

# Impact of Performance Appraisal on employees in service sector enterprises of Kerala

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## Abstract

Human resources are the key element of organizational success. But at the same time level of perceptions and attitudes of each and every employee is differ from one another. So the management of Human resource is the major challenge of any organization in the perspect of diversified character of employees. Procurement, Development, Compensation, Integration and maintenance are the operative functions of HRM. Employee performance appraisal is considered as the developmental function of HRM. It is the process of evaluating the individual performance of employees with a pre-determined standards fixed by the organization to enhance the organizational efficiency. As a developmental activity, performance appraisals have a greater impact on employee performance. It helps the employees to maintain their job performance efficiently and effectively. Most of the service sector enterprises are conducting their performance appraisal process for the evaluation of employee performance.

In this study, questionnaire is used as a tool for primary data collection and 543 samples are randomly selected from five sectors (Tourism, Banking, Retail, IT & ITes and Media) for analysis. This study tried to analyze the Impact of performance appraisal on employees in service sector enterprises of Kerala.

**Key words:** *Employee performance appraisal, Employee skills, Employee Commitment*

## 1. Introduction

Performance appraisal is a tool in HRM formulated to identify an employee's present level of work performance, recognize strengths and weakness of employees, facilitates employee develop their performance, facilitates in rewarding decisions, motivate better performance, identifying the needs of training, recognize potential performance, helps in training, promote supervisory understanding of the subordinates (Shehu, 2008)

Performance appraisal offers a rational instrument for determining individual employee contribution to corporate goals accomplishments and achievements. It is a multifaceted management function used to assess individual employee job performance based on predetermined job criteria.

The appraisal process should blend with the organization and its activities. Every organization should have written and well-defined regulations, policies and procedures for the execution of PA (Allan, 1994). In order to evaluate the performance in an organised way, there should be a standard measure. It is not just a conversation between appraisers and the subordinate. According to Armstrong (2006), there are some criteria based on PA. They are:

- The PA system should apply to various strategic goals of the company.
- The individual roles and responsibilities need to be addressed.
- The system should focus on the outcome.
- It acts as a medium for communication.

Most of the public and private sector organizations in Kerala conducting their performance

appraisal process efficiently. Compared to public organization, private sector organization's system of appraisal is more scientific and systematic. The system leads to employee promotion, transfer, reward, training, etc. And also performance appraisal leads to motivation, satisfaction and productivity of employees. In this study

## 2. Literature review

Various researchers' experience in the field of performance appraisal is different from one another. Few of available literatures regarding employee performance appraisal are listed below.

Rao & Sharma (2018) conducted a research in Indian Steel Industry, there is a greater impact regarding Employee PAS on employee motivation and internal customer satisfaction. Indian Steel Industry has moderately applied Performance Appraisal System systems. The performance agreement (PA) has played a critical role in improving and assessing performance, driving public sector development, and connecting performance with the financial incentive schemes. However, the study also finds a limitation of the PA execution in relation to its linkages with incentive distribution to individuals.

Cappelli & Conyon (2016) investigated that PAs are both informative and drive vital components of the service contract. The employee PA scores are correlated to a range of significant employment outcomes, including merit pay & bonus, promotions & demotions/dismissals, as well as employee quits.'

Onyije (2015), Performance appraisal, which is an annual exercise, should be properly carried out because it has a great impact on employee productivity/performance.

Karim, Haque, Dona & Moniruzzaman (2015) the researchers found that the employee's performance of the job is dependent on the job promotions, training programmes, flexibility to balance between job and home, career development opportunities. They also found that worker autonomy, immediate performance feedback, compensation, position and career development opportunities have a less significant relationship with employee's performance.

Mondy & Mondy (2014) performance appraisal can be simplified as an effective assessing process where it evaluate based on employee performance meanwhile it also a process where the supervisor can develop their skills and improve the organizational performance concurrently.

Singh (2014) Effective PA has a positive outcome on corporate performance and profitability.

By appraisal system, organisational capabilities will be built by identifying KRAs of every individual.

Akinbowale, Lourens & Jinabhai (2013) found that the sufficient performance of employees based on PA policy will result in an enhancement in employee performance.

Brown, Haytt & Benson (2010), in the framework of PA, they identified the precise indicators could be used to generate a measure of PA quality. The four principal indicators are lucidity of performance expectation, level of communication between the employees and their supervisors, trust in the supervisors, fineness of PA programme.

Rudman (2003), performance appraisal policy is a critical factor in an organization in enhancing the performance of the employee. There is a strong connection between how firms manage their employees and the organizational results they achieve.

## 3. Statement of the problem

Performance appraisal is a genuine tool for employee productivity. The essence of appraisal is to checkmate the contribution made by every employee and to identify how well they are going on with their task. Appraisal help to identify the skilled and performing employee of an organization to increase their salary and other benefits that can make them satisfied on their work (Leigh, 2012).

There are some problems related with effective appraisal which include lack of trained evaluators, incompetent appraisal process, unreliable reward, bias from supervisors, unscientific rating metrics, etc. At the same time there is a greater impact on their skills and commitment of individual employees. This study used to find out the impact of performance appraisal on employees in service sector enterprises of Kerala.

## 4. Objectives

- ✓ To determine the impact of Performance Appraisal on employees in service sector enterprises of Kerala.
- ✓ To find out the differences in performance appraisal system in various service sector enterprises of Kerala.

## 5. Hypothesis

- ✓ To determine the impact of Performance Appraisal on skills
- ✓ To determine the impact of Performance Appraisal on level of commitment

## 6. Methodology

$\chi^2$	DF	P	Normed $\chi^2$	GFI	AGFI	NFI	TLI	CFI	RMR	RMSEA
31.784	24	.132	1.324	.984	.976	.985	.996	.996	.039	.025

Sub sectors of service sectors are randomly selected for the study. Banking, Retail, Tourism, IT & IT Enabled Services and Media & entertainment sectors are randomly selected and 543 samples are selected for the study. Random sampling is used to select different sectors and companies are selected on the basis of convenience sampling method. Questionnaire is used to collect primary data collection and Standard deviation, F test, Regression and ANOVA are used to analyze data.

## 7. Data Analysis

The variables which contribute towards the Impact of PAS

H<sub>0</sub>: Construct OC1 to OC8 has no effect on Commitment

H<sub>1</sub>: Construct OC1 to OC8 has significant effect on Commitment

Table 1  
Model fit Indices for CFA – Commitment

$\chi^2$	DF	P	Normed $\chi^2$	GFI	AGFI	NFI	TLI	CFI	RMR	RMSEA
31.840	21	.061	1.516	.985	.974	.987	.994	.996	.045	.032

Table 2  
Reregression Coefficients - Commitment

Factors/ Latent Variables (Dependent Variable)	Construct (Independent Variable)	Regression Coefficient	C.R.	P	Variance explained (%)
Commitment	OC1(enthusiasm in performing my job)	0.778	24.174	<0.001	60.6
	OC2(efficiency and effectiveness)	0.812	26.326	<0.001	66.0
	OC3(initiative in doing my work)	0.801	25.594	<0.001	64.2
	OC4 (attitude towards assigned task)	0.797	25.337	<0.001	63.6
	OC5 (punctuality and attendance)	0.791	24.960	<0.001	62.5
	OC6 (attitudes towards doing my work beyond my time)	0.721	21.140	<0.001	51.9
	OC7 (loyalty to the company)	0.760	23.150	<0.001	57.7
	OC8 (motivation in doing my work)	0.756	22.931	<0.001	57.2

In this case all the constructs has regression coefficient value more than 0.4. So all these constructs has significant effect on Commitment

H<sub>0</sub>: Construct OS1 to OS8 has no effect on skills

H<sub>1</sub>: Construct OS1 to OS8 has significant effect on skills

Table 3  
Model fit Indices for CFA – Skills

All the attributes loaded significantly on the latent constructs. The value of the fit indices indicates a reasonable fit of the measurement model with data. In table 3 we present the regression coefficients

Table 4  
The regression Coefficients - Skills

Factors/ Latent Variables (Dependent Variable)	Construct (Independent Variable)	Regression Coefficient	C.R.	P	Variance explained (%)
Skills	OS1 (interpersonal relationship)	0.768	23.597	<0.001	58.9
	OS2 (productivity and output)	0.725	21.335	<0.001	52.6
	OS3 (productivity and output)	0.743	22.242	<0.001	55.3
	OS4 (expertise)	0.750	22.609	<0.001	56.3
	OS5 (work skills)	0.780	24.292	<0.001	60.8
	OS6 (initiative in pursuing higher education)	0.710	20.616	<0.001	50.4
	OS7 (leadership skills)	0.741	22.139	<0.001	55.0
	OS8 (leadership skills)	0.726	21.384	<0.001	52.7

In this case all the constructs has regression coefficient value more than 0.4. So all these constructs has significant effect on skills

To find the impact of performance appraisal as perceived by employees on commitment and skills. Now we use Structural Equation Model to evaluate the impact of these constructs on performance appraisal of employees. In other words we use SEM to test the hypothesis.

H1: Commitment has positive impact on performance appraisal

H2: Skills has positive influence on performance appraisal

Table 5  
Model fit Indices for CFA(Impact of performance appraisal)

$\chi^2$	DF	P	Normed $\chi^2$	GFI	AGFI	NFI	TLI	CFI	RMR	RMSEA
110.299	76	.006	1.451	.975	.955	.981	.991	.994	.048	.029

All the attributes loaded significantly on the latent constructs. The value of the fit indices indicates a reasonable fit of the measurement model with data. In table 5 we present the regression coefficients

**Table 6**  
The regression Coefficients

Path	Estimate	Critical Ratio (CR)	P	Variance explained
Commitment → impact of performance appraisal	0.900	34.211	<0.001	
Skills → impact of performance appraisal	0.920	36.926	<0.001	
OC1 → Commitment	0.778	24.174	<0.001	60.6
OC2 → Commitment	0.812	26.326	<0.001	66.0
OC3 → Commitment	0.801	25.594	<0.001	64.2
OC4 → Commitment	0.797	25.337	<0.001	63.6
OC5 → Commitment	0.791	24.960	<0.001	62.5
OC6 → Commitment	0.721	21.140	<0.001	51.9
OC7 → Commitment	0.760	23.150	<0.001	57.7
OC8 → Commitment	0.756	22.931	<0.001	57.2
OS1 → Skills	0.768	23.597	<0.001	58.9
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OS3 → Skills	0.743	22.242	<0.001	55.3
OS4 → Skills	0.750	22.609	<0.001	56.3
OS5 → Skills	0.780	24.292	<0.001	60.8
OS6 → Skills	0.710	20.616	<0.001	50.4
OS7 → Skills	0.741	22.139	<0.001	55.0
OS8 → Skills	0.726	21.384	<0.001	52.7

H1: Commitment has positive impact on performance appraisal

The results exhibited in Table 6 revealed that the regulatory construct Commitment had a significant influence on impact on performance appraisal as the standardised direct effect of this construct on impact on performance appraisal was 0.900, which is greater than the recommended value of 0.4 (p value was significant). So the hypothesis H<sub>1</sub> is accepted and concludes that Commitment has positive impact on performance appraisal

H2: Skills has positive influence on performance appraisal

The results exhibited in Table 6 revealed that the regulatory construct Skills had a significant influence on impact on performance appraisal as the standardised direct effect of this construct on impact on performance appraisal was 0.920, which is greater than the recommended value of 0.4 (p value was significant). So the hypothesis H<sub>2</sub> is accepted and concludes that Skills has positive impact on performance appraisal

Impact of performance appraisal on employees in different sectors

**Table 7**  
Means, Standard deviation and F value for Sector

Variable	Sector	N	Mean	Std. Deviation	F	p
Impact of performance appraisal	Retail	85	12.44	3.53	15.000	<0.001
	Tourism	149	16.08	3.19		
	IT & IT enabled Service	90	13.94	4.31		
	Media & Entertainment	107	13.97	3.15		
	Banking	112	15.35	2.58		

The results of the ANOVA test depicted in Table 7 reveals that a statistical value of p is less than 0.05. So we conclude that the mean score of all these variables differs with sector.

There is a significant difference exists between the level of impact of employee performance appraisal in different sub sectors of service sector.

## 8. Findings

The employee performance appraisal is a major tool used to enhance employee performance. This study reveals the following findings:

- ✓ The employee performance appraisal helps to enhance the skills of employee in the organization.
- ✓ It helps to increase the commitment level of employees in the organization.
- ✓ The level of impact of performance appraisal is different in various sectors.
- ✓ Employee performance appraisal enhances the interpersonal relationship among employees.
- ✓ Performance appraisal develops leadership and technical skills of employees.
- ✓ Management has taken performance appraisal as a motivational tool for organizational enhancement.
- ✓ It creates loyalty among employees towards the organization.

## 9. Suggestions

The results of the study recommended the following suggestions:

- ✓ There is a greater impact of performance appraisal on employee productivity. So companies must implement a well defined modern methods of performance appraisal for further organizational enhancement

- ✓ Most of the private companies following technology enabled system of performance appraisal but at the same time the public sector companies are still using few traditional methods of appraisals.
- ✓ Most of the companies following yearly system of performance appraisal. But in the recent times, half yearly, quarterly, and monthly appraisal is more effective than yearly appraisal because of the volatile nature of organizational environment.
- ✓ Compared to small scale companies, large scale business firms are conducting performance appraisal effectively with the help of HR department. So the small firms must take initiative to constitute a HR department for the successful implementation of performance appraisal system.

## 10. Conclusion

The study concluded that organizations should evaluate their employees often through utilized goals, accomplishments, organization goals, time management and efficiency for performance measure purposes as it would lead to increased in employee's productivity. From the findings, the scope of performance appraisal is wide and the result helps to increase the level of efficiency of every individual employee and thereby accomplish the organizational effectiveness. This study found that, most of the service sector organizations in Kerala conducting performance appraisal systematically. But the method of implementation and process of performance appraisal is differing from one another. Naturally the level of impact is always varies from one sector to another. Finally, the study will assist other researchers who might desire to initiate research in the field of performance appraisal, employee's performance and organizational effectiveness.

## 11. Future Enactment

This study deals only few dimensions of performance appraisal. The present study provides few guidelines for the future research, which are as follows:

- ✓ This study restricted with only few sectors of service sector in Kerala
- ✓ This study restricted with performance appraisal impact on skill and commitment of employees.
- ✓ The various sectors are using different methods of performance appraisal. This

study will not differentiate the significant difference of performance appraisal methods of different organizations.

- ✓ Performance appraisal directly related with some other managerial phenomena's like, motivation, satisfaction, reward, training, etc. This study restricted only with skill and commitment.
- ✓ A detailed sector wise research is necessary to know the detailed aspects of performance appraisal system.

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