater responsibility and to validate the process by which employees are selected (Caruth and Handlogten
Performance appraisal is designed to assist the employees' understanding how well they are performing their jobs in conjunction within the specific minimum standards. One of the main purposes for making decisions about employees such as promotions, disciplines and possible pay increases. Performance Appraisal is increasingly considered one of the most important human resource practices (Boswell and Boudreau, 2002).

Performance management, in its broadest context, is a managerial process that links corporate objectives, performance standards and evaluation, to which the performance review or performance appraisal are often applied (Pickett, 2003). Performance management system helps to meet short and long term objective by helping managers and employees do their job more efficiently and effectively, performance appraisal is one of the part of the system (bacal1999, rudman 2003).

The individual performance of employee’s is compared with the standards and objectives set. Performance appraisal is also essential for career and succession planning. It is also important for motivation of the staff, development of behavior and attitude, alignment of the goals of individual employees and of the organization and cultivation of a better relationship between management and staff. Performance appraisal serves as the records of the performance of employees and could help in future development plans. Job performance appraisals are vital for managing the performance of people and organizations (Walsh & Fisher, 2005). Performance appraisal can give way to increase job satisfaction and could help trim down turnover and absenteeism rates on the negative side, there are managers and employees who do not prefer the appraisal system and shun from it. For them, conducting such appraisal is overwhelming and could consume a big part of their precious time. It is also seen as a complicated responsibility. Appraisal system may be the only opportunity for the ratee and ratee to sit together and have a one-on-one conversation, when the manager does not
communicate to the concerned employee the problems related to his work and saves it for the annual review. The employee may lose motivation if the list shown to him or her includes a lot of items and failures. From the organization perspective, successful performance management is crucial in achieving corporate goals.

Objectives of Performance Appraisal:

Performance appraisal serves a number of purposes in organizations. First, management uses appraisals for general personnel decisions such as promotions, rewards, transfers, and terminations. Second, appraisals identify training and development needs, not only for individual employees but also for the organization as a whole. Third, performance appraisals can be used to validate selection and development programs. Fourth, appraisals provide feedback to the employees on how the organization views their performance. The organizational needs must be clearly stated so that the appraisal program can be designed to meet the needs.

The two primary objectives of a well functioning performance appraisal system is: To formally measure the performance of the individual employee and to provide information on how well the system is designed and working. The formal measures of performance are used as feedback to the employee and used by others in management for making personnel decisions such as promotions and work assignments (Baker, 1988).

The objective of the performance appraisal is to serve as a powerful tool to help managers communicate with employees regarding their performance. Performance appraisal recognizes the employees' strengths and achievements and defines performance goals and action plans for the future. The Performance appraisal helps to compare the manager's expectations with employee performance. Performance appraisal sets the organization's standards of minimum requirements.
employees in monitoring their performance and determines when they need help or
pace. It also helps to establish performance standards, and through doing so, employees are sure
quality is being met. Performance appraisal enhances the quality of the organization’s decision,
changes the quality of individual decisions, it provides a tool for organizational changes and
velopment (Gilley and Boughton, 1996).

For the efficient management and evaluation of employees, performance appraisal system is
ed. It helps employees to develop, facilitate organizational progress in terms of performance.
allows management to examine the standards, establish expectations, goals and objectives, and
over tasks and obligations. Training needs are determined through performance appraisal
ystem and it helps in conducting training needs analysis for the organization (Walsh & Fisher
5).

1) Designing of Performance Appraisal System:

There are various factors taken into consideration when designing a performance appraisal system.

ty of components may be included in the performance appraisal process. Performance
 appraisal model include 13 interacting factors: position characteristics, organization characteristics,
 purpose of the rating, the rating process, scale development, the rating instrument, rater and
ee characteristics, the observation and storage of performance data, the retrieval and judgment
 of that performance, analysis of this information, performance description and in the end, personnel
ation (Landy and Farr, 1980). In the words of Latham and Wexley, 1981 other components such as
development of an appraisal instrument, selection and training of observers, praise or reward for
formance can be included in the performance appraisal process. Performance appraisal in most
organizations is formal and structured.
Four basic types of performance evaluation formats consist of the performance essay, critical event analysis, forced choice/distribution, and the graphic scale. The performance essay is used where there are few tasks performed on a daily basis and employees are evaluated on their broad performance. The critical incident analysis focuses on the employee’s actions during a specific incident rather than on day-to-day activities. The forced choice/distribution format causes the supervisor to state the statement that the employee is performing at a pre-described, pre-designated level. It does not allow a broad interpretation of the satisfactory or unsatisfactory completion of daily tasks (Gapch, 1988). Performance appraisal system is an important part of the organizational management system. There is a correlation between organizational characteristics and the uses of performance appraisal (Cleveland, Murphy and Williams, 1989).

There are four activities in the performance appraisal cycle in an organization: Defining what performance is or should be, measuring and evaluating performance, feeding information about that performance back to the individual and providing information to other organizational systems that use it (Mohrman, Resnick-West and Lawler, 1989). Performance appraisals are introduced for multiple purposes, objectives of Performance appraisal is to improve the use of resources and serve as a basis for personnel actions. Good performance evaluations establish accountability for individuals in meeting established goals (Carter and Rausch, 1989). Large organizations tend to adopt quantitative criteria more formalized appraisal methods and pre-determined performance standards, while a small organization is apt to use qualitative and informal appraisal methods (Robber, Hooley & Shipley, 1993).

Performance appraisal is introduced for multiple purposes, objectives of Performance appraisal is to improve the use of resources and serve as a basis for personnel actions. Administrative functions is viewed as staffing, compensation, promotion, along with the systems of reward and punishment,
Development refers to the identification and development potential for future performance, which is linked to personal development planning. Communication aims to provide feedback to employees about their performance and future goals. Performance appraisal records can be used by organizations to guard against cases of wrongful dismissal (Eckes, 1994).

Performance appraisal is essential for the management of the performance of employees and of the organization. The main objective of performance appraisal is to ensure the improvement in performance of every employee and to subsequently improve the performance of the organization brought about by individual improvement (Harrison and Goulding, 1997).

Yes is another efficient technique of performance appraisal known as 360-Degree feedback is used at improving performance by providing a better awareness of strengths and weaknesses. The employee receives feedback, in anonymous form, on performance ratings from peers, superiors and subordinates. Feedback from multiple sources, such as superiors, peers, subordinates and others has more powerful impact on people than information from a single source, such as their immediate supervisor.

360-Degree Feedback improves the quality of performance measures by using multi raters providing a more balanced and comprehensive view. The information from 360 degree method is more stable, valid and credible because the providers interact regularly with the employee at work. This process creates an environment in which employees feel entitled to regular raises and promotions without providing them the information needed for development. Managers find it difficult to provide specific and critical feedback so they tend to shy away from addressing performance problems. It is also known as multi-source assessment or full circle feedback, gathers evaluation data from all of those who work most closely with the person being evaluated, regardless of position. The collective intelligence of these people gives appraise a clear understanding of personal
right as well as areas that need further development. A prime advantage of 360-degree feedback is that it provides a more comprehensive view of employee performance. This method not only includes feedback from a variety of viewpoints, it also minimizes the bias problems that are inherent in evaluations.

The more appraisers an employee has, the more likely the biases of the raters will tend to cancel one another out. The power of the 360-degree feedback tool is that it provides clear and important performance information from a variety of sources (Edwards, 2000).

Approaches to performance appraisal range from relatively simple techniques, such as ranking and essay rating, to the more complex method of behaviorally anchored scales (Tyson & York, 2001). Techniques also vary with regard to temporal emphasis, either focusing on the past through rating ranking or using management by objectives to provide a future focus.

In the words of Cochran, 2006 The 360-degree feedback tool has many positive aspects and many proponents, and its use is becoming more widespread.

Effect of Performance Appraisal System on the Working Efficiency of Employees:

Performance appraisal system helps to improve the working efficiency of employees. When a proper performance appraisal system is in place, it can assist an organization in controlling employees. It helps to improve performance, to provide feedback on quality of performance and to review progress on the desired improvement of performance (Baches, 1988). In general, conducting formal evaluations is one way of laying down a line of communications between employees and supervisors. If Appraisal process is conducted properly, the organization benefits from this performance appraisal exchange.
Performance evaluation systems affect an employee's career path and benefits. Performance appraisal is a requisite of modern management. The PA is a valuable component in the communication process between the organization's personnel. Communication is the key to helping managers and employers within the organization. Furthermore, the PA may be used to rate or fine the employee and to defend the organization against employee claims (Bramblett, 1996). Conducting the Performance appraisal on an annual basis with informal feedback managed throughout the year (London, 1997).

Performance appraisal is a process to improve employee's work performance by helping them realize and use their full potential in carrying out the organization's missions and to provide information to employees and managers for use in making work related decisions. Employee performance appraisal system is an exercise in observation and judgment, a feedback process and an educational intervention. It is a measurement process as well as an intensely emotional process. It is an inexact, human process that is utilized differently in almost every organization regardless of industry (Cascio, 1998). Organizational decisions like distribution of rewards, promotions, layoffs, recalls, layoffs and transfers are usually based on the performance appraisals. Managers often use individual records of each employee to determine what specific aspects are needed to be developed in a certain employee. Performance appraisal helps employees in their decisions regarding their career moves. Moreover, since the communication within the organization improves as an effect of performance appraisal, employees tend to be more committed and satisfied (Wiese and Buckley, 1998).

In the words of Smither, 1998 The Performance appraisal process usually flows from the top to the bottom. In most cases, it is done only on an annual basis. The standards in the PA are set unilaterally. The actual PA process is very political; there is no accountability to ensure that the raters are fair.
As an organizational perspective, employee performance appraisal system can provide useful information regarding the effectiveness of recruitment efforts, selection strategies, training programs, and career development. Employee performance appraisal system can provide multiple benefits including feedback and recognition, goal setting, proper documentation, personnel development, and the establishment of organizational benchmarks (Edwards, 2000).

Appraisals are used to make various decisions. For instance for promotions or termination decisions by personnel administration. However success of any Performance appraisal system depends upon its core of fairness (Cleveland, et al, 2003). In the words of Cleveland, Mohammed, Skattebo and in 2003 there are four purposes of Performance appraisal: to make distinctions among people, distinguish a person's strengths from his or her weaknesses, implement and evaluate human resource systems in organizations and document personnel decisions. Since performance appraisal ratings normally depend on one person evaluating another, they also provide opportunities to select biases.

Performance Appraisal as an Effective Tool to Achieve Organizational Efficiency:-
A performance appraisal system helps in various ways to achieve organizational efficiency. As a communication tool, the appraisal allows the employee to know how the supervisor feels the employee is doing. It identifies any needed changes in the employee's behavior, skills, or job knowledge. It also provides the basis for coaching, counseling, and future planning. As a motivational tool, the appraisal gives the employee the clear-cut standards for him/her to meet.

A performance appraisal system is practical, motivational, legal, credible, complete, administered fairly and subject to inspection by the employee being evaluated. In addition, any rating that is below satisfaction is clearly stated on the form with an explanation on how to improve the low evaluation (Halas, 1988).
mine who needs to be terminated. Such decisions are supported by a process that screen and determine performance in every department (Wiese and Buckley 1998). The process of conducting Performance Appraisal is accomplished in three steps. First, the individual performs an appraisal on himself. Second, the employees who work with the employee being appraised perform an appraisal on that employee. Third, the supervisor performs an appraisal on the employee. Through this, a performance guide check sheet is used by those performing the appraisal. (Clark, 1999).

Performance appraisals are valued for defining expectations and measuring the extent to which expectations are met. Appraisals can make clear to employees where they are having success and where they need to improve performance. Appraisals are useful in setting goals and in fostering improved communications among work groups and between employees and supervisors (Moulder, 1991).

**Importance of Fairness in Performance Appraisal System:**

In the words of Landy, Barnes, and Murphy, 1978 Frequency of evaluation, identification of goals to eliminate weaknesses and supervisory knowledge of a subordinate’s level of performance and job duties are significantly related to perceptions of fairness and accuracy of performance appraisal. Performance appraisal should be done as frequently as possible that the supervisor should work with the subordinate to agree on responsibilities and supervisor should devote sufficient time to observe and evaluate employee’s performance.

In the word of Lovrich, Shaffer, Hopkins and Yale, 1980 both ratees and raters believed that participative performance appraisal is a fairer way of conducting appraisals than non-participative methods. If given as choice, raters and ratees would choose participative performance appraisal over non-participative type of system.
An important performance appraisal issue faced by organizations is the perceived fairness of the performance review and the performance appraisal system. Most employees perceive their performance appraisal system as neither accurate nor fair (Bretz, Mikovich and Read, 1992). Leadership credibility of immediate supervisors is significantly associated with whether employees have performance appraisal systems as procedurally fair and instrumentally just and appropriate (Bris and Ihrke, 2000).

Factors that Can Harm to the Effectiveness of Performance Appraisal System:-

Limit the number of problems associated with performance appraisals, several objectives are proposed. First we must realize to do it right, we need to involve the whole organization. Largely the success or failure of performance evaluation in any organization will be dependent on the managerial philosophy under which it is established. The organization must also establish realistic achievable goals. They must be measurable and specify who is to do what, at what time. The success of performance appraisal is generally supported and appeals to employees 'at its onset, but rarely support the process once it is implemented. Estimates and research suggest that 75 to 90 percent of employees believe that their performance is above average. Most workers want positive feedback management is often uncommunicative. Performance appraisal requires management engage what a good job worker is doing.

Conducting performance appraisals an obvious dilemma is present: PA process can provide benefits, while being inherently difficult and awkward. Employee evaluations are a fact of rational life no matter how they are conducted. Decisions about employees are made and performance appraisal works best when it is done on the basis of an ongoing performance management system, in which goals and objectives are set in advance and performance coaching
as throughout the year (Derven, 1990). The willingness to participate in the appraisal process is as important as having the necessary skills to conduct an appraisal (Longenecker and Goff, 1990). There are some common appraisal errors. They are: Inadequately defined performance standards, Over emphasis on recent performance, Insufficient or unclear performance specification, Inadequate time allotted for discussions, Too much talking by raters, Lack of any follow up (Swan and Marguiles, 1991). The PA is being used as a basis for administrative decisions,acked, developing employees, organizational planning, human resource planning and development and to safeguard organizations against discrimination lawsuits. The PA is used to improve current performance, to set objectives and to identify training and development needs. As the PA carries a tremendous amount of organizational baggage during its implementation (Shiply and Cleveland, 1995).

The performing an employee evaluation the supervisor has a responsibility to communicate missional goals and to discuss the actions of the employee from a professional standpoint not a personal standpoint. The supervisor should stick to the main point, stay in the present and look to possible future action. This will generate a win-win situation so both the supervisor and the employees are benefactors of the evaluation process (Caldwell, 1995).

The appraisal process can become a source of extreme dissatisfaction when employees believe the system is biased, political or irrelevant. A major problem for organizational leaders is that the performance appraisal process and the performance evaluation system are often perceived as both inaccurate and unfair (Skarlicki and Folger, 1997).

There are following aspects that can make harm to the effectiveness of performance appraisal: exceptions to the highly visible employees, conduct of performance appraisal to punish the low
rewards on nonperformance, doubts in the mind of performers about appraisal’s after organization’s politics that leads to disturb performance of targeted employee. Use of poorly flawed appraisals, focus on encouraging individual which automatically discourages collaboration, inconsistencies in setting and applying appraisal criteria, focus on exceptionally good or poor performance, appraisal’s focus on achievement of short-term support to autocrat supervisors, subjectivity of appraisal results and creation of emotional in employees (Segal, 2000).