THE IMPACT OF PERFORMANCE APPRAISAL ON EMPLOYEE ENGAGEMENT: A STUDY ON THE IT INDUSTRY IN KERALA

***Dr. Sumitha R, ** Dr. Rakesh S**

Abstract

The performance appraisal system is an effective tool used by the management to measure the performance of an employee. As an indispensable tool it helps management in decision making on various aspects regarding its manpower. Professional development programs executed as a result of the appraisal system can have a big impact on the performance and productivity of employees. It brings a positive outlook towards work, which aids in maintaining focus and increasing productivity. Furthermore, with employee turnover on the rise globally, it is even more important to keep workers motivated. Offering appropriate training and development programs fill the skill gaps and boost employee engagement at work. The present study was undertaken to study the impact of performance appraisal on employee engagement by focusing on the training and development needs of the employees in the Information technology industry. The study identified the need for well formulated training and development programs to ensure employee engagement.

Key words:- Performance Appraisal, Employee Engagement, Training and Development, productivity, development programs.

The information technology industry is one of the fastest growing Industry in India. Its contribution to India's GDP grew from a mere 1.2% in 1998 to 7.4% in 2022. It has helped position India as knowledge based economy. In its nascent years, it was the lower labor cost that made India a favorable outsourcing destination.

Today, highly skilled technical expertise is another reason why businesses chose India. Government on its part has also helped in this growth story by

**Dr. Sumitha R, Assistant Professor of Commerce, Mahatma Gandhi College, Kesavadasapuram, Thiruvananthapuram. E-mail: sumitharadhamoni@gmail.com*

***Dr. Rakesh S (Corresponding Author), Assistant Professor of Commerce, Mahatma Gandhi College, Kesavadasapuram, Thiruvananthapuram. E-mail: rakesh.sunil89@yahoo.in*

providing tax incentives and world class Infrastructure in various Special Economic Zones. The Industry includes IT Services, IT enabled services like Business Process outsourcing (BPO), content development, transcription, Software and Hardware sector. Bengaluru leads the Indian IT exports and is nicknamed the Silicon Valley of India.

Performance Appraisal is a structured formal interaction between the employee and his manager which is done annually or semiannually where the performance of the employee is examined and discussed in detail to point out the strengths, weakness, and opportunities for improvement and skill development.

Performance Appraisal has two important goals as mentioned below.

- To encourage higher level of employee motivation and performance.
- To help management in decision making and attainment of goals.

Employee motivation is a critical aspect at the workplace which impacts the performance of an employee and the organization at large. Motivated employee can lead to increased productivity which helps organizations achieve higher levels of output. The degree to which employees are motivated, dedicated and passionate about the work they do and the firm for which they work is referred to as employee engagement.

2. Need and Significance of the Study

Performance Appraisal can be an effective tool for developing, assisting, resolving performance problems and motivating employees. This being the case, performance appraisal systems' effectiveness had always been questioned by a large population of employees. In spite of its effectiveness, only a small number of organizations use the performance appraisal process to its full potential. The method of performance appraisal system adopted by information technology companies creates different levels of job satisfaction. Employee attrition hasn't reduced despite best efforts by organizations to reinvent old performance appraisal systems. Is it old wine in a new bottle? A vast population of employees still complains about inadequate training to perform their duties. Employers are struggling to re skill their existing workforce to meet tomorrow's technology needs. Performance appraisal system should ideally help employers achieve this goal. Is the performance appraisal system motivating employees to re-skill and stay relevant in the new technology space? Is the performance appraisal system helping the organization find the training needs of its workforce? How are IT companies in Kerala utilizing the performance appraisal system to ensure employee engagement?

3. Objectives of the Study

The study is based on the following objectives

1. To study the performance appraisal methods practiced by Information Technology industry in Kerala.
2. To find out whether the performance appraisal system is helping the employees meet their growth and

training needs and ensuring employee engagement.

3. To examine the impact of performance appraisal methods on employee engagement in the Information Technology industry in Kerala.

4. Methodology of the Study

In this study, the proposed model was tested using, one way ANOVA with Post hoc test and structural equation modelling on a sample of 175 respondents. The two most prominent IT hubs in Kerala - Trivandrum and Kochi were selected for the study as major IT companies are located there. Opinion of employees working in public limited IT companies were only taken for the study since the research required organizations with mature performance appraisal process. The employees were categorized into three categories namely technical, management and supporting. Likert scale questions were framed and for the meaningful information on the data, based on the quartile value. The mean score lower than 3.08 shall be given low effect, mean score between 3.08 to 3.92 shall have moderate effect and any mean score over 3.92 shall be given high effect.

5. Results and Discussion

Performance appraisal methods practiced by information technology industry in Kerala

One way-ANOVA

Table 5.1 shows that the p value is less than 0.1 for the performance appraisal methods like rating scale, peer appraisal , MBO approach, assessment center approach, paired comparison, psychological appraisal, critical incident, behaviorally anchored rating scale, human resource accounting and checklist. Hence it can be interpreted that there is significant difference in the opinion of the respondents regarding the suitability of the appraisal methods. But the p value is more than 0.01($p>0.1$) for the appraisal methods like forced choice method, forced distribution method, 360 degree approach, self-evaluation indicating no significant difference between the opinion of the respondents regarding the suitability of the performance appraisal methods. The p value is also more than 0.1 for the overall suitability of the performance appraisal methods which also shows no significant difference in the opinion of the respondents with regard to the suitability of the appraisal methods to be followed in the information technology industry in Kerala.

The Duncan Multiple Range Test (DMRT) shows that the mean value of the rating scale 3.986 for the technical staff varies slightly with that of the management staff 3.616 and significantly with the support staff 5.00. For the peer appraisal method the mean value of the technical staff 2.891vary slightly with the support staff 3.00 and significantly with the management staff 1.746. Same is the case of MBO approach where the mean value of the technical staff 4.602 vary only slightly with the support staff 5.00 and vary significantly with the management staff 3.260. While for the assessment center approach the mean value of the technical staff 1.995 vary significantly with that of the management staff 3.011 and the support staff 3.00.

Table 5.1

ANOVA for Significant Difference among Role of Employee With Respect to Suitability of Performance Appraisal Methods

Variable	Role of Employee						F value	p value
	Technical		Management		Supporting			
	Mean	SD	Mean	SD	Mean	SD		
Rating Scales	3.986[a]	1.200	3.616[a]	1.118	5.000[b]	0.000	16.486	<0.001**
Forced Choice Method	2.611	1.291	2.870	1.168	3.000	0.000	2.807	0.062
Forced Distribution Method	2.900	1.300	2.746	1.300	3.000	0.000	0.917	0.401
Peer Appraisal	2.891[b]	1.306	1.746[a]	1.393	3.000[b]	0.000	39.830	<0.001**
MBO Approach	4.602[b]	0.491	3.260[a]	1.645	5.000[b]	0.000	77.891	<0.001**
Assessment Centre Approach	1.995[a]	1.185	3.011[b]	1.508	3.000[b]	0.000	31.699	<0.001**
360 Degree Approach	3.986	1.357	3.757	1.302	4.000	0.000	1.615	0.200
Paired Comparison Method	2.692[ab]	1.491	2.243[a]	1.302	3.000[b]	0.000	6.675	0.001**
Psychological Appraisals	2.095[b]	1.302	2.011[b]	1.128	1.000[a]	0.000	8.388	<0.001**
Critical incident	3.090[a]	1.229	3.633[b]	1.116	3.000[a]	0.000	11.797	<0.001**
Behaviorally Anchored Rating Scale	3.394[b]	1.284	3.627[b]	1.219	1.000[a]	0.000	45.229	<0.001**
Human Resource Accounting	2.692[b]	1.557	2.254[b]	1.300	1.000[a]	0.000	16.469	<0.001**
Self -Evaluation	2.692	1.680	2.621	1.496	3.000	0.000	0.594	0.552
Checklist	1.796[b]	1.078	2.243[b]	1.395	1.000[a]	0.000	14.020	<0.001**
Overall Suitability of Performance Appraisal Methods	41.425	8.431	39.638	9.408	39.000	0.000	2.466	0.086

Source: Primary Data

*** denotes significant at 1% level*

Different alphabet among role of employee denotes significant at 5% level using Duncan Multiple Range Test (DMRT)

The mean value of the paired comparison method for the technical staff 2.692 varies slightly with that of the management 2.243 and the support staff 3.00. The mean value of the appraisal methods like the Psychological appraisal, behaviorally anchored rating scale, human resource accounting and checklist shows only a slight difference in opinion between the technical and management staff and a significant difference between the technical and management staff with that of the support staff. When looking at the mean values of the critical incident method of appraisal the mean value of the technical staff 3.090 and the support staff 3.00 differ significantly with that of the management staff 3.633. The significant difference pointed out in the table could be because of the difference in the perception of the employees regarding the suitability of the

performance appraisal methods to be followed in the information technology industry. Hence it can be concluded that there is a significant difference of opinion between the respondents based on their role in the company.

Tracking of training goals in the appraisal system results in motivation ensuring employee engagement

Training Needs of Employees-Construct Validation with CFA

It is revealed from the table 5.2 that all the 4 variables are significantly loaded on the latent construct as the recommended standardized regression coefficient value of all the variables are more than 0.4. The p value is also significant at 1% level. Hence it can be interpreted from the table that all the measured variables or construct have a significant effect.

The CFA model regarding the training needs of the employees were also checked with the model fit indices such as Chi-square, Goodness of Fit Index (GFI), Adjusted Goodness of Fit Index (AGFI), Normal Fit Index (NFI), Tucker Lewis Index (TLI), Comparative Fit Index (CFI), Root Mean Square Residual (RMR) and Root Mean Square Error of Approximation (RMSEA). The values are Chi-square value (1.708), DF (2), p value (0.0426), Chi-square value/DF(0.854), GFI (0.998), AGFI (0.990), NFI (0.977), TLI (1.013), CFI (1.000), RMR (0.022), RMSEA (0.000). All the model fit values give a favorable result in relation to its respective standards.

The Figure 5.1 shows the regression model for the training needs of employees.

Impact of Performance Appraisal Methods on Employee Motivation leading to Employee Engagement and Organizational Development - Structural Equation Modeling

The impact of performance appraisal methods on employee motivation leading to employee engagement and organizational development in the information technology industry in Kerala has been analyzed with Structural Equation Modeling. The un-standardized coefficient (B) and associated test statistics used in the SEM model are depicted in Table 5.4.

Table 5.2

Training Needs of Employees -Construct Validation with CFA

Variables			Regression Coefficient	Critical Ratio (CR)	p	Variance Explained
Training Needs of Employees	←	Clearly Define Training Goals in Appraisal System	0.516	7.379	<0.001	0.880
	←	Regular Progress Tracking in Appraisal System	0.542	14.454	<0.001	1.197
	←	Update Training Programs Based on Appraisal Feedback	0.621	13.123	<0.001	1.010
	←	Evaluation Done at Regular Intervals	0.663	3.813	<0.001	0.676

Source: Primary data.

Table 5. 3

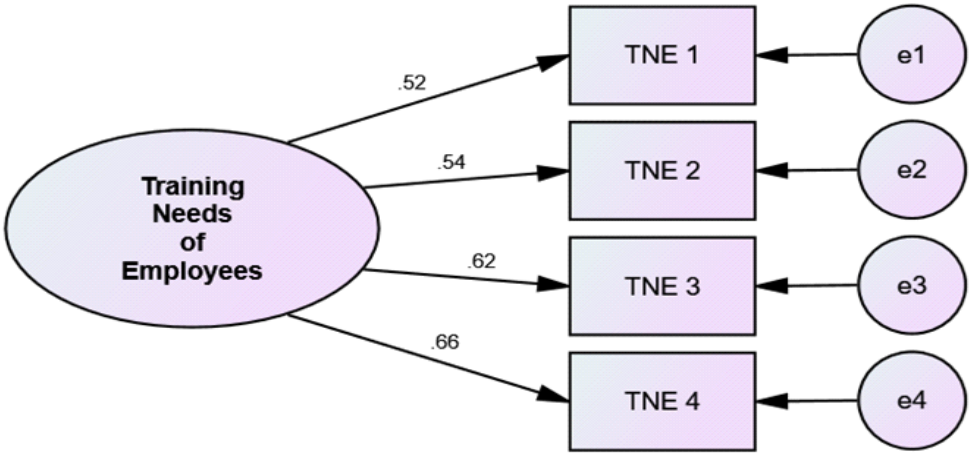
Training Needs of Employees - Model Fit for CFA

Indices	Value	Suggested value
Chi-square value	1.708	-
DF	2	-
p value	0.426	> 0.05 (Hair et al., 1998)
Chi-square value/DF	0.854	< 5.00 (Hair et al., 1998)
GFI	0.998	> 0.90 (Hu and Bentler, 1999)
AGFI	0.990	> 0.90 (Hair et al. 2006)
NFI	0.977	> 0.90 (Hu and Bentler, 1999)
TLI	1.013	> 0.90 (Hu and Bentler, 1999)
CFI	1.000	> 0.90 (Daire et al., 2008)
RMR	0.022	< 0.08 (Hair et al. 2006)
RMSEA	0.000	< 0.08 (Hair et al. 2006)

Source: Primary data.

Figure 5.1

Path diagram-Training needs of employees



Here the amount of change in the dependent variables or mediating variables for each one unit change in the variable predicting it is symbolized by the un-standardized regression coefficient. So the table represents the un-standardized regression coefficient (B), its standard error (S.E), the standardized coefficient (â) and probability value (p-value).

Based on SEM analysis standardized regression coefficient of performance appraisal methods on training to employees is 0.271. This means the partial effect of performance appraisal methods on training to employees, holding other path variables is constant. The estimated standardized regression coefficient's positive sign implies that such effects are

Table 5.4

Impact of Performance Appraisal Methods Variables in the Structural Equation Modeling Analysis

Variables			Un-standardized coefficient (B)	S.E of B	Standardized coefficient (β)	p-value
Training to Employees	←	Performance Appraisal	0.021	0.016	0.271	<0.001**
Employee Motivation	←	Training to Employees	0.768	0.065	0.493	<0.001**
Employee Engagement	←	Employee Motivation	0.082	0.036	0.641	<0.001**
Organizational Development	←	Employee Engagement	0.509	0.074	0.672	<0.001**

Source: Primary data.

*** Significant at 1% level*

positive that training to employees would increase by 0.271 for every single step taken by the information technology industry in Kerala to implement performance appraisal methods and this coefficient value is significant at 1% level (Table 5.4).

The standardized coefficient of training to employees on employee motivation is 0.493. This means that the partial effect of training to employees on employee motivation, holding other path variables is constant. The estimated standardized regression coefficient's positive sign implies that such effects are positive that employee motivation would increase by 0.493 for every single step taken by the information technology industry in Kerala to train their employees and this coefficient value is significant at 1% level (Table 5.4).

The standardized coefficient of employee motivation on employee engagement is 0.641. This means that the partial effect of employee motivation on employee engagement, holding other path variables is constant. The estimated standardized regression coefficient's positive sign implies that such effects are positive that employee engagement would increase by 0.641 for every single step taken by the information technology industry in Kerala to motivate their employees and this coefficient value is significant at 1% level (Table5.4).

The standardized coefficient of employee engagement on organizational development is 0.672. This means that the partial effect of employee engagement on organizational development, holding other path variables is constant. The estimated standardized regression coefficient's positive sign implies that such effects are positive that organizational development would increase by 0.672 for every single step taken by the information technology companies in Kerala to develop their employees and ensuring

Table 5.5

Impact of Performance Appraisal Methods -Structural Equation Modeling, Model Fit Indices

Indices	Value	Suggested value
Chi-square value	0.547	-
DF	1	-
p value	0.460	> 0.05 (Hair et al., 1998)
Chi-square value/DF	0.547	< 5.00 (Hair et al., 1998)
GFI	0.999	> 0.90 (Hu and Bentler, 1999)
AGFI	0.992	> 0.90 (Hair et al. 2006)
NFI	0.999	> 0.90 (Hu and Bentler, 1999)
CFI	1.000	> 0.90 (Daire et al., 2008)
TLI	1.012	> 0.90 (Hu and Bentler, 1999)
RMR	0.023	< 0.08 (Hair et al. 2006)
RMSEA	0.000	< 0.08 (Hair et al. 2006)

Source: Primary data.

engagement and this coefficient value is significant at 1% level (Table5.4)

The SEM model has also been checked with the Chi-square, Goodness of Fit Index (GFI), Adjusted Goodness of Fit Index (AGFI), Normal Fit Index (NFI), Tucker-Lewis Index (TLI), Comparative Fit Index (CFI), Root Mean Square Residuals (RMR) and Root Mean Square Error of Approximation (RMSEA). As the calculated values of the measures are favorable in relation to their respective standard, it is reported that the SEM is perfectly fit for the study.

Conclusion

From the findings of the study it can be concluded that performance appraisal is one of the key areas of human resource management. A motivated employee is an asset to the organization, so all efforts should be taken by the organization to ensure that the employee remains motivated aligning his personal goals with that of the organization. The study also found that there are significant performance appraisal methods practiced in the Information technology industry in Kerala .Various methods of performance appraisal which are best suited to the IT industry were also suggested by the employees. The study also identified the need and the importance of training to be included in the performance appraisal system for reskilling the employees. Reskilling and development as a result of training ensures employee engagement. Finally a model was developed to highlight the impact of performance appraisal system on employee motivation and how it leads to employee engagement resulting in organizational development.

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