# Comparison of the performance appraisal practices practiced in manufacturing companies with service companies: A study

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**Abstract:** The purpose of this paper was to compare the performance appraisal practices (i.e. broadly performance appraisal practices, organizational issues and purposes, and role of performance appraisal) practiced in manufacturing companies with service companies.

**Keywords**: Comparison; Performance appraisal; Manufacturing; Service;  Indian; MNCs; Multinomial Logistic Regression; Factor analysis.

## Introduction

There is a considerable pressure to change from indigenous, costly and low levels of technology towards higher technology provision. All this has direct implications for human resource practices in India (Krishna and Monappa, 1994) to change according to the environment as there is also a famous idiom "Do as Romans do". Change is the law of nature. Either change or perish is the current scenario in current situation. Indian personnel specialists are under severe pressure to bring about large-scale structural changes in their organizations in order to cope with the challenges brought by economic liberalization. They have to develop their HR strategies such that domestic workforce is now capable of taking on the challenges brought about by the new economic environment. This is all the more challenging because the Indian workforce has a very diverse socio-economic background and the antagonist nature of trade unions makes it very difficult to make them work as a team (Jain, 1991; Jain and Venkataratnam, 1994; Sharma, 1984). The scene is further aggravated by the pro-labour stance of most labour legislation (Rao et al., 1994; Tayeb, 1995; Venkataratnam, 1995).

## Relevance of the study

The need to address effectiveness of the performance management processes in service and manufacturing

companies arises for four reasons.

1. High performance work systems have been shown to be crucial to sustaining global competitiveness and these rely upon objective and adequate performance management processes (Cardy and Dobbins, 1994; Marquardt and Engel, 1993; Smither, 1998).
2. It has been highlighted in various past studies that the performance management process in Indian managerial practices is a relatively underemphasized factor (Sparrow and Budhwar, 1997).
3. The productivity of work cultures in Indian organizations is jeopardized by employee PA practices that appear to be biased, ad-hoc and unintegrated in a globally competitive HRM system (Mendonca and Kanungo, 1990; Shenkar, 1995; Virmani and Guptan, 1991).
4. Indian managers have been criticized for not involving employees in the performance management process (Mendonca and Kanungo, 1990; Virmani and Guptan, 1991). The presence of mutual influence between Indian managers and their employees with regard to the performance management process leads to realistic and appropriate standards of performance, agreement about evaluation and development processes and enhanced acceptance and commitment to performance improvements. The prevailing absence of mutual influence in India, especially managerial receptiveness to employee feedback, has provoked skepticism and resistance to the implementation of formal performance management systems.

## Review of literature

Performance appraisal represents a central function of human resource management and has remained an important topic of investigation among organizational researchers (Dulebohn and Ferris, 1999). Because the usefulness of performance appraisal as a managerial decision tool depends partly on whether or not the performance appraisal system is able to provide accurate data on employee performance, rating accuracy is a critical aspect of the appraisal process. In addition to allocating rewards, organizations use appraisals to provide

developmental advice to employees, as well as obtain their perspectives and justice perceptions about their jobs, departments, managers and organizations (Erdogan, 2002; Holbrook, 2002; Longenecker, 1997). Ideally, appraisal discussions provide employees with useful feedback they can immediately apply to improve their performance. This feedback includes suggestions for change, as well as encouragement to continue with positive behaviors. Managers show employees how improving their overall performance and developing new skills will lead to additional responsibilities, promotions and increased monetary benefits. Employees appreciate this honest feedback and become motivated to improve their performance. In addition, managers benefit by receiving insightful input on ways to improve both their leadership styles and departmental operations. The relationship between the manager and employee is strengthened by this interchange of ideas and impressions.

Performance appraisal is viewed as part of a much broader picture and it is argued that it has its origins in  management by objectives" (Wilson and Western, 2000; Cattell, 1999). It constitutes a continual cyclical process of determining performance expectations, supporting performance, reviewing and appraising performance and, finally, managing performance standards. Performance management encapsulates performance appraisal and training and development needs at all levels.  Thus, Edmonstone (1996) argues it is a holistic integrated business approach as opposed to a short-term one and Cattell (1999) identifies a trend towards:

- initial planning and agreement of performance objectives;
- interim review of achievement against these (including necessary  realignment to take  account of changing circumstances);
- full review and appraisal identifying successes and areas of improvement arising from retrospective discussion of performance against objectives;
- planning, discussion and agreement of new objectives; and identification, discussion and agreement of the support, training and development, which will assist performance improvement.

For the employee, success is determined by a display of commitment to performance improvement based on the benefits derived from the developmental outcomes of which they are a part of determining. Thereafter, the appraisal is part of consolidating and verifying agreed action. If done effectively employees are empowered to play a leading role in their appraisal (Cattell, 1999).

## Problem statement

It is unquestionable debate over the increasing importance of human resources management in the current scenario. Corporate sector has dominated the economies all over the world during past centuries and India as developing economy is no more an exception in this case. Since, the pace of development is significant in India, therefore, the role of HR is becoming highly important. So, organizations are giving due importance to their employees in their acquisition and retention strategies. Performance appraisal is one of the major techniques adopted by companies in this regard. This has been established well in the previous chapter on review of literature by various researchers over the time.

The study was aimed at studying the performance appraisal practices being adopted by Indian companies and MNCs, their comparison, and designing a perfect performance appraisal mechanism for the organization so that performance appraisal can be used as one of the employees and organization development strategies.

## Research design

A research design is the plan, scheme, blueprint, series of procedures, conceptual framework to describe how the defined problem will be carried out. The entire structure and strategy of the use of data to information i.e. from its collection, through its editing, to its analysis is a research design. The present study was exploratory and descriptive in nature. Exploration was needed for this study as the variables for performance appraisal technique and methods being practiced by Indian and MNCs for their employees. Moreover, these variables have not been standardized and formalized in researches so far. Exploratory and descriptive research design was used for chapter four. After establishing the performance appraisal variables and factors, we needed to know how these variables/factors differ according to sector, nature of the companies and according to the perception of HR and non-HR managers.

## Research instrument

The relevant data for the present study has been obtained from primary sources. A well-structured and pre-tested questionnaire was used for data collection. The questionnaire was drafted consulting relevant literature (Dulebohn and Ferris, 1999, Wilson and Western, 2000; Cattell, 1999; Ward 1997). The researcher also

interacted with some managers of the Indian and MNCs during the pilot survey before finalizing the questionnaire. Before collecting data from respondents, primary drafts of the questionnaires were pre-tested by administering to five HR managers and five non-HR managers. Based on the written and verbal comments of the managers, some items were re-worded to eliminate ambiguity, some were deleted, and some were reframed. Few sections/variables of the questionnaire were stated negatively to avoid the response bias. The questionnaire consisted of three sections. The first section contained 21 individual and organizational based background questions. These questions were about the demographic variables like age, gender, qualifications, experience, organization, its type, certification, its philosophy, etc. The basic purpose of questions asked in this section is to get the researcher acquaint with the sufficient knowledge about the profile of the respondents and their organizations so that later on in the data analysis, the same may be inter related with questions / factors related to performance appraisal.

The second section contained 55 variables related to performance appraisal. This section categorized into three groups i.e. performance appraisal practices (23 variables), organizational issues and purposes (12 variables), and role of performance appraisal (12 variables). Three items were deleted as those were not significantly loaded on factors. In addition to these five point scale items, there were other five items of dichotomous nature those were on performance appraisal techniques, basis of performance appraisal, performance appraisal frequency, factors to measure the performance, and approaches used. Fifty statements were taken on five point Likert scale i.e. strongly agree to strongly disagree. The weights were given one to strongly disagree to five to strongly agree. The last question of the questionnaire was an open ended question through which the respondents were asked about their suggestions that can be incorporated in the existing performance appraisal or can be included while designing the model of Performance Appraisal for the companies.

The respondents were required to self report/rate the variables of the questionnaire on five point scale. The respondents were asked to rate statements on a five point rating scale where one indicated that respondents strongly disagree, two meant for disagree, three for neutral, four indicated agreeing and five meant strongly agree about what was described in the statement. This technique was used owing to its easier construction and administration, as it is easier for respondents to understand its usage. Each questionnaire was accompanied by a covering letter (request letter) and authorization letter from the Haryana School of Business, Guru Jambheshwar University of Science of Technology, Hisar which stated the purpose of research, encouraged voluntary participation by employees, ensured the anonymity of their responses, and thanked the respondents for their cooperation.

**The sampling**

The sample comprised of male and female managers/employees of Indian and Multinational companies in the National Capital Region. We used the stratified sample (of NCR) method initially for the survey. For this purpose an exhaustive list of Indian and Multinational companies in India (operating in NCR) was prepared, with the help of newspapers, magazines and internet. Simultaneously FICCI and CII magazines were also consulted for preparing the list. For getting permission for survey we wrote letters to the head offices of Indian and Multinational companies listed in list prepared. After not getting favourable response and keeping the time, distance and cost involved in mind, we decided to send the questionnaires by post to the managers with a request. Such questionnaires were sent to 200 short listed companies. However response was very poor. Further, simultaneously we decided the method of convenience sampling to approach the Indian and Multinational companies personally and seek permission. In this process we could contact 100 companies.

**Major findings**

- Four performance appraisal factors i.e. '360 degree performance appraisal', 'Proper feedback', 'Maintaining employee privacy' and 'Employee participation in performance appraisal' were found significant predictors for differentiating between manufacturing and service companies.

- Manufacturing companies were stronger by 52.3 percent in case of 360 degree performance appraisal than service companies.

- Manufacturing companies were stronger by 38 percent in case of maintaining employee privacy than service companies.

- Service companies were stronger by 28 percent in case of Employee participation in performance appraisal and 43.7 percent in case of proper feedback than manufacturing companies.

- Further, four performance appraisal practices i.e. 'Self appraisal opportunities and employee development', 'Use of IT in performance appraisal', 'Applying tested performance appraisal system' and 'Designing of PA systems' were not found significant predictors for differentiating between manufacturing companies and service companies.

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