Performance Appraisal System and Employee Satisfaction among its Employees in Bangalore

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Abstract: *Every organisation follows a Performance Appraisal System in one way or other and the same has some impact on the satisfaction level of the employees over a period of time. In this paper, the authors have made an attempt to study the same among some of the IT employees. Top five IT companies were selected based on their revenue released by the third quarter for the year 2014. The sample of 110 respondents was selected based on systematic random sampling method constituting 1 percent of the population under study. The study used factor and regression analysis using 5 percent level of significance. The factor analysis has identified four factors and the variables of factor one contribute 49.79 percent variation, followed by 16.667 percent, 9.961 percent and 5.410 percent variation being contributed by second, third and fourth factors respectively. A multiple regression analysis was used to test the hypothesis and it was found that hypothesis being considered by the researcher is partially accepted and partially rejected..*

Keywords: Performance appraisal system, IT industries, level of significance, satisfaction.

1. Introduction

Software industry has proven in uniqueness, operation, contribution to nation and its nature have attracted researchers in the last decade. Compare with other industries, software industries operation have attracted because by its fast growing nature, multinational client, competition as well as skilled workers. As a result, performance appraisal for individual and team is requisite. Performance appraisal is one of the most important tools among the HRM practises.

Performance appraisal deals with how organisations evaluate and measure its employees achievement. Performance Appraisal is a systematic evaluation of employee's performance and their ability that leads to further growth and development. It helps to identify gaps, if any in performance and it can be filled by training and development.

There are different types of performance appraisal depending upon the needs of the organisation or employee. They are general appraisal, 360 degree appraisal, manager performance appraisal, employee self-assessment, project evaluation review, sales performance appraisal, technological, administrative performance appraisal and much more.

There are numerous methods to measure employee's performance. With the evolution and development of the appraisal system, a number of methods or techniques of performance appraisal have been adopted. The most prominent among them are Traditional methods and Modern methods. Traditional methods emphasis on the rating of the individual's personality traits, such as initiative, potentiality, integrity, creativity etc. and on the other hand modern methods enhances mainly on job achievements than personal traits. Under traditional method, there are many in types and very important and still adopting by many organizations are as follows:

Traditional method

a. **Graphic Rating Scale**: It compares individual performance to an absolute standard. This is the oldest and widely used technique. The appraisers were supplied with forms. The forms contain a number of objectives, behaviour, trait based qualities etc.
b. **Ranking method**: Under this method the employees are ranked from best to worst on some characteristics. The rater first finds the employee with the highest performance and the employees with the lowest performance in that particular job category and rates the former the best and later the poorest.
c. **Paired comparison method**: This method is relatively simple under this method the appraiser ranks the employees with all the other employees in the group, one at time.
d. **Checklist method:** The checklist is a simple rating technique in which the supervisor is given a list of statement or words and asked to check statement representing the characteristics and performance of each employee.
e. **Critical Incident Method:** Employees are rated once in a year or six months under the earlier methods. In this, Supervisor takes notes of employee say incidents which influence the Employee performance or behaviour.

Modern Methods:

a. **Behaviourally Anchored Rating Scale**: It is a combination of Traditional rating scales and critical incident method. Using BARS, Job behaviours from critical incident method are described more objectively. The method employs individual who are familiar with a particular job to identify its major components. They then rank specific behaviour of each respondent.
b. **Assessment centre:** It is assessing several individuals by various experts by using various techniques. This technique includes role play, case studies, transactional analysis etc.

c. **Management by Objectives:** MBO is a process whereby the superior and subordinate manager of an organization jointly set its common goals. It clearly defines individuals major areas of responsibility in terms of results expected of him and use these measures of guides for operating the unit and assessing the contribution of its members. Thus, MBO focuses attention on participative set goals that are tangible, verifiable and measurable. The emphasis is on what must be accomplished rather than how it is to be accomplished.

d. **Behaviours Observation Scales(BOS):**The appraiser, under this method, measures how frequently each of the behaviour has been observed .Appraiser plays the role of observer rather than a judge and provides the feedback to the appraise continuously.

HRM uses Performance Appraisal for the overall development of an employee, which includes identifying and culling out potential of a person, maintains satisfactory level of performance, indicating level of desired performance level and actual performance and also gap between these two. The main aim of the performance appraisal is to have proper understanding of the subordinates by the superior. Providing Feedback to the employees is one of the main justifications in performance Appraisal system. Its objective also includes to provide deficiency in the employee regarding skill set and knowledge and to determine appropriate training and development to fill the deficiency.

2. Literature Review

Cleveland, Murphy, and Williams (1989)reported that there is a relationship between organizational characteristics and the uses of a performance appraisal system.

Stonich (1984) also argued that performance measurement in an organization should be in tune with its structure and culture. Since the nature of the enterprises in which each industry is engaged varies, its organizational type, business policy, internal and external environment are also usually different. The purpose of this study is to conduct a direct comparative analysis of performance appraisal system in the service and manufacturing industries.

According to**Cardy and Dobbins (1994)** performance appraisal is a process of identifying, observing, measuring and developing skills of human resource in organizations. Performance is usually judged subjectively because in many areas, performance is not open to objective assessment and managers depend upon their subjective guess. Due to this subjectivity, appraisal is often perceived as unfair and inequity based. Managers are therefore required to ensure justice in terms of criteria and process i.e. distributive justice and procedural justice. In the context of performance appraisal, distributive justice refers to the fairness of the evaluation received, whereas procedural justice refers to the fairness of the process used in determining the evaluation.

Edwards and Ewin (1996) argue that performance appraisal is the Feedback received from multiple sources, such as superiors, peers, subordinates and others has a more powerful impact on people than the feedback received from a single source, such as immediate superior of the employee

concerned. Employees regard performance information from multiple sources as fair, accurate, credible and motivating. They are more likely to be motivated to change their work habits to earn the esteem of their co-workers than the respect of their supervisors.

Liza estinodaoanis (2012) reported that respondents identified some major gaps in the implementation of the company's appraisal system: no appropriate rewards are given to best employees, appraisal system was not fully explained to employees, no feedback of results and employees do not participate in the formulation of evaluation tools. It is recommended that the company should revisit and redesign its appraisal system that is align to its vision and mission towards the attainment of its organizational goals.

MK Sanyal SB Biswas (2014) used factor analysis, to find out the applications of appraisal, followed by a binary regression to understand their implications on the employee motivation. The study has found the importance of the line managers in the practice of the appraisal process also reviewed different dilemmas regarding appraisal practice and employee issues depending on company's size, business focus. The practice of appraising and its implications are also diverse in different companies throughout the industry.

Martin and Jackson(2000) in his studies stated that appraisal is also a method of enhancing employee training and development as it provide information about the strength and weakness in performance, which create a debate how to improve the performance of employee . In the end it helps the employees to understand their overall contribution in achieving organizational goals.

Tamilzharasi, Umarani (2014) they analysed work stress and job performance evaluation of BPO employees. They observed that salary, job task, colleagues, work environment, autonomy and workload are the major variables to introduce the stress among the employees. As per their study, women get high stress than men. Proportionately more employed women reported greater work stress than men. One-third of women felt quite a bit or extremely stressed most days at work, compared to men.

Winston Creamer (1997) reviewed that effective performance appraisal systems should address clarity, and fairness, recognize productivity through rewards, and be cognizant of appraiser leadership qualities.

The main problem area of the study is intended to focus on employee satisfaction towards performance appraisal system with reference to five IT companies in Bangalore, India. Further, 20 variables were identified for perception of IT employee on performance appraisal system of considered for the study are "Opportunity for selecting challenging and varied projects", "Comparison of performance level with the expected one", "Opportunity of Self Evaluation", "Positive ratings for innovation", "evaluator give overall rating for your performance", "Performance Appraisal Insights Strength and Weakness, Attrition rate computed after the process", "Entire process carried out objectively", "Formal feedback session after performance appraisal process",

"Mentoring and guidance are regular to improve performance", "identification of training need after appraisal", "Counselling on problem areas", "one to one Feedback for each employee, performance Appraisal process not distract people to do other activities", "performance Appraisal process not distract people to do other activities", "performance appraisal improves job satisfaction", "I agreed monetary rewards/promotion based on performance appraisal", "Tool which is used is appropriate to measure employees potential", "evaluator give overall rating for your performance", "performance Appraisal are motivating" and "scope to discuss developmental need".

This research also attempts to focus on the identified research gaps and provide suitable solutions. Thus, the study is titled "Performance Appraisal System and Employee Satisfaction among *IT* employees in Bangalore – An Empirical Study**".**

2.1 Objective of the Study

1. To explore the opinions of IT employees related with performance appraisal methods in Bangalore.
2. To understand the employees' perception of performance appraisal process and its impact on job satisfaction

2.2 Scope of the Study

1. This Study is to find the performance appraisal method used by IT companies to measure the Employees Performance in their Companies.
2. This study provide appraisal feedback to employees and thereby serve as vehicles for personal and career development and allow the management to take effective decision against drawbacks for the wellbeing of the employee's development.
3. To improve employee work performance by helping them realize and use their full potential in carrying out their firm's mission.
4. The main aim of the study is also to find out the effectiveness of performance appraisal & development programme conducted at IT industries in Bangalore.
5. Multiple regression is used to identify

2.3 Need of the study:

1. This study helps building progress towards organizational goals.
2. To help the superior to have a proper understanding about their subordinates.
3. To ensure organizational effectiveness through correcting the employee for standard and improved performance and suggesting the changes in employee behaviour.
4. It provides information about the performance ranks.
5. To provide information this helps to counsel the subordinates.
6. To facilitate fair and equitable compensation based on performance

3. Research Methodology

3.1 Research Design

By intent, this is a descriptive Study, involving fact-finding investigations duly supplemented by adequate interpretation. It focuses on specific aspects / dimensions of the problem being studied. Designed to gather descriptive information, it provides information for formulating more sophisticated studies. By method, this is a fact-finding study. Hence data has been collected directly from sample respondents. Personal interviews were held with the respondents for the purpose. The facts collected from the respondents during the interview have been recorded in the structured interview schedules specially drafted for the purpose.

The data was collected from a total of five IT industries TCS, Infosys, Wipro, Tech Mahindra and HCL which were selected on the based on their revenue in the year 2014. The study covered the unit of these IT sector located in Bangalore. 25 sample respondents were selected from each company based on systematic random sampling method. Totally 125 respondents were interviewed. Researcher ignored 15 incomplete questionnaires. Hence, the sample size of this study is 110 IT employees. The perceptions towards performance appraisal are measured on Likert's five point scale of 'Strongly agree, Agree, Neutral, Disagree and Strongly disagree'.

3.2 Sources of Data

Primary data has been collected from the respondents, viz., the IT companies in Bangalore and their employees and practising consultants. Secondary data has been collected from reputed journals, magazines, newspapers, and trade/industrial bodies**.**

4. Analysis and Discussions

4.1 IT employee perceptions towards Performance Appraisal

The perceptions of the IT employee with respect to Performance appraisal methods are given below. Table 1 shows that summary of 20 variables. Mean values of 20 variables are 3.841, it refers that the level of agreement of the respondents are moderate.

Table 1: Summary item statistics

	Mean	Min	Max	Range	Max / Min	Variance	No. of Items
Item Means	3.841	2.336	4.627	2.291	1.981	0.514	20

Source: Primary Data

The study finding (table 2) stated that, on an average, the level of satisfaction among the respondents towards the performance appraisal system in IT industries ia at 20.36 percent which implies on our scale that the respondents are not satisfied with performance appraisal system followed by IT industries. This present study is not support the finding of De (2004) and Rani and Mahalingam (2003)

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Performance appraisal system should bring a positive experience and it must contribute to the company welfare. It is a very effective tool to improve employee's productivity and for employee's development. Reliability test is used to measure of consistency. The statements for perception of IT employee towards performance appraisal have scored 0.937 in Cronbach's alpha test and this signifies high reliability statement.

Table 2: Satisfaction level of the respondents towards the Performance Appraisal System

Variable	SA	A	N	DA	SDA	Mean	SD	Mean %
I am satisfied with performance appraisal system	2.70%	34.50%	30.90%	29.10%	2.70%	3.05	0.93	20.36

Source: Primary Data

SA-Strongly agree, A-Agree, N-Neutral, DA- Disagree, SDA-Strongly disagree, SD-Standard deviation

As gleaned from the table 3, respondents opined that 'Opportunity for selecting challenging and varied projects' (4.60), 'Comparison of performance level with the expected one' (4.62), 'Opportunity of Self Evaluation' (4.58), and 'Positive ratings for innovation' (4.57) are strongly agreed. However, the respondent moderately agreed that 'evaluator gives overall rating of performance'(3.7636), 'Performance Appraisal Insights Strength and Weakness' (3.77). The variable 'performance Appraisal process not distract people to do other activities' is (3.53) which is slightly less than all the above variables. Nevertheless, the variable 'performance appraisal improves job satisfaction' (3.51), 'Tool which is used is appropriate to measure employees potential' (3.50), and 'agreement of monetary rewards/promotion based on performance appraisal' (3.49) is neutral. From the analysis, it is clearly examined that the performance appraisal of the IT sector needs further modification to make reliable and valid. Result of the study imply that the performance appraisal is not fairly done and not honestly.

4.2 Factor Loading

The factor analyses had used by the researcher to group the most important factors responsible for the perception of the respondents towards performance analysis in IT industries. According to KMO and Bartlett's Test, p value is 0.000 is less that 1percent level of significant hence, factor analysis is suitable to identify and grouping the variables. The factor analysis had performed by using the Principal component Analysis method and the results are given in Table – 4.

KMO & Bartlett's test play an important role for accepting the sample adequacy. While the KMO ranges from 0 to 1, the world-over accepted index is over 0.6. In this research Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.896. Hence, sample size is adequate.

Factor 1 loaded with 5 variables called criterion for evaluating performance appraisal, factor 2 were loaded with 6 variables namely follow up plans on performance appraisal, factor 3 loaded with 8 variable called significance of performance appraisal system and factor 4 loaded with only one variable called role of evaluator. Therefore, the selected four factors explain 81.833% variables. The factor 1 to 4 account for 49.794, 16.667, 9.961 and 5.41% of the variation of IT employees towards performance appraisal (Table - 4).

4.3 Regression analysis on Factor Loading

H_0: The Factors of performance appraisal have significant relation with satisfaction of the respondents towards the performance appraisal system. From the result it was found that, one out of the four factors had significant effect on satisfaction of the respondents. The factors also explain 6.8% of the variance in the designation.

A regression analysis had made to identify the variables influencing the satisfaction of the respondents towards the performance appraisal system of the IT under study (Table - 5). 5 percent level of significance level was used for this study. The result of the regression analysis shows that the variables "follow up plans on performance appraisal" (p=0.034), are significantly influencing the satisfaction of the respondents towards the performance appraisal system but all other variables "criterion for evaluating performance appraisal" (p=0.448), "significance of performance appraisal system" (p=0.249), "role of evaluator" (p=0.283) have emerged as insignificant variables. However, as per model 1 above, all the variables used in the study collectively account for 31.47 percent of the satisfaction of the respondents towards the performance appraisal system. A multiple regression analysis was used to test the hypothesis and the result was found that hypothesis being considered by the researcher is partially accepted and partially rejected.

5. Conclusion

Performance appraisal system is essential in fast growing scenario. Managing performance of employees is challenge for very organisation. Employee ability and commitment play a vital role for individual and organisational growth. To obtain employee performance and to sustain competitive edge, motivation plays significant part. Hence, every organisation have performance appraisal system. It is a subset of an organisation's performance management. This present study related with employee satisfaction and performance appraisal in IT industry specifically in Bangalore. The sample of 110 respondents was selected based on systematic random sampling method constituting 1 percent of the population under study. The study used factor and regression analysis using 5 percent level of significance. The factor analysis has identified four factors: the variables of factor one contribute 49.79 percent variation, followed by 16.667 percent, 9.961 percent and 5.410 percent variation being contributed by factor two, three and four respectively. A multiple regression analysis was used to test the hypothesis and the result was found that hypothesis being

considered by the researcher is partially accepted and partially rejected.

Table 3: Mean and standard deviation for perceptions towards performance appraisal

Sl. No	Variables	Mean	Standard deviation
1	Opportunity for selecting challenging and varied projects	4.6091	0.9295
2	Comparison of performance level with the expected one	4.6273	0.8763
3	Opportunity of Self Evaluation	4.5818	0.9125
4	Positive ratings for innovation	4.5727	0.9133
5	Evaluator give overall rating for your performance	3.7636	0.9854
6	Performance Appraisal Insights Strength and Weakness	3.7727	0.9641
7	Attrition rate computed after the process	4.2182	0.9614
8	Entire process carried out objectively.	4.2545	0.9994
9	Formal feedback session after performance appraisal process	4.3273	0.9492
10	Mentoring and guidance are regular to improve performance	4.3182	0.8978
11	Identification of training need after appraisal	4.1091	1.1116
12	Counselling on problem areas	4.1909	0.9236
13	One to one Feedback for each employee	4.1273	1.1422
14	Performance Appraisal process not distract people to do other activities	3.5364	1.1705
15	Performance appraisal improves job satisfaction	3.5182	1.1709
16	I agreed monetary rewards/promotion based on performance appraisal	3.4909	1.1711
17	Tool which is used is appropriate to measure employees potential	3.5091	1.1866
18	Evaluator give overall rating for your performance	2.5909	0.8272
19	Performance Appraisal are motivating	2.3364	0.8596
20	Scope to discuss developmental need	2.3727	0.7997

Source: Primary data

Table 4: Total Variance Explained

Factor loading	Factor Loading	Eigen value	Variance	Reliability
Factor 1:Criterion for evaluating performance appraisal				
1. Opportunity for selecting challenging and varied projects	0.955			
2. Comparison of performance level with the expected one.	0.944			
3. Opportunity of Self Evaluation	0.96	9.959	49.794	
4. Positive ratings for innovation	0.961			
5. one to one Feedback for each employee	0.547			
Factor 2: follow up plans on performance appraisal				
1. Attrition rate computed after the process	0.626			
2. Performance appraisal process carried out objectively.	0.878			
3. Formal feedback session after performance appraisal process	0.916	3.333	16.667	
4. Mentoring and guidance are regular to improve performance.	0.898			0.937
5. identification of training need after appraisal	0.74			
6. Counseling on problem areas	0.791			
Factor 3: Significance of performance appraisal system				
1. Performance appraisal tools are flexible	0.88			
2. Performance Appraisal Insights Strength and Weakness	0.861			
3. Performance Appraisal process not distract people to do other	0.685			
4. Performance appraisal improves job satisfaction	0.683	1.992	9.961	
5. I agreed monetary rewards/promotion based on performance appraisal	0.723			
6. Tool which is used is appropriate to measure employees potential	0.727			
7. Performance Appraisal are motivating	0.575			
8. Scope to discuss developmental need	0.498			
Factor 4: Role of evaluator 1. Evaluator give overall rating for your performance	0.88	1.082	5.41	

Source: Primary data

Principal Component Analysis. Rotation method: Varimax with Kaiser Normalization

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Table 5: Regression analysis on factor loading

Predictor	Coefficient (B)	Std. Error	Beta	t-value	Sign
(Constant)	3.055	0.087		35.14	.000*
Criterion for evaluating performance appraisal	0.067	0.087	0.072	0.762	0.448
Follow up plans on performance appraisal	0.188	0.087	0.202	2.148	.034*
Significance of performance appraisal system	-0.101	0.087	-0.11	-1.158	0.249
Role of evaluator	0.094	0.087	0.102	1.08	0.283

Source: Primary Data;

* indicate ($p < 0.05$); R value= 56.1 % R square= 31.47%

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