

CONTRIBUTION OF AN EFFECTIVE PERFORMANCE APPRAISAL SYSTEM IN THE GROWTH OF NEW STARTUPS

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Abstract

Today, every organisations endeavour to maintain their long term sustainability, growth, and diversify their business to the maximum possible extent with the help of their competent work force. An Effective performance appraisal system accelerates the growth of organisational performance through improved employee's performance. When startups struggle to established itself, it becomes more crucial that they, select adequate system of appraisal. A system that help to rectify employee's strengths and weaknesses, design proper training programme to enhance their capability and motivate them for higher performance through constant and constructive feedback. Present study analyse the overall contribution of an Effective Performance Appraisal System in new start-ups. The heterogeneous population was stratified and the simple random sampling method was used to select respondents from each stratups. Microsoft office excel was used to manage the data that was gathered from the field. It was found that majority of respondents agreed that an effective appraisal system continuously reviews the performance of employee and suggests corrective actions, if needed. So, it is very helpful for the organisation and the individual but on the other hands, management should consider various aspects during the implementation of appraisal system to make the process more effective and get appropriate result.

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1. INTRODUCTION

Effectiveness defined as the extent to successful in producing a desired or intended result. Alo (1999) defines performance appraisal as a process involving deliberate stock taking of the success, which an individual or organization has achieved in performing assigned tasks or meeting set goals over a period of time. Effective performance appraisal is an annual review of an employee's overall contributions to the company by his/her manager. It evaluates an employee's skills, achievements, growth, or lack thereof.

An effective performance appraisal system brings rationality in management. If an organization wants to maximize its effectiveness then the organization must have a tool by which it can discriminate between an effective employee and not so effective employee. Startups should use an effective system of appraisal to give necessary feedback to their employees regarding their job related strengths and weaknesses and to justify pay increases, bonuses, as well as termination decisions. This will further, helpful in eliminating the chances of internal conflict and grievances and maintain conducive work environment.

The effective performance appraisal system has strongly correlated with the organization's philosophies and mission, it cover assessment of performance as well as potential for development, look after the needs of both the individual and the organization by generating information for personnel development and career planning. Effective appraisals facilitate communication between the management and the employees, which helps in conveying the expectations of the management to the employee and vice versa.

The frequency of appraisals varies, most organisations offer them annually, some opt for shorter cycles like half yearly, or quarterly, or even monthly but, in case of startups, it has been observed that shorter cycles are preferred, so that they can motivate their employees more frequently to perform better. The criteria for an effective performance appraisal system are based on various aspects like productivity, quality of work, duration of service and training. Productivity is measured mostly in the case of manufacturing i.e. the number of units manufactured or delivered by the employee. In case of quality of work, precision of the work done is taken into consideration. Duration of services is used as a criterion by Government entities, where they

assume the longest serving employee to be the most deserved one for an appraisal. Training is given when an employee is hired in an organisation, his appraisal is depends upon the rate at which, he learn new things. Organisations followed different methods to ensure fair appraisals to their employees. The most preferred performance appraisal systems are listed below:

- i) **Assessment Centre Method:** This method use to test candidates capacity and capability in social situations. It can be used by startups for evaluating employees serving at senior level. It is helpful for assessing managers, who have to deal with their subordinate, peers and supervisors on daily basis.
- ii) **Behaviourally Anchored Rating Scale:** It is a combination of essay evaluation and rating scale. It is comparatively more expensive, but it usually guarantees precision and effectiveness.
- iii) **Critical Incident Technique:** Under this method, direct supervisor keeps a record of positive and negative reactions of his employees at their work place in a given period of time so, that supervisor can evaluate how good the employee is at his job and determine the level of his job proficiency.
- iv) **Essay Evaluation:** The essay method is an affordable, simple and effective way of appraising employees, especially in startups. it involves writing a detailed descriptive essay about the employee's performance, attitude and behaviour by their direct supervisor. This method also provides appraiser an opportunity to explore and describe niche qualities or shortcomings of the employee that need to be worked on.
- v) **Human Asset Accounting Method:** This is a very commercial and practical appraisal method. Human capital is associated with the amount of revenue that individual generates, or the number of happy customers, or the number of leads in sales. This method is adopted by most of the startups, since, it is easy and transparent. Appraisal is based on the amount of business generated by an employee determines whether he deserves to be promoted or terminated and it is directly related to company profitability
- vi) **Management by Objective:** This method is less time consuming and cost effective. The technique involves mutual goal setting i.e., employee and employer both are involve in setting future targets, that leads to better performance because, the probability of the individual meeting the goal is much higher.

vii) Paired Comparison Method: Startups, which consist of small teams, adopted this method. Under these methods, all team members are compared individually against each other and after that, best performer are selected. It is considered reliable method because; it follows a systematic method of comparative evaluation.

viii) Rating Scale: This appraisal method is particularly, used by startups and small businesses. It is process based method, involves pre-determined objectives, which are expected to achieve by employees. Employees are evaluated for their skills, teamwork, communication skills, precision, etc., and they are expected to meet a basic score. If they do not meet the score then they are sent for performance improvement training which would help them cope up with their shortcomings.

ix) Trait Focussed Appraisals: Startups should consider giving their employees trait focussed appraisals once in a while, because it reinforces positive culture in the organisation.

x) 360 Degree Feedback: This method would be very useful for startups, because it is the best way to review an employee's overall performance and get an insight about his behaviour, personality and attitude by getting feedback from different sources i.e., peers, subordinates, superiors, suppliers etc.

Therefore, Performance appraisal offers competitive advantage to a firm by improving performance, helps in making correct decision, ensuring legal compliance, minimising job dissatisfaction and employee turnover and ensuring consistency between organisational strategy and behaviour. In total an effective performance appraisal helps an organisation gain competitive edge over its rival.

1.1 Statement of the Problem

Today's work environment requires employees to be competent and multi talented. Once the employee has been selected, trained and motivated, he is then appraised for his performance. Performance appraisal is the step where the management finds out how effective it has been at hiring and placing employees. If any problems are identified, steps are taken to correct it with the help of appropriate system of performance appraisal. A performance appraisal system is successful when the method used to evaluate performance is free from any kind of biases or errors as well as it pay attention to maintain the processes as objective and transparent as possible. So, the present study is conducted to analyse the contribution of effective appraisal

system and focus on different methods used for appraising performance and their appropriateness in case of startups.

1.2 Objectives of Study

The main objectives of the study are as follow;

- I. To acknowledge the contribution of effective performance appraisal system to the productivity and growth of startups.
- II. To know the methods currently being used in various startups.
- III. To identify the importance of effective performance appraisal system.

1.3 Significance of Study

The study is of great significance to the newly established organizations as they will get an insight to identify the major contributions, challenges and the best methods of appraisal for their employees in order to keep them motivated and productive. In addition to this, organisation can modify its existing policies related to appraisal and training of an individual and formulate new ones on the basis of the findings of the study. The study is also useful to the researchers for developing their hypothesis and to use it to corroborate its results with their research.

1.4 Limitations

Limited time and resource are the major constraint but apart from this, as the study is limited to few startups; its results can be generalized to other organizations to a limited extent only due to different policies, cultures and practices followed by these organizations. Some of the respondents were afraid to respond on the questions related to performance appraisal issues and its role in their development. Although, all attempts were made to make this an objective study, biases on the part of respondent might have resulted in some subjectivity.

2. LITERATURE REVIEW

Performance reviews are important because they identify and set goals for the employee, recognize performance over time, guide progress, identify the problem areas or weaknesses, improve performance level and discuss career development plans. The importance of performance appraisal in contemporary business organizations cannot be overemphasized.

Some view it as potentially "the most crucial aspect of organizational life" (Lawrie, 1990). Performance appraisal has increasingly become an integral part of the human resource function of any profit making organization. According to Macmillan English Dictionary for Advanced Learners (2002), "growth is an increase in the success of a business or a country's economy or in the amount of money invested in them". Any profit-making organization will seek to achieve growth in terms of sales, profit or expansion through performance. According to Donegan (2002), "success will to a larger extent depend on the organization's ability to evaluate progress and also hold accountable those charged with executing certain tasks". This is exactly what performance appraisal seeks to do. It aims at evaluating the performance of the worker against standard set thereby taking corrective actions if necessary. "Maximizing performance is a priority for most organization today", Mathis et. al. (2004). It is then obvious that performance appraisal as a management tool is cardinal to contributing to organizational success. If employee performance is improved, the organization raises its performance in terms of meeting its objectives. On the other hand, if employee performance is not improved it adversely affects performance of organizational productivity. There is the need therefore, to have a well-defined appraisal system in organizations to enable management know how well individual workers are performing on their job and if there is the need to improve performance or reward performance. Globally, performance appraisal is used and this has led most organizations to spend quality time in conducting performance appraisal. According to Torrington and Mackey 350 organizations have a formal appraisal system for senior management, compared with 251 organizations for middle management, 189 for clerical staff, and 92 for manual, unskilled and semi skilled workers. Over a quarter of the respondent organizations carried out no appraisal at all. It is interesting to note that 140 organizations said that they had increased the time that they spent on appraisal over the previous three years, compared with 112 organizations that spent the same amount of time, and only 29 organizations where the time spent had decreased. In my understanding, it points out to the fact that many organizations in the world today had realized the tremendous need for performance appraisal systems. If it is done well could yield the desired results for the organization. It could therefore be said that performance appraisal is a key element in today's competitive era of business and it becomes necessary in case of startups.

3. RESEARCH METHOD

To achieve the research objectives, information was collected by using questionnaires. In general, a 5-point scale was used in the questionnaires but certain general questions were also included. The questionnaire was administered aimed at soliciting their views on various factors like, contribution of effective appraisal, appropriate method of appraising performance, effects of performance appraisal system on development of staff and organisation etc. In all 145 respondents were identified and a questionnaire were distributed but however only, 120 responded. Microsoft Excel has been used for analyzing the data.

3.1 Sampling plan

Sample Size = 120 Employees

Sample Area = Bihar

3.2 Sources of data collection

Primary and secondary sources of data were gathered for the research. In collecting primary data for the study, questionnaire and direct interview methods were employed. The questionnaire was used to ensure that only relevant questions were asked and also to ensure that the questions were properly structured. The secondary sources of information was collected from past research work, books, journals, articles, congregation reports, internet search.

Figure 1. *Janger Gotra I Mecaling* dance

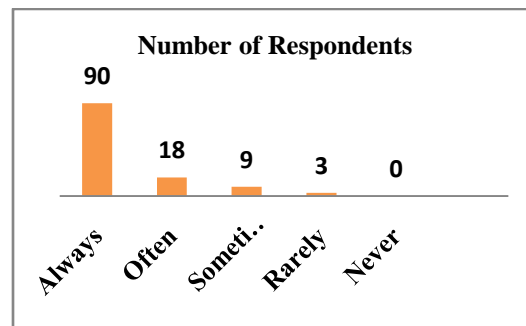
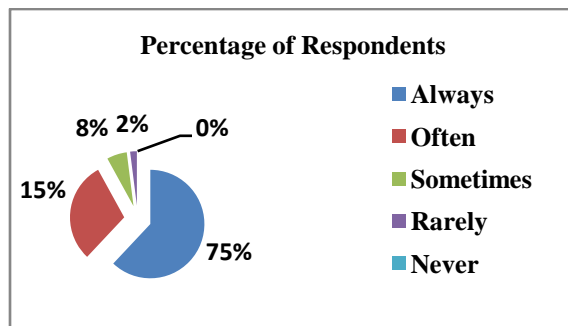
3. RESULTS AND ANALYSIS

Q1. How frequent your organization conduct appraisal to know your level of performance?

The opinions of the respondents presented in Table-I indicate that 90 respondents (75%) were of the view that their organization regularly conduct performance appraisal. Another 24 respondents (20%) stated that the organization “quite often” conducts performance appraisal. Only 6 respondents (5.00 %) stated that the organization “sometimes” uses performance appraisal mechanism. It appears that some of the departments/ employees are not fully aware of performance appraisal system used in their organization.

Table-I**Frequency of Conducting Performance Appraisal Programme in the Startups**

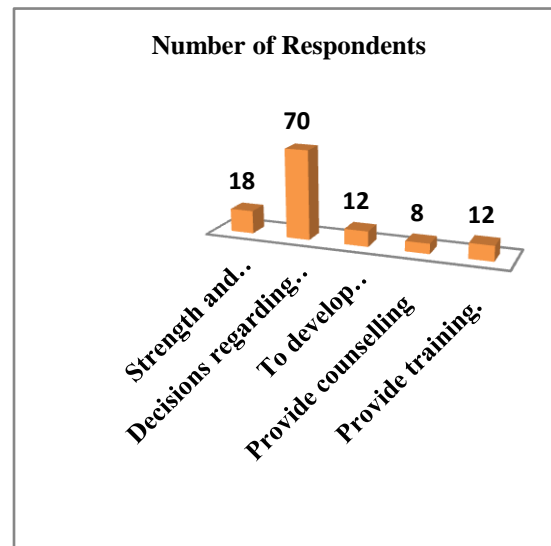
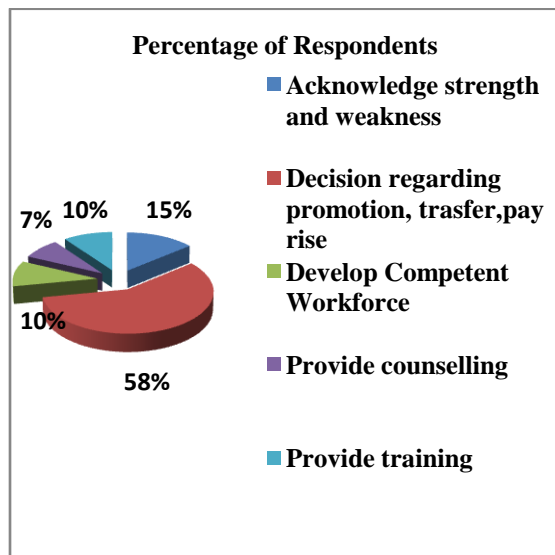
S. No.	Contents	Nos. of Respondents	Percentage of Respondents
a.	Always	90	75.00
b.	Often	18	15.00
c.	Sometimes	9	8.00
d.	Rarely	3	2.00
e.	Never	0	0.00
	Total	120	100.0



Q2. What are the major purposes of conducting performance appraisal in your organisation?

Majority (58 per cent) opined that performance appraisal reports were widely used in making administrative decisions like promotions, transfer, and pay rise, rather than focusing on their developmental needs. Only 15 per cent believe that performance appraisal is conducted to know their strengths and weaknesses. A very few of them (10 per cent & 7 per cent), however, emphasized on the need of performance appraisal for developing competitive workforce, providing necessary training, and to provide counselling to poor performer respectively.

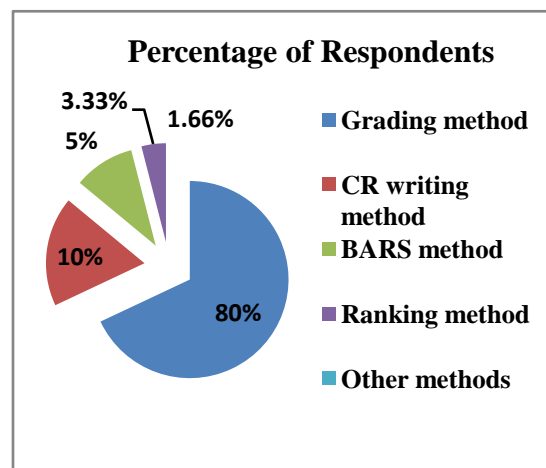
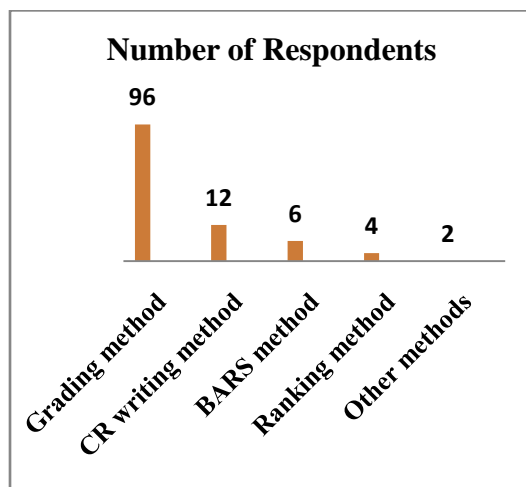
Table-II			
Purpose of Conducting Performance Appraisal			
S. No.	Contents	Nos. of Respondents	Percentage of Respondents
a.	Acknowledge strength and weakness.	18	15.00
b.	To make decisions regarding promotion, transfer, and pay increase.	70	58.00
c.	To develop competitive workforce.	12	10.00
d.	To provide counselling to poor performer.	8	07.00
e.	To provide training.	12	10.00
	Total	120	100.0



Q3. Which of the following methods used for conducting performance appraisal in your organisation?

The opinions of the employees shown in Table-III show that majority (80 %) have confirmed the use of grading method of performance appraisal in their organization. Some of them (10%) stated the use of confidential report method while few others listed other methods of appraisal. It can be inferred that grading method is widely used for making performance appraisal but in some of the establishments ranking method is also used.

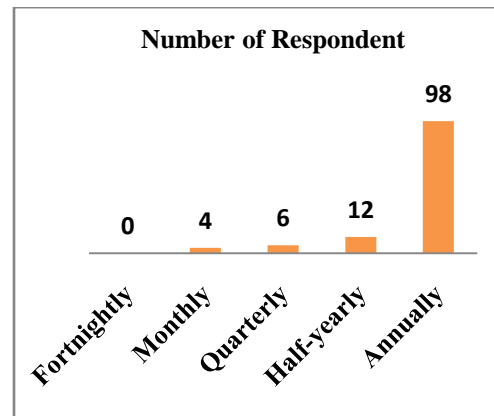
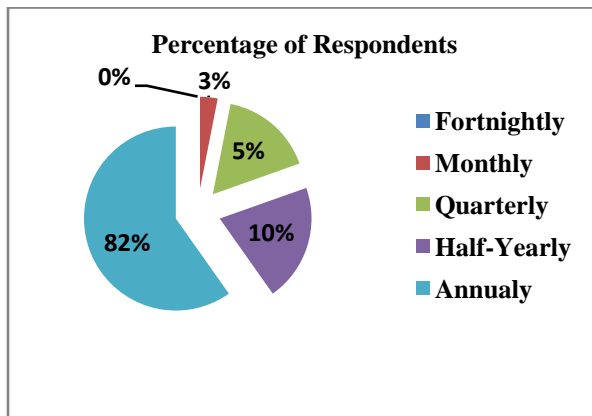
S. No.	Contents	Nos. of Respondents	Percentage of Respondents
a.	Grading Method	96	80.00
b.	Confidential report writing (CR)	12	10.00
c.	Behaviourally anchor rating scale (BARS)	6	5.00
d.	Ranking Method	4	3.30
e.	Other Methods	2	1.66
	Total	120	100.0



Q4. What are the general time limits for conducting performance appraisal in your organisation?

As regards, the time limits for conducting performance appraisal, the opinions of the respondents, as shown in Table-IV, were divided. Most of the respondents (82 %) opined that the performances of the employees in their respective organisation were appraised annually. Some of them (10.00 per cent) felt that performance appraisal was conducted half-yearly. It appears that, for different startups different time periods are set in order to conduct performance appraisal. But, in general performance evaluation is conducted annually.

S. No.	Contents	Nos. of Respondents	Percentage of Respondents
a.	Fortnightly	0	0
b.	Monthly	4	3.00
c.	Quarterly	6	5.00
d.	Half-yearly	12	10.00
e.	Annually	98	82.00
	Total	120	100.0



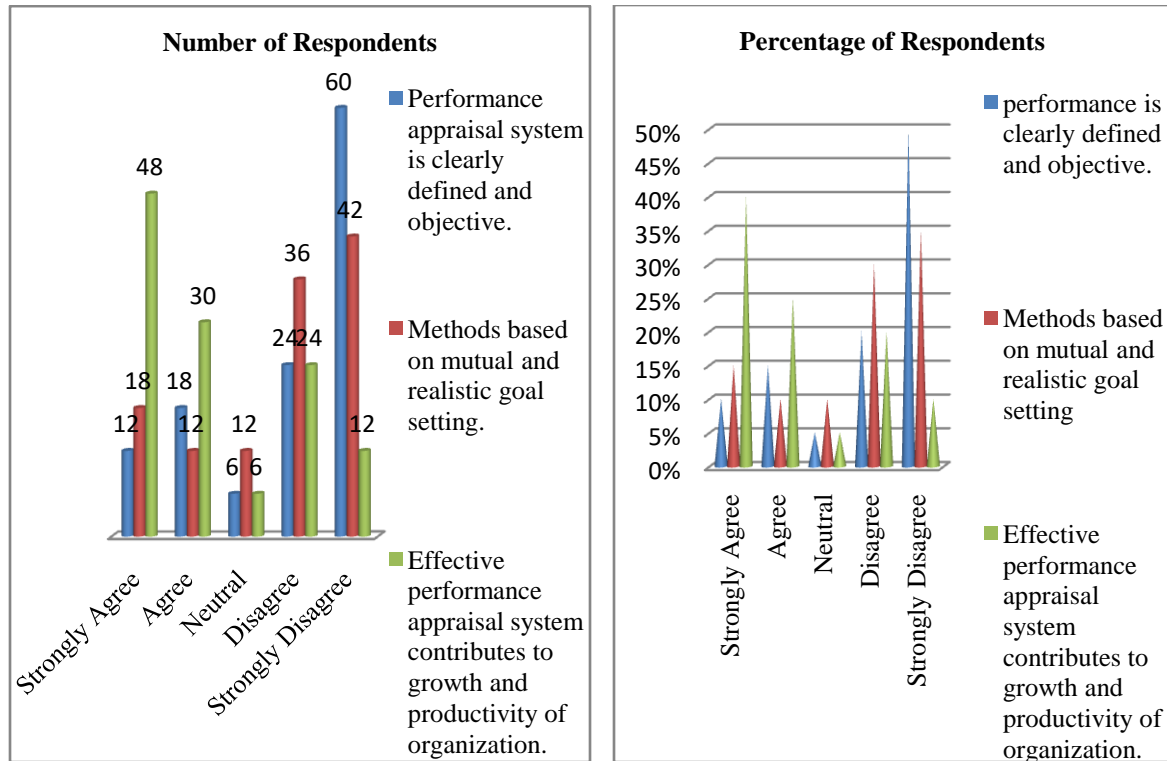
Q5. Contribution of an Effective performance appraisal system: An effective appraisal system enhances fairness and clarity, as well as the methods used for the appraisal should be based on real and mutual goal setting.

(A) Performance appraisal system is clearly defined and objective: Performance appraisal system should be clearly defined and it should be fair and objective. When employees felt that the appraisal process is easy and understandable they are willingly to participate in appraisal otherwise, they take it as a yearly ritual and do not show any interest to fill the appraisal form. Majority of the respondents as presented in Table-V (A), (50.00 and 20.00 per cent) have “Disagree ‘and “strongly Disagree” with the fact that the appraisal system used in their respective organisation have clearly defined to them. Another 15.00 per cent accept that they

know the system of appraisal. On the whole, a very few of them believe that the appraisal process used by their respective organisation are clear to them.

(B) Methods used for appraising my performance based on mutual and realistic goal setting: Effectiveness of methods used during evaluating performance of individual is significantly based on mutual goal setting and trust between the two people i.e., appraiser and appraise. From the opinions of the respondents shown in Table-V (B), from the response of majority of the respondent (35 and 30 per cent) it can be inferred that method used for performance appraisal does not based on mutual goal setting and trust. Only 15.00 per cent and another 10.00 per cent of the respondents have agreed with the statement. Hence, it can be stated that performance appraisal methods may have positive impact on organizational efficiency but it wholly depends upon its execution and willingly participation of appraiser and appraise.

Table-V						
Contribution of an Effective Performance Appraisal System						
Contents	(A) Performance appraisal criteria used to evaluate your performance is clearly defined and objective.		(B) Methods used for appraising your performance based on mutual and realistic goal setting.		(C) Effective performance appraisal system contributes to growth and productivity of organization.	
	Nos.	%	Nos.	%	Nos.	%
Strongly Agree	12	10.00	18	15.00	48	40.00
Agree	18	15.00	12	10.00	30	25.00
Neutral	6	05.00	12	10.00	6	5.00
Disagree	24	20.00	36	30.00	24	20.00
Strongly Disagree	60	50.00	42	35.00	12	10.00
Total	120	100	120	100	120	100

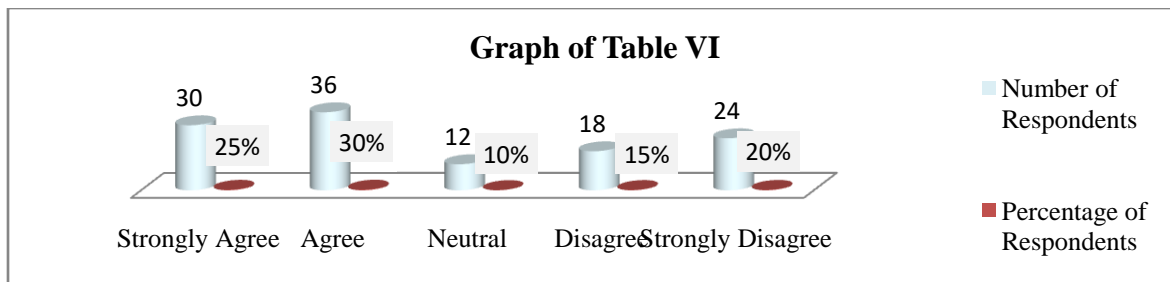


(C) Effective performance appraisal system contributes to growth and productivity of organization: Performance appraisal is a tool to upgrade employee's work efficiency by understanding and removing their weaknesses. It provides a greater chance for self appraisal which in turn, helps in trigger the growth rate of an organisation. Accordingly, majority (40.00 per cent and 25.00 percent) has show agreement in Table -V (C) with the statement. It means that most of the respondents acknowledge that an effective system of appraisal contributes to growth and productivity of organization.

Q6. Effective performance appraisal system helps in training and development of employees.

The opinions of the respondents presented in Table-VI indicate that total 66 respondents (55%) were view that their performance appraisal system is correlated with system of training and development. Another 44 respondents (35%) were not agreed with the above statement.

Contents	Number of Respondents	Percentage of Respondents
Strongly Agree	30	25.00
Agree	36	30.00
Neutral	12	10.00
Disagree	18	15.00
Strongly Disagree	24	20.00
Total	120	100.00



4. CONCLUSION

4.1 Major Findings

One of the key findings was that all the new startups were regularly conduct performance appraisal programme as a part of the human resource management programmes as it is evident from the opinions of the respondents. Majority of respondents around 75.0 per cent stated that the organizations “always” make performance appraisal while 15.00 per cent believed it to be “often” used practice. It appears that, performance appraisal was conducted at regular interval. Some of them were totally unaware from the practice of performance appraisal in their organisation and thus, for effective functioning it is necessary to make them familiar with the system of employee performance appraisal.

It was also found out from the present study that majority of respondent (58 per cent) felt that the appraisal reports were needed only for making administrative decisions so; they are unaware about the career developmental perspectives of performance appraisal programme. They only think that appraisal is an evaluative exercise, rather than an opportunity to find out their respective potentials for development.

In the opinion of most of the respondents around 80 per cent responded that grading method is most widely used method for evaluating employee's performance. Some of the respondents (10 per cent) also stated the use of annual confidential report (ACR), while few others (5 per cent) accepted the use of Behaviourally Anchored Rating Scale (BARS) method. Thus, from the present study, it appears that in some of the startups or for certain categories of jobs BARS method is being applied but in general grading method is used to evaluate performance.

Another finding of the study as regards to the time-limit for conducting performance appraisal, it appears that, generally performance appraisal is an annual exercise. But, in some of the startups whenever, the performance need to be reviewed quickly due to technical or production reasons, the appraisal is made on half-yearly or quarterly basis as well.

Other major findings revealed the importance of clearly defined performance appraisal system. It was found that majority of the respondents have "agree" and "strongly agree" with the fact that the appraisal methods used in their respective organisation have clearly defined to them. When questions asked about the methods used for appraising performance whether, based on mutual trust and realistic goal setting. 65.00 per cent of the respondents stated that performance appraisal system does not rely on mutual trust and goal setting. When questions asked about contribution of effective performance appraisal system to the growth and productivity of an organization, most of them were agreed that a well managed system enhance the level of productivity which result in to growth of organisation.

Majority of the respondents also accept the fact that effective performance appraisal system helps in training and development of employees. The impact of effective performance appraisal system on the training and development of an individual is influential. Hence, it is essential for any startups to implement an effective appraisal system with great care in order to grow and remain competitive in the market.

4.2 Recommendations

1. It is important for all the startups to carefully design the process of performance appraisal system to enhance its effectiveness.

2. Startups should select a method on the basis of which their employees will be appraised and the method should be relevant to the current scenario.
3. It becomes essential for the new startups to make their employee aware about their performance appraisal programme and policies and encourage them for willingly participation.
4. Startups should highlight the true contribution of an effective appraisal in terms of an opportunity to find out loopholes in poor performances rather than taken appraisal as an evaluative exercise.
5. Startups should maintain a consistency in appraising their employee performance it should be frequent.
6. Realistic performance targets must be set for all employees and they should be done in consultation with appraisers and appraise.

4.3 CONCLUSION

For startups there is a need of effective methods of performance appraisal to evaluate the performance of its employees accurately in order to its smooth functioning. A performance appraisal system is worthy when it is based on systematic approach and practical methods. The organisation should design an appraisal system that can produce result. An effective method of appraisal is able to evaluate the behaviour as well as skill of employees and help the organisation to grow.

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