

A Study on Performance Appraisal Errors of Public Sector Bank Managers in Chennai City

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Abstract

The purpose of this research article is to study and analyze the existing appraisal system, the rating errors in banking sector with special reference to employee satisfaction. The research design adopted for this study is exploratory in nature. Hypotheses are formulated and proved. The researcher made use of convenient base to select the required number of samples. The organizations selected for the study are basically banking organizations. The primary data are collected through the distribution of structured questionnaires to middle level managers. Literatures outlining fundamental aspects of performance appraisal and rating errors are summarized, serving as a foundation for analyzing the effects of rating errors on employee satisfaction and the interrelationships between them

Key Words: *Performance Appraisal, Halo effect, Horn Effect, Employee Satisfaction, 360 Degree Appraisal and Potential Appraisal.*

1. Introduction

“Performance appraisal isn’t about the forms. The ultimate purpose of performance appraisal is to allow employees and managers to improve continuously and to remove barriers to job success, in other words, to make everyone better. Forms don’t make people better, and are simply a way of recording basic information for later reference. If the focus is getting the forms ‘done’, without thought and effort, the whole process becomes at best a waste of time, and at worst, insulting”.- De Cenzo & Robbins, 2006.

Performance management, in its broadest context, is a managerial process that links corporate objectives, performance standards and evaluation, to which the performance review, or Performance Appraisal (PA) , are often applied (Pickett 2008).

Performance management is the process of planning or defining performance, appraising/evaluating performance, giving its feedback, and Counselling an employee to improve his performance. It is the process by which executives, managers, and supervisors work to align employee performance with the firm’s goals. Throughout the world both public and private organizations use formal performance appraisal system, may be quarterly or half-yearly or yearly depending on their organizational system, policies and procedures. Being a part of employees’ career progression, performance appraisals are regular A Study on Performance Appraisal Errors of Bank Managers in Chennai city review of employees’ performance within the organization. According to Jackson and Schuler, performance appraisal usually involves ‘evaluating performance based on the judgments and opinions of subordinates, peers, supervisors, other managers and even workers themselves’. Performance appraisal, as a process is seen as a key contributor to successful human resource management, as it is strongly related to organizational performance (Erdogan 2010).

Performance appraisals are intended to evaluate the performance and potential of employees. Still these may not be valid indicator of what these are intended to assess because of a variety of limitations on their uses. Performance appraisal errors affect the validity and dependability of the performance appraisal systems. The main purpose of this research is to study and analyze the existing appraisal system, the rating errors in Bank sector with special reference to job satisfaction.

2. Literature Review

According to Cardy and Dobbins (2004), performance appraisal as a process of enhancing human performance has attracted the attention of both academics and practitioners. PAs are introduced for multiple purposes. Bernardin and Beatty (2009), highlighted several objectives of PA, like to improve the use of resources and serve as a basis for personnel actions. Cleveland, Mohammed, Skattebo and Sin (2003), described four purposes of PA: to make distinctions among people, distinguish a person’s strengths from his or her weaknesses, implement and evaluate human resource systems in organizations, and document personnel

decisions. Cleveland, et al. (2008) also described that appraisals are used to make between-person decisions, for instance for promotions or termination decisions or salary administration. PAs fairness is a hot issue. Researchers and practitioners are trying to devise means in order to increase employees' productivity and reduce turnover, without adding a significant increase in costs? The PA fairness has been cited as a way of achieving these goals (Thomas & Bretz 2010). One of the preeminent purposes of appraisals is to positively affect future performance (Cleveland, Murphy & Williams 2009; Huffrnan & Cain 2010; Swanson & Holton 2011; Thomas & Bretz 2004). As Latham, et al. (2003), state the basic purpose of conducting PAs is to improve the performance of the affected employees.

According to some studies (DeCarlo & Leigh 2006; Jaworksi & Kohli 2011), PA helps in improving performance and building both job satisfaction and organizational commitment. Alternately, this helps in lowering down the turnover levels (Babin & Boles 2006; Babakus, Cravens, Johnston & Moncrief 2006; Brown & Peterson 2004). Bard Kuvaas (2006), observed positive findings regarding turnover intention with PA satisfaction, that those employees who are satisfied with how PA is conducted have lower turnover intentions.

From the above discussion it is clear that appraisal of employees serves several useful purposes such as:

2.1 Compensation decisions

On the basis of performance appraisal, managers identify employees performing at or above or below the expected levels. Employees are being compensated accordingly on the basis of merit.

2.2 Promotion decisions

Performance appraisal plays a vital role in judging the employees to be promoted to higher positions. Because performance appraisal considers merit as the basis of reward, the employees having adequate talent are considered for getting promotion.

2.3 Training and development programs

Performance appraisal serves as one of the important criteria for assessing the training needs of the employees. It determines which employee needs more training and evaluates the post-training effects. Through performance appraisal employees can know their progress and various skills they need to develop in order to get promotion and pay hike

2.4 Feedback

Performance appraisal helps the employees in knowing how well he is doing on the job. It can serve as a basis for an ongoing discussion between superior and subordinate about the job-related matters. Both the appraiser and appraisee get to know each other with the help of effective interaction and feedback process. The appraiser gets a clear picture of what he must do to enhance his performance and to move ahead in the career ladder of the organization.

2.5 Turn over decisions

Performance appraisal serves as a basis for job satisfaction of employees. If employees are not satisfied with PAs they will not see the added value (Bernardin & Beatty 2004; Dobbins, Cardy & Platz-Vieno 2010).

Some other studies suggested that appraisal satisfaction is a key factor leading job satisfaction (Moussavi & Ashbaugh 2005; Murphy & Cleveland 1995). Being satisfied both quantitatively and qualitatively employees stay in the organization for a longer period of time, thereby reducing the turnover rate.

Several studies emphasized fairness of procedures used for PA. Some research findings indicate that dissatisfaction with performance appraisal influence employees' intention to quit through reduced job satisfaction. Hence the evaluation system to be effective should be perceived as being fair.

Unfair procedures used in performance appraisals create job dissatisfaction. Performance appraisal should be fair and must provide accurate and reliable data. In order to provide these a systematic process must be followed which is as follows:

1. Establish performance standards for each position and criteria for evaluation.
2. Establish performance evaluation policies on when to rate, how often to rate, and who should rate.
3. Have raters gather data on employees' performance.
4. Have raters (and employees in some systems) evaluate employees' performance.
5. Discuss the evaluation with the employees.
6. Make decisions and file evaluation.

Step one of this process is completed when an organization conducts a job analysis.

Performance evaluation is a HRM activity that involves cooperation between the line operating managers and HR specialists. The appraiser should be a person who has thorough knowledge about the job content, contents to be appraised and standards of contents. The various appraisers A Study on Performance Appraisal Errors of Bank Managers in Chennai City are: Operating manager (immediate supervisor), committee of several supervisors, employee's peers/co-workers, employee's subordinates, self appraisal, consultants and combination of approaches (360 degree feedback mechanism).

Performance appraisals are intended to evaluate the performance and potential of employees.

Still these may not be valid indicator of what these are intended to assess because of a variety of limitations on their uses. The problems that affect the validity and dependability of the Performance appraisal systems are called performance appraisal errors. These are as follows:

- Judgment Error
- Poor Appraisal Forms
- Ineffective Organizational Policies and Practices

3. Judgment Error:

People commit mistake due to biasness and inadequate training while evaluating people and their performance. These errors are also called as Rater Errors. The following types of judgment errors/rater errors may emerge during performance evaluation.

3.1 First Impression (Primacy Effect)

It occurs when a manager or evaluator bases his or her entire assessment of an employee or applicant on the first impression that the employee or applicant made. It can be either positive or negative. In case of positive primacy effect, the rate is considered to be doing everything and a good performer. But in case of negative primacy effect, the rate is considered to be doing nothing and a bad performer.

3.2 Latest Behavior (Recency Effect)

Here the rater gives over emphasis on recent performance. The ratees are evaluated more on the results of the past four weeks than on six months' average behavior.

Many employees being well aware about this difficulty and knowing the date of evaluation make it their business to be visible and noticed in many positive ways for several weeks in advance.

3.3 Halo Effect

Halo error occurs when a rater assigns ratings for several dimensions of performance on the basis of an overall general impression of the rate. The individual's performance is completely appraised on the basis of a perceived positive quality, feature or trait.

The reasons of halo error are: a rater may make an overall judgment about a worker and then confirm all dimensional ratings to that judgment and/or a rater may make all ratings consistent with the worker's performance level on a dimension that is important to the supervisor. If Ramesh rates Suresh low on all four performance dimensions (job knowledge, quality of work, quantity of work and inter-personal relation) even though his performance on first three dimensions is high, then he has committed a halo error. Similarly an employee may get high rating because of her punctuality, although he is not a good performer.

3.4 Horn Effect

The individual's performance is completely appraised on the basis of a negative quality or feature perceived. This results in an overall lower rating than may be warranted. "He is not formally dressed up in the office. He may be casual at work too!" Another example may be the individual rarely smiles. Hence it is judged that he hasn't good interpersonal relations.

3.5 Stereotyping

It is mental picture the rater holds about ratee because of the ratee's sex, age, religion, and caste, etc. The rater generalizes the ratee's behavior on the basis of above characteristics and that lead to overestimation or underestimation of the ratee's performance. For example a ratee having Mudaliar caste is considered to be aggressive in achieving the organization's goals and usually gets high rating.

3.6 Central Tendency

Appraisers rate all employees as average performers. That is, it is an attitude to rate people as neither high nor low and follow the middle path. For example, a Manager, with a view to play it safe, might give a class grade nearly equal to B, regardless of the differences in individual performances.

3.7 Leniency

This occurs when ratings are restricted to the high portion of the rating scale. Some raters consider everything as good and they are lenient raters. The leniency error can render a system ineffective. If everyone in the organization is to be rated high, the system has not done anything to differentiate among the employees.

3.8 Strictness

This occurs when ratings are restricted to the low portion of the rating scale. Some raters consider everything as bad and they are strict or harsh raters.

*Central tendency errors, leniency errors and strictness errors are as a whole known as Restriction of Range Error.

3.9 Spill over Effect

The present performance is evaluated much on the basis of past performance. "The person who was a good performer in distant past is assured to be okay at present also".

3.10 Contrast Effect

This error occurs when evaluation of a ratee's performance is affected by comparisons with other people recently encountered. The rater lets another employee's performance influence the ratings that are given to someone else. For example, when the performance of an average employee is evaluated immediately after the performance of an outstanding employee, the supervisor might end up rating the average person as "below average" or "poor". As explained above the performance evaluation process becomes a failure due to the occurrences of various errors committed by the raters. The raters may not be adequately trained to carry out performance management activities. This is a serious problem when technical competency of a ratee is evaluated. The rater may not have sufficient time for systematic appraisal and feedback sessions. The rater may have poor self image and low

confidence. The rater may get confused when the objectives of the appraisal are somewhat vague and unclear.

3.10.1 Poor Appraisal Forms:

The appraisal forms used by the raters also affect the appraisal process on the basis of the below mentioned factors:

The rating scale may be quite vague and unclear.

A Study on Performance Appraisal Errors of Bank Managers in Chennai City Problems with evaluation standards arise because of perceptual differences in the meaning of the words used to evaluate employees. Thus good, adequate, satisfactory, and excellent may mean different things to different evaluators.

- The rating form may ignore important aspects of job performance.
- The forms may be too long and complex.

3.10.2 Ineffective Organizational Policies and Practices:

Very often the sincere appraisal report put in by a rater is not suitably rewarded. This reduces the motivation to do the job thoroughly and sincerely.

4. Objectives of the Study

Realizing the contribution of role of Performance appraisal to achieve the goal of employee satisfaction, which is the need of the hour for every organization and after extensive review of the literature, this research work has been preceded with the following objectives:

- To study the pervasiveness of performance appraisal in sample organizations.
- To analyze the views of management respondents regarding the effectiveness of performance appraisal.
- To study the various rating errors in the existing appraisal system.
- To study the inter-relationship between various rating errors and their impact on employee satisfaction.

4.1 Scope of the Study

The study has been undertaken in various Bank organizations in Chennai City, such as Indian Bank, UCO Bank, and Union Bank of India.

4.2 Hypotheses

Based on the objectives as stated earlier, the following hypotheses have been proposed to be tested.

- Elevation to higher level positions and salary restructuring are rarely based on performance appraisal.
- Rating errors have significant impact on performance appraisal and hence on employee satisfaction.

5. Methodology of the Study

5.1 Sources of Data

The data for the present study have been collected from two sources i.e. primary and secondary.

(i) The primary data referring to performance appraisal and rating errors were collected by administering structured questionnaire (designed by the researcher) to the officials especially top middle and lower level managers and wherever felt necessary interviews were held with concerned officials to elicit relevant data.

(ii) Data relating to the history of the organization, size and structure of manpower, and performance appraisal have been collected from secondary sources like company records, leaflets, bulletin, and websites etc.

5.2 Sample Technique and Size

For the purpose of present study the samples were selected randomly. The questionnaires were distributed to 100 respondents taking a mixture of top, middle and lower level personnel. Proper attention has been paid in the selection of the sample.

6. Research Design

Exploratory research design has been followed.

6.1 Development of Instruments

6.1.1 (Question Schedules)

The instruments used for the purpose of data collection and analysis have been developed and tested by the researcher. The questions are appraisee or rate oriented.

6.2 Data Analysis

6.2.1 Demographic Characteristics

Table-1 shows the demographic characteristics of the respondents. Nearly 42 percent of the respondents were in the age group of 21-30 years old thus, underscoring the youthful nature of the workforce.

Majority of the respondents (43 percent) possessed educational qualification of Undergraduate Degree. A substantial proportion of the workforce had Masters degree. This is an indication that the workforce of banking industry is composed of highly educated people. In general, the study gives a favourable picture concerning the level of education of the Banking industry's junior, Middle and Higher level management.

About 60 percent of the respondents held Managerial/Sr. Managerial positions depicting a holistic point of view. About 45 percent of the respondents had put in 5-10 years of service. This is also an indication that the respondents have actually spent enough time in the service to know how effective the performance appraisal system is practiced.

Table 1: Demographic Characteristics of the Respondents (N=100)

Characteristic		Frequency	Percentage %
Age	21-30 Years	42	42
	31-40 Years	18	18
	41-50 Years	23	23
	50 & Above	17	17
Level of Education	Schooling/Diploma	12	12
	Under Graduate	43	43
	Masters Degree	35	35
	Others	10	10
Designation	Sr. Executive	28	28
	Manager/Sr. Manager	60	60
	Top Management	12	12
Years of Service	1-4	18	18
	5-10	48	48
	11-15	17	17
	16 & Above	17	17

Table 2 represents the descriptive statistics of the variables. The various items (frequency of appraisal, importance of appraisal mechanism, factors affecting appraisal system, halo effect, horn effect, first impression, strictness, contrast effect, spill over effect, poor appraisal forms, employee satisfaction and post appraisal effects) taken in the study are depicted in Table-2 with their mean and standard deviation.

Table 2: Descriptive Statistics

Sl. No.	Name of the Items	Mean	Standard Deviation
1	Frequency of appraisal	3.53	1.08
2	Importance of appraisal mechanism	5.65	2
3	Factors affecting appraisal system	3.54	1.62
4	Halo effect	3.17	1.96
5	Horn Effect	3.36	1.38
6	First impression	3.57	1.05
7	Strictness	3.55	1.6
8	Contrast effect	5	1.3
9	Spill over effect	3.25	1.27

10	Poor appraisal forms	6.24	2.08
11	Employee satisfaction	7.25	1.98
12	Post appraisal effect	4.26	1.54

As shown in the table Employee Satisfaction is having the highest mean of 7.25. Halo effect is having the lowest mean of 3.17.

Table 3: Inter-Relationship between Factors

Sl No.	Factors	1	2	3	4	5	6	7	8	9	10	11	12
1	Frequency of appraisal	1											
2	Importance of appraisal mechanism	0.44	1										
3	Factors affecting appraisal system	0.65	0.64	1									
4	Halo effect	-0.33	-0.21	0.34	1								
5	Horn effect	-0.33	-0.31	0.23	-0.84	1							
6	First impression	-0.4	-0.64	0.55	0.66	0.84	1						
7	Strictness	0.54	-0.43	0.67	0.54	0.75	0.35	1					
8	Contrast error	0.41	-0.45	0.43	0.82	-0.21	0.44	0.54	1				
9	Disrespect to seniors	-0.72	-0.15	0.24	0.84	-0.33	0.53	0.65	-0.21	1			
10	Poor appraisal forms	-0.21	-0.23	0.84	-0.25	-0.66	-0.13	-0.42	-0.13	-0.21	1		
11	Employee satisfaction	0.63	0.74	0.24	-0.36	-0.25	-0.45	-0.34	-0.2	-0.6	-0.21	1	
12	Post appraisal outcomes	0.47	0.44	0.10	-0.10	-0.20	0.20	0.21	-0.21	-0.41	-1.0	0.32	1

Table-3 represents Pearson Correlation among the factors.

Factor-1 representing frequency of appraisal has significant positive correlation with Factors-2, 3, 7, 8, 11 and 12. Importance of appraisal determines the frequency of appraisal in sample organizations. Factor-1 is positively related to Factor-3 having a correlation coefficient (r) 0.65. It is also positively related to factor-7 and Factor-8 having correlation coefficients (r) 0.54 and 0.41 respectively.

Factor-2 representing importance of appraisal mechanism is significantly correlated with Factor-3 and Factor-11 with correlation coefficients (r) 0.64 and (r) 0.74 respectively. This implies that importance of performance appraisal depends upon the factors affecting performance appraisal system like commitment from the boss, future course of action of the organization, raters' readiness, and transparent organizational system. Importance of performance appraisal mechanism strongly depends upon its capability to ensure employee satisfaction.

Factor-3 depicting factors affecting performance appraisal is positively correlated to all the factors having the highest correlation coefficient (r) 0.84 with Factor-10, which depicts poor appraisal forms. It has a correlation coefficient (r) of 0.10 with Factor-12 depicting post appraisal outcomes like promotion, reward, and pay hike etc. This depicts a moderate level of impact of performance appraisal in Banking industry and thus partially proves the Hypothesis No.1 "Elevation to higher level positions and salary restructuring are rarely based on performance appraisal".

Factor-4 depicting halo effect is significantly correlated to factor-6 depicting first impression. The correlation coefficient (r) is 0.66. Halo effect leads to first impression. Factor-7 depicting strictness and Factor-9 depicting disrespect to seniors are positively correlated having correlation coefficient (r) 0.65. It implies that if subordinates don't show respect to their seniors then they may get low ratings in performance appraisal because of the strictness of the boss.

Factors - 4, 5, 6, 7, 8, 9 and 10 are negatively correlated with Factor-11. This implies that all these performance appraisal errors negatively affect employee satisfaction. This proves the Hypothesis No.2 "Rating errors have significant impact on performance appraisal and hence on employee satisfaction".

7. Suggestions

The various suggestions recommended by the researchers are as follows:

1. Hence sample organizations may try to help the raters to more accurately observe, recall, and report behavior. This requires: providing proper training to the raters to conduct effective performance appraisal, motivating the raters to use the system effectively, and providing opportunity to observe their subordinates' performance carefully.

2. Performance appraisal forms may be made more clear and precise, so that these can be easily understandable by the appraisee.
3. One of the primary purposes of formal performance appraisals is to provide clear, performance-based feedback to employees. (Carroll and Schneier, 2002; Ilgen et al., 2009; Larson, 2004). Sample organizations may make it mandatory to have more effective performance appraisal mechanism.
4. Very often the sincere appraisal report put in by a rater is not suitably rewarded. This reduces the motivation to do the job thoroughly and sincerely. Hence sample organizations may think of motivating the raters for the good job done.

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