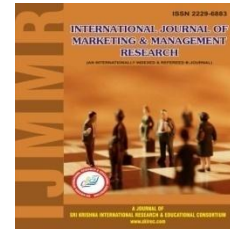




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IMPACT OF PERFORMANCE APPRAISAL ON HDFC BANK EMPLOYEES – A STUDY OF SELECTED DISTRICTS OF HARYANA

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ABSTRACT

Performance appraisal helps to determine the gap between the actual performance of the employees and that required or desired by the organization. The present study is exploratory in nature. The study based on primary data of HDFC bank employees working at various positions in selected districts of Haryana examined the impact of performance appraisal approach on bank employees, and also investigated the relation between performance appraisal and employee performance variables. The collected data has been analyzed using factor analysis, chi-square and descriptive statistics. The study ends up with certain suggestions concerning the performance management system to make it more effective.

KEYWORDS: *Employee Satisfaction, Employee Performance, Performance Appraisal, Performance Management System.*

INTRODUCTION

People are most valuable asset who performs all activities from origin to end and virtually all companies have some formal and informal means of managing and appraising their employee's performance. In today's dynamic world, when time and technology are changing rapidly a performance appraisal is required, which can show a real picture of employee's

contribution without any manipulation from their bosses side. Effective organizations are not build merely on investment and returns but more on the quality of the workforce, its commitment to the organizational goals and investments made to attract train and retain superior human capital. Performance Appraisal is an objective system to judge the ability of an individual employee to perform his tasks. A good performance appraisal

system should focus on the individual and his development, besides helping him to achieve the desired performance. Almost all organizations practice performance appraisal in one form or another to achieve certain objectives. These objectives may vary from organization to organization or even within the same organization from time to time. Performance appraisal helps to determine the gap between the actual performance of the employees and that required or desired by the organization. A growing number of front running organizations like Ford, Microsoft and Sun Microsystems, have adopted a performance appraisal model in which best-to-worst ranking methods are used to identify poor performers. The identified poor performers are then given a time period during which they have to show an improvement in their performance. In cases where the employee fails to improve his performance he is asked to leave the organization gracefully and a severance package is offered to him. If the employee refuses to leave then his service is terminated and no compensation is offered. This system is called "rank and yank strategy". Advocates of this system feel that it continually motivates employees to better their performance since nobody would like to be included in the poor performance band. But the flip side of this strategy is that employees become too competitive and team spirit is not nurtured. Rather PA is an opportunity for constructive review and encouragement. Whether this is an appropriate use of performance appraisal - the justification of this matter - is a very uncertain and contentious matter. The process is perceived as judgmental, punitive and harrowing. Appraisers often know their appraisees 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.

LITERATURE REVIEW

OUCHI (1981) compared American and Japanese enterprises and found that that American enterprise are more concerned about personal performance, while Japanese enterprises are more concerned about group performance.

STONICH (1984) argued that performance measurement must be consistent with the organization's structure and culture. For instance, when an organization emphasizes decentralization, performance standards should be focused on results (like "return on equity"). On the other hand, if the organization is inclined toward centralization, the performance appraisal should emphasize the processes of each management function.

CLEVELAND, MURPHY AND WILLIAMS (1989) found that there was a correlation between organizational characteristics and the uses of the performance appraisal.

FLETCHER (1992) suggested that performance appraisal identify areas of improvement; show employees training needs; help in promotion, retention and termination decisions; and means of managerial control. In order to take full advantage of the performance appraisals, the goal in designing such systems should be congruent to the overall aim and vision of the company. For instance, it is evident that

there is a direct correlation between the performance of employees and their rewards as businesses do seek creation of wealth as their primary goal. Therefore one of the increasingly adopted uses of performance appraisals is to motivate employees to perform better by linking it with reward packages.

STOLOVICH, ET AL., (1992) studied that human performance system is viewed in the input-output-feedback perspective. The quality of outputs is a function of the quality of inputs, performers, consequences, and feedback-inputs are those raw materials, forms, assignments, and customer requests that can cause people to perform>

JOBBER, HOOLEY & SHIPLEY (1993) found that a large organization tends to adopt quantitative criteria, more formalized appraisal methods and pre-determined performance standards, while a small organization is apt to use qualitative and informal appraisal methods. Although these studies did not make direct comparisons between service and manufacturing industries, their results can explain accounts the fact that there is a link or relation between organizational characteristics and the functions of a performance appraisal system.

DOWLING ET AL (1999) include the factors of performance appraisal likewise compensation package; the nature of task; support from higher management; the working environment and the overall corporate culture which really affect the performance of employees.

BRISCOE & SCHULER (2004) performance can be viewed as a combination of several variables, such as motivation, ability, working conditions and expectations. It has been established that there are certain factors that affect employees' performance more than others.

CHU, CHEN-MING, CHEN, DAR-HSIN (2007) found that, the service industry is more concerned about quantitative outcome criteria, while the manufacturing industry emphasizes qualitative process criteria more often. Quantitative outcome criteria are adopted more frequently in the service industry than in the manufacturing industry, particularly in the assessment of "goal-accomplishment rates". At the same time, qualitative process criteria, particularly with respect to the "judgment ability" of employees, are used more often in the manufacturing industry. Finally, it was found that the service industry attaches greater importance to the "attendance records" of employees than the manufacturing industry.

ARVIND SUDARSAN (2009) evaluated the "Performance Appraisal Systems" of 33 diverse organizations. Data was collected from a respondent from each organization by means of an open-ended questionnaire. Respondents' views were sought on major concerns, desired changes, and number of forms used in evaluating performance in the organization. The study observed that subjectivity and appraiser bias were most common apprehensions in evaluating performance appraisal system in the organization. Strong needs were felt for identifying measurable parameters for performance evaluation, and providing multiple feedbacks to trim down appraiser

bias. Further, objectivity and measurable performance were found to be most desirable areas to help improve performance appraisal system.

PURPOSE OF THE STUDY

Performance is the primary reason for all the ins and outs of the business activities of any organization. All strategic planning and other management functions aim for maximum productivity or excellent performance in their respective departments. This study aims to increase both employees and organizations awareness for the need to develop a useful performance evaluation or appraisal system and appreciate its benefits, as well. The main problem highlighted in our study is that most of the companies are aware of performance management system but actually don't know the importance of its existence and how to use it as a strategic tool which is the main reason of increasing attrition rate. Further in some cases where companies fired their employees after PMS by declaring them a bad performers. In this study we are trying to find out whether it is a justified reason or mere a strategy of cutting cost for hiding company's weak financial position.

This paper therefore sought to establish the link between the companies and employees of different departments in an organization by evaluating the impact of performance appraisal approach on employees and employee's behavioral aspect towards performance appraisal. Further focus of the study is to see whether a performance appraisal system gives an authentic picture or just a formality of showing it as an activity. Further our study will highlight the factors which affect the administration of performance appraisal.

OBJECTIVES OF THE STUDY

To study the impact of performance appraisal approach on employees and investigate the relations between performance appraisal and employee performance variables.

To study the factors affecting the administration of performance appraisal system in organization.

To examine how performance appraisal system helps to motivate the employees in organization.

RESEARCH METHODOLOGY

NATURE OF STUDY

The study is exploratory in nature. It is based on the primary data collected through a pre-structured questionnaire and an informal interview. A Pilot survey was conducted to identify the possible areas where employees found some impact of performance appraisal system on their organizational performance. The respondents are employees working at diverse positions of HDFC bank branches at selected districts of Haryana. The survey has been conducted in the districts i.e. Karnal, Yamunanagar, Ambala, and Panipat.

DATA COLLECTION

The collected data is both primary as well as secondary. The survey was conducted through making a pre-tested questionnaire. The sample constituted 100 respondents. The sample size is of 100 employees from different departments of HDFC bank, which are selected on the basis of stratified random and convenience sampling method. Secondary Data is collected from various

sources such as books, journals, newspapers and Internet.

TOOLS FOR DATA ANALYSIS

The collected data is analysed using descriptive statistics, factor analysis, Chi-Square test.

ANALYSIS AND DISCUSSIONS

This section throws light on the analysis of performance appraisal system adopted by HDFC bank and its impact on employees which briefly examined as follows:

ANALYSIS OF THE IMPACT OF PERFORMANCE APPRAISAL APPROACH ON EMPLOYEES

At HDFC bank performance appraisal is done with a view to check the performance of employees so that decisions regarding increments, incentives, bonuses and promotions can be decided. In this part, study is focusing on the analysis of employees reactions upon the decisions taken by the company after performance appraisal which will be helpful in investigating the relations between the performance appraisal and employee performance.

TABLE 1: TESTING SIGNIFICANCE OF ASSOCIATION BETWEEN PERFORMANCE APPRAISAL AND EMPLOYEE PERFORMANCE

Options	True picture of performance
Performance Appraisal & Employee Performance chi-sq(p-value)	69.520(.000)

*Chi-square values **Figures in parenthesis are p-values, $p < 0.01$ means highly significant association.

Testing significance of association between performance appraisal and employee performance are shown in the table 1. The interpretation of the table 1 reveals that p-value < 0.01 so there is highly significant association between performance appraisal

and employee performance thus depicting that employee's believes performance appraisal system as an important tool to give reflection of employee's efforts which ultimately gives the true image of employees as a performer to the company.

TABLE 2: TESTING SIGNIFICANCE OF ASSOCIATION BETWEEN PERFORMANCE APPRAISAL AND PROTECTION AGAINST FAVORITISM AND DISTRIBUTE AWARD FAIRLY

Options	Protection Against Favoritism And Distribute Award Fairly
Performance Appraisal chi-sq(p-value)	75.900(.000)

*Chi-square values **Figures in parenthesis are p-values, $p < 0.01$ means highly significant association.

Testing significance of association between performance appraisal and protection against favoritism and distribute award fairly. The interpretation of the table 2 reveals the highly significant association thus depicting

that employees' relies on appraisal system as a tool for protection against favoritism which results into fairly distribution of monetary and non monetary incentives among them.

TABLE 3: TESTING SIGNIFICANCE OF ASSOCIATION BETWEEN PERFORMANCE APPRAISAL AND SELF EVALUATION

Options	Self Evaluation
Performance Appraisal chi-sq(p-value)	65.760(.000)

*Chi-square values **Figures in parenthesis are p-values, $p < 0.01$ means highly significant association.

Testing significance of association between performance appraisal and self evaluation. The interpretation of the table 3 reveals that in this case $p\text{-value} < 0.01$ thus there is highly significant association which shows

that performance appraisal gives a better chance of self evaluation. Further it can be inferred that such exercises are helpful for employees in identifying their strengths and weaknesses.

TABLE 4: TESTING SIGNIFICANCE OF ASSOCIATION BETWEEN PERFORMANCE APPRAISAL AND EMPLOYEE'S PERSONAL & PROFESSIONAL LIFE

Options	Employee's Personal & Professional Life
Performance Appraisal chi-sq(p-value)	30.300(.000)

*Chi-square values **Figures in parenthesis are p-values, $p < 0.01$ means highly significant association.

Testing significance of association between performance appraisal and employee's personal & professional life. The interpretation of the table 4 reveals that performance appraisal affects the employer's personal and professional life with high significance thus inferring that if performance rating of an employee is not

according to their expectation then it leads to create imbalance between their personal and professional life. Further it is found that usually there is lots of stress on the mind of employees at the time of about to declaration of ratings results, obviously it affect the organizational performance.

TABLE 5: TESTING SIGNIFICANCE OF ASSOCIATION BETWEEN PERFORMANCE APPRAISAL AND PMS ADMINISTRATION

Options	PMS Administration
Performance Appraisal chi-sq(p-value)	29.100(.000)

*Chi-square values **Figures in parenthesis are p-values, $p < 0.01$ means highly significant association.

Testing significance of association between performance appraisal and PMS administration. The interpretation of the table 5 reveals that in this case p-value < 0.01 thus there is highly significant

association which shows that administration of PMS is really important for concrete outcomes and one kind of performance appraisal system can not be administered in every organization.

TABLE 6: DESCRIPTIVE STATISTICS

Statements	N	Mean	Std. Mean	S.D
Performance appraisal gives a true picture of employees as a performer	100	3.69	3	1.1073
Performance appraisal is a tool for employees to protect themselves against favoritism and distribute award fairly	100	3.37	3	1.0116
Performance appraisal gives a better chance of self evaluation	100	3.68	3	0.8863
Performance appraisal affects the employer's personal and professional life	100	3.29	3	1.225
Performance appraisal is a manipulative system because of rater personal biasness	100	3.24	3	1.147
One kind of performance appraisal system can not be administered in every organization	100	3.12	3	1.1484

The average scores for above indicators are 3.69, 3.37, 3.68, 3.29, 3.24 and 3.12 respectively and the corresponding Standard means are 3 which it indicates that all values are above of standard mean thus concluding that all statements are good indicators.

ANALYSIS OF VARIABLES THAT CAN INFLUENCE THE ADMINISTRATION OF PERFORMANCE APPRAISAL SYSTEM

The 8 related variables are analyzed which can influence the administration of performance appraisal system. The analysis reveals that the respondents consider all variables as important in making a PMS so that positive results can be obtain. Here no. of variable grouped together into specific segment to enable the designing and administering of appropriate PMS in companies which is done by applying factor analysis using Principal Component Analysis.

Kaiser-Meyer-Olkin and Bartlett's Test of Sphericity measure of sampling adequacy

are used to examine the appropriateness of factor analysis. The approximate Chi – Square statistic is 254.340 with 28 degrees of freedom which is significant at 0 .05

level. The KMO static (.517) is also large (>.5). Hence factor analysis is considered as an appropriate technique for further analysis of data.

TABLE 7: KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.517
Bartlett's Test of Sphericity	Approx. Chi-Square	254.340
	Df	28
	Sig.	.000

Source: Primary Data

TABLE 8: TOTAL VARIANCE EXPLAINED

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	2.205	27.559	27.559
2	1.839	22.990	50.549
5	1.239	15.493	66.042
4	1.003	12.533	78.575
5	.781	9.758	88.333
6	.551	6.885	95.218
7	.258	3.221	98.439
8	.125	1.561	100.000

Result of Principle Component Analysis for administration of PMS is tabulated in the table 8.

TABLE 9: EXTRACTED AND ROTATED SUMS OF SQUARED LOADINGS

Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
2.205	27.559	27.559	1.841	23.015	23.015
1.839	22.990	50.549	1.675	20.942	43.957
1.239	15.493	66.042	1.550	19.370	63.328
1.003	12.533	78.575	1.220	15.248	78.575

TABLE 10: ROTATED COMPONENT MATRIX

Serial No	Variables	1	2	3	4
1	Clarity	-.028	.000	-.001	.980
2	Communication to all	-.064	-.291	.709	.047
5	Openness	-.119	.645	-.529	.116
4	Frankness with boss	-.120	.904	-.146	-.049
5	Organisational Culture	.866	.001	-.039	-.218
6	Organisational Climate	.652	.499	.093	.397
7	Organisational Policies	.877	.011	.066	.165
8	Biasness	.199	.262	.771	-.098

Retaining only the variables with Eigen values greater than one (Kaiser's Criterion), one can infer that 27.559% of variance is explained by factor 1; 22.990 % of variance is explained by factor 2; 15.493 % of variance is explained by factor 3; 12.533 % of variance is explained by factor 4 and

together all four factors contributed to 78.575% of variance.

On the basis of Varimax with Kaiser Normalisation, 4 factors have emerged. Each factor is constituted of all those variables that have factor loadings greater than or equal to 0.5. Thus variable 5th, 6th

and 7th constituted the first factor conceptualized as “Fundamental Elements”; variable 3rd and 4th constituted the second factor and this is conceptualized as “Relationship With Boss”; 2nd and 8th constituted the third factor and this is conceptualized as “Interactive Elements”, 1st constituted the fourth factor and this is conceptualized as “Administrative Element”.

Thus, after rotation, factor 1 (Fundamental Elements) accounts for 23.015% of the

variance; factor 2 (Relationship With Boss) account for 20.942% of the variance; factor 3 (Development Opportunities) account for 19.370% of the variance; factor 4 (Administrative Element) account for 15.248% of the variance and all 4 factors together explain for 78.575% of variance. The identified factors with the associated variable and factor loadings are given in below Table 11.

TABLE 11

Factor Name	Variables	Factor loadings
Fundamental Elements	Organisational Culture	.866
	Organisational Climate	.652
	Organisational Policies	.877
Relationship With Boss	Openness	.645
	Frankness with boss	.904
Development Opportunities	Communication to all	.709
	Biasness	.771
Administrative Element	Clarity about system	.980

ANALYSIS OF HOW PERFORMANCE APPRAISAL SYSTEM HELPS TO MOTIVATE THE EMPLOYEES IN ORGANIZATION

HYPOTHESIS TESTING

H₀: There is no significant association between performance appraisal and selected motivational variables.

H₁: There is significant association between performance appraisal and selected motivational variables.

TABLE: 12 TESTING SIGNIFICANCE OF ASSOCIATION BETWEEN PERFORMANCE APPRAISAL AND SELECTED MOTIVATIONAL VARIABLES.

Options	Performance Appraisal & Feedback to learn: chi-sq(p-value)	Performance Appraisal & Monetary Incentives chi-sq(p-value)	Performance Appraisal & Non Monetary Incentives chi-sq(p-value)	Performance Appraisal & Helpful in Goal Setting chi-sq(p-value)
Feedback to learn	55.122(.000)	89.379(.000)	31.552(.007)	48.018(.000)
Monetary Incentives	52.005(.000)	71.653(.000)	48.178(.000)	57.679(.000)
Non Monetary Incentives	38.037(.000)	36.250(.000)	41.074(.000)	28.182(.005)
Goal Settings	87.383(.000)	58.391(.000)	46.840(.000)	28.182(.001)

*Chi-square values **Figures in parenthesis are p-values, p<0.01 means highly significant association

Table 12 depicts testing significance of association between performance appraisal and selected motivational variables i.e. feedback to learn, monetary incentives, non monetary incentives and goal settings. The interpretation of the table revealed the highly significant association between performance appraisal and selected motivational variables thus inferring that PMS gives a concrete picture of future goals

as well as learning for achieving them. Further it also results into affirmation of monetary and non monetary incentives as per the employee's contribution to organization performance.

RECOMMENDATIONS

No doubt employees consider PMS as a true and genuine evaluation activity so company

should pay more attention towards announcing the rules, regulations, policies and criteria for administration of PMS in advance.

In this study, many loopholes has been found in administration of PMS likewise lack of information, biasness, favoritisms and manipulation from superiors etc. thus suggesting that there should be more direct interactions among employees (ratees) and HR department.

It is further suggesting that clear-cut appreciation and improvement area should mention in results and also enlighten the ways and methods by which employees can improve their ratings in next year.

PMS increases the motivation of the employees in terms of providing tempting monetary and non monetary incentives, thus suggesting that company's should strengthen their feedback system which gives a true picture of performance and desirable learning for further pursuit

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