A Descriptive Study on the Blind Spots of Performance Appraisal in the IT Sector : A Contemporary 360 Degree Approach

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Abstract

Performance appraisal is an important aspect of human resource development mechanism, which is designed specifically for all round development and growth of employees as well as organisations. The term - performance appraisal has recently become a top-notch pick, especially by the IT sector, wherein the top MNCs sacked many employees stating the reason to be poor performance. But is it the real scenario existing in such corporate companies ? This study brought in a contemporary approach to performance appraisal covering the perspectives of employees as well as the appraisers to get a 360 degree view of it. The main purpose of this study was to understand the perceptions of employees and appraisers in the IT sector with regard to performance appraisal. The survey method was used to collect data by using simple random sampling. IT employees (software development life cycle team) and appraisers were the respondents of this study. Companies registered under NASSCOM and STPI in Chennai was the population of the study. The study used multivariate analysis namely factor analysis and paired *t* - test. It was proved that there existed a difference of opinion between employees and appraisers, which led to mismatch and misconception between them, making the appraisal a failure. Furthermore, this study also identified the key success factors and challenges which would be useful for the industry and academicians to develop a new model or a new appraisal system, which would be beneficial for the employees as well as for the growth in the performance of an organization.

Keywords : **performance appraisal, IT sector, perceptions, challenges, success factors**

JEL Classification : M1, M10, M15

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Performance appraisal plays a significant role in human resource development. Organisations use performance appraisal for many reasons, which includes development programs, reward allocation, and also to create a positive perception among employees about the tasks, jobs, and organizations. In short, it is an integral part of HRM (Longnecker & Goff, 1992). According to Swanepoel, Botha, and Mangonyane (2014), performance appraisal is a formal and systematic process of identifying, discerning, assessing, documenting, and developing the job - relevant strengths and weaknesses of employees. Sivaramakrishnan and Sulaiman (2014) stated the importance of the metrics involved in performance appraisal. Chen and Tung - Sheng (2004) portrayed performance appraisal as an indispensable process for an organisation. The performance appraisal system is a system of eliciting feedback, benchmarking it, communicating the same to the employees to bring holistic development in them, besides evaluating the potential of employees (Khosla & Saini, 2014).

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It is proven that the performance appraisal system is strongly correlated to the job satisfaction of an employee. The success of an appraisal system depends on how the employees perceive the performance appraisal to be. Perception is the process by which the individuals organize and interpret their sensory impressions to give meaning to their environment. It can be different from the reality objective because it differs from person to person as people have different behaviour and different thoughts. There are plenty of factors which determine a person's perceptions : it includes personal characteristics, attitudes, personality, motives, interests, experiences, expectations, etc. (Robbins & Judge, 2007). A positive perception will definitely create a positive working environment, and in turn, a negative perception will affect the work performance as well as the organisation's performance.

For a system to be successful, it has to be perceived by the employees as a fair system. According to the organisational justice theory, the efficacy of an appraisal system depends upon the perception of fairness related to the process of the system. The components of fairness include procedural justice and distributive justice, which refer to the perceived fairness in the procedures and its results. Issues with regard to fair pay, validity of performance appraisal, and working conditions contribute towards the employee's perceptions, and these perceptions influence organizational productivity. Hence, it is visible that satisfaction level with the performance appraisal is clearly correlated to the perceived fairness of the system.

Review of Literature

Performance appraisal has been referred to with many terminologies like review, evaluation, assessment, feedback, etc. among the academicians, employees, and business leaders for many decades. Since this topic has been a debatable, controversial, varying perspective topic, it was difficult to establish a clear definition of performance appraisal, which is commonly accepted by all. The main reason for such confusion is due to lack of proper investigation on the employee's perception and experiences with the performance appraisal (Mert, 2011). It was also observed that employee's perceptions and experiences on performance appraisal affected directly or indirectly their attitude towards their own appraisal (Mert, 2011).

Performance appraisal is the strength of performance management, which in turn affects the organizational performance which triggered the author to make a study on the relationship between appraisal and organizational performance (Indradevi, 2012). Performance appraisal is a process which helps employees towards career development as it directly maps to their competency (Sharma, Singh, Singh, & Singh, 2012). Performance management, that too specifically performance appraisal, was considered to be the main area of focus over a decade. Many organisations have shifted their appraisal to employee's performance management system (Toppo & Prusty, 2012).

It was considered as a massive challenge to monitor the entire cycle of defining the competence requirement of the business, accessing existing competence in the organization, and bridging the gap between the two (Bhattacharjee & Sengupta, 2011).

Many organisations install performance management systems formally and informally with the motivation to achieve better organizational results. But in a real time scenario, organisations found it difficult in implementing a proper performance management as its dimensions were not considered properly (Qureshi, Shahjehan, Rehman, & Afsar, 2010). Perception is the process by which individuals organize and interpret their sensory impressions to give meaning to the environment surrounding them (Warokka, Gallato, & Moorthy, 2012). Lack of transparency and proper feedback exist in the performance appraisal process which was considered as the root cause of the perception problems towards the appraisal system (Warokka et al., 2012). The latter may become a cause and a source of dissatisfaction if it is perceived as unfair, biased, or useless (Keeping & Levy 2000).

To evaluate the satisfaction level of employees towards the appraisal system, factors considered for appraisal

were also taken into consideration so as to know the perceptions of performance appraisal. Organizational context was strongly associated with the employee's perception on the systems and practices followed for achieving the trust towards the system (Zheng, Zhang, & Li, 2012).

According to the theory of organisational justice, the efficiency of the performance appraisal depends on the perceptions of justice linked to it (Warokka et al., 2012). Fairness involves procedural justice, distributive justice, and interactional justice of performance appraisal (Gupta & Kumar, 2013).

Objectives of the Study

- To understand the perceptions of appraisers and employees.
- To identify whether there exist any difference of opinion between the appraisers and employees with regard to performance appraisal.
- To classify the success factors and challenges of an appraisal system.

Research Methodology

The survey method was used to collect the data to analyse the perceptions of appraisers and employees about the performance appraisal system used in the IT sector. The IT employees (546 out of 600) and appraisers (56 out of 60) acted as the respondents of this study (see Table 1). Companies registered under NASSCOM and STPI in Chennai acted as the population of the study ; 50% of the population was the sample size (60 companies – 60 appraisers and 600 employees). Structured interviews were conducted and responses were recorded. Simple random sampling was used to collect data from the IT employees. The study was conducted from 2015-2017. An E - questionnaire was circulated among the employees as well as appraisers by scheduling an interview with the appraisers to seek permission for conducting the survey.

Table 1. Sampling Frame

Criteria	Numbers
Population Identification	STPI - 78 Companies
	Chennai - 118 companies
	Nasscom- 40 Companies
Sample Size	50% of the total population
	i.e., 60 companies
	60 HR managers
	600 Employees

The collected data were tested using SPSS software. Cronbach's alpha was the test used to examine the reliability of the questionnaire. To classify the variables into factors, factor analysis was used. Using factor analysis, challenges and success factors of an appraisal in employee's perspective was analysed. In order to prove that there existed a mismatch in the perceptions of the appraisers and employees, comparison of the perceptions of appraisers and employees was performed using paired *t* - test.

Analysis and Results

The reliability of the questionnaire used for the study was tested using Cronbach's alpha. The values of Cronbach's alpha are 0.946 (employee questionnaire) and 0.857 (HR questionnaire) which shows that the tool used for collecting data is very much reliable.

The main purpose of the study is to understand the perception of the employees with regard to their performance appraisal method used in their organizations. In order to identify the factors affecting the perceptions of the performance appraisal, the challenges and success factors of the performance appraisal were classified using factor analysis. Factor analysis was used to classify the challenges which the employees perceived with regard to the appraisal system followed in their organizations.

(1) Factor Analysis : From the Table 2 which indicates the results of factor analysis, the challenging factors are classified into Distributive Justice and Procedural Justice. In the factor Distributive Justice, transparency in the process (0.847) and the level of trust between the appraiser and employee (0.828) are considered to be the most challenging variables. In the same way, in the factor Procedural Justice, clarity of job role (0.838) and intervals of appraisals (0.782) are considered to be most challenging variables.

Factor analysis was also used to classify the success factors of an appraisal system according to the employees' perspective. From the Table 3, it is deduced that the success factors of a performance appraisal system are classified into – Procedural Justice, Distributive Justice, Transparent Process, and Traits to be Considered for Evaluation. In the factor Procedural Justice, choosing the right method (0.863) and alignment of individual to organisational goals (0.818) are given the highest order of preference. Under Distributive Justice - communicating clear performance expectations (0.845) and establishing focus for skill development (0.843) are the highest rated variables. In the same way, under the factor Transparent Process, weightage to self-evaluation (0.885) is given the top rating. In the factor - Traits to be Considered for Evaluation, leadership skills considered for evaluation (0.826) is given more preference than the other variables.

Table 2. Factor Analysis : Challenges of Performance Appraisal

Factors	Statements	Factor Loading
Distributive Justice	Transparency in the process.	0.847
	Level of trust between appraiser - appraisee.	0.828
	Weightage of the variables considered for evaluation.	0.817
	Level of trust on the appraisal system.	0.789
	Reliability on performance appraisal reports.	0.778
	Handling employee resistance.	0.758
	Communication by superiors.	0.639
	Employee involvement in the process.	0.557
	Determining the evaluation criteria.	0.513
Procedural Justice	Clarity of the job role.	0.838
	Intervals of appraisals.	0.782
	Analyzing the errors in rating and evaluation process.	0.727
	Competency mapping.	0.724
	Levels of communication between employee and rater.	0.631
	Creating a rating instrument.	0.598

Table 3. Success Factors of Performance Appraisal

Factors	Statements	Factor Loading
Procedural Justice	Choosing the right method of appraisal.	0.863
	Alignment of individual goals to organizational goals.	0.818
	Usage of review report effectively.	0.788
	Weightage of the performance factors considered for evaluation.	0.735
	Achievement of goal/ target.	0.732
	Regular interval of feedback.	0.713
	Appraiser- appraisee rapport.	0.666
	Documenting individual performance to support compensation and career planning decisions.	0.543
Distributive Justice	Communicating clear performance expectations.	0.845
	Establishing focus for skill development.	0.843
	Training to be given to the raters.	0.737
	Deployment of talent and resources appropriately.	0.721
Transparent Process	Weightage given to self-evaluation.	0.885
	Weightage to peer review outcomes.	0.861
	Usage of multiple raters to reduce bias.	0.761
Traits to be Considered for Evaluation	Leadership skills considered for evaluation.	0.826
	Behavioural traits considered for evaluation.	0.725
	Client rating given for the employee.	0.558

Factor analysis was used to classify the success factors and challenges perceived by the appraisers. Surprisingly, it is found that the perceptions of appraisers with regard to the success factors as well as challenges are similar to the employees. Hence, it can be inferred that implementing a fair system, which should be perceived as a fair system and the outcomes of such a system, which should also be perceived as fair, act as a major challenge to performance appraisal. Supporting the literature, the output of factor analysis in identifying success factors shows that perceived fairness in the process as well as in the outcome of it, which in turn would lead to a transparent process, and finally the factors considered for evaluation are the key success factors of an appraisal system.

(2) Comparison of Perception of Employees and Appraisers on the Success Factors of an Appraisal System : To understand the perceptions of the appraisers on the success factors of the performance appraisal system, the same set of questions were asked to the appraisers and employees. The prime aim of this study is to unfold the gap in the perceptions between the appraisers and the employees and hence the output of the appraisers and the output of the employees with regard to their perceptions on the success factors are compared using paired *t* - test. Paired *t*- test is a statistical method used to compare two sets of similar data in order to find the existence of variation between them.

The Table 4 represents the output of paired *t* - test which exhibits the difference of opinion between the appraiser and the employee. If the significance value is greater than 0.05, it reflects that there is no difference of opinion between the two different samples. If the significance value is less than or equal to 0.05, then it signifies that there exists a difference of opinion between the two samples.

In this study, when the comparison is made between the appraiser and the employee with regard to the perceptions on success factors, there exists a difference of opinion in many aspects, which includes: choosing the right method, factors considered for evaluation, usage of review report, achievement of goal, intervals of feedback, behavioural traits to be considered for evaluation, leadership skills to be considered for evaluation,

Table 4. Paired *t* - Test : Comparison Between the Perceptions of Appraisers and Employees on Success Factors

Pairs	Statement Pairs for HR and Employees	Mean	Std. Deviation	Std. Error Mean	*t*	Sig. (2-tailed)
Pair 1	Alignment of individual goals to organizational goals : HR and Employees.	0.232	1.112	0.149	1.563	0.124
Pair 2	Choosing the right method of appraisal : HR and Employees.	0.5	0.953	0.127	3.924	0
Pair 3	Weightage of the performance factors considered for evaluation : HR and Employees.	0.393	0.824	0.11	3.567	0.001
Pair 4	Usage of review report effectively : HR and Employees.	0.321	0.936	0.125	2.569	0.013
Pair 5	Achievement of goal/ target : HR and Employees.	0.536	0.934	0.125	4.294	0
Pair 6	Regular interval of feedback : HR and Employees.	0.321	0.917	0.122	2.624	0.011
Pair 7	Behavioural traits considered for evaluation : HR and Employees.	-1.232	1.489	0.199	-6.191	0
Pair 8	Leadership skills considered for evaluation : HR and Employees.	0.571	1.006	0.134	4.249	0
Pair 9	Training to be given to the raters : HR and Employees.	0.25	0.939	0.125	1.992	0.051
Pair 10	Client rating given for the employee : HR and Employees.	0.714	1.171	0.156	4.564	0
Pair 11	Communicating clear performance expectations : HR and Employees.	0.161	0.949	0.127	1.267	0.21
Pair 12	Establishing focus for skill development : HR and Employees.	0.161	1.023	0.137	1.176	0.245
Pair 13	Documenting individual performance to support compensation and career planning decisions : HR and Employees.	0.196	1.069	0.143	1.375	0.175
Pair 14	Deployment of talent and resources appropriately : HR and Employees.	0.25	1.066	0.142	1.755	0.085
Pair 15	Appraiser- Appraisee rapport : HR and Employees.	0.482	0.894	0.119	4.035	0
Pair 16	Usage of multiple raters to reduce bias : HR and Employees.	0.339	1.195	0.16	2.125	0.038
Pair 17	Weightage to peer review outcomes : HR and Employees.	0.446	1.06	0.142	3.151	0.003
Pair 18	Weightage to self-evaluation : HR and Employees.	0.25	1.1	0.147	1.701	0.095

importance given to client rating, rapport between the appraiser and the employee, usage of multiple raters, and weightage given to peer review outcomes.

This clearly shows that both the appraisers and the employees are not on the same page, which is very much necessary for the success of an appraisal system. Though the factor analysis shows that both the appraisers and employees perceive the same factors to be success factors, when it is being implemented, there is a difference of opinion. The factors which are considered as important by the employees are not given importance by the appraisers, leading to dissatisfaction. Hence, it is proved that there exists a huge difference of opinion in the perceptions of appraisers and employees (appraisees) with regard to the success factors of an appraisal system.

(3) Comparison of Perception of Employees and Appraisers on the Challenges of an Appraisal System : Similarly, to compare the perceptions of the appraisers and employees on the challenges of an appraisal system, the same set of questions which was asked to the employees was asked to the appraisers too. To compare the outputs of appraiser's and employee's perceptions on challenges of an appraisal system, the paired *t* - test was used so as to establish the existence of difference of opinion among the appraisers and employees.

Table 5. Paired *t* - Test : Comparison Between the Perception of Appraisers and Employees on Challenges

Pairs	Statement Pairs for HR and Employees	Mean	Std. Deviation	Std. Error Mean	*t*	Sig. (2-tailed)
Pair 1	Determining the evaluation criteria : HR and Employees.	0.125	0.74	0.099	1.264	0.212
Pair 2	Level of trust on the appraisal system : HR and Employees.	0.625	1.088	0.145	4.298	0
Pair 3	Weightage of the variables considered for evaluation : HR and Employees.	0.429	0.988	0.132	3.245	0.002
Pair 4	Levels of communication between employee and rater : HR and Employees.	0.607	0.947	0.127	4.796	0
Pair 5	Reliability on performance appraisal reports : HR and Employees.	0.732	1.07	0.143	5.12	0
Pair 6	Transparency in the process : HR and Employees.	0.536	1.078	0.144	3.718	0
Pair 7	Trust between appraiser - appraisee : HR and Employees.	0.679	1.064	0.142	4.774	0
Pair 8	Creating a rating instrument : HR and Employees.	0.393	1.09	0.146	2.697	0.009
Pair 9	Competency Mapping : HR and Employees.	0.393	1.073	0.143	2.739	0.008
Pair 10	Analyzing the errors in rating and evaluation process : HR and Employees.	0.304	0.893	0.119	2.545	0.014
Pair 11	Clarity of the job role : HR and Employees.	0.196	0.999	0.133	1.472	0.147
Pair 12	Intervals of appraisals : HR and Employees.	0.5	0.972	0.13	3.848	0
Pair 13	Employee involvement in the process : HR and Employees.	0.446	0.872	0.117	3.83	0
Pair 14	Communication by superiors : HR and Employees.	0.286	0.909	0.121	2.353	0.022
Pair 15	Handling employee resistance : HR and Employees.	0.482	1.062	0.142	3.399	0.001

The Table 5 represents the output of paired *t* - test, which exhibits that there is a significant difference in the opinion about the challenging factors between the appraiser and the employee. If the significance value is greater than 0.05, it reflects that there is no difference of opinion between the two different samples. If the significance value is less than or equal to 0.05, then it signifies that there exists a difference of opinion between the two samples. The results show that there exists a difference of opinion between the appraisers and the employees in many aspects, which includes : Level of trust in the appraisal system, weightage of the variables considered for evaluation, levels of communication between employee and rater, reliability on performance appraisal reports, transparency in the process, trust between appraiser - appraisee, creating a rating instrument, competency mapping, analysing the errors in rating and evaluation process, intervals of appraisals, employee involvement in the process, communication by superiors, and handling employee resistance.

Though the factor analysis shows that both appraisers and employees perceive the same factors to be the challenges of an appraisal system, the practical application of it proves that there exists a difference of opinion. When it comes to the practical application of their perceptions, the appraisers do not treat the challenges of employees to be the challenge of the appraisal system. This difference of opinion between the appraisers and employees would lead to a greater level of dissatisfaction as it creates a negative perception towards the appraisal system.

Discussion and Implications

- The key success factors and challenges of employees (of the IT sector) with regard to performance appraisal system have been identified in this study. Also, the key flaws in the existing appraisal system are identified in this study.
- The gaps in the areas of difference of opinion between the appraisers and employees are traced and identified.

- Appraisers should give more importance to the identified aspects so as to bridge the gap in their difference of opinion on performance appraisal to create a positive perception about the performance appraisal process, thus leading to success of the appraisal system.
- The prime practical implication of this study is for the organisations and the appraisers to pay attention to the factors which act as challenges for an appraisal system.
- Establishing rapport with the employees acts as a major drive for positive perceptions on performance appraisal.
- With the identified success factors and challenges of a performance appraisal system, a new model could be developed, satisfying the dire need of a suitable appraisal system in the IT sector.

Conclusion

This study proves that there exists a difference of opinion between the employees and appraisers which is obviously a negative sign for the organizations, thus leading to dissatisfaction with the appraisal system. It is also identified that Distributive Justice plays a vital role in making the process successful. When employees start trusting the outcomes of the system, it indirectly shows that the employees perceive the process to be fair. Both the appraisers and the employees perceive the success factors and challenges in the same manner, but when it comes to practical applications of the same, the area of focus is getting deviated by the appraisers and hence creating a difference of opinion, causing the appraisal system to fail. This study thus throws light on the blind spots of an appraisal system so that organizations that are on the verge of revamping their existing performance appraisal systems would consider all these factors, thus making their appraisal process efficacious.

Limitations of the Study and Scope for Future Research

The number of companies included for the study could have been increased by including other types of software companies like consultancy firms, but it was found that the practices of performance appraisal were similar to the entire sector, irrespective of the type of software companies. Further, this study focused only on the technical employees and appraisers in the IT sector. This study focuses primarily on the perceptions of appraisers and employees. In future studies, it can be extended to other aspects of performance appraisal like measuring satisfaction level, factors leading to satisfaction, and so on with regard to IT employees.

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