# Chapter 1: Introduction

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1.1. Problem Identification

The process of globalization has heightened competition and resulted in race for an edge and resultant uncertainty for both managers and employees of an organization. The philosophy of social Darwinism (survival of the fittest) is gradually replacing the planned and regulated economy built around the ethos of protectionism, in the newly emerging globalised economy of India. In the wake of growing competition, Indian public sector organizations are under pressure to improve their productivity and efficiency to survive and prosper. In addition to efficient management, the performance of the employees holds the key to the success of the organizations. An organization is doomed to fail and is unable to achieve long term goals if the employees do not carry out short term strategies that are in line with long term organizational goals. Hence great emphasis has to be placed on measuring the competency and accomplishments of the employees in an organization.

Performance appraisal and management plays an important role in the effective management of employees in every viable organization, particularly in light of the recent economic downturn experienced around the globe that have forced governments and organizations alike to improve their performance and save resources where possible (Armstrong, 2006). This is recognized that there has been a shift in the business environment from a tangible asset economy to an intangible asset economy (Adler and Bartholomew, 1992). The value of a company is influenced by employee knowledge, brand, and intellectual capital rather than inventories, goods, and machinery. Hence to improve the performance of human resources, the organizations are looking for ways to manage and maximize the performance of their workforce.

The objects of performance reviews of most of organizations is to decide “what” are the goals set forth before the employees and “how” such goals are to be achieved. The “what” goals focus on specific objectives that the individual should accomplish, and the “how” goals outline the means by which an employee will achieve the “what” goals, which often are expressed in terms of competencies and behaviors (Caligiuri, 2000). However, the challenge of identifying each employee talents, capabilities, and areas for growth to encourage positive contribution and managing poor performance is daunting (Mohamed et al., 2008).
It is believed that one of the ways of achieving competitive advantage is the effective design and use of management control systems including Performance Appraisal System. The increasing realization about the key role of managing the employees’ performance to bring about the success of the organization has brought into focus the need for an effective Performance Appraisal System in every organization. The main problem is that there is no ideal Performance Appraisal System which can be followed by every organization. Therefore every organization should design its own appraisal system based on their requirement, keeping in mind of course some common tenets with universal application.

Performance appraisal as a strategy for human resource management in public service sector organizations has attracted the attention of researchers and heads of public sector units, due to the growing transition of the economy from manufacturing labor intensive model to a service-driven knowledge-centered one. The success and survival of an organization is influenced by the efforts of employees of the organization. An effective Performance Appraisal System potentially serves the purpose of aligning those efforts with the aims of the organization, motivating the employees and managing their performance. An effective appraisal system is one that satisfies the needs of all the stakeholders. Hence performance appraisal has received attention as one of the more heavily researched topics in human resource practices. Still, many organizations express dissatisfaction with their appraisal schemes. This may signal a lack of success of performance appraisal as a mechanism for motivating people and developing their performance. It is frequently argued that in order for performance appraisal to positively influence employee behavior and future development, employees must experience positive appraisal reactions. If not, any appraisal system will be doomed to failure in spite of its degree of technical soundness. Though user acceptability is perhaps the most important system criteria to be studied, unfortunately this criteria is most frequently overlooked.

Managers and subordinates do not always agree on what constitutes an effective appraisal. But it is critically important for managers and their subordinates to have shared perceptions surrounding the performance appraisal event both in terms of its intended purpose and process. An effective Performance Appraisal System must endeavor to meet the organizational needs as well as the need of all of its stakeholders including both
management and staff. When the needs of either party are not being met, the effectiveness of the appraisal process will be jeopardized. Yet surprisingly there is little research in this aspect of appraisal effectiveness in public sector organizations despite the expanded use of this practice.

Thus evaluation of the effectiveness of a Performance Appraisal System based on the perceptions of both raters and ratees has attracted attention of researchers across the world for its inherent potential to activate the human resources in all type of organizations. Though it is essential to select a fair and satisfactory method of conducting performance appraisal with an objective to boost employee motivation and productivity but in practice Performance Appraisal Systems often fail to achieve its goal in most of the organizations.

An appraisal system is perceived as a better tool for management decisions by the employees when they are satisfied with their supervisor and have trust on him. But various errors which are committed by the raters at the time of evaluation affect the accuracy of and satisfaction with an appraisal system. The nature of errors may be different in different organization as it depends on various factors related with the Performance Appraisal System. There is little research in this aspect of appraisal errors in public sector organization despite its accepted importance in most of the organization. Hence research will continue to identify the nature and causes of performance appraisal errors based on the Performance Appraisal System followed by a particular organization.

Performance appraisal is frequently used by an organization for administrative decisions such as promotion, transfer, allocation of financial reward and also for employee development purposes including training, performance feedback and employee motivation practices. The overall objective of performance appraisal is to achieve the goal of the organization by attempting to mobilize the best possible efforts from individuals employed in it. Though performance appraisal is considered as one of the most important aspects of management, unfortunately in most of the cases it is one of the mishandled aspects of management. According to Fletcher (2001), this may signal a lack of success of performance appraisal as a mechanism for developing and motivating people. If the employees are not happy with the existing appraisal system, they would not be to take part in it which in turn would lead to lower productivity (Wright and Cheung 2005). Even the
positive outcomes potentially derived from an effective system (e.g., improved job performance, motivation, communication, etc.) may fail to materialize if employees view the system in a negative light (Lawler, 1973). Hence, proper attention must be given on designing an effective appraisal system as it is considered as the most important area as well as most confused research area in human resources. Moreover a poor appraisal is worse than no appraisal at all.

In reality, the organizations create, review, change and even abolish appraisals if they fail to develop and enhance organizational performance (Kessler, 2000). Despite all the criticism and evidence no one could develop an alternative process which can provide feedback, develop motivation, and helps in identifying training and potential and proper basis to justify potential career development and reward. The role Performance Appraisal System in empowering people, organizations and communities to create maximum productivity, quality, opportunity and fulfillment has encountered so many challenges and opportunities. Hence it is also one of the most important research issues in the area of human research management. The importance of an effective appraisal system is increasingly felt by most of the organizations. Some organizations also invest large amounts of money in these types of activities and thus set aside a certain amount from their budgets for this purpose. This rationale is based on the assumption that an effective Performance Appraisal System will encourage employee loyalty, foster teamwork and ultimately facilitate the development of the desired culture that encourages and supports knowledge sharing. But there is little research about the purpose served by appraisal system in public sector organization.

This study analyses the Performance Appraisal System (PAS) in operation in the Indian Railways, one of the largest public sector organizations in India. An assessment of the PAS followed by Indian Railways is expected to explore to what extent the strategic objectives from the perspective of human resource management are being achieved. In the search for an effective Performance Appraisal System for employees of the Indian Railways we look into the perceptions of managers and subordinates on key issues: the functions, for which appraisal process is conducted, the methodology used in the appraisal system, raters’ credibility and performance appraisal errors. Following an explorative research we propose
to design a policy prescription, which may pave way for a more employee friendly appraisal system and hence lead to satisfied workforce with higher productivity.

1.2. Survey of Literature

Performance appraisal is among the most important Human Resource (HR) practices (Boswell and Boudreau, 2002; Judge and Ferris, 1993) and one of the more heavily researched topics in work psychology (Fletcher, 2002). The purpose of human resource management is to establish and maintain good relations among all levels of the organization and to secure the effective utilization of human resource by ensuring such conditions of employment which will provide social satisfaction within their working environment. Performance appraisal as an important tool of human resource management has increasingly become part of a more strategic approach to integrating HR activities and business policies and may now be seen as a generic term covering a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards (Fletcher, 2001). Thus Performance Appraisal System has attracted the attention of both academics and practitioners as a process of identifying, observing, evaluating and developing performance of human resource in organizations.

Performance appraisal has been characterized as perhaps the most widely debated, talked and written about and confused research area in human resources in the history of people management (Wright, 2002). This is also stated as one of the most problematic components of human resource management and is viewed as either a futile bureaucratic exercise or, worse, a destructive influence on the employee-supervisor relationship (Coutts and Schneider, 2004). In spite of the problems associated with the appraisal process being well documented, they continue to frustrate both academics and practitioners alike (Bernardin & Klatt, 1985). This is because of the facts that the performance appraisal process is also viewed as making an important contribution to effective human resource management, which is closely linked to organizational performance (Erdogan, 2002). This widespread use of Performance Appraisal System can be attributed to human resource specialists, academics and practitioners who established the fact that performance appraisal is a critically needed tool for effective human resource management.
Performance appraisal is also considered as a major subject of controversy in management circles. While business leaders see the need for appraisal systems, they are frequently disappointed in them. A mixed feelings concerning performance appraisal have been expressed frequently by different researchers and practitioners in different publications. In the Harvard Business Review Douglas McGregor (1957) says: "Of course, managers cannot escape making judgments about subordinates. Without such evaluations, salary and promotion policies cannot be administered sensibly." But, in his conclusion he condemns the conventional performance appraisal because "it places the manager in the untenable position of judging the personal worth of his subordinates and of acting on these judgments".

According to Thomas (1955) "the chief impediment to making performance appraisal into a workable and usable aid to management lies in the traditional notion that a rating plan is basically a measuring stick." The reaction of the raters under this concept is one of opposition. To Whisler, the rating specialists appear to have a standard reaction to this behavior on the part of raters. "They either come fighting back with a scheme which has more statistical horse-power or surrender on the ground the time is not right for installing a rating plan." Whisler's solution is to make the appraisal a "tool of control" instead of a 'measuring stick.'

As an organization struggles to remain sustainable and competitive, strategic planners and human resource planners need to collaborate more intensely in designing strategies which are productive and humane. In the 21st century more emphasis will be those to adopt a focused and integrated HR processes and system with a view to exist in a highly competitive business environment. The evaluation of performance plays a critical role in the global success of the organization. At a strategic level, the need for rapid and effective organizational change in today's dynamic social, economic, and political environment requires that employees continually realign their performance with the evolving goals and objectives of the organization. An effective Performance Appraisal System can ensure the achievement of the organizational goal by aligning with individual goal of the employees. Performance Appraisal Systems aim to fulfill the features of modern performance
management concepts, paving the way for major changes in the work culture of the public sector.

Public sector organizations are currently faced with increasing demands by constituents for increased service while at the same time budgetary restraints are being imposed. The need to improve efficiency is ever more important if citizen expectations are to be met. Moreover, department and agency managers are increasingly being held more accountable by both the public and central administrations for the performance of respective organizations. Faced with these increased pressures for productivity, government agencies are striving to develop ways to improve employee performance. For these reasons, county and city governments are attempting to make their evaluation and appraisal systems more rigorous and valid.

1.2.1. Different Insights on Performance Appraisal

Performance appraisal is a distinct and formal management procedure used in the evaluation of work performance. It is a structured formal interaction between a subordinate and his superior at a defined periodicity. Performance appraisal can be defined as a discrete, formal, organizationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process (Angelo S. DeNisi and Robert D. Pritchard, 2006).

The various authors, researchers and management gurus have defined the Performance Appraisal in different ways according to their knowledge. Probably, the differences in the definition of the word itself are due to the scale of impact it has caused to the people, organization, economy and so forth, individually (Kumar, 2005; Pettijohn et al., 2001).

Different definitions of performance appraisal as given by different authors as follows:

- Mondy, (2008) stated that performance appraisal refers to a process, which studies and evaluates the job performance of personnel formally.
- Performance appraisal is viewed as a crucial decision making tool where it often used by employers to formally evaluate and develop employee performance in
organizations (Ismail et al., 2011, Desimone et al., 2002, Noe et al., 2009, Snell and Bohlander, 2007).

- Performance appraisal is the process through which an organization gets information on how well an employee is doing his or her job (Noe, Hollenbeck, Gerhart & Wright, 2006).
- Performance appraisal is the process of obtaining, analyzing and recording information about the relative worth of an employee (Dowling, Welch and Schuler, 1999; Moorhead and Griffin, 1992).
- Erasmus, Schenk, Swanepoel & Van Wyk (2003) refer to a performance appraisal as a formal and orderly process where specific work related strengths and weaknesses of workers are distinguished, ascertained, assessed, recorded and developed.
- An appraisal system is the systematic description of individual job-relevant strengths and weaknesses used to judge performance (Cascio 1987).
- Performance Appraisal process includes various practices like recognition of employees’ achievements, providing them regular feedback and offering career development (Aguinis, 2007; Lansbury, 1988).

Considering the above definitions, Performance appraisal is a process which evaluate the strength and weakness of employees, provide vital information about the relative worth of the employees and let an employee know how his/her performance.

1.2.2. Strategic Role of Performance Appraisal

The development and matching of human resource capabilities to competitive strategy is widely viewed as essential to enabling the realization of the industry specific competitive advantage (Wright & McMahan 1992; Schuler & Jackson 1987). The management of people to enhance their efficiency acts as an important contributor to the development of the organization as a whole. It is not a distinct function but it is the means which helps in achieving the goal of developing the organization. As a result, today Performance appraisal has been transformed to a strategic approach for integrating of human resources activities and business policies. The Performance Appraisal System covers the various activities
relating evaluation of employees and growth and improvement of their capabilities, increasing of performance and distribution of reward.

Performance appraisal in organization is considered as a key human resource management (HRM) practices for measuring effectiveness and efficiency (Redman et al., 2000). Performance appraisal is one of the most important theories of human resources management and is one of the subjects which have been studied and investigated in the psychology of work extremely (Kuvaas, 2006).

Performance appraisal forms an integral part of performance management. Performance management is neither a technique nor a single step process, it can be considered as a set of process that includes knowledge of employees about what their managers expect of them, their motivation to perform well, mentoring and evaluation of their performance with an object of identifying areas where the improvements are needed. It is stated that though performance appraisal is part of a wider system it is central to the effectiveness of performance management system (Piggott-Irvine 2003). Thus Performance Appraisal System has progressed from appraisals and reviews to a valuable tool to link performance to strategy and to do this in an environment that is less onerous on HR than it has ever been in the past. Accordingly, the performance appraisal scheme should be well designed and practiced in a way that places its legitimacy beyond any doubt.

1.2.3. Motivational Roles of Performance Appraisal System

Performance Appraisal is increasingly considered as one of the most important human resource practices (Boswell and Boudreau 2002). 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; Churchill, Ford, Hartley, & Walker, 1985). This is also studied that the contribution of appraisal is strongly related to employee attitudes and strong relationships with job satisfaction (Fletcher and Williams, 1996).

Burke, Weitzel, and Weir (1978) found perceived importance of appraisal results was significantly related to appraisal outcome and process variables such as degree of influence
in planning self-development, degree to which job problems are cleared up, motivation to improve performance, and perceived value of performance review interviews.

Common outcomes of an effective performance appraisal process are employees’ learning about themselves, employees’ knowledge about how they are doing, employees’ learning about ‘what management values’ (Beer, 1981). Dobbins, Cardy and Platz- Vieno (1990) told five outcomes i.e. use of evaluations as feedback to improve performance, reduced employee turnover, increased motivation, existence of feelings of equity among employees, linkage between performance and rewards. Teratanavat, Raitano and Kleiner (2006) found outcomes like reduced employee stress, review of overall progress, linkage between current performance and employee’s goals, and development of specific action plans for future.

Williams et al. (1977) noted that the use of performance appraisal for two broad purposes, viz. purposes that relate to the individual, such as where he stands and how he can improve and develop, and purposes that relate to organizational needs, such as salary review, transfers and promotions. Surveys conducted by Gill, Ungerson and Thakur (1973), Fournies (1973) and Personnel Policies Forum (1974) conclude that performance appraisal has multi-dimensional objectives. Some of the objectives of Performance Appraisal System are discussed below.

Bladen (2001) saw performance appraisal as the process of evaluating the performance and qualifications of the employee in terms of the requirement of the job for which he is employed, for the purpose of administration including placement, selection for promotion, providing financial rewards and other actions.

Although the relationship between appraisals and performance may not be a direct and causal one, their impact on performance may be attributed to their ability to reduce role ambiguity. Dubinsky, Jolson, Michaels, Kotahe, and Lim (1993) discuss the concept that increases in role clarity can affect both the effort/performance expectancy and performance/reward instrumentality estimates. Thus, by reducing ambiguity performance appraisals may positively influence the levels of motivation exhibited by employees which in turn improve their performance.
The purpose of Performance Appraisal System is to let the employees know how well they are performing and to persuade them to set specific goals for improvement. Appraisal can motivate staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective. Strategic performance appraisal establishes a functional relationship between the goals of organization and the goals of its employees (Aguinis, 2009) by identifying these goals, setting them and achieving them. This kind of PA improves employees' perceptions of organizational goals because employees learn how to evaluate whether or not goals are being achieved (Wiese & Buckley, 1998, Soltani, 2003).

Performance appraisal provides vital input for taking important decision by the organization for various purposes. Barrett (1966) categorizes three main purposes of performance appraisal: administrative decision i.e. promotion, transfers and allocation of financial rewards, employee development i.e. identification of training and developmental needs and performance feedback, and personnel research i.e. generation of manpower information. Employee performance ratings serve as inputs to performance-based feedback and administrative decisions relating to promotion, training, and salary increases (Pearce and Porter 1986; Erdogan, Kraimer and Liden 2001). The effectiveness of an organization's Performance Appraisal System is a prerequisite to ensure the success of the process of selection, training, and employee motivation practices. Nurse (2005) viewed provision of information for the development of managerial strategies for training and development as an outcome. The appraisal process can provide managers with a useful communication tool for employee goal setting and performance planning, increase employee motivation and productivity, facilitates discussions concerning employee growth and development, provide a solid basis for wage and salary administration and provide data for a host of human resource decisions (Mohrman, 1989). Thomas and Bretz (1994) report that performance information is most likely to be used for employee development or to administer merit pay.

Boswell and Boudreau (2000) identified two uses of performance appraisals information as evaluative and developmental purposes. The evaluative function includes the use of performance appraisal for salary administration, promotion decisions, retention-
termination decisions, and recognition of individual performance, layoffs and the identification of poor performance. Ostroff (1993) conceptualizes the above usage of PA as administrative purpose. Cleveland, Murphy, and Williams (1989) contend that evaluative functions involve between-person decisions. Developmental functions, on the other hand, include the identification of individual training needs, providing performance feedback, determining transfers and assignments, and the identification of individual strengths and weaknesses. These are proposed to encompass within-person decisions. 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. Pritchard, 2006).

The primary functions of the performance appraisal process include providing a basis for equitable allocation of rewards and facilitation of employee development (Fombrun and Laud, 1983). The appraisal process should be evaluated primarily in terms of how well these objectives are achieved. While employee satisfaction with the appraisal system is obviously desirable, it is just a means to an end. Emphasis should be focused on motivating employees to improve performance and ensuring that employees receive equitable treatment (fairness of ratings) for allocation of rewards. According to Stephan and Dorfman (1989) outcomes of effective performance appraisal are improvement in the accuracy of employee performance and establishing relationship between performance on tasks and a clear potential for reward. This appraisal principle is in tune with the object of management which aims at utilizing intrinsically motivating aspect of the work leading to optimum use of performance and job satisfaction. Performance feedback which focuses on praise and recognition of performance contributes to more powerful and enduring intrinsic motivation for the employee.

Herzberg (1968) considered that extrinsic rewards are more likely to provide employee movement in the manner of a positive KITA (kick in the ass) for fear of punishment or failure to get an extrinsic reward rather than true motivation. Motivation is an important issue in any organization because it helps in energizing or initiating human behavior, directing and channeling that behavior and also helps in sustaining and maintaining that
behavior for the continuous development of the organization. Herzberg (1987) argues that in order to motivate employees through performance appraisal, the system should be used for reward and recognition. There is no doubt, however, that extrinsic incentives can boost performance (Herzberg, 1987).

The linkage between effort and financial reward increasing levels of performance has proved an increasing trend in the public and private sector (Bevan and Thompson, 1992; Armstrong and Baron, 1998).

1.2.4. Feedback of Performance Appraisal

During the appraisal process data are gathered by systematic observations, not only to measure current performance, but also to reinforce strengths, identify deficiencies, give feedback and the necessary information for changes in future performance (Bartlett, 2000).

Providing the employee with feedback is widely recognized as a crucial activity of Performance Appraisal System. Employees have a legitimate need to know how their performance is viewed. At a basic level, without adequate communication between the employee and the supervisor, undesirable work habits may be formed or good work habits may be modified. Larson (1984) supports the importance of evaluations in terms of their effect on organizational effectiveness, stating that feedback is a critical portion of an organization's control system. This is studied that feedback has effect on increasing of employees' satisfaction of performance evaluation; this satisfaction of evaluation can have a positive relation with performance of employees (Pettijohn et al, 2001). When employees feel that organizational feedback is directed to support them, their commitment towards organization will be enhanced. Also those employees that receive a better feedback from the environment are more committed than employees who receive less feedback (Keeping & Levy, 2000). This is studied that the side benefit that can be attained easily is the enhanced ability of superiors and subordinates to use giving and receiving feedback mechanisms more effectively and as a matter of daily routine (Pareek, 1976). From the organization’s point of view, feedback keeps both its members’ behavior directed toward desired goals and stimulates and maintains high levels of effort (Lawler, 1994; Vroom, 1964). From the individual’s point of view, feedback satisfies a need for information about
the extent to which personal goals are met (Nadler, 1977), as well as a need for social comparison information about one’s relative performance (Festinger, 1954). Feedback potentially can influence future performance (Ilgen et al., 1979; Kluger and DeNisi, 1996). Feedback is believed to play a significant role in the development of job and organizational attitudes (Ilgen et al., 1981; Taylor et al., 1984). Thus the central role of feedback to the appraisal process and the importance of examining ratees’ satisfaction with appraisal feedback are widely acknowledged (Ilgen et al., 1979; Keeping and Levy, 2000; Murphy and Cleveland, 1995). Ratee participation in appraisal feedback discussion was investigated as a predictor because it has been emphasized in several models (Klein et al., 1987) of the appraisal feedback literature. The central role of the rater to the feedback process has been acknowledged by several researchers (Ilgen et al., 1979; Klein et al., 1987). Therefore, satisfaction with rater was included as a potential predictor of satisfaction with appraisal feedback.

Reactions to feedback are presumed to indicate overall system viability (Bernardin and Beatty, 1984; Cardy and Dobbins, 1994; Carroll and Schneier, 1982) and to influence future job performance (Kluger and DeNisi, 1996), as well as job and organizational attitudes (Taylor et al., 1984). Various psychological implications of satisfaction with feedback make it a significant determinant of future behavior and job and organizational attitudes (Taylor et al., 1984). Hence several researchers (Giles and Mossholder, 1990; Organ, 1988) have asserted that using satisfaction as a measure of employees’ reactions affords a broader indicator of reactions to appraisal feedback than more specific cognitively oriented criteria. In fact, cognitively oriented measures, such as perceived utility and perceived accuracy, are positively related to satisfaction with appraisal feedback (Keeping and Levy, 2000). In addition, because appraisals form the basis of several important decisions, satisfaction with feedback signifies recognition, status, and future prospects within the organization.

Cleveland and her associates (Cleveland et al., 1989) presented a classification of the reasons for conducting appraisals in organizations, and these included documentation, within-person decisions (feedback on strengths and weaknesses) and between-person decisions (who to promote).
Providing individuals with informative feedback has been shown to influence employee learning (Hillery & Wexley, 1974), satisfaction (Hackman & Lawler, 1971), motivation (Ammons, 1956), and performance (Bingham, 1932; Nadler, Mirvis, & Cammann, 1976). It is stated that Performance Appraisal Systems that provide formal feedback once a year are more likely to be deficient (Bernardin and Beatty, 1984). So there must be ongoing formal and informal performance feedback in order for an appraisal system to be maximally effective.

In general, where possible an employee should be given frequent and timely work performance feedback (Bernardin and Beatty, 1984; Beer, 1987). The feedback should be frequent enough to allow for immediate information to help confirm the appropriateness of, or if inappropriate, correct one's specific work performance (Fournies, 1978). Regular feedback should bring about closer agreement over performance standards between employees and the organization i.e. manager (Taylor et al. 1984). It is contended that informal or day-to-day feedback is more important than feedback that occurs during the annual or semiannual performance appraisal session in terms of its impacts on work performance and attitudes (Farr 1993). More frequent appraisals and feedback help employees to see how they are improving, and this should increase their motivation to improve further (Kluger and DeNisi, 1996). Moreover when people receive feedback more frequently, they perceive it to be more precise and timely (Gosselin, Werner & Halle 1997, Milliman, et al. 2000). This is studied that satisfaction with the appraisal system by appraisees is more likely when their feedback is timely and accurate (Cascio 2000, Milliman, et al. 2000, Sully De Luque & Sommer, 2007). Landy, Barnes, and Murphy (1978) reported that subordinates evaluated at least once a year viewed their evaluations as fairer as and more accurate than did subordinates evaluated less frequently.

Somerick (1993) emphasized that continuous feedback and performance review discussions must be conducted between supervisor and employee for effective performance administration. Somerick (1993) further suggested that quality of appraisal system can be enhanced through continuous dialogue sessions, which means that whenever an employee faces some problem, it must be discussed with the supervisor rather waiting for months when performance will be rated and documented.
Performance Appraisal is a systematic evaluation of individual performance linked to workplace behaviour and/or specific criteria. This is inferred that the effects of feedback were weak and inconsistent when not accompanied by explicit goals Kim and Hamner (1976), Erez (1977), and Latham et al. (1978).

According to the Ilgen, Fisher, and Taylor (1979) feedback model, the source, message, and recipient are all important variables that affect how feedback is perceived, accepted, and responded to. Ilgen et al. proposed that: 1) feedback is perceived as more credible when it comes from a trustworthy source, and (2) individuals are more likely to alter their behavior when feedback is perceived as credible. Thus, ratees with high trust in the appraisal system should view feedback as more credible and thus be more likely to alter their behavior based upon the feedback.

1.2.5. Organizational and Individual Needs of Performance Appraisal

Mcgregor (1972) in his paper, "An uneasy look at performance appraisal" said that formal performance appraisal plans are designed to meet three needs, one of the organizations and another two for the individual: The following are his ideas about performance appraisal. Firstly, performance appraisal provides systematic verdict to back up salary increases, promotions, transfers, demotions or terminations. Secondly, performance appraisal forms a means of telling subordinate how he is doing, how his performance is towards the organization and suggesting the changes in his behavior, attitudes, skills or job knowledge improvements, they let him know "where he stands" with the boss. Thirdly, performance appraisal is increasingly being used as a basis for coaching and counseling of the individual by the superior. Performance Appraisal System is important for organizations, as it mainly focuses on employees to develop their capabilities (Cokins, 2004). Moreover, it does not only do capacity building but it helps managers in timely predictions and taking actions promptly to uncertain changes. Armstrong (2006) stated that the aim of Performance Appraisal System is to create a culture of high performance where all members are responsible for continuous improvement of business processes and their own skills.
1.2.6. Effective Performance Appraisal System

Designing an effective Performance Appraisal System is one of the most difficult tasks as there is no such thing as an “ideal” appraisal format and system. Exhaustive research has been conducted in the related area with limited advances in the understanding and practices of the performance appraisal as there is no such thing as an “ideal” Performance Appraisal System. But it is studied that an appraisal system will be effective to accomplish the intended purpose to the extent that managers and subordinates have a shared perception of the purpose and function served by appraisals and the extent to which the process satisfies the needs of both managers and subordinates (Lawler, Mohrman, and Resnick (1984). But there are no such generalized functions which are performed by an appraisal system in all organization as the purpose of Performance Appraisal System is different in different organizations. Even a technically sound appraisal system and procedure is of no guarantee that an organization’s appraisal process will be effective (Wright, 1985) unless and until the participants’ are benefited by the system. The results of Borman's (1979) study indicated: (1) that no one format is consistently best across situations; (2) that formats may possess different strengths and weaknesses in relation to measuring performance on different jobs; and (3) that even within a job, a format may be relatively successful in helping raters make accurate performance judgments on some dimensions but unsuccessful in the same regard for other dimensions. The meaning of ‘effectiveness’ as applied to performance appraisal means the ability of the system of appraisal to meet various demands made by the organizational system. According to Suttan and Mathes (1979), “Effectiveness is a measure which includes quality of programmed output, user satisfaction, operational quality, plans to recover from disaster, etc. An appraisal system to be effective depends on various factors, some of which are discussed below.

The purposes of an appraisal system must be clear, understandable to both rater and ratee if the process is to be effective. Stronge (1991) in Mo, Corners and McComick (1998) states that, if an appraisal system does not have a clear purpose; it will just be a meaningless exercise. Goddard and Emerson (1996) suggest that it is important for both the appraisee and appraiser to be clear about the purpose of the process; including the role of the appraiser and the criteria that will be used. Supporting this view, Horne and Pierce (1996)
contend that the purpose, nature and focus of the observation should have been decided upon and agreed to by both parties, that is, ratee and rater.

It is important that the appraisal process ensures that employees understand how their personal job performance contributes to the overall performance of the company. This direct linkage helps to create team working and shared responsibility. Team effort stems from shared objectives reflecting organizational goals and clarification and understanding of the roles and responsibilities of each member (Kellogg, 1975). Within such a framework, performance appraisal has higher acceptability.

There should be a common and clear understanding of the distinction between evaluation and appraisal. As Patten (1982) argues, evaluation aims at 'objective' measurement, while appraisal includes both objective and subjective assessment of how well an employee has performed during the period under review. Thus performance appraisal aims at 'feedback, development and assessment.' The process of performance appraisal should concentrate on the job of an employee, the environment of the organization, and the employee him or herself. These three factors are interrelated and interdependent. Therefore, in order to be effective, the appraisal system should be individualized, subjective, and qualitative and oriented towards problem solving.

A well designed performance appraisal should ensure an effective appraisal methodology. The appraisal methodology will be more effective when the purpose and standard of evaluation system are clear to the participants of an appraisal system, the evaluative factors become job related and evaluation is made based on proper records. Supervisor and employee understanding of the appraisal process has been shown to be essential to the successful implementation of a Performance Appraisal System (Casio 1987; Landy and Trumbo 1980; Martin and Bartol 1986) particularly if the system is goal oriented (Kaye and Krantz 1982).

Lack of an effective appraisal methodology may raise the scope of different rating errors in the evaluation system. An appraisal system to be effective should clearly convey work expectations and make sure that employees understand expectations. Bascal (1999) presented his view that in PA system, supervisors must clarify what they actually want
from their staff. Bascal (1999) has also suggested that employees can talk to their supervisors about how they should be managed and how they can give their best output. They can discuss the support or resources which they need from their supervisors in order to achieve expected outcomes. If people do not know what is expected of them, there is a good chance that their behavior will not conform to expectations (Youngcourt, Leiva & Jones 2007). This can be accomplished by incorporating equal performance standards for all employees. Thus appraisal methodology is one of the important determinants of appraisal effectiveness.

Performance Appraisal System should be based on clearly specified and measurable standards and indicators of performance. Since what is being appraised is performance and not personality, personality traits which are not relevant to job performance should be excluded from the appraisal framework. The rater and the ratee should have a clear idea about the evaluation criteria and the standard of evaluation unless they will not be able to achieve their performance goal. Many administrations realize that the first step in improving performance is to design successful evaluation criteria. Kirkpatrick (1981) noted that any performance improvement process must entail clarifying what is expected of the employee. Traditional subjective Performance Appraisal Systems have not provided solutions to perplexing measurement problems and have increasingly come under attack in the courts for their lack of job relatedness. (Latham and Wexley, 1981; Tyer, 1982).

An appraisal system to be effective should address clarity, openness, and fairness; recognize productivity through rewards; and be cognizant of appraiser leadership qualities (Winston & Creamer, 1997). When conducting performance appraisal raters should also clearly convey their evaluation standard so that employees understand how to achieve the desired standard. This can be accomplished by incorporating equal performance standards for all employees. At the beginning of the evaluation period, e.g. at the beginning of the year, performance standards should be established and communicated to incumbents (Dorfman, Stephan & Loveland, 1986).

Brown et al. (2010) argue the quality of the performance appraisal process is also important – a poor performance appraisal, particularly one that focuses on monitoring and
control, leads to lower job satisfaction and organizational commitment and greater intention to quit.

The limited international Performance Appraisal research suggests that applied qualitative criteria, such as employee attitude and acceptance, are more helpful ways of assessing effectiveness of the PA in the global setting (Milliman, Taylor & Czaplewski 2000). Decenzo and Robbins (2002) denominate three approaches to performance appraisal: absolute standards, relative standards and management by objectives. The absolute standards are appraisal methods through which employees’ performances are compared to a standard and their evaluation is independent of any other employee in a work group (Dessler, 2000). Relative standards are appraisal methods where performances of individuals are compared against other individuals. Management by objectives are where 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.

Finn and Fontaine (1984) noted that one of the major causes of managerial dissatisfaction with the appraisal process is a format based on broad subjective dimensions. The system must be specific enough to reflect the differences between job classifications yet standardized in a sense that it can be used to compare individuals within a particular job classification.

As the user of performance appraisal feedback the perception of the raters is one of the key factors of an effective appraisal system. Top officials must publicly commit to the program by devoting sufficient resources to it and by modeling appropriate behavior, and managers need to be convinced that the system is relevant and operational (Berman et al., 2006). Raters who show a high level of trust in their appraisal systems appear to be more likely to distinguish good from poor performers, more willing to distinguish subordinates' strengths from weaknesses, and more comfortable giving performance feedback Napier and Latham (1966) suggest that some raters may consider the appraisal exercise as futile and therefore, perform the task with less effort and rigor. It may therefore be important to assess the raters' feeling of self-efficacy with regard to this task, i.e. the degree to which the rater believes he has the necessary skills to perform the task well (Bandura, 1977, 1982).
Managers' and subordinates' attitudes toward performance appraisals and expectations play a significant role in achieving effectiveness of performance appraisal (Daley, 1990). Supervisor and employee understanding of the appraisal process has been shown to be essential to the successful implementation of a Performance Appraisal System (Casio 1987; Landy and Trumbo 1980; Martin and Bartol 1986) particularly if the system is goal oriented (Kaye and Krantz 1982). Another research also supports the view that participants’ acceptance of an organization’s Performance Appraisal System is perceived to be a critical factor in appraisal effectiveness (Ash, 1994). Managers and subordinates are said to have a shared perception of the purposes and functions of the process and thereby useful to them on an individual basis (Maroney and Buckley, 1992). Fletcher (2008) points out that employees will see themselves as benefiting if these organizational objectives are met (i.e. they want to be properly rewarded, discuss opportunities for development etc.). If appraisal does nothing else, it causes manager and subordinates to get together and discuss the subordinate's performance. However, this situation has the potential to be quite socially uncomfortable and it only works if the jobholder wants to be appraised. Fletcher (2008) also identifies three factors that are particularly important in determining whether the employee engages in the process to help meet the objectives of appraisal. They are:

- The employee's perception of the assessment as fair
- The quality of the employee's existing relationship with the person / persons doing the appraising
- The impact that the appraisal has on employee reward and their own well-being

It is viewed that in performance planning an employee structurally segregates his activities so that he can plan his own development and organizational outcomes (Rao, 2004).

Caruth and Humphreys (2008) add to this viewpoint by suggesting it is a business imperative that the Performance Appraisal System includes characteristics to meet the organizational needs and also all of its stakeholders (including management and staff). Fletcher (2006) takes a more balanced view, suggesting that for performance appraisal to be constructive and useful there needs to be something in it for appraiser and appraisee.
If employees and raters do not accept the appraisal system, the system will be ineffective irrespective of its degree of technical soundness. De Vries, et al (1986) suggested that an appraisal system has more validity in terms of accomplishment of its intended purpose when a significant majority of the organization’s members have a favorable attitude towards the system. In the same tune it is studied that a critical element influencing the potential success of an appraisal system is the reaction to the system of those persons being evaluated (Carroll & Schneier, 1982). Therefore, there is a general consensus among performance appraisal researchers and practitioners that assessment of appraisal reactions is important (Keeping and Levy, 2000).

In designing a Performance Appraisal System attention must be given to a number of aspects that impact on how effectively the system actually measures employee contributions in a work setting (Buford and Lindner, 2002). These include reliability and validity, what is to be measured (criteria), sources of appraisal information, timing of appraisals, and control of rater errors (recency, first impression, halo, central tendency, rater patterns, similar-to-me effect, contrast effect, stereotyping, etc.). One more factor that contributes to an effective Performance Appraisal System entails ensuring that the system focuses on performance variables as opposed to personal traits (Smither, 1998).

Employee perceptions of the fairness of their performance appraisals are also useful in determining the success of Performance Appraisal Systems (Erdogan et al. 2001). Research has demonstrated that perceptions of fairness result in increased favorable employee attitudes and behaviors, such as organizational citizenship behaviours (Skarlicki and Latham 1996) and organizational commitment (Folger and Konovsky 1989), whereas perceptions of unfairness result in increased employee turnover (Dailey and Kirk 1992) and retaliatory behaviours, such as theft, vandalism, intentional idleness and absenteeism (Skarlicki and Folger 1997). Greenberg (1986) stated five components of procedural factors for an understanding of determinants of fairness in Performance appraisal: (1) ability to challenge/rebut evaluation; (2) consistent application of standards; (3) two-way communication during interview; (4) soliciting and input using worker; (5) rater familiarity with ratee work. Evans and McShane (1988) explored six characteristics which are related to employee perception of PA fairness (1) the appraiser's knowledge of the employee job
and performance; (2) the opportunity for employee participation; (3) the establishment of specific and relevant job goals; (4) discussion of employee development goals; (5) discussion of company and department goals and (6) feedback on appraisal results. In addition, the favorableness of the most recent appraisal was associated with the employee belief in the overall fairness of the appraisal process in both companies. Roberts (2003) stated that it is important that employees must have trust on the fairness of Performance Appraisal System and outcomes of the system would be acceptable for employees, only if they have trust on transparency and fairness of the system, otherwise these outcomes go as useless consequence by which the system becomes ineffective.

One particular type of employee reaction that has been found to be related to acceptance or rejection of appraisal is the perceived fairness of an appraisal system (Murphy & Cleveland, 1991). Bretz, Milkovich, and Read (1992), in their summary of three large-scale surveys of U.S. private sector organizations, identified fairness as the most important performance appraisal issue that organization face.

Any imbalance between perceived individual efforts on the one hand, and reward and recognition on the other hand may be seen as a breach of procedural fairness (e.g., Konovsky, 2000; Brown and Benson, 2003), and will act as a potential disturbance for both job motivation and individual performance (e.g., Winstanley and Smith, 1996).

An important informal measure of performance is the perception of fairness and justice assessed by the perception of organizational politics. Individuals who perceive that organizational politics have cheated them out of a deserved opportunity are likely to exhibit unconstructive reactions, such as apathy, dissatisfaction, and anxiety, which negatively affect their performance (Kacmar, Bozeman, Carlson, & Anthony, 1999; Vigoda, 2000). Organizations that create a culture and ambiance of equity and fair distribution of social and political resources may increase employees' formal performance and their willingness to engage in organizational citizenship behavior (Vigoda, 2000). Moreover, reward distribution in political work environments is at odds with equity theory, as the receipt of organizational rewards due to political maneuvering is likely to be perceived as unfair and, accordingly, demotivates employees to perform well (Kacmar et al., 1999).
The study of the perceived fairness of performance appraisal as an outcome variable has relevance for several reasons. Concerns about fairness in organizations have been expressed in many contexts, ranging from interest in making "fair" personnel selection decisions to negotiating "equitable" wage settlements (Greenberg, 1986). In particular, procedures that allow employees participation or "voice" in the appraisal process are viewed as being fairer than those that do not (Burke, Weitzel, & Weir, 1978; Kanfer et al., 1987; Landy, Barnes, & Murphy, 1978).

This is also to be kept in mind that performance appraisal is not about the forms (Bacal 1999). The ultimate purpose of performance appraisal is to allow employees and managers to improve continuously and to remove barriers to job success, in other words to make everyone better. Forms do not make people better, and are simply a way of recording basic information for later reference. If the focus is getting the forms "done", without thought and effort, the whole process becomes at best a waste of time, and at worst, insulting. The Performance Appraisal System is an important management tool for confirming the effectiveness and efficiency of employees in the workplace (Amstrong and Baron, 1998). Employees are directly involved in this system and can be influenced by it. Therefore, designing an appraisal system requires establishing policies and procedures and obtaining the support of the entire workforce and its unions.

Leader's credibility also significantly increase employees' acceptance of their performance appraisals (Ahmad and Ali, 2004) which is considered as one of the factor of effectiveness of Performance Appraisal System. It is also suggested by the researcher that an effective appraisal system requires that managers not only have the skills necessary to conduct the appraisals, but also the willingness to do so (Longenecker and Goff, 1990). Mani (2002) has concluded by his research in East Carolina University that employees perceive appraisal system as a better tool for management decisions when they are satisfied with their supervisor and have trust on him.

Raters’ training can improve the the raters’ skill which will ensure the accuracy of performance appraisal process and will contribute to the effectiveness of Performance Appraisal System. Research by Sulsky and Day (1992) and Schoenfeld, (1994) all support this assertion and found evidence that training affects rating accuracy. Thornton and Zorich
have suggested that raters should be trained to avoid systematic errors of observation, such as overdependence on a single source, prejudice, stereotyping, or categorization error (forcing observations into categories instead of remembering the differences among ideas, behaviors, or people). Research by Sulsky and Day (1992) support this assertion and found evidence that training affects rating accuracy. Lack of training of raters may lead to various rating errors which reduce the effectiveness of an appraisal system.

Latham, Wexley, and Pursell (1975) indicate that workshops and group discussions designed to inform raters about the nature and sources of rating errors can be useful for obtaining increased accuracy in performance appraisal.

Chairman and Hartel (1993) studied that the rater’s experience, training and job skills are important factors which contribute to the effectiveness of performance appraisal. Decotis (1978) draws attention to three major determinants of the accuracy of Performance Appraisal Systems. They are: (1) rater's motivation, (2) rater's ability, and (3) availability of appropriate judgement norms. Gellerman (1976) observes that appraisals tend to be less accurate when they are made for administrative purposes than when they are made for employee development and personnel research.

Cherrington and Cherrington (1974) are of the view that the rater's own values of what is good or bad contaminate the accuracy of performance appraisal. Cronbach (1955) identified four components of rating accuracy: (1) elevation, a response bias reflecting the degree of leniency or severity of the rater across all ratees; (2) differential elevation, the degree to which a rater varies the ratings of the target about the target's average or summary performance across all scales; (3) stereo-type accuracy, the degree to which the rater's knowledge of behavior or trait correlations reflect the norms of behavior across all ratees in other words, the accuracy of the rater's implicit theories; and (4) differential accuracy, the degree to which the rater is sensitive to differences among ratees on each rating scale or behavior. These four components of accuracy have been found to intercorrelate only minimally (Cline & Richards, 1960; Crow & Hammond, 1957; Murphy, Garcia, Kerkar, Martin, & Balzer, 1982). The first two of Cronbach’s four components of rating accuracy reflect rating style or bias in ratings. The remaining two, stereotype
accuracy and differential accuracy, relate directly to the role of cognitive processing and inferences based on implicit theories of performance.

Raters’ knowledge about the performance of their subordinates is considered as a necessary precondition for improving the rating accuracy. Subordinates' perceptions of fairness and accuracy in the appraisal process are significantly related to that supervisors should have knowledge of subordinates' performance level and job duties. Folger et al. (1992) studied that the participants emphasized the need for supervisors to be familiar with their employees’ work responsibilities and to frequently observe and record their performance during the appraisal period. Whitla and Tirrell (1954) and Guion (1965) cautioned against the use of raters from distant organizational levels: "... an immediate supervisor is better qualified to accurately appraise performance than is his superintendent or department manager, they are too far removed from the person being rated". The wisdom of this caveat has been empirically verified by several studies (Berry et al. 1966, Borman 1974, Gunderson et al. 1966) which report unsatisfactory inter rater agreement on performance ratings assigned by raters from different organizational levels. Raters from different organizational levels may have different perceptions of the implications of the same ratee behavior for job or organizational outcomes or respond to different aspects of the same ratee's behavior (Borman, 1974).

1.2.7. Performance Appraisal Errors

While feedback for employee development is often a stated objective of Performance Appraisal System, the majority of employees and their assessors give more weight to “personal decision” application such as pay and promotion. This influences the accuracy of ratings, biasing them in a manner likely to reduce their value of performance improvement. In order for a performance system to be perceived as fair, it must be free of bias. Inaccurate ratings may also result from one's willingness to see similarity and consistency, failure to record and attend to hit rates, and the discounting of impression-inconsistent information (Cooper, 1981). Performance appraisals require the rater to objectively reach a conclusion about performance. The use of ratings assumes that the raters are reasonably objective and accurate. Appraisal of any type is often a very subjective process. Prendergast and Topel (1996) argue that accurate and objective measures of an employee's performance are
typically unavailable. Instead performance is gauged from subjective opinions provided by superiors and this subjectivity opens the door to favoritism where evaluators use their power to reward preferred subordinates beyond their true performance. The harmful effects of favoritism have two implications for the design of rewards. Incentive pay for employees will be de-emphasized and favoritism causes organizations to use bureaucratic rules in pay and promotion decisions.

An appraisal system often influenced by the various types of errors when there is long time gap between the appraisal and the performance. In reality, raters’ memories are quite fallible, and raters subscribe to their own sets of likes, dislikes, and expectations about people, which may or may not be valid (Ivancevich, 2001).

Managers may also intentionally distort the ratings they assign to a grievant. This is found that under certain conditions managers were willing to intentionally deflate the ratings assigned to particular employees (Longenecker, Gioia, and Sims, 1987). According to those authors, if a manager sees an employee's behavior as personally threatening or offensive, the manager might attempt to modify the employee's behavior by intentionally deflating the rating given to the employee. Thus managers use the performance evaluation process as a means by which to enhance their personal control over employees.

On the contrary Niazi (1976) reported that there is a tendency among raters to play safe because of anxieties aroused by the appraisal task. Also there are anxieties on the part of the assessee such as: will the superior be fair and just? What does the superior expect? In the face of these anxieties assessees tend to behave in such a way as to please the boss, project only achievements, not failures, or express anger and distrust at the system or at the superior, Studies on organizational strategies for overcoming the above mentioned problems are many. Lawler (1967) favours the use of multi rater system over uni-rater approach. Schneier (1977), Barrett (1966), Campbell et al. (1977), French (1974) recommend the use of many raters (subordinates, peers, and superiors). Contrary to this, Whitla & Tirrell (1954) and Guion (1965) believe that an immediate supervisor is a better qualified rater to appraise an employee. Kallejian et al. (1953), Brown (1968), Latham F.P. et al. (1975) highlight the need for training of raters to obtain accurate appraisal.
Murphy, Philbin and Adams (1989) in their study show that raters' memories affect the accuracy of performance appraisal ratings. This is because raters' memories influence their recall abilities. Kozlowski and Kirsch (1987) also suggested that memory decay affected the ability to recall job and ratee information and thus introduces bias into the rating process and resulted in halo error and subsequently inaccurate ratings. When the rater's memory demands are great, bias in favor of general impressions or recent performance may be expected (Murphy, Gannett, Herr & Chen, 1986). Stress has been shown to impact memory by (1) causing less differentiation across dimensions (halo), (2) affecting information retrieval, and (3) possibly affecting categorization as well (Srinivas & Motowidlo, 1987).

Rater characteristics may moderate the degree to which memory decay is problematic. For example, Smither and Reilly (1987) concluded that rater intelligence, not rating delays, affected rating accuracy. Ahmad and Spicer’s (2006 ) research indicates that mental practice has a positive and significant effect on performance and the effectiveness of mental practice was moderated by the types of task, the retention intervals between practice and performance and the length or duration of the mental practice intervention.

Research on rating errors focuses on the halo effect, horn effect, recency effect, central tendency error, error of strictness, error of leniency, similar to me effect etc. DeNisi, Robbins and Cafferty (1989) found that 'liked' employees are perceived to have good performance while 'disliked' employees are perceived to have poor performance by raters. The study by Dobbins, G.H. and Russell (1986) found that supervisors punish 'disliked' subordinates more harshly than 'liked' subordinates. Latham, Wexley, and Pursell (1975) indicate that workshops and group discussions designed to inform raters about the nature and sources of rating errors can be useful for obtaining increased accuracy in performance appraisal. Similarly, Bernardin and Walter (1977) reported that raters apprised of the meanings of rating errors and familiarized with the scales to be used showed significantly less leniency error and halo effect. There is little research in this aspect of appraisal effectiveness in public utility government organizations despite the expanded use of the practice in these entities.
1.2.8. Employees’ Participation in Performance Appraisal

For an appraisal system to be effective, employees must believe that they have an opportunity to contribute meaningful input into the performance appraisal process. Such input may range from having the opportunity to challenge or rebut the evaluation one receives to judging one's own performance through self appraisal. Regardless of the nature of employee input, it is clear that giving employees a voice in their own appraisals enhances the perceived fairness of the appraisal process, which, in turn, increases the likelihood that employees will accept the appraisal system as a legitimate and constructive means of gauging their performance contributions. Kane, Bernardin and Wiatrowski (1995) also suggested that, in providing feedback, supervisors should allow employees the opportunity to share their insights and evaluations concerning their own performance. Roberts (2003) notes that employee involvement is a useful tool for increasing job-related autonomy, which is a prerequisite for employee growth. Roberts also points out that employee participation gives employees voice in the appraisal process which gives the employee the opportunity to refute performance ratings, documentation, or verbal feedback with which they disagree. If employees are convinced the appraisal process is fair, they are more likely to acknowledge their performance ratings, including unfavorable ones. As noted by Gilliland and Langdon (1998), without the perception of fairness, “a system that is designed to appraise, reward, motivate, and develop can actually have the opposite effect and create frustration and resentment”.

The degree of participation by non-managerial employees in decision making varies from one organization to another. Studies have however shown that employee participation is positively related to performance, satisfaction, and productivity of an employee (Pfeffer, 1994; Verma, 1995). The purposes of employee participation have been defined by Marchington et al. (2001) as:

- articulation of individual dissatisfaction - to rectify a problem with management or prevent deterioration of relations;
- expression of collective organization - to provide a countervailing source of power to management;
• contribution to management decision making - to seek improvements in work organization, quality and productivity; and
• demonstration of mutuality and cooperative relations - to achieve long term viability for the organization and its employees.

Jordan (1992) asserted his views about the participation of employees in appraisal systems. Jordan said that through participation, employees are given an opportunity to raise their voice. Biasness reduces and trust on the supervisors develops when performance standards and criteria for evaluation are set with the help of employee in a joint session between employee and supervisor. Decreased employee participation increases appraisal related tension and appraiser-appraise conflicts.

The principle of employee involvement in the Appraisal Process also states that most employees have a deep psychological need to take responsibility for their own lives and be self-directing (Odiorne, 1984; McGregor, 1961). When they find themselves in situations where they feel others are making decisions for them, including formal performance evaluation situations, they may experience resentment and resistance to that situation and to the closed, one-way control of the autocratic manager. The work performance of employees may improve and be maintained to a greater degree when these employees have greater involvement and personal responsibility in the appraisal process, (Locke, 1982; Beer, 1987, Lawler, Mohrman and Resnick, 1984; Latham, Mitchell and Dossett, 1978). This is studied that to achieve the specified objectives, utilization of employee participation in the development of the performance standards to develop a sense of commitment to and ownership of the standards (Latham and Wexley, 1981). According to Roberts (2003) Employee participation in all aspects of appraisal process is a key element of intrinsic motivational strategies that facilitate workers’ development & growth. Employee participation gives opportunity to interject their voice. Moreover, it generates an atmosphere of co-operation & trust which reduces defensive behavior and rater-rate conflict. According to the Cox (2000) systems that are implemented with meaningful consultation of employees are more effective then those which are implemented unilaterally by supervisor.
Participation in decision-making has been widely studied in organizational-justice literature. Termed process control (Thibaut & Walker, 1975) or voice (Folger, 1997) the opportunity to participate in a decision-making process has been found to encourage perceptions of fairness. In such a situation individuals are given the opportunity to express their preference or views about decision alternative but they do not have the final decision. A participative climate increases the acceptability of decisions related to human resources in the organization, because it encourages members' active and direct participation in the decision making process and also enables organizational members to identify with the organization’s goals and thereby. Lammer (1967) has classified participation in the decision-making process as of two kinds- 'direct' and 'indirect'. Indirect participation usually implies that the subordinate participants speak for their constituents with the top managers about the general policy of the organization, procedures are formalized, and outside agencies often influence to some extent what goes on. Direct participation, on the other hand, customarily entails that the subordinates speak for themselves about work or managers related to work. Alutto and Acitio (1974) found that when discrepancies between desired and actual participation were low, employees reported more satisfaction, more interpersonal trust, less role tension, and more organisational commitment.

One integral part of an effective Performance Appraisal System is the performance appraisal interview. The interview process is an essential mechanism for subordinate development as well as one of the main components of management-by-objectives systems (Carroll & Tosi, 1973). The appraisal interview might function in several important ways: providing feedback to employees, counseling and developing employees, and conveying and discussing compensation, job status, or disciplinary decisions. Goal setting by or for the subordinate during the interview has consistently related to positive appraisal interview outcomes. In correlation studies, goal setting was positively related to subordinate satisfaction with the interview (Burke & Wilcox, 1969; Burke et al., 1978; Greller, 1975, 1978), perceived fairness and accuracy of the evaluation (Landy et al., 1978), and perceived utility of the appraisal (Greller, 1978). Goal setting also has been related to greater mutual understanding and perceived fairness (Burke et al., 1978), subordinates' desire to improve, and subsequent improvement (Burke & Wilcox, 1969; Burke et al., 1978).
The performance appraisal interview has been given considerable attention by academics and practitioners alike due to its role of increasing effectiveness of an appraisal system. Several researchers have investigated various aspects of the appraisal interview itself: subordinate participation (Greller, 1975), supervisory support (Nemeroff & Wexley, 1978), mutual goal setting (Latham & Yukl, 1975), problem solving (Maier, 1958), and discussing how to improve future performance (Latham & Wexley, 1981). Typically, the appraisal interview has been treated as an event, rather than an integral part of the appraisal process (Blasingame, Schneider & Hawk, 1981). Greller (1978) investigated three aspects of the appraisal interview: sense of ownership; feelings of contribution; and criticism from the boss. It was found that the ownership factor was most strongly related to subordinates' reactions to the appraisal.

Several factors seem to moderate the effectiveness of subordinate participation in the interview. Two of these factors are the degree of threat to the subordinate and the previous relationship of super-visor and subordinate. Both the French et al. (1966) and the Bassett and Meyer (1968) studies indicate that participation likely will result in more positive outcomes when threat is low.

Open appraisal system reveals to the ratees his or her strengths and weaknesses, his contributions and failures which are discussed with him or her during performance counseling interview. An open appraisal method which provides the ratees to give an insight about his own performance would create self awareness. It helps the employee become more reflective and objective about him and future planning, which establishes an action plan for the coming year in terms of fixing targets, activities, responsibilities etc. It also makes the employee aware of his key performance areas and the contribution that he is making to the organization. Weihrich and Koontz (2005) maintained that when people are involved in goal setting they consider themselves responsible for their results, and achievement of their goals also depends upon the degree of support (resources, processes, systems) employees get from their management.

Since Performance Appraisal Systems will allow to communicate strategies, goals and vision, employees should experience higher levels of commitment to superordinate organizational goals and, therefore, become more affectively committed to their
organization. Moreover, developmental performance appraisal is also about increasing employees’ perceptions of being valued and being part of an organizational team (Levy and Williams, 2004), perceptions that are central to affective commitment.

Although the potential benefits of the performance appraisal interview seem evident, its infrequent and ineffective use in organizations also is widely recognized (Landy & Trumbo, 1980; McGregor, 1957; Meyer, Kay, & French, 1965). Despite the apparent importance of appraisal interviews, superiors often receive no training in conducting these sessions (Burke & Kimball, 1971). Available performance information often is not feedback to employees (Cascio, 1978), or it is given in a perfunctory manner (Porter, Lawler, & Hackman, 1975).

The training of employees to participate in the performance appraisal process as an appraisee is an important element in ensuring that objectives are realistic (Cook & Crossman, 2004), with the enhanced likelihood of feedback being acted on. The importance of training people to participate in performance appraisal is also stressed by Bretz, Milkovich and Read (1992) who advocate that, to achieve maximum effectiveness, the process should be an ongoing process.

1.2.9. Formal Appraisal Structures and Controls

The performance appraisal is a control system that is used by almost all organizations to specify the behavior that employees must perform in accordance with organizational objectives. Necessary control is achieved through a clear system of rules and procedures to direct and standardize employee behavior, resulting in predictability and accuracy of performance (Lawler, 1983). Information, such as job descriptions and performance feedback, should be formalized, documented in writing, and clearly communicated to employees to ensure that performance expectations are well understood, as well as to protect the organization in case decisions regarding employees are challenged on legal grounds (Butler, Ferris and Napier, 1991; Ledvinka and Scarpello, 1991).

There are various methods of performance appraisal for evaluating employee's performance but the basic object is to select a fair and accurate method of appraisals, and also to determine how to utilize the results to boost employee motivation and productivity.
Therefore it is essential to have a carefully structured system of appraisal and an appropriate method of appraisal to prevent arbitrary and biased judgment of work performance. Research on rating methods by David and Lorne (1995) found that the type of rating method used also affect rating accuracy. Performance-rating instrument: Barnes-Farrell and Lynch (2003) noted that there is no single, referred rating instrument or format identified through best practices for ensuring accurate ratings. Their contention is that the evaluation of the measurement instrument hinges on two key questions: (1) Does the measure facilitate accurate communication of employee performance? And (2) Does its design align with the goals of measurement. The answers to these evaluation questions will have an impact on the instrument’s accuracy, reliability, and acceptability of use.

Gomex-Mejia, Page and Tornow (1985) described a Performance Appraisal System that has been successfully designed and evaluated for its effectiveness. The parts of an effective system, as defined by the authors were (1) job related appraisal form; (2) an appraisal model; (3) a support system; and (4) a monitoring and tracking network. The analysis of the features of PAS suggested that a performance appraisal is most effective when applied as a total package.

**Maintaining Records**

Another key to ensuring the effective use of a performance appraisal scheme is keeping and maintaining accurate records of employee’s performance. Carefully maintained, they establish patterns in an employee’s behavior that may be difficult to spot by typical incident-by-incident supervision (Crane, 1991). Careful review of the records helps avoid the selective memory mentioned earlier and helps plot appropriate actions. Of course, well maintained records are essential if the need arises to discipline, demote or dismiss an employee. It is particularly helpful if employees are themselves responsible for part of the process of record-keeping: this helps reinforce the fact that a major part of the process is devoted to employee development and that employees have a responsibility for their own development. Such an approach to dual documentation also helps in the elimination of surprises. Leventhal, Karuza and Fry (1980) argue that employees’ fairness perceptions of their appraisal ratings are enhanced by the use of accurate records and information. Participants emphasized the need for supervisors to be familiar with their employees’ work.
responsibilities and to frequently observe and record their performance during the appraisal period (Folger et al. 1992).

**Accountability of the Rater**

Palmer and Feldman (2005) found that accountability increase the appraisal accuracy by reducing magnitude of appraisal errors. Because, when the rater explicitly told, prior to appraisal task, that they will be held accountable for their appraisal, they will think as accountability direct them and will provide appraisal consistent with contingencies of accountability requirements (Tetlock and Kim, 1987; Kunda, 1990).

**Cultural Aspect**

Dayal (1976), Gibbs (1985) and Pareek and Rao (1981) have theoretically described aspects of Performance Appraisal System as a device in certain cultural contexts. In Indian context Dayal (1976) suggested that the Indian social environment tends to emphasize concepts of self, loyalty, regard for authority and interpersonal behaviour differently compared with the Western context. Hence, developing an effective Performance Appraisal System requires that the peculiar cultural aspects need to be considered.

Overall the relevant characteristics that may influence the effectiveness of the appraisal process include the frequency of the appraisals, the nature of the appraisal (i.e., written vs. unwritten), the perceived fairness of the evaluation process (Huffman & Cain, 2000), and the degree to which the evaluation results are discussed with the employees being evaluated (Dipboye & de Pontbriand, 1981; Landy, Barnes, & Murphy, 1978). This is studied that Martin and Bartol (1998) recommended the following:

- Designate rating periods.
- Use clear and job-specific behaviorally based rating strategies, such as management by objectives (MBO) and behaviorally anchored rating scales (BARS).
- Base the appraisal on specific tasks the employee accomplishes or fails to accomplish, and the behaviors that are necessary to perform the job during the rating period.
• Provide space for written, individual standards of performance known to the employee.

• Conduct performance appraisal training for raters and ratees (training should include the role of the organization, rater, and ratee, and how the results will be used).

• Operate the system in a legally defensible manner (fair, job-related, bias-free).

• Link results of the performance appraisal process to the programs dependent on them (use the results to make decisions about people’s pay, development, and assignments).

• Conduct performance appraisal on a schedule where findings support the organizational human resource systems

• Clarify the standards used to appraise the job performance of the employees.

This is said that employee performance appraisal is a relatively underemphasized factor in Indian managerial practices (Budhwar and Sparrow 1997). Indian firms cannot enhance their strategic competitiveness due to the fact that Indian firms do not give priority to Indian HRM practices. This is also observed by the researchers that the productivity of work cultures in Indian organizations is jeopardized by employee performance appraisal practices that appear to be biased, ad hoc and unintegrated into a globally competitive HRM system (Mendonca and Kanungo, 1990; Virmani and Guptan, 1991). Misuse of performance appraisal authority adversely impacts Indian employees who have already been described as low on ‘efficiency emphasis’ that is, low on initiative for process improvement, low on risk-taking propensity to increase productivity and low on self-monitoring inclinations (Sparrow and Budhwar, 1997). Indian managers have also been criticized for not involving employees in the performance management process (Mendonca and Kanungo, 1990).

Though performance appraisal is considered as one of the most important aspects of management, unfortunately it is often one of the most mishandled aspects of management (Steers and Black 1994). This is also studied that many organizations express dissatisfaction with their appraisal schemes (Fletcher, 1997). According to Fletcher (2001),
this may signal a lack of success of performance Appraisal as a mechanism for developing and motivating people. If the employees are not happy with the existing appraisal system, they would not take part in it which in turn would lead to lower productivity (Wright and Cheung 2005). Even the positive outcomes potentially derived from an effective system (e.g., improved job performance, motivation, communication, etc.) may fail to materialize if employees view the system in a negative light (Lawler, 1973). Dipboye and dePontbriand (1981) predicted that employees would have favorable impressions towards their last appraisal and the system of appraisal to the extent which they (1) were allowed to participate in the feedback (2) they perceived the rating factors to be job related (3) the appraisals were goal oriented and (4) they perceived their ratings to be favorable.

Performance Appraisal Systems are not generic or easily passed from one company to another; their design and administration must be tailor-made to match employee and organizational characteristics and qualities (Henderson, 1984). Hence, proper attention must be given on designing an effective appraisal system as it is considered as the most important area as well as most confused research area in human resources. Moreover a poor appraisal is worse than no appraisal at all.

Literature uncovered following aspects that can make harm to the effectiveness of performance appraisal: exemptions to the highly visible employees, conduct of performance appraisal to punish the low performers, rewards on nonperformance, doubts in the mind of performers about appraisal’s after effects, organization’s politics that leads to disturb performance of targeted employee (Deluca, 1993); use of fundamentally flawed appraisals, focus on encouraging individual, which automatically discourages teamwork/collaboration, inconsistencies in setting and applying appraisal criteria, focus on extremes (exceptionally good or poor performance), appraisal’s focus on achievement of short-term goals, support to autocrat supervisors, subjectivity of appraisal results and creation of emotional anguish in employees (Segal, 2000); use of vague qualities and irrelevant measurement criteria, use of useless checklists for evaluation, monologues instead of dialogues in feedback sessions, reluctance of appraisers to offer feedback, supervisor’s misguidance to appraiser (Nurse, 2005); inaccuracies at supervisor/organization’s end (Horvath & Andrews, 2007).
1.2.10. Research Gap

Exhaustive research has been conducted in the related area with limited advances in understanding the most effective practices of the performance appraisal, as there is no such thing as an “ideal” Performance Appraisal System. The effectiveness of the appraisal system depends on the extent to which it serves the purpose of the organization and stakeholders involved in the system. So ideally every organization should design the appraisal system considering its nature and purpose. Yet this is not the case often in practical situations. In fact, practitioners continue to complain about how academic research in this area has been of limited use, and how academia continue to bemoan the state of affairs on the practice front (Colquitt, Conlon, Wesson, Porter, and Ng, 2001; Smither and Walker, 2004).

It may also be inferred from available literature that an appraisal system will be effective when raters and ratees have shared perceptions of the purpose and function served by appraisals. But there are no such generalized functions which are performed by an appraisal system in all organizations. As the purpose of Performance Appraisal System is different in different organizations, academicians and practitioners alike continue to explore the issue of appraisal effectiveness to determine the actual functions served through the formal appraisal process.

According to Manoharan, Muralidharan and Deshmukh (2009), a review of the literature shows that performance evaluation systems are criticized for failing to achieve employees’ expectations. In spite of the large body of published work on the subject of performance appraisal, there are still gaps in empirical investigations of workers’ perception of performance evaluation system. This study was developed on the rationale established by Manoharan, Muralidharan and Deshmukh.

Due to lack of commonly accepted method to evaluate the effectiveness of Performance Appraisal System based on well defined variables, this research attempts to determine how to increase the overall effectiveness of the appraisal process, and the key factors needed for effective appraisals based on the needs of the individual organization.
An appraisal system cannot be effective if the employees do not have trust on the fairness of Performance Appraisal System and outcomes of the system are not acceptable to them unless they have trust on the transparency in execution of the system. But it is also a fact that even the raters should have trust on the fairness appraisal method and the outcomes of the system. Otherwise they will consider the practice as a sheer waste of time. This research appreciates the need for both rater and ratee to have trust on the fairness of method and transparency in the outcome of Performance Appraisal System. There is limited research on the shared perceptions of managers and subordinates on these issues, especially in public sector service organizations.

Various errors which are committed by the raters at the time of evaluation affect the accuracy and satisfaction with an appraisal system. The nature of errors may be different in different organizations as it depends on various factors related with Performance Appraisal System. Hence research will continue to identify the nature and causes of performance appraisal errors based on the Performance Appraisal System followed by a particular organization. Considering the fact that diagnosing the Performance Appraisal System of an organization for its errors would lead to a system with enhanced acceptability among the stakeholders. Research has highlighted this need. The study therefore tries to compare the errors that may be taking place in the Indian Railways from the perceptions of both raters and ratee. It tries to build small additions to the lack of studies of overall effectiveness of the Performance Appraisal System and studies, which if published are not consistent in their results.

1.3. Research Objective

As has been mentioned earlier, there is no “ideal” performance appraisal format and system, but the effectiveness of an appraisal system depends on how effectively an organization and its employees are benefited by the various functions served by an appraisal process. An appraisal system may fail to achieve its goal if the appraisal methodology is not effective and raters’ lack the credibility to execute the system properly. Thus the participants’ perception about the effectiveness of Performance Appraisal System is influenced by the perceptions of both the raters and ratees engaged in the performance appraisal, in terms of its methodology and raters’ credibility. Both research and
organizational practice suggest that managers and subordinates have different needs and expectations for the appraisal event (Ilgen & Feldman, 1983). But a lack of congruence and shared understanding of an organizational event between two parties increases the likelihood of miscommunication and conflict (Weick, 1979). Thus it is important that these differences be identified and better understood.

The unique objective of this study is to assess the effectiveness of Performance Appraisal System of the Indian Railways based on the perceptions of both the raters and ratees and find out the significant contributors to the effectiveness of the Performance Appraisal System. In our study we have assessed the effectiveness of Performance Appraisal System based on functions served by the Performance Appraisal System. To analyze the factors which are responsible for the effectiveness of the appraisal system we have categorized and discussed the perception of both the raters and ratees in terms of methodology of appraisal and raters’ credibility. The overall effectiveness of an appraisal system will also be reduced with the increased number of rating errors at the time of evaluation. In search of commonality of perception of both raters and ratees surrounding the appraisal system in terms of its functions, appraisal methodology, raters’ credibility and rating errors this study will prepare the following hypotheses:

H1: The rater’s and ratee’s perception about function performed by the appraisal system does not differ significantly.

H2: The rater’s and ratee’s perception about the appraisal methodology does not differ significantly.

H3: The rater’s and ratee’s perception about raters’ credibility does not differ significantly.

H4: The rater’s and ratee’s perception about performance appraisal errors does not differ significantly.

The perception about rating errors is aggravated when the purpose of appraisal system and standard is not clear to the participants, evaluation is not made based on proper records of performance throughout the year, the raters do rating without sufficient knowledge of performance of ratees and raters are not credible enough to execute the appraisal system.
This study also highlights how the perception of the respondents about different rating errors is influenced by the perceptions about the appraisal methodology and the raters’ credibility. Finally this study will hypothesize the relationship between the effectiveness of Performance Appraisal System and its predictors like appraisal methodology, raters’ credibility and rating errors.

Following which, this study suggests ways on how to improve the performance appraisal process so as to have best possible impact on employee motivation.

1.4. Research Methodology

This research is exploratory in nature, which aims to gain insights and ideas on the effectiveness of Performance Appraisal System in Indian Railways. Primary data has been collected through a structured questionnaire from the head-quarter and some divisions under the head-quarter of South Eastern Railways at Garden Reach, Kolkata. The respondents: 309 Group C supervisory category (who responded only as ratees) and 86 Group A and B category (who responded as raters), who evaluate them including both the direct reporting officers (Group B officers-51) and the reviewing officers (Group A officers-35). In the first part of the questionnaire, demographic data such as age, gender, and educational qualification, number of years in the organization were collected. In the second part of the questionnaire respondents were asked to state their opinion on their perceptions about function and methodology of the appraisal system. The success of an appraisal system also depends on the raters of the system. So the perception of ratees about the credibility of raters is also obtained. A self assessment of the perceptions of raters was also obtained based on the same questions.

The perceptions about function/purposes, methodology of appraisal system and raters’ credibility were obtained based on an instrument developed considering various dimensions used by the previous researchers with modification to suit the need and characteristics of the organization under study. The perceptions about function/purposes, methodology of the appraisal system and raters’ credibility are measured on a five point likert scale ranging from 1(strongly agree) to 5(strongly disagree). Thus increase in these
values implies less favorable perception about the function/purposes, methodology of the appraisal system and raters’ credibility.

In search of the type of rating errors which may affect the effectiveness of the appraisal system the respondents were asked to state their opinion on another nine items of the questionnaire which captured their perception through five possible survey responses "don't know (1), none of the raters (2), some of the raters (3), most of the raters (4), all the raters (5), as developed by Bıçaksız et al (2002) with some modification as required. Here “Don’t know” implies that the system completely lack subjective error and it was mentioned in the questionnaire. The questions measured the halo effects, horn effect, central tendency error, recency errors and other common errors as obtained in literature.

An open ended question was designed to solicit the respondents' views on how to improve the appraisal process: "Based on your experience, what could be done to improve the effectiveness of the formal appraisal process?" The data are analyzed with the statistical tool using SPSS 17.

In the following section of the thesis elaborate discussion has been done on the conceptual understanding of performance appraisal in chapter 2. Performance appraisal takes a special dimension in public utilities, which has been discussed in chapter 3. The scope of this study is indeed large- The Indian Railways, but the sample is restricted to one zone that is South Eastern Railway. The overview of Indian Railways is detailed in Chapter 4. In chapter 5 we document the perceptions of the sampled employees gathered using a primary survey. Their opinion about the Performance Appraisal System of Indian Railway is the one source of this study. The concluding remarks are concluded in chapter 6.