

# **The Impact of Performance Appraisal System on Employee Commitment and Work Performance: Empirical Findings from New India Assurance Company Limited**

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## **ABSTRACT**

*The success of any organization depends upon its workforce. It is thereby deemed essential that the performance of skilled and talented individuals be measured and managed at not only the individual level but also at the team level. This has led to organizations understanding the relevance of appraising the performance of individuals and groups of employees thus making it a common practice across the globe. Of late companies have been found to spend billions evaluating the performance of their employees on an annual basis. The study aims to analyse whether a company's performance appraisal system (PAS) exhibits positive impact on its employees' commitment towards his work and performance. This paper also gauges at the significance of the appraisal system on job satisfaction and retention of the employees which serves the ulterior purpose of organizational growth.*

*Keywords: Performance appraisal system, employee performance, job satisfaction, employee commitment, organizational goal*

## **INTRODUCTION**

Performance appraisal is a systematic evaluation of the individual with respect to his or her performance on the job and his or her potential for development (Dale S. Beach). It is done to apprehend the abilities of an individual for further growth and development. Performance Appraisal has been a means of comparing the current performance with established standards set by the organization - a method that would have been already communicated to employees when they were appointed for their subsequent roles.

Performance appraisals enable employers to define, communicate, and review expectations, goals, and progress in achieving strategic objectives (Bacal, 2004). The ulterior purpose of performance appraisal has been to improvise the way employees add value to the organizational goals and their own job performance. Appraisals are also intended to sustain, improve, and help an employee develop his expertise while overcoming barriers to his performance. If done well, performance reviews fulfill an important organizational need- that is to provide feedback, guidance and to encourage people to develop their skills and focus their performance toward organizational priorities and objectives (Lawler, 1994).

The performance appraisal process has been periodically understood as a key part of the strategic approach to management as this process serves as the bridge that provides a connecting link between an employees' competencies and the strategic goals of the organization. To ensure that the employees perceive the appraisal system positively and be satisfied with it, the management has to meticulously design an unbiased and accurate system which would encourage the development of the employees and bring about improvement in their performance.

Positive employee reactions and agreement with the performance appraisals are linked to an improved understanding between the manager and the employee which results in job satisfaction leading to enhancement in the employees' performance. (Burke et al. 1978). A person's dissatisfaction and disagreement with the performance appraisal process is also related to increased job dissatisfaction, lower organizational commitment, and greater intentions to quit (Brown et al. 2010).

## **REVIEW OF LITERATURE**

Performance Appraisal can be dated back to the reign of the second caliph of Islam, Hazrat Umar (634- 644 A.D /13-23 AH). Hazrat Umar is believed to have been keen at scrutinizing the abilities of his officers prior to giving them any assignment. He gave utmost importance to the integrity of his officials. If any of his officers were found showing dereliction of their duty or were found to be unsuitable for the task assigned, Hazrat Umar would remove the person concerned from his post without a second thought. Optimum

organizational performance is related to the performance of the individuals working for the organization. When performance appraisal system, standards and practices are clearly stated to the employees and are used to develop goals and provide relevant feedback, it can benefit not only the individual under the radar but also the organization as a whole. On the other hand if the performance appraisals are poorly executed they can negatively impact the individual and the organizational performance. Successful performance appraisals are contingent upon employees and managers working together (Larson, 1989).

Performance appraisal is a formal, structured system of measuring and evaluating an employee's job-related behavior and outcomes to discover how the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organization and the society all benefit. It involves evaluating the performance of individuals against set standards. The evaluation strategy plays an important role in the execution result and can be realized by coordinating the examination procedures to occupation undertaking sorts (Orpen, 1997).

Performance appraisal is being carried out by organizations for a number of purposes - for enhancing the employees' career by identifying their strengths and weakness, for providing recognition and fair compensation, for preventing grievance and indiscipline in the organization and most commonly as a mechanism to determine salary increment and promotional exercise (Abdul, 1999).

Performance Appraisal aims at understanding the employees work expectations thereby enabling them to grow individually while also ensuring the growth of the entire team whilst keeping the compensation structure at par with the individual performance. This renders the employees the ability to understand the organizational expectations in relation to the short and long term goals of the company post the evaluation of their performance. (De Waal, 2004).

This assertion has been concurred by (Gabris and Ihrk, 2000) who stated that periodic feedback to individual employee is one of the main aims of performance appraisal.

Performance appraisal remains a term that has intrigued human resource specialists since ages and has thereby been continuously researched. Several authors though still believe that there exists a gap between the theoretical and practical aspect of performance appraisal as the complete use of psychometric tools is not being done (Thomas and Bretz, 1994).

## **OBJECTIVE OF THE STUDY**

- To gauge at the significance of performance appraisal system on employee commitment.
- To analyze employee perception towards the appraisal system.
- To gain an insight into the strength and weakness of the current appraisal system.
- To understand the effect of appraisal practice on employee performance and motivation.

## **METHODOLOGY**

The study conducted is mostly empirical and descriptive in nature. The sample consisted of 100 employees from various offices of New India Assurance Company Limited across the district of Darjeeling. The study was carried out using both primary and secondary data.

The primary data was collected using questionnaire that enabled gathering of both quantitative and qualitative information. The selection criteria was based upon the availability of data and the level of participation. The secondary data needed for the study was collected from journals, magazines, newspapers, research projects, and web portals.

## **ANALYSIS**

For the purpose of the study 100 respondents from various offices of New India Assurance Company Limited across the district of Darjeeling were identified. Questionnaires were distributed amongst those respondents who had undergone at least one appraisal session. Analysis was done on the basis of their response.

Majority of the respondents gave positive feedback about the appraisal system in New India Assurance Company Limited. They agreed that care was taken to review their performance by the superiors which led to establishing a healthy work environment.

The respondents agreed that performance appraisal was given utmost importance at their place of work. Almost all the respondents agreed that the management encouraged open communication amongst the staff and provided them with the opportunity to discuss their developmental needs.

Owing to the fact that the appraisal system at New India Assurance Company Limited was accurate and bias-free almost all the respondents felt that it led to the improvement in their job performance. The response also testified that the staff being appraised received support and guidance from the appraisers.

Majority of the respondent’s response was within the “agreed scale” rating on Likert Scale. Furthermore it was learnt that after the self-appraisal process, the employees were appraised by their immediate manager who evaluated the employees and sent a report to the branch manager. Based on the evaluation done by the immediate manager and the self-appraisal done by the employee, the branch manager finally evaluates the employee with respect to his performance in the previous financial year.

The respondents agreed that both the immediate manager and the branch manager took absolute care to review the performance of the appraisees. Post the appraisal process, the managers encourage open communication which builds synergy, facilitates employee commitment and leads to improvement in the performance of the staff.

**ANALYSIS USING CHI –SQUARE TEST**

**CHI-SQUARE TEST**

The Chi-Square Test of Independence determines if there is a significant relationship between the two variables.

The Chi-Square Test of Independence was used for the study to ascertain if there was a significant relationship between the feedback of the performance appraisal system at New India Assurance Company Limited and the satisfaction level of the employees towards the appraisal system.

Null Hypothesis (H0): There is no significant relationship between the feedback of the performance appraisal system and the satisfaction towards the performance appraisal system. Alternative Hypothesis (H1): There is a significant relationship between feedback of the performance appraisal system and the satisfaction towards the performance appraisal system.

**OBSERVED FREQUENCY (O)**

SATISFACTION TOWARDS PERFORMANCE APPRAISAL SYSTEM	FEEDBACK OF PERFORMANCE APPRAISAL SYSTEM				
	Options	Excellent	Good	Average	Poor
Highly Satisfied	50	0	0	0	50
Satisfied	10	30	5	0	45
Dissatisfied	0	0	5	0	5

	Highly Dissatisfied	0	0	0	0	0
	Total	60	30	10	0	100

Expected Frequency (E) = (Total Row – Total Column) / Grand Total

SYSTEM PERFORMANCE APPRAISAL SATISFACTION TOWARDS	FEEDBACK OF PERFORMANCE APPRAISAL SYSTEM					
	Options	Excellent	Good	Average	Poor	Total
	Highly Satisfied	30	15	5	0	50
	Satisfied	27	13.5	4.5	0	45
	Dissatisfied	3	1.5	0.5	0	5
	Total	60	30	10	0	100

O	E	(O-E)	(O – E) <sup>2</sup>	(O – E) <sup>2</sup> / E
50	30	20	400	13.33
0	15	-15	225	15
0	5	-5	25	5
10	27	-17	289	10.7
30	13.5	16.5	272.25	20.16
5	4.5	0.5	0.25	0.056
0	3	-3	9	3
0	1.5	-1.5	2.25	1.5
5	0.5	4.5	20.25	40.5
<b>GRAND TOTAL</b>				109.25

$X^2 = \sum ((\text{Observed Value} - \text{Expected Value})^2 / \text{Expected Value})$

$X^2 = 109.25$

Degree of freedom = (r-1) (c-1) where r: number of rows and c: no of columns

= (4-1) (4-1)

= 9

Table Value at 5% level of significance = 16.92

$$X^2 = \sum ((\text{Observed Value} - \text{Expected Value})^2 / \text{Expected Value})$$

$$X^2 = 109.25$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \text{ where } r: \text{ number of rows and } c: \text{ no of columns} \\ &= (4-1)(4-1) \\ &= 9 \end{aligned}$$

Table Value at 5% level of significance = 16.92

## INFERENCE

The table value for 9 degree of freedom at 5% level of significance is 16.92.

Since the calculated value 109.25 is greater than the table value hence null hypothesis is rejected and alternate hypothesis is accepted. Therefore it can be stated that there is a significant relationship between the feedback of performance appraisal system at New India assurance Company Limited and the satisfaction towards the performance appraisal system.

## FINDINGS

- The research result showed that performance appraisal at New India Assurance Company Limited impacts the employee performance and is also a tool for motivation.
- The study found out that there is a positive relationship between the appraisal system and the commitment of the employees towards their work and the organization.
- The study established that the performance appraisal system at New India Assurance Company Limited was done on a yearly basis. The appraisal system impacted and improved the work performance of the employees as the systematically conducted appraisal process allowed the appraisers/ supervisors to give accurate feedback about an appraisees performance and suggest ways of improving it. Having an unbiased appraisal system, New India Assurance Company adheres to complete transparency in the process due to which they are able to ascertain an individuals' performance without prejudice.
- The study established that the parameters for conducting the appraisal process at the organization was the individuals efficiency, integrity/sincerity, time management, level of supervision required, originality, leadership styles amongst others.
- The performance appraisal system at New India Assurance Company Limited was found to impact the employee productivity through time management as the employees are able to prioritize their work based on the feedback and suggestion given by their superior after the completion of the process.
- The research conducted also concluded that the performance appraisal system provides ground to identify the training needs and gap in training. The employees will have a better understanding of their role through the training process enabling them to meet the goals set for them.
- From the findings it was established that the appraisal system allowed managers to make important decisions about promotion, salary increment, allotment of tasks (depending on ability). Such decisions are made based on applicable facts through the performance appraisal system.
- From the research it was found out that the performance appraisal process at the organization enabled the employees and the management to share the long and short-term goals that helped in building employee synergy and team work.
- The research conducted concurred that Management by Objective is an effective performance appraisal method followed at New India Assurance as the employees are aware about the organizational goals and objectives that has been clearly defined and agreed upon by them. This facilitates the employees to achieve the target set forth for them thus establishing the fact that performance appraisal system is vital for enhancing an individual's performance.
- From the findings it was established that the organization extensively uses Behavioral Appraisal to assess the performance of individuals as it improves the interpersonal relationships, fosters team spirit, ensures optimum utilization of the resources, delivers the desired result for clientele creating a work

environment that empowers people at all levels of hierarchy and impacts an employee's commitment towards his work.

- Performance appraisal system at New India Assurance Company Limited helps develop career plans for employees through planning and achieving of target on an individual level, identify talented, hard-working individuals reward such individuals, enables managers to make important decisions like promotion thereby ultimately improving an employees work commitment and performance at the organization.

## CONCLUSION

The study concluded that New India Assurance Company Limited should continue appraising their employees based on their efficiency, time management, regularity of attendance, accomplishments etc. as it leads to increase in the employee productivity which ultimately brings about organizational growth thereby becoming a win-win situation.

The company should establish an appraisal system that provides opportunity to the management to understand the training needs of the staff, provide a forum to enable managers and supervisors to plan and set deadlines through proper time management, aid the staff in meeting the performance targets, provide guidance to underperformers and give them a chance for improvement and enable managers to make important decisions about promotions based on applicable facts.

The study also concluded that the organization can progress towards excellence by integrating the performance of individuals with the performance of the team, monitoring an individuals' performance on a regular basis, and also by ensuring that the organizational goals are communicated and agreed upon by the employees. This helps in improving employee synergy.

To flourish in the highly competitive world it becomes important to shift from the traditional way of appraising the employees ie. by mere measurement of their performance to adopting reformed ways like encouraging self-development by creating a work culture which generates employee involvement, participation and empowerment. This leads to the organization having committed, content and diligent workforce.

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