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# A Study on Impact of Performance Appraisal of Employees Leading to Growth of an Organisation in Select Companies

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## Abstract:

*Performance appraisal is a very important process for any organization not just for the employees but the organization too. It helps the management to identify areas of strength and opportunity and helps in identifying the training needs of the employees. Well-documented and analyzed results can throw up valuable insights that can be followed upon to the benefit of the organization. Succession planning and leadership development are decisions that are dependent on the information provided through appraisals and can either take the company to great heights or plummet low depending on the performance management system followed in the company.*

*This study has been narrowed to focus on the measurement and evaluation through the methods and types of assessment being followed across different sectors of the industry. The duration of the process and the challenges being faced as well as customized solutions in each organization have been documented. The growth of the company has been recorded in terms of growth in revenue, no. of projects and employee attrition rate. The type of goals being set and frequency of the appraisal process has been surveyed and co related.*

*It is a fact that employees are the backbone of any organization and a transparent, fair and well documented process with adequate training and opportunities for growth lead to a motivated and productive work environment.*

*Relationship between the various aforesaid elements has been established and graphically represented to determine the impact on the work force and ultimately the organisation. It has been observed that of the mentioned key parameters, even a couple of ill managed processes can effectively demotivate the work force and negatively impact the work environment. A system that has well thought PMS and fair practices has a clearly positive impact on the staff and the organisation.*

*The fact of this matter has been explored in this paper through a small sample survey across 6 different industries.*

*“To win in the marketplace you must first win in the workplace.” – Doug Conant*

## Key words:

*Performance appraisal-Succession planning-leadership-motivated and productive work environment*

## Introduction:

An annual review of an employee's overall contributions to the company by his/her manager is called performance appraisal. It helps to evaluate an employee's skills, achievements and growth, or lack thereof. Companies use performance appraisals to give employees big-picture feedback on their work and justify pay increases and bonuses, as well as termination decisions. The manager who is closely tied with the employee

observes and assesses his/her work throughout the year and provides necessary feedback, guidance and forward looking path. The manager holds formal discussion with the employee narrating his/her input on employee's good work and places where improvement is needed. Manager also identifies opportunities for the employee to grow professionally. According to Mr Kumar Parakala, a global digital leader, "Performance appraisal also referred to as performance review is a method by which the job performance of an employee is documented and evaluated. Performance appraisal is a part of career development and consists of regular reviews of employee performance within the organisation".

During the period of industrial revolution, performance appraisal was institutionalised and predominantly used to measure organisational efficiency. Robert Owen, the first practitioner of the performance appraisal for employees in a cotton mill in Scotland used it as a disciplinary mechanism for punishing poor performance. Thus the common perception of dread and apprehension at that time of the year for both the appraiser and the appraisee. As time passed by, the process of appraisal was refined and interlinked with rewards and awards, promotions and increments and training needs. As a yearly event, appraisals are both inevitable and universal. The analysis and effectiveness is a debatable topic and to date a perfect system is yet to evolve to address all the concerns and limitations of this critical process.

The methods of appraisal that are commonly used are open assessment, guided assessment, rating scales, critical incident rating, peer comparison, peer ranking, management by objectives.

### **Literature Review:**

Performance appraisals of the employees are indispensable to any business organisation and can impact the goals of the company. To understand the topic, the meaning and importance of appraisal along with the various modes of appraisals was studied. The appraisal process as a whole- from goal setting to the processes involved, preparation for the interview, feedback and closing procedures and the follow up action was examined. Various definitions for performance appraisal were compiled and the main idea realised from all the definitions point towards employee work review in a fair and transparent manner to help him overcome his shortcomings while rewarding good performance so that the organisational goals are met through individual goals of the employees.

Motivational factors of employees was explored and a connect between effective appraisals and motivation levels was noticed.

Online articles were reviewed to understand the traditional methods and modern methods of appraisals. Limitations of each were recorded and possible solutions explored. The study also threw light on the fact that every method and type of assessment had its own set of limitations and advantages. There was no one single method that could be called a fool proof efficient method.

The type and impact of the process on employees and in turn the organisation has been explored in this paper to decide the fact of the matter as Doug Conant-an internationally renowned business leader, New York Times bestselling author, keynote speaker, and social media influencer with over 40 years of leadership experience at world-class global companies- rightly said

"To win in the marketplace you must first win in the workplace."

### **Objectives of the Study:**

1. To map the various methods and types of assessments across 6 industries
2. To study the impact of the PMS on the employee and the organisation
3. To study the types of goals, evaluation and follow up action in terms of trainings, awards and rewards
4. To identify the challenges and possible solutions

### **Chapters of Objective:**

#### **1. To map the various methods and types of assessments**

The various methods of appraisal are Open assessment, guided assessment, rating scales, critical incident rating, peer comparison, peer ranking and Management by objectives. The different types of assessments are

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Top- down, Bottom- up, sideways appraisal, 360-degree appraisal and self-appraisal. All these methods and types of appraisals have their own inherent advantages and disadvantages.

The advantages generally being that strengths and areas of improvement can be effectively determined and employees graded and groomed for future leadership roles. The downside being that some methods are entirely subjective and cannot be constructively analysed, while others throw a rating that do not determine the overall performance. Some have comparisons that are difficult to map and may also demotivate the employees.

## **2. Impact of the PMS on the employee and the organisation**

Performance management is a system by which the organisation can ensure that the employees are guided towards working for the larger organisational goals. It is a critical and indispensable process for all business organisations. It is vital to have a robust system in place that specifically states the various steps in the process based on the nature of work and vision of the company. Strategies have to be adopted to identify, encourage, measuring, evaluate, improve and reward employees' performance at work. Impact of the PMS can often be reflected but not limited to the attrition rates of the company, increase/decrease in projects and/or overall increase/decrease in revenue of the company.

Employee performance is closely linked to organisational performance. Hence happy and motivated employees help to drive the company to greater heights or vice versa.

## **3. Types of goals, evaluation and follow up action in terms of trainings, awards and rewards**

The critical elements of the PMS are goal setting, evaluation, analysis and follow up action on the information presented by this process. To start with the goals have to be clearly defined without any ambiguity and should be SMART- Specific, Measurable, Achievable, Realistic and Time bound. If the goals lack any one of these characteristics, they become irrelevant or ambiguous or both.

A manager should always be positive. He should be approachable and give the employees a sense of purpose. This can be done by updating the teams about the organisational goals at the highest levels and their role in realising these goals. This provides a sense of belonging and ownership as they feel like apart of the contract.

The process adopted to evaluate them is the next important step. The process has to be clearly delineated and transparent. The employees should trust the process and feel empowered and motivated. After evaluation the employee must get a feedback about this work. Positive and constructive feedback without criticism has a positive impact on the employee and is more than willing to learn and adapt as desired. The feedback has to be specific and not general. The motive should be to help the employee and guide him to be more productive.

The information gathered through this process should be analysed to identify the productive index, identify challenges, decide trainings and professional development classes, outline performance improvement plans and also appreciate and recognise good performers and plan a growth path for them in the company. All these elements together can ensure a very robust and vibrant system that can grow dynamically and exponentially.

## **4. To identify the challenges and possible solutions**

Ambiguous goals, difficulty in quantification of work, lack of awareness of performance metrics, appraiser inexperience and personal bias are a few common challenges faced at various times in most of the organizations. They may seem like minor glitches on the surface but their impact on the employees and the organization can be detrimental.

To overcome these challenges and it is always advisable to follow a standardized review format that is capable of quantifying work on the pre-determined parameters to establish a fair and transparent process. Process orientation for the employees is advisable as they will be more comfortable with the system and aware of the expectations from the company. Effective tracking of work will ensure that the employee is being graded for work round the year and not just the latest success or failure. This eliminates appraiser bias. Linking appraisals to rewards and recognitions in the form of promotions or monetary gains is very important to keep the employees motivated and push them the extra mile. Opportunities for professional development and periodic trainings based on the reviews of their performance will help the organization progress with the help of a motivated workforce.

### **Research Methodology:**

The research methodology involved collection of primary data from employees in 6 different industry sectors. A questionnaire was drafted and shared with the employees for their inputs. It was consciously decided to involve only Sr managers and higher who actively handled large teams and were aware of the yearly company performance, for the study.

The 6 industry sectors examined were a leading IT company and a school management company, an online education startup and companies into manufacturing, telecom and oil sectors.

The questionnaire included questions on the type and methods of appraisal, duration, challenges faced and solutions for overcoming the same, training needs and type of goals. The growth of the company was gauged by the employee attrition rate, increase in no. of projects and revenue.

The data was collected by interviewing the employees on these parameters and assessing the type and method of appraisal used.

After data collection it was compiled and graphically represented for each of the parameters, to understand the trends. The interpretation was done for each company to examine the practices, the impact and derive the possible reasons for the reported impact.

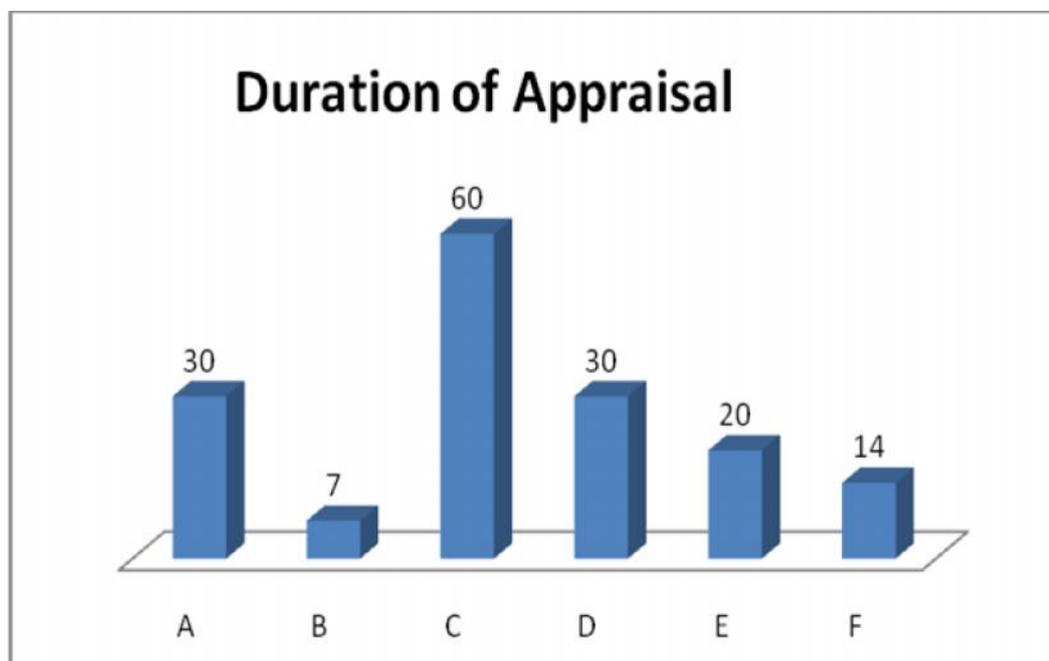
The individual trends of each company were compiled to lead to an overall conclusion on the type of performance management system to be used for a positive impact on the employees and the overall growth of the organization.

### **Data Interpretation:**

Legend for the different organisations surveyed for the study:

A-Software, B-Manufacturing, C-Education, D-Online education, E-Oil industry, F-Telecom industry

### **Duration of appraisal:**



### **Interpretation:**

The graph shows that education industry takes the longest time for the appraisal process to take place(60 days). This also takes into consideration the number of employees (lot of employees) and the method of

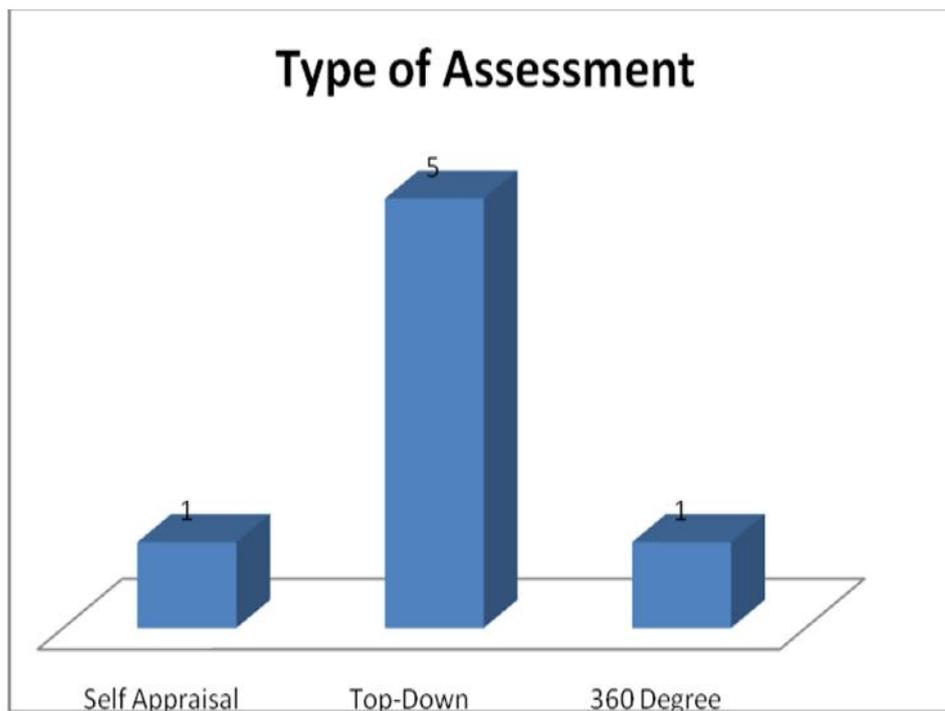
appraisal the organisation is using. This organisation is using top to down type of assessment and the appraisal method they are using is management by objectives (MBO).

The graph shows that companies generally take around a month to complete the appraisal process with a few like company C taking 2 months and F completing the process in 2 weeks. This can be attributed to many factors including number of employees, method and type of appraisal. Companies that take around a month use the top down assessment type and MBO method integrated with self appraisal or peer ranking. The time lapse is mostly stated to be because of the data collection from peers and employees to collate into a feedback and proceed with the L1 and L2 manager's appraisal.

Peer ranking on the other hand could be completed within 2 weeks as the forms were structured and colleagues rated each other on various parameters on a pre defined scale. But the limitations of this appraisal form are very evident as it is a very perception based appraisal without transparency. It has a huge element of personal bias and the achievements are not covered on bases of merit at all times. Unhealthy competition also gives rise to wrong assumptions and demotivation among employees leading to a higher attrition rate and lower productivity in the company.

The graph also shows that the manufacturing company takes the least time for performance appraisal (7 days). This is taking into consideration the lesser number of employees.

#### Types of assessment:

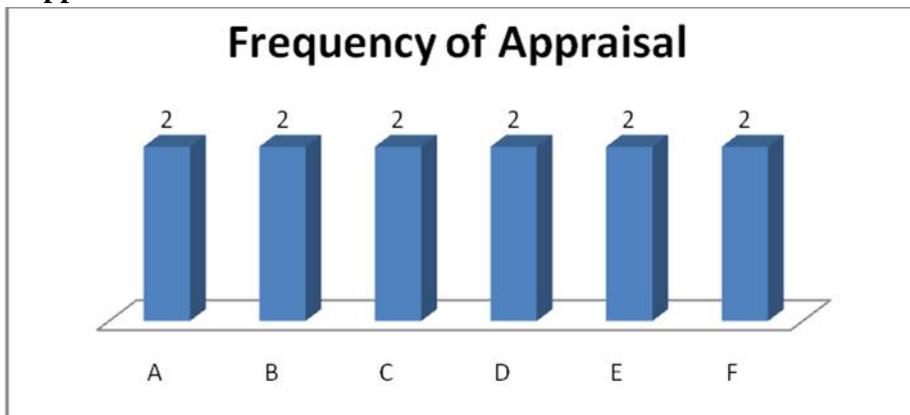


#### Interpretation:

The graph shows that top to down type of assessment is widely used in many sectors of business organisations. Top to down assessment is done in companies B, C, D, E, F. Company F does two types of assessment (top to down & 360 degree). Self appraisal is done in company A.

Company A has many employees and according to their needs self appraisal is fetching them good revenue and they are having low attrition rates. The companies need to have a proper type of assessment in place for it to grow and achieve more profits in future

**Frequency of appraisal:**

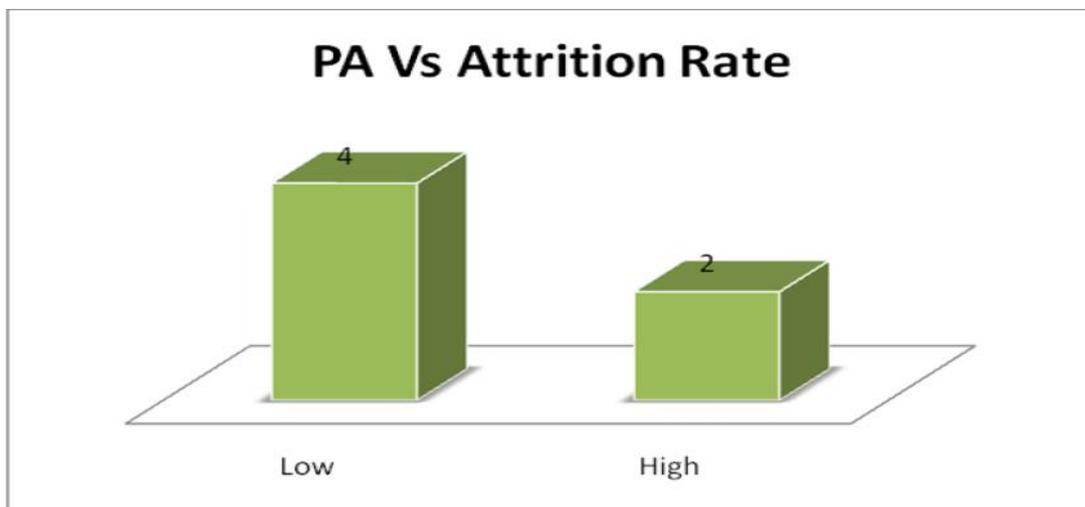


**Interpretation:**

As we can see that all of the above companies (A, B, C, D, E, F) have a performance appraisal twice a year and between 2 performance appraisal there is a gap of 6 months.

Formal review of performance should be done at least twice a year. If the company does the performance appraisal once a year then it isn't helping the employee, since often it's too late. Also, it's hard to remember what might have happened a year ago. Performance appraisal if done more than 2 times a year the employees will get demotivated and also company can run into losses.

**Attrition rate:**

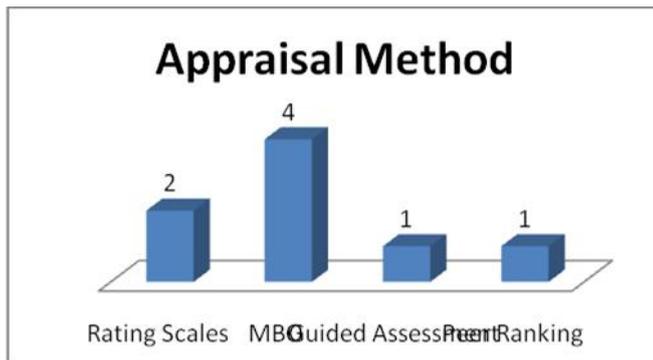


**Interpretation:**

4 out of the 6 companies reported lower rates of employee attrition, the range broadly being between 7-15%. This could be due to the PMS being followed whereby there seems to be greater transparency and feedback about the goals and achievements. The method adopted here was MBO integrated with Top-down approach and a rating scale with self appraisal. The only challenges reflected here pointed towards the process of goal setting recommending setting of measurable or quantifiable goals. Overall they reported a greater employee satisfaction.

In the remaining 2 companies the attrition rates were as high as 30-40% and the major issue reported was a lack of transparency and autocratic attitude that saw a jump in attrition rates immediately after the appraisals. Adopting a fair practice for holistic assessment of the employee would help stem this issue, such as discarding peer ranking and adopting a top down type with mbo and 360 degree assessment

#### Appraisal method:



#### Interpretation:

As we can see in the graph above, Company D and Company F are using 'rating scales' method.

Rating scales offers a high degree of structure of appraisals. Each employee trait is rated on a scale that has points ranging from "poor" to "excellent".

This shows that they are standardized and structured. Their process of performance appraisal is easy to use and easy to understand.

But all employees would have the same criteria irrespective of the nature of the job or the skills of the employee.

We can see that the attrition rate is low in both Company D and Company F showing that 'Rating Scales' method is ideal for these companies.

Company A, Company C, Company D, Company F are using 'MBO' method i.e., Management by Objectives. It requires the supervisor and the employee to develop and agree on realistic, achievable and measurable objectives; to determine how those will be met; and to agree how results will be measured.

This process helps the managers to do detail planning. As both the manager and the subordinates know what is expected of them, therefore there is no confusion.

But this method can succeed only if it has the complete support of the top management. Most of the managers may not be skilled in interpersonal interaction which may lead to communication gaps.

The attrition rate here is low in Company A, Company D, Company F indicating that 'MBO' method is an ideal method for them. Company C has a high attrition and should change its method of appraisal.

Company B is using 'Guided Assessment' method.

The attrition rate here is low and therefore indicates that it is correct for the company.

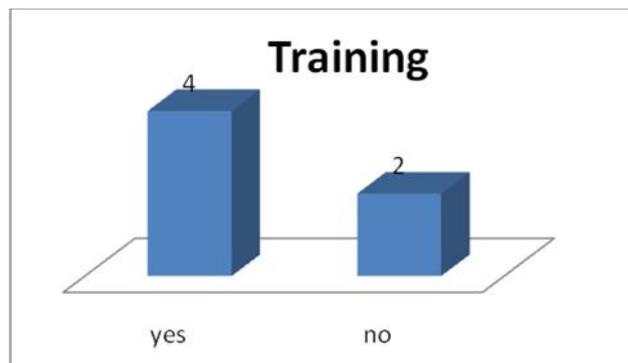
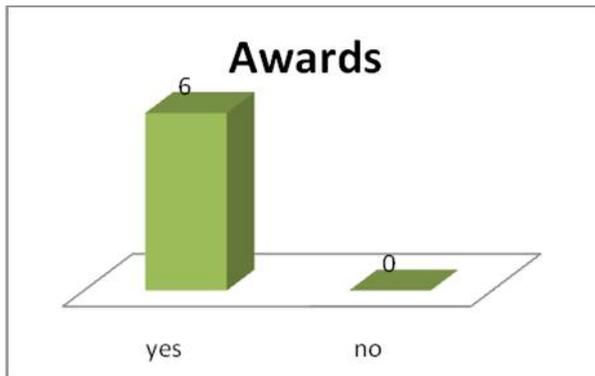
Company E is using 'Peer Ranking' method.

The assessments conducted by the colleagues in the immediate working environment i.e., the people the employee regularly interacts with. They exclude superiors and underlings. When an employee receives a feedback from a variety of unbiased co-workers and supervisors it's easily understood and more helpful. The employee wouldn't feel offended at the feedback made by the peer and would work towards improving himself.

Anyhow a person may make positive or negative feedbacks depends upon the personal equation of the peer with the employee. The employee's development may not advance.

Company E has high attrition rate which signifies that 'Peer Ranking' as a method is not working for the company.

### Employee Training and Awards Programme:



### Interpretation:

All the organisations surveyed showed the presence of an awards and recognition programme to motivate the achievers. However, this alone could not help the productivity of the organisation, as some organisations reported high attrition rate and low growth despite this recognition as the whole process was not deemed transparent and fair and it demotivated the majority of the employees instead of motivating the work force.

Customised trainings for enhancement of the employees was reported in 4 organisations that correlated with low attrition levels. This clearly indicates that a good appraisal programme should be able to identify areas of improvement and provide means of knowledge or skill enhancement for the employees to help them stay motivated and loyal to the company.

### Limitations of the Study:

1. The companies were not willing to share accurate statistical data for the study. There is a reluctance to publish authentic company information without explicit permissions from the head offices. So the data is predominantly opinions of employees working with these companies.
2. The data focuses on only a particular department of the said companies. The impact may vary for different departments. The variable factors being leadership strategies and employee dynamics.
3. Challenges faced may vary within different functional departments. Eg: Delivery teams and sales teams may have different challenges and resolutions compared to enabling functions such as Security and Facilities. A deeper comprehensive study is required to reach conclusive recommendations.
4. Sample size is small. A detailed study with more organisations from a cross section of industries could have helped with a more definitive analysis.

### Conclusion:

#### COMPANY A –

Company A is a software company and it uses MBO method for performance appraisal. The type of assessment used by this company is self appraisal. Self appraisal is a method of evaluating one's own job and should not be used without discussion with a senior. The duration of appraisal in this company is 30 days and it happens 2 times a year. The attrition rate in this company rate is low. Employees take ownership of their

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goals and are highly motivated. Appropriate training and recognitions at work seem to keep the work force happy leading to an overall growth in the organisation. MBO method with self appraisal seems to be working well here but the only challenge being faced is the tendency of underwriting goals and projection as over performers. This can probably be stemmed by integrating top down method too into the system to a small extent.

#### **COMPANY B –**

Company B is a manufacturing company and it uses Guided Assessment method for performance appraisal. The type of assessment used is top-down method. Top-down method is a method where the employee receives feedback from the top level management. The duration of appraisal in this company is 30 days and it happens 2 times a year. The attrition rate is low. This shows that Guided Assessment is a suitable method for company B. The company would have a better performance appraisal system if goals are measurable and the method used is Rating Scales. The challenge faced by this company is quantification of work done. Appropriate goal setting with SMART goals can help them overcome the challenge they are facing and lead to higher engagement and productivity at work.

#### **COMPANY C –**

Company C is an Educational Management organization and uses MBO method for appraisal. The type of assessment that takes place in this company is top-down assessment. The duration of appraisal is 60 days and it happens 2 times in a year – Mid year appraisal and Annual appraisal. The attrition rate in this company is high throwing light on the fact that the employees do not perceive the process to be authentic or transparent. The top down approach seems to be highly autocratic with rigid goals that do not consider other achievements at work however valuable they are to the company. The mandatory requirement to place 90% employees in the Average bracket has a disgruntled work force that believes good work does not matter. Lack of customised trainings, awards for dubious achievers and irrelevant feedbacks have taken a huge toll on the work force leading to high attrition rates and negative growth of the company. It is recommended that this company adopt a more holistic type of performance such as self appraisal integrated with 360 degree appraisal to overcome this issue.

#### **COMPANY D –**

Company D is an Online Education – start up. The method used for performance appraisal is ratings scales and MBO. The type of assessment that takes place here is a top down assessment. The duration of appraisal is 30 days and it happens 2 times in a year. The attrition rate is low. This means that Rating scales and MBO is good method of appraisal. Identification of training programmes and a good system of awards and recognition seem to be the motivating factors for higher productivity at work. A culture of openness and mutual respect seem to be the key here. A holistic approach to performance appraisal using a 360 degree type of assessment can help with a holistic appraisal. KRA's can be flexible to include unspecified achievements.

#### **COMPANY E –**

Company E is an Oil industry. The method used for performance appraisal is peer ranking. The type of assessment used is top-down assessment. The duration of appraisal is 20 days and it happens 2 times in a year. The attrition rate is high which is an indication of improper method is applied. 360 degree integration could be better in performance appraisal. Personal bias is major challenge faced by the company. Integration of MBO along with peer ranking can help do away with the personal bias and personnel bonding activities can help enhance productivity here.

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## COMPANY F –

Company F is a telecom industry. The method used for performance appraisal is ratings scales and MBO. The type of assessment is a top-down and 360 degree assessment. The duration of appraisal is 45 days and it happens 2 times a year. The attrition rate is low showing that the current method is suitable for this company. Making SMART goals and quantification of goals could be made better in the performance appraisal system. Demotivated staff is a major challenge faced by this company. Appreciating the employees and encouragement through opportunities for professional development can help in enhancing productivity here.

### **Summary of the conclusion:**

Through the individual analysis of the 6 companies, we can come to the conclusion that no one system of performance appraisal can be considered as the best. Every organisation has its own unique needs and has to adopt a sensible mix of methods and types after a trial and error analysis to optimise productivity through a highly motivated work force. Employee satisfaction is the key here that can be achieved through setting up of SMART goals and evaluation by a fair and transparent system of appraisal with authentic identification of strengths and areas for improvement. Followup with customised training programmes and a vibrant system of awards and recognitions are also critical for success. A work place that addresses these basic needs through the performance management system can result in a positive growth of the organisation.

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