CHAPTER 2

PERFORMANCE APPRAISAL , A CONCEPTUAL FRAME WORK

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2.1 INTRODUCTION

Performance appraisal is the process of obtaining, analyzing and recording information about the relative worth of an employee. The focus of the performance appraisal is measuring and improving the actual performance of the employee and also the future potential of the employee. Its aim is to measure what an employee does[1].

It is a powerful tool to calibrate. refine and reward the performance of the employee. It helps to analyze his achievements and evaluate his contribution towards the achievements of the overall organizational goals.

By focusing the attention on performance, performance appraisal goes to the heart of personnel management and reflects the management's interest in the progress of the employees.

Performance management, Performance review or performance appraisal as used by different establishments are all talking about the same thing, it has to do with aligning the human resources with the corporate goals of the firm, evaluate their performances and recommend commensurate rewards[2]. It involves skill planning, skill development, and maintaining a good pay for performance culture in an organization.

Over the years, effective performance management has been proven to improve employee loyalty, morale and general productivity. Due mainly to the highly competitive business environment today, there is the need for firms to boost the morale and loyalty of their employees in order to stand the heat of competition. Because of the high cost of selection, recruitment, training and developing new employees, it is imperative for firms to motivate and retain their high performing employees. What am I saying in essence as a Human resources expert, you are to have in place a good performance management system in your firm to help motivate and retain top performers, align individual performances with corporate goals thereby creating a more involved workforce, which will lead to greater productivity? A good Performance management system must include employee and management participation for it to be none biased and fair.

2.2 CONCEPT AND DEFINITION

2.2.1 PERFORMANCE

According to Robert Albanese "Performance is used to mean the efforts extended to achieve the targets efficiently and effectively. The achievement of targets involves the integrated use of human, financial and natural resources."

"Performance is a general term applied to a part or to all of the conduct of activities of an organization over a period of time; often with reference to past or projected cost efficiency, management responsibility or accountability or the like."

The above definitions describe that the word 'Performance refers to presentation with quality and result achieved by the management of company. It considers the accomplishment of objectives as well as goals setting for the company comparing the present progress with the past, although in context of the present. It also covers financial cost and social aspects. Overall activities conclusion is represented by the term 'Performance'[3]

2.2.2 APPRAISAL

'Appraisal' is closely related to scrutiny of the working system of a company as a whole.

According to Sudha Nigam, "Appraisal is a technique to evaluate past, current and projected performance of concern" It is a powerful tool **to** examine, to measure, to interpret and to weigh critically and to draw outputs. Different specialists who examine the specific problem with their unit undertake appraisal. Appraisal can be classified into two:

(I) Internal (II) External. According to Pitt Francis, "Internal appraisal of the company not only means making some of having adequate human, physical and financial resources but seeing that they are optimally employed."

2.2.3 PERFORMANCE APPRAISAL

"Performance Appraisal, as a concept is purely a developmental tool for a company. As a developmental tool, it is not merely the end product or the final assessment. It is important as the whole process of appraisal. The learning opportunity for the appraiser and the appraise starts with setting of the tasks and targets. It manifests in the whole gamut of appraisal procedure such as self appraisal, appraisal interviews, final appraisal, grading and developmental planning, etc."[4]

Performance appraisal is a close and a critical study of various measures observed in the operation of business organization. The concept of human body is similar to the concept and case of a business organization.

Human body requires medical checkup and examination for maintaining fitness of body; similarly, the performance of a business organization has got to be assessed periodically. Erich A. Helfert stated, "The person analyzing business performance has clearly in mind which tests should be applied and for what specific reasons. One must define the view point to be taken, the objectives of the analysis and possible standard comparison".

According to Flippo, a prominent personality in the field of Human resources, "performance appraisal is the systematic, periodic and an impartial rating of an employee's excellence in the matters pertaining to his present job and his potential for a better job." Performance appraisal is a systematic way of reviewing and assessing the performance of an employee during a given period of time and planning for his future.

The Process "Performance Appraisal" involves an evaluation of actual against desired performance. It also helps in reviewing various factors which influence performance. Managers should plan performance

2.3 OBJECTIVES OF PERFORMANCE APPRAISAL

- To review the **performance of the employees** over a given period of time.
- To judge the gap between the actual and the desired performance.
- To help the management in exercising organizational control.
- Helps to strengthen the relationship and communication between superior – subordinates and management – employees.
- To diagnose the strengths and weaknesses of the individuals so as to identify the training and development needs of the future.
- To provide feedback to the employees regarding their past performance.
- Provide information to assist in the other personal decisions in the organization.
- Provide clarity of the expectations and responsibilities of the functions to be performed by the employees.

- To judge the effectiveness of the other human resource functions of the organization such as recruitment, selection, training and development.
- To reduce the grievances of the employees.

2.4 FINANCIAL APPRAISAL

"Financial Appraisal is a scientific evaluation of profitability and financial strength of any business concern"

According to accounting point of view, financial statements are prepared by a business enterprise at the end of every financial year.
According to Howard and Upton, "Financial Statements are end products of financial accounting". They are capsulated periodical reports of **financial** and operating data accumulated by a firm in its books of accounts-the general ledger. According to Kennedy and McMillan "Financial Statement Analysis attempt to unveil the meaning and significance of the items composed in Profit and Loss Account and Balance Sheet. So as to assist the management in the formation of sound operating Financial Policies" [5]

For proper interpretation of financial statement, users must have a basic understanding of the conceptual framework and principles underlying their preparation. Otherwise users will not recognize the limits of financial statements.
The financial statement analysis facilitates a sufficient guideline about the behavior of financial variables for measuring the performance of different units in the industry; it also facilitates to indicate the current scenario of improvement in the organization.

2.4.1 IMPORTANCE OF PERFORMANCE APPRAISAL

The significance and requirement of performance appraisal rise from the viewpoint of all live participants who are interested in the routine of the unit. These are as under.

1. Management Point of View

Performance appraisal plays a vital role in providing such information to the management, which it needs for planning, decision-making and control e.g. operational analysis provides gross margin, operating expense analysis and profit margin. Asset management outlines asset turnover, working capital under inventory turnover, accounts receivable and payable. Profitability position shows return on assets, Earning before Interest and Tax (EBIT) and return on assets. Gresternberg stated that, "Management can measure the effectiveness of its own policies and decisions, determine the advisability of adopting new policies and procedures and documents to owners as a result of their managerial efforts." Thus, management should examine a great deal of **information** in the context of various resources placed at the disposal of an undertaking.

2. Potential Investors Point of View

According to Erich A. Helfert, "Importance of Performance lies for owners / potential investors should know easily. The financial position of a company by return on net worth, return on common equity, earnings per share, cash flow per share, dividends per share, dividend yield, dividend coverage, price earnings ratio, market to book value, pay out / retention." The potential investors of the business organization in turn are interested in the current features.

3. Creditors Point of View

Creditors doing business with company simply appraise its performance by current ratio, acid test ratio, debt to assets ratio, equity and capitalization. Interest coverage and principal coverage before lending the finance. Performance appraisal describes real features of business organization to the creditors.

4. Government Point of View

Government have significance of performance appraisal of an individual organization or industry as a whole by the means of various taxes, revenues, financial assistance, sanctioning subsidy to a unit or industry as well as price fixing policies frame outlines. The key role of performance appraisal for the government lies in planning, decision-making and control process.

5. Employees and Trade Unions Point of View

Employees are resources of the company and are interested to know the financial position and profits of the company. Generally, they analyze by the comparison between past and present performance, profit margin and cash flow of the company. Trade unions are interested to know the data of financial performance pertaining to their demands for increase in wages, salaries, facilities and social welfare.

6. Society and Others Point of View

Society and Others are including in external environment of the company and every business organization has a greater responsibility towards society. In this context, performance appraisal should be appraised through various types of elements such as customers, investors, media, credit institutions, labour bureaus, taxation authorities; economists are interested for the appraisal of a business organization. The society as a whole also looks forward to know about the social performance i.e. environmental obligations, social welfare, etc.

2.4.2 SCOPE OF PERFORMANCE:

There are such areas where the performance should be modified or improved by effective assessment of various types of activities performed by the business organization in different areas of operations. Those areas of operations may be termed as the areas of performance. The important areas described under the following heads:

1. Performance of Profitability

The word "Profitability" is modulation of two words 'Profit' and 'Ability'. In other words, it refers to 'Earning Power' or 'Operating Performance' of the concerned investment. The concept of profitability may be defined as "The ability of a given investment to earn a return from its use."

Measurement of profitability is the overall measure of performance. Profits known as bottom lines are also important for financial institutions. Analyzing and interpreting various types of profitability ratios can obtain creditors performance of profitability.[6]

2. Performance of Productivity.

Productivity is usually defined as a ratio of output produced per unit of resource consumed by the process. "Productivity is a measure of performance in producing and distributing goods and services: value added or sales minus purchases divided by workers employed"

2.5 PERFORMANCE APPRAISAL IN BANKING SECTOR

It highlights the importance of "Performance Appraisal" in special reference of banking industry. As we know the banking sector is one of the fastest growing sectors of our country, the study highlights the perspective of HR in banking sector. In this study we strive to find out the need of "Performance Appraisal" for banks, and try to understand how the "Performance Appraisal" is done in banking sector. In this study we take the case of one of the leading bank, ICICI bank, as our sample and try to find out their techniques used for "Performance Appraisal". This study refers to the need of "Performance Appraisal" for banking industry, importance and emerging trends in the field of "Performance Appraisal". For easy understanding of the study we have divided the entire study in to several chapters that gives the specific nature of the subject in question .We have highlighted several trends of banking industry, growth and prospect of banking in India, history of Indian banking, Role of RBI as regulatory bank and the industrial importance bank as an institute to march the nation in economic growth Further we highlighted the role of HR, its need and importance and" Performance Appraisal" as its one of the major tools. It signifies the role of HR in organizational perspective and highlight the rationale of active HR polices in an organization, this report takes the HR as managerial function rather than the staff activities. In this report we try to make the role and concept of HRM understood for our readers. The study is mainly conducted on the basis of secondary data rather than the primary data. We managed to collect the secondary data from ICICI bank and got the information about the HR policy and process of the bank. In our study we highlighted the process of ICICI bank "Performance Appraisal" mechanism and the manner in which "Performance Appraisal" takes place in ICICI bank. In special cases like the practical example of ICICI bank, the study highlights: a) techniques, b) approach, c) forms, d) managerial approach, e) employees feedback, f) process and other real aspect of the "Performance

Appraisal" that provides the realistic view of the "Performance Appraisal"[8] process that is carried out by the bank in actual work environment .The study is conducted is a simple manner and most of the data is collected through various sources. This study refers the "Performance Appraisal" technique as an effective managerial tool to enhance the efficiency and effectiveness to achieve the organizational and individual goals. This study provides the theoretical knowledge about the "Performance Appraisal" s on the issue like

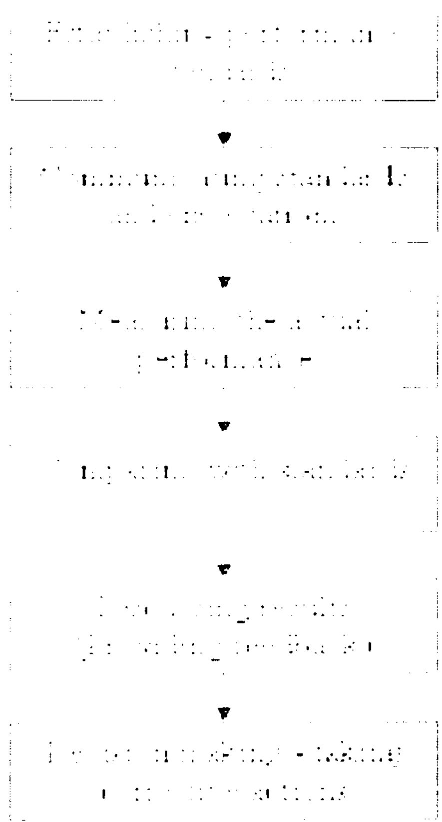
a)need, b)importance c)features, d)techniques , e)approaches , f)model , g)trends an other issues related to the banking industry . This study refers to the role of "Performance Appraisal" in a wide and in a systematic manner that takes place in a sequential way and covers almost all the aspect of the appraisal from employees to organization under the universal approach called "Performance Management

2.6 PROCESS FLOW OF PERFORMACE APPRAISAL

Performance management, Performance review or performance appraisal as used by different establishments are all talking about the same thing, it has to do with aligning the human resources with the corporate goals of the firm, evaluate their performances and recommend commensurate rewards. It involves skill planning, skill development, and maintaining a good pay for performance culture in an organization.

Over the years, effective performance management has been proven to improve employee loyalty, morale and general productivity. Due mainly to the highly competitive business environment today, there is the need for firms to boost the morale and loyalty of their employees in order to stand the heat of competition. Because of the high cost of selection, recruitment, training and developing new employees, it is imperative for firms to motivate and retain their high performing employees. What am I saying in essence as a Human resources expert, you are to have in place a good performance management system in your firm to help motivate and retain top performers, align individual performances with corporate goals thereby creating a more involved workforce, which will lead to greater productivity? A very good Performance management system must include employee and management participation for it to be non biased and fair[9]

"Performance Appraisal" involves an evaluation of actual against desired performance. It also helps in reviewing various factors which influence performance. Managers should plan performance development strategies in a structured manner for each employee. In doing so, they should keep the goals of the organization in mind and aim at optimal utilization of all available resources, including financial. "Performance Appraisal" is a multistage process in which communication plays an important role. Craig, Beatty and Baird (1986) suggested an eight-stage "Performance Appraisal" process:



(i)Establishing Standards and Measures

The first step is to identify and establish measures which would differentiate between successful and unsuccessful performances. These measures should be under the control of the employees being appraised. The methods for assessing performance should be decided next. Basically, management wants to: know the behavior and personal characteristics of each employee; and assess their performance and achievement in the job.

There are various methods available for assessing results, behavior and personal characteristics of an employee. These methods can be used according to the particular circumstances and requirements.

(ii)Communicating Job Expectations

The second step in the appraisal process is communicating to employees the measures and standards which will be used in the appraisal process. Such communication should clarify expectations and create a feeling of involvement.

(iii) Measuring the actual performance:

Measuring the actual performance of the bank to the set performance is very crucial for any industries. Hereby we are measuring the deposits, advances, interest income and other income etc. actually.

(iv)Comparing Standards:

After the measuring actual business performance with the set performance standard is important because it gives real situation of the business.

(v)Discussing the result:

After comparison of the actual performance with the set standards, if performance is not up to mark then we have to make the effort the take as per standard, for this, we need the feedback of superior, colleague, and other expert to improve performance.

(vi)Decision making:

As per the expert advice and feedback from the other, we have take corrective measures to improve performance i.e. we need to be sure that now the work flow go as per the guidelines decided and the planning made by experts to achieve the desired result.

2.6.1 DATA ANALYSIS IN PERFORMACE APPRAISAL

Performance appraisal is generally directed towards evaluating the liquidity, stability, profitability, productivity and efficiency of a concern. Performance appraisal involves the following steps:

(I) Collection of Data.
(II) Classification and Tabulation of Data
(III) Application of appropriate Tools

(I) Collection of Data.

Collection of Data is the first step in evaluating the performance of an enterprise. According to R.I.Levih, "A collection of data is called a data set, and a single observation a data point." Generally, the sources used to collect the information are broadly classified into two parts: (a) Primary Data (b) Secondary Data.

(a) Primary Data

The primary data refers to the statistical material, which the investigator originates for the purpose of the inquiry in hand. John C.G., 'Boot and Edwin in B.Cox.', "When the data used in an analysis are specifically created for that analysis, they are referred to as primary data."

(b) Secondary Data.

"The term secondary data refers to the statistical material which is not originated by the investor himself, but which he obtains from someone else's records." According to Boot & Cox, "Secondary data are data which were not gathered specifically to meet the needs of the problem at hand."

Secondary data can be obtained from:

(I) Government
(II) Semi Government bodies
(III) Trade associations
(IV) Trade journals
(V) Periodicals and Magazines
(VI) News papers.

The present study is based on secondary data. The raw data for the present analysis have been obtained from the annual reports. The information is supplemented by journals. The data so obtained by secondary sources have been recast and reduced to the relevant information.

(II) Classification and Tabulation of Data

The next step in process of appraisal is to classify and tabulate the data. Herrick and Pluck observe; "The statistician's first task is to reduce and simplify the detail into such a form that the salient features may be brought out, while still facilitating the interpretation of the assembled data. This procedure is known as classifying and tabulating the data." Financial data, which have been obtained from secondary data sources, are classified and tabulated in such a manner that the results may be Easily interpreted. This has been done in the present study.

(III) Application of appropriate Techniques

The third step in the process of appraisal is the use and application of appropriate techniques. Many analysts have a favorite procedure for coming to some generalization about the firm being analyzed. The tools used to assess the financial condition and performance of the firm is financial ratios. The second factor, analytical tools used to assess the financial appraisal include sources and uses of funds statement and the cash budget. The third factor, business risk relates to the risk inherent in the operations of the enterprises. All these factors should be used in determining the financial needs of the firm. But the analyst should use some other factors in determining the funds need of the firm.

In the present study, Accounting Tools like Trend analysis and Comparative Statement Analysis & Ratio Analysis and Statistical Tools Arithmetic Mean, Index Numbers, Diagrammatic and Graphic presentation and ANOVA techniques have been used.

2.7 USE OF PERFORMANCE APPRAISAL

There are different steps involved in performance management or appraisal depending on the type of firm or size. These steps may not be followed rigidly, but they will assist in having a good review result[10]. The following steps will act as a guide to a good performance management;

1. **Define Different Jobs**.

   Each job or duty should have a name. The department each duty reports to should be established and known.

2. **Define Job Duties.**

   There should be clearly defined duties and responsibilities for each defined job. It should be done in a clear manner to avoid clash and interference between different jobs.

3. **Define Performance Goals:** Performance goals should be defined with measurable outcomes.

4. **Define Priority for each job goal and responsibility.**

   The main priority for each job goal should be clearly stated for easy assessment and measurement of result/outcome.

5. **Define performance standard:**

   For each key component of the job, a performance standard should be defined to know when a staff has performed below or above the given standard.

6. **Keep Record of all staff performances before during and after every appraisal exercise.**

   It is always good to have records kept for each staff in his file. Discussions with staff supervisors and with staff should be noted even when appraisal exercise is not on. It sure will be of help during any appraisal exercise.

7. **The Appraisal form should be elaborate:**

   The form should have columns for the appraiser and a part for appraiser's agreement or disagreement with the appraiser's comments about him as well as the appraiser's comments (**Self Assessment**).

8. **You May Provide a feedback column:**

   This column will be used to get feedback from employee's peers, customers or subordinates if needed.

9. **Very Important to have a training need column in the form:**

   A very important aspect of an appraisal is to find out how an employee is performing in his present responsibility and if not why he is not performing as well as training needs that may be used to improve performance.

2.8EFFECTIVENESS OF PERFORMANCE APPRAISAL

The effectiveness of performance appraisal is playing concrete role at corporate level to build up Planning, Control and Decision-making policy. Planning may be broadly defined as "a concept of executive action that embodies the skills of anticipating, influencing and controlling the nature and direction of change". Planning is a process determining the future course of action. It is applied for management to provide various types of information both quantitative and qualitative.

Performance appraisal has taken on increasingly the task of fulfillment of the quantitative information.

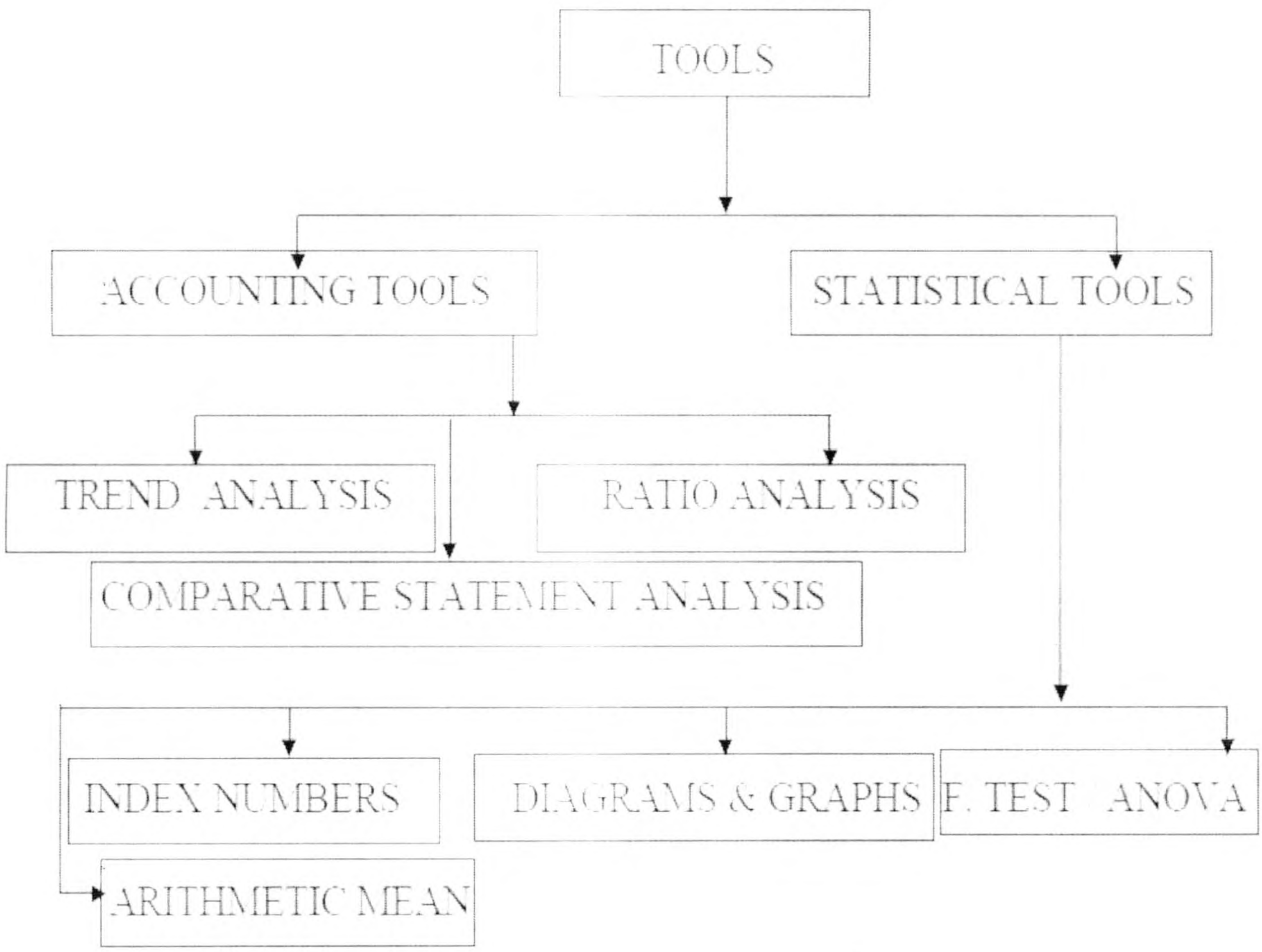
Provision of particular information which will enable the management to exercise control over the day to day operations with a view to ensuring maximum efficiency. Control in any process guides activity towards source predetermined goals. Terry has defined "Controlling is determining what is being accomplished that is evaluating the performance and if necessary applying corrected measures so that the performance takes place according to plan." [11]

Impact of decision-making in performance appraisal provides dual advantages to management (I) efficient and profitable operations (ii) the effective use of resources.

2.9 TOOLS FOR PERFORMANCE APPRAISAL:

For taking various policy level decisions under varied circumstances, measurement is necessary. The financial health of banks can be diagnosed applying following tools.

Chart - 2.A



(I) Accounting Tools:

For analyzing performance of group of banks accounting tools like:

(a) Trend Analysis

(b) Ratio Analysis and

(c) Comparative Statement Analysis has been used.

Description of the tools is as follows. :

(a) Trend Analysis

An effective use of financial ratios can be made by observing behavior of ratios over a period of time, is called trend analysis, depicting trends in the operations of a unit. "It is help full in revealing proportionate changes over a time in selected financial statement data" The trend analysis because of the ratios adds considerable significance to the financial analysis, it studies ratios of several years. The trend figures **are** index figures giving a bird's eye view of the comparative data by presenting it over period of time. Trend analysis is a tool to analyze the financial statement of a unit and to put absolute figures of the financial statements in more simplified form over a period of years. "Trend analysis is a horizontal analysis of financial statements, often called as 'Pyramid Method' of ratio analysis – a guide to yearly changes" "The ratio analysis gives a reasonably good picture but it is incomplete in an important respect – it ignores the time dimension. The ratios are snap shots of the picture at one point in time but there may be trends in motion that are in the process of rapidly eroding a relatively good present position. Although the trend analysis of the unit's ratios itself is informative, but it is more informative to compare the trends in the unit's ratios with the trends in industry ratios.

(b) Ratio Analysis

Beaver was the first to use the ratio analysis tools in a modern way of predicting business failure. An absolute figure does not convey anything unless it is related with the other relevant figure. E.g. Trend of Current Liabilities of a unit does not reflect anything about solvency position of the unit. Comparing current liabilities with current assets can reflect the solvency position of the unit. Ratio makes a humble attempt in this direction. "A ratio is simply one number expressed in terms of another. It is found by dividing one number the base into the other. "Generally, there are two methods of expressing relationship in **ratios**"

(1) The 'Percentage Method' likes 100 percent etc. "analyst uses **ratio** to connect different parts of the financial statements in an attempt to find clues about the status of particular aspects of the business."

(2) The '**Phrase** Method' such as one and half to one and two for one ratio is useful analysis for financial statements. It is conveniently and clearly capsulate the data in a form that is easily understood, interpreted. "Ratios are simply a means of highlighting in arithmetical terms, the relationship between figures drawn from financial statements." The technique of Ratio Analysis is the process of determining and interpreting numerical relationship based on the financial statements. According to Batty "Accounting Ratio describes the significant relationship which exists between figures shown in a Balance Sheet, in a Profit and Loss Account, in a Budgetary Control." System or any other part of accounting

Organization, ratio analysis are significant both in vertical and horizontal analysis. In vertical analysis, ratios help analyst to form a judgment whether performance of the firm at a lot of time is good, questionable or poor. Use of ratios in horizontal analysis indicates whether the financial condition of the firm is improving or deteriorating and whether the cost, profitability or efficiency is showing an upward or downward trend. Financial ratios become meaningful to judge financial condition and profitability performance of the unit only when there is comparison.

In fact, analysis of ratios involves two types of comparison. Firstly, a comparison is made of present ratios with past and expected future ratios for the same unit when financial ratios for several preceding years recomputed, the analyst can determine the composition of change and determine in the financial position of the firm over the period of time. The second method of comparison involves comparing the ratio of the unit with those of similar type of unit or with industry averages at the same point of time. Such as comparison would provide considerable insight into the relative financial condition and performance of the unit. From all the financial account: the balance sheet, income statement and flow of funds statement, it is possible to formulate countless ratios. Researcher must select only those ratios that provide significant information about a firm's situation for effective financial analysis.

(c) Comparative Statement Analysis

"Comparative Financial statements are those statements which have been designed in a way so as to provide time perspective to the consideration of various elements of financial position embodied in such statements". In other words, we can say when the data of few years of statements are presented side by side in columnar form to facilitate the study of the trend of profitability and financial condition of a business enterprise is known as comparative statements. Generally, the Balance sheet and Profit and Loss Account are prepared in comparative form.

This technique of analysis is easy to understand for the common readers also as it provides quick conclusion to the information users. The presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports and brings out more clearly the nature and trend of current changes affecting the enterprise. But an important limitation of this method is that it has no scientific background as it simply compares the figures of financial statements with another year's / years' figures. Besides, it doesn't show the relative changes of various items of financial statements like: common size statements. It can't point out trouble spots, increasing expenses, low productivity and falling liquidity position of the business unit. Therefore, it is useful neither for the management nor for other information users for rational decision-making.

(II) Statistical Tools:

For making the study more scientific and accurate following statistical tools are applied:

(a) Arithmetic Mean

(b) Index Numbers

(c) Diagrammatic and Graphic Presentation of data

(d) "T" - Test

Brief descriptions of these tools are as follows:

(a) Arithmetic Mean.

The arithmetic mean is very commonly used in various types of study. Adding all values and dividing the total by the number of observations calculate it. In this study, it is calculated by adding relevant item values and dividing it by the total number of years taken.

(b) Index Number

"Index Number is a number which is used to measure the level of a given phenomenon as compared to the level of the same phenomenon at some standard date" According to Croxton and Crowden "Index numbers are devices for measuring differences in magnitude of a group of related variables". According to Morris Hamburg, "Index Number is nothing more than a relative number, or a relative which expresses the relationship between two figures, where one of the figures is used as a base." In present study, indices of Income, Expenditure, Spread, Burden, Net Profit, Profitability of sample banks have been found out by taking 1996-'97 as the base year and indices of the rest years have been computed.

(c) Diagrammatic and Graphic Presentation of data

Diagrams and Graphs are visual aids, which give a bird's eye view of a given set of numerical data. They present the data in comprehensible and intelligible form. Diagrams and graphs depict more information than the data presented in the tabular form. For presenting the data of sampled banks, diagrammatic and Graphic presentations of data have been applied.

(d) Analysis of Variance / ("T"-Test)

"T" Test is one of the most important tools of statistical analysis. It is used in various fields like economics, education, sociology, biology, psychology, business and industry. It has been developed specially to test the hypothesis whether the means of several samples have significant differences or not. The analysis of variance furnishes a technique for testing simultaneously the significance of differences among several means. From this technique one is able to determine whether the samples have the same mean as the population from which they have been drawn. According to Levin, "Analysis of variance is the test for the significance of the difference between more than two sample means using analysis of variance. One will be able to make inferences about whether the samples are drawn from population having the same mean."

Levin describes the following three steps in analysis of variance:

1. Determine one estimate of the population variance from the variance among the sample means.
2. Determine a second estimate of the population variance from the variance within the samples.
3. Compare these two estimates. If they are approximately equal in value, accept the null hypothesis.

2.10 MODERN APPRAISAL

Performance appraisal may be defined as a structured formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development.

In many organizations - but not all - appraisal results are used, either directly or indirectly, to help determine reward outcomes. That is, the appraisal results are used to identify the better performing employees who should get the majority of available merit pay increases, bonuses, and promotions.

By the same token, appraisal results are used to identify the poorer performers who may require some form of counseling, or in extreme cases, demotion, dismissal or decreases in pay. (Organizations need to be aware of laws in their country that might restrict their capacity to dismiss employees or decrease pay.)

Whether this is an appropriate use of performance appraisal - the assignment and justification of rewards and penalties - is a very uncertain and contentious matter.

2.11 CONTROVERCY

Management stirs up more controversy than performance appraisal. There are many reputable sources - researchers, management commentators, and psychometricians - who have expressed doubts about the validity and reliability of the performance appraisal process. Some have even suggested that the process is so inherently flawed that it may be impossible to perfect it (see Derven, 1990, for example).

At the other extreme, there are many strong advocates of performance appraisal. Some view it as potentially "... the most crucial aspect of organizational life[12] ". Between these two extremes lie various schools of belief. While all endorse the use of performance appraisal, there are many different opinions on how and when to apply it.

There are those, for instance, who believe that performance appraisal has many important employee development uses, but scorn any attempt to link the process to reward outcomes - such as pay rises and promotions.

This group believes that the linkage to reward outcomes reduces or eliminates the developmental value of appraisals. Rather than an opportunity for constructive review and encouragement, the reward-linked process is perceived as judgmental, punitive and harrowing.

For example, how many people would gladly admit their work problems if, at the same time, they knew that their next pay rise or a much-wanted promotion was riding on an appraisal result? Very likely, in that situation, many people would deny or downplay their weaknesses.

Nor is the desire to distort or deny the truth confined to the person being appraised. Many appraisers feel uncomfortable with the combined role of judge and executioner.

Such reluctance is not difficult to understand. Appraisers often know their appraises well, and are typically in a direct subordinate-supervisor relationship. They work together on a daily basis and may, at times, mix socially. Suggesting that a subordinate needs to brush up on certain work skills is one thing; giving an appraisal result that has the direct effect of negating a promotion is another.

The result can be resentment and serious morale damage, leading to workplace disruption, soured relationships and productivity declines.
On the other hand, there is a strong rival argument which claims that performance appraisal must unequivocally be linked to reward outcomes.

The advocates of this approach say that organizations must have a process by which rewards - which are not an unlimited resource - may be openly and fairly distributed to those most deserving on the basis of merit, effort and results.
There is a critical need for remunerative justice in organizations. Performance appraisal - whatever its practical flaws - is the only process available to help achieve fair, decent and consistent reward outcomes.
It has also been claimed that appraises themselves are inclined to believe that appraisal results should be linked directly to reward outcomes - and are suspicious and disappointed when told this is not the case. Rather than feeling relieved, appraises may suspect that they are not being told the whole truth, or that the appraisal process is a sham and waste of time.

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