

How to Cite:

Rahman, J. A., Krishnapriya, V., & Guru, P. (2022). An empirical investigation in analysing the critical factors of performance appraisal system in enhancing employee capability in select ITES companies in India using structural equation model (SEM) analysis . *International Journal of Health Sciences*, 6(S2), 1969–1978.
<https://doi.org/10.53730/ijhs.v6nS2.5248>

An empirical investigation in analysing the critical factors of performance appraisal system in enhancing employee capability in select ITES companies in India using structural equation model (SEM) analysis

Abdul Rahman J

Research Scholar, Department of Management Studies, Sathyabama Institute of Science and Technology, Chennai

V. Krishnapriya

Associate Professor, Department of Management Studies, Sathyabama Institute of Science and Technology, Chennai

Guru. P

Associate Professor, Department of Management Studies, Periyar Maniammai Institute of Science & Technology, Thanjavur

Abstract--This study is mainly related in analysing the main determinants of performance appraisal system in enhancing the capabilities of the employees. In India, the ITES industries employ nearly 4.4 million and it accounts for 8% of India's GDP. Hence, it is highly critical for the management to apprehend the overall performance of the employees so that they can contribute effectively of organisational growth and nation development. The performance appraisal system is stated as the systematic analysis of the progress of the employees based on the agreed objectives. Companies uses many appraisal methods like Management by objectives, 360-degree feedback etc. so as to understand the progress of the employees on different parameters. Through the effective performance appraisal system, the employees can focus on their key skills, harness their fullest potential and thereby enhance their capabilities. The study uses both primary and secondary data sources, the researchers has used questionnaire method in order to collect the data from the respondents, the major analysis used are demographic analysis, correlation analysis, T test and Structural equation model. The analysis reveals that the critical determinants considered in the study

International Journal of Health Sciences ISSN 2550-6978 E-ISSN 2550-696X © 2022.

Corresponding author: Rahman, J. A.

Manuscript submitted: 27 Jan 2022, Manuscript revised: 18 Feb 2022, Accepted for publication: 09 March 2022

possess stronger influence in enhancing employee capabilities in the ITES industry.

Keywords---performance appraisal system, employee capabilities, ITES, correlation analysis, structural equation model.

Introduction

The term performance appraisal is stated as the exhaustive review and discussion on the overall performance of the employees based on the agreed key result areas (KRA). Many organisations tend to state the goals and objectives of the employee for a given time period and the performance are then measured against the goals so as to measure whether the employee has achieved them or not (Almatrooshi, 2016). The performance appraisal is a critical tool in the hands of management, supervisors and human resource team so as to measure and evaluate effectively the performance, identify the areas of improvement so that the individuals can scale up higher in their career and contribute effectively in realising the goals of the organisation.

There is various performance appraisal system which are being implemented by the organisation so as to measure the overall performance of the employees, of these the major performance appraisal system applied widely in the ITES industry are Management by Objective, 360-degree feedback and others. These systems support the organisation, management and individuals to agree with the objectives for the performance appraisal period and then measure the actual performance with the stated goals. The feedback will be given to the employees which will enable them to enhance their capabilities, suggest suitable training and other methods so that they can perform better in the current and future role. The performance appraisal system also supports in analysing the potential and critical deficiencies encountered by the individuals which is hindering their performance (Noronha, 2018).

Researchers has stated that the good appraisal system implemented in the organisation empowers the management to analyse the overall performance of the employees and also measure whether the organisation is on the right path in realising its mission and vision (Imran, 2018). The success of the organisation is mainly dependent on the application of good appraisal system and the measures taken by the management in order to enhance the capabilities of the employees based on the appraisal.

Based on the appraisal system, the management can decide the reward and recognition which needs to be provided to the employees effectively, also it offers the areas of improvement for the employees and provide proper guidance to them so that they can enhance their capabilities and performance in the future (Mishra, 2014). Hence, in order to effectively use the appraisal system, the managers and employees need to understand them better, create a better yardstick in analysing the performance, channelise the efforts of the individuals so as to achieve the stated. The employees are considered as the critical resources for an organisation and mainly in service-related industries like IT, ITES, Banking

etc. hence the application of effective performance system can provide motivation and support for the individual to expand their capabilities, realise their potential so as to scale up in their career and eventually achieve group and organisational goals effectively (Brinkerhoff, 2015).

The main focus of the study is analysing the critical factors of performance appraisal system in enhancing employee capability in select ITES companies in India. The main factors considered for the study is that the performance appraisal system provides the areas of improvement for the employees and this critically supports in enhancing the employee capabilities, also it supports in progressing in the career of the individuals and enable in harnessing their potential for self-improvement and contribute to the success of the organisation.

Problem Statement

The performance appraisal system is stated as the critical aspect which supports the management and employees to understand and measure the actual results with the agreed goals. Also, the effectiveness of appraisal system lies in understanding the areas of improvement for each employee, enhance the capabilities and potential so that they can contribute effectively for company's goals and also make them progress in their career (Lappalainen, 2019). Therefore, service industries like ITES need to implement better performance appraisal system for measure the rewards and recognition of the employees, enhance their capabilities, support in increasing productivity & efficiency.

Review of Literature

Performance appraisal system is usually identified as a critical element for boosting employee motivation. Performance appraisal system is an important drive that looks for better, more accurate, more cost-effective ways for of evaluating job performance and employee motivation (Omboi, 2011). Performance appraisal system is a significant technique aimed at enhancing the performance of the employee in the organization. Performance appraisal is often considered one of the most important human resource management , and an effective performance appraisal and management system is an integral part of organization's human resource management effectiveness.

Wismeijer (2012), categorizes a four-step process of the performance appraisal system. Performance appraisal systems comprises of established performance standards, a method of determining individual performance, comparison against standards and an evaluation of performance based on the comparison. The first step of establishing performance standards outlines the employees' job responsibilities. The job standards are set against employees' performance (Karatepe, 2016). The second step involves pegging the worker performance (such as traits approach, behavioural approach, ranking methods, alternation ranking, and results methods, productivity measures, 360 degrees' evaluation and Management by Objectives (MBO). Thirdly, there is comparison against standards. At some point, the individual work record it compared with the standards set for the job. Fourth, an evaluation of performance is made pegged on the comparison (Payambarpour 2016).

According to Solomon (2017), performance appraisal is a way of determining and communicating how the employees do their jobs and coming up with a plan for improving the process of carrying out work responsibilities. Performance appraisal process can also be referred to as a procedure for determining employee performance. Performance appraisal is essential as it gives updates on the performance of the employees; it identifies training needs and come up with plans for employee development (Korff, 2017).

Performance appraisal can be viewed as the process of assessing and recording employee performance for the purpose of making judgments about employee that lead to decisions (Audenaert, 2019). In simple terms, performance appraisal may be understood as the assessment of an individual's productivity in a systematic way, the productivity being measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, cooperation, judgment, versatility, health and the like (Teeroovengadam 2019). Performance appraisal is a structured and formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development.

Objectives of the study

The critical objectives of the study are

- To measure the effectiveness of performance in identifying the areas of improvement so as to enhance employee capabilities in ITES companies
- To analyse whether performance appraisal system support in progressing in the career which results in employee capabilities
- To apprehend the involvement of employees in the organisation supporting employee capabilities.

Research Methodology

The study is focused in Applying descriptive in nature, the researcher uses quantitative research study in analysing the factors influencing the employee capabilities through performance appraisal system. The primary data is collected through questionnaire, 125 employees who are currently working in the ITES industry are chosen using purposive sampling, a five-point Likert scale is used comprising 1 – Strongly Disagree to 5 – Strongly Agree. The data are then analysed using SPSS data package.

Analysis and Interpretation

The section enables in presenting the analysis of the data collected by the respondents, the major analysis used are demographic analysis, correlation analysis, T test and SEM analysis so as to measure the effectiveness and association between the variables.

Demographic analysis

Table 1: Demographic analysis

Demographic	Classification	Frequency	Percent
GENDER	Male	82	65.60
	Female	43	34.40
AGE	Less than 30 Years	28	22.40
	31 - 40 Years	46	36.80
	41 - 50 Years	20	16.00
	Above 50 Years	31	24.80
QUALIFICATION	Completed UG program	33	26.40
	Completed PG program	49	39.20
	Completed Professional program	25	20.00
	Others	18	14.40
MARITALSTATUS	Single	48	38.40
	Married	77	61.60
WORKEXP	Less than 5 Years of Experience	30	24.00
	5 - 10 Years of Experience	49	39.20
	10 - 15 Years of Experience	19	15.20
	More than 15 Years of Experience	27	21.60
	Total	125	100.00

The table shows the detailed demographic analysis of the respondents, it is stated that 65.60% were male and remaining were female, 36.80% were in the age group between 31 - 40 Years, 22.40% were in the age group of less than 30 years, 39.20% have completed PG program, 26.40% have completed UG program, 61.60% were married, 39.20% possess experience between 5 - 10 Years, 24.00% possess experience of less than 5 years, 21.60% possess experience of more than 15 years.

Correlation analysis

The researchers focus in understanding the nature of relationship between the independent variables and dependent variables hence correlation analysis is applied. The coefficient of correlation lies between -1 to +1, if the value is more than +0.80 it is stated that the variables possess higher positive correlation among them.

Table 2: Correlation analysis

Coefficients	Areas of Improvement	Career Progression	Involvement of Employee	Employee Capabilities
Areas of Improvement	1	.814**	.833**	.816**
Career Progression	.814**	1	.847**	.888**
Involvement of Employee	.833**	.847**	1	.826**
Employee Capabilities	.816**	.888**	.826**	1

The above table shows that the coefficient of correlation between the variables are more than +0.800, it is noted that the correlation between Career progression and Employee capabilities with +0.888, also noted that the Involvement of Employee and Employee Capabilities with +0.826 and Areas of improvement and Employee capabilities possess correlation of +0.816.

Test of Hypothesis

The next part of the analysis is involved in analysing the difference in group mean, hence T test is used to analyse the hypothesis.

Hypothesis 1

H0: There is no major difference among the mean group between Areas of Improvement and Employee Capabilities

Table 3: T test between Areas of Improvement and Employee Capabilities

One-Sample Test	T test	df	P Va.	Mean Difference
Areas of Improvement	34.68	12	0	3.776
Employee Capabilities	33.92	12	0	3.976

Based on the analysis the p val is 0.00 hence null hypothesis is rejected therefore it can be noted that there is a major difference among the mean group between Areas of Improvement and Employee Capabilities.

Hypothesis 2

H0: There is no major difference among the mean group between Career Progression and Employee Capabilities

Table 4: T test between Career Progression and Employee Capabilities

One-Sample Test	T test	df	P Va.	Mean Difference
Career Progression	37.68	12	0	3.896
Employee Capabilities	33.92	12	0	3.976

Based on the analysis the p val is 0.00 hence null hypothesis is rejected therefore it can be noted that there is a major difference among the mean group between Carer Progression and Employee Capabilities

Hypothesis 3

H0: There is no major difference among the mean group between Involvement of Employee and Employee Capabilities

Table 5: T test between Involvement of employees and Employee Capabilities

One-Sample Test	T test	df	P Va.	Mean Difference
Involvement of Employee	30.03	12	0	3.728
Employee Capabilities	33.92	12	0	3.976

Based on the analysis the p val is 0.00 hence null hypothesis is rejected therefore it can be noted that there is a major difference among the mean group between Involvement of Employee and Employee Capabilities.

Structural Equation Model

The application of SEM in the data analysis supports the study in making a critical understanding involving factor analysis and multiple regression analysis. The application of path diagram states the major relationship among the variables and state in quantifiable terms between them.

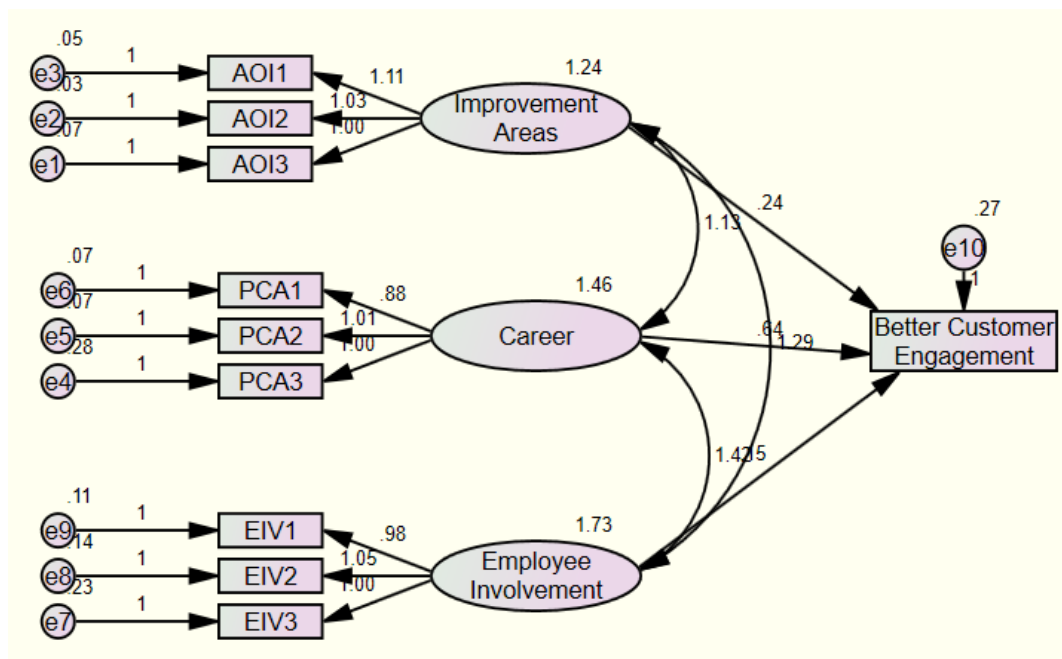


Fig 1: Path Analysis of Customer Engagement

The above path analysis shows that the independent variables possess positive relation towards the dependent variable.

Table 6: SEM analysis

SEM Results
Minimum was achieved
Chi-square = 104.76
Degrees of freedom = 30
Probability level = .000

Dependent	Independent	Est, Val	P Val
Employee Capabilities	Areas of Improvement	0.237	0.00
Employee Capabilities	Career Progression	0.643	0.00
Employee Capabilities	Involvement of Employee	0.152	0.03

From the analysis the chi square value is 104.76 and hence the model is stated to be good fit, also the p value between the variables is less than 0.05 and hence concluded that there exist better association between the independent and dependent variables.

The concept of performance appraisal refers to a comprehensive analysis and discussion of employees' overall performance based on accepted key performance areas. Many organizations tend to set an employee's goals and objectives for a specific period of time and then measure performance against the goals to assess whether the employee has achieved them or not. Performance appraisal is an important tool in the hands of management, supervisors and the staff team to effectively measure and evaluate performance, identify areas for improvement so that individuals can advance in their careers and effectively contribute to the organization's goals (Elliot, 2016). These systems help the organization, management and individuals to agree on goals for the performance review period and then measure actual results against the stated goals. Employees will receive feedback to improve their skills, suggest appropriate training and other methods to better perform in their current and future roles. The performance appraisal system also supports the analysis of potential and critical deficiencies in individuals that hinder their performance. Employees are the organization's main resources, primarily in service-related areas such as information technology, ITES, banking, etc. Therefore, implementing an effective performance system can provide motivation and support to develop an individual's skills, explore their potential to advance their careers and ultimately achieve effective organizational and team goals. The researchers said that with the right grading system in the organization, management can look at the employees' overall performance and also measure whether the organization is on the right track mission and vision. The organization's success is mainly due to the implementation of a good evaluation system and the measures taken by the management to improve the employees' skills based on the evaluation.

Conclusion

The present study mainly deals with the analysis of the main determining factors for the performance evaluation system in the development of employees' competence. In India, ITES industries employ almost 4.4 million people and represent 8% of India's GDP. Therefore, it is very important that the management understands the employees' overall performance in order to be able to effectively contribute to organizational development, the nation's development. A performance appraisal is defined as a systematic review of employees' progress based on agreed goals. Companies use different assessment methods such as goal-based management, 360-degree feedback and so on. to understand employee progress in various parameters. Thanks to an effective performance appraisal system, employees can focus on their core competencies, utilize their potential and thus develop their competencies.

References

- Almatrooshi, B., Sanjay, S., Farouk, S. (2016). Determinants of organizational performance: A proposed framework. *International Journal of Productivity and Performance Management*, 65(6), 844-859.
- Audenaert, M., Decramer, A., George, B., Verschuere, B., Van Waeyenberg, T. (2019). When employee performance management affects individual innovation in public organizations: The role of consistency and LMX. *The International Journal of Human Resource Management*, 30(5), 815-834.
- Brinkerhoff, D. W., Brinkerhoff, J. M. (2015). Public sector management reform in developing countries: Perspectives beyond NPM orthodoxy. *Public Administration and Development*, 35(4), 222-237.
- Elliot, V. H. (2016). Institutional entrepreneurship and change: A contemporary history of the Swedish banking industry and its performance management systems. *Journal of Accounting and Organizational Change*, 12(2), 223-251.
- Imran, M., Aziz, A., Hamid, S., Shabbir, M., Salman, R., Jian, Z. (2018). The mediating role of total quality management between entrepreneurial orientation and SMEs export performance. *Management Science Letters*, 8(6), 519-532.
- Karatepe, O. M., Olugbade, O. A. (2016). The mediating role of work engagement in the relationship between high-performance work practices and job outcomes of employees in Nigeria. *International Journal of Contemporary Hospitality Management*, 28(10), 2350-2371.
- Korff, J., Biemann, T., Voelpel, S. (2017). Human resource management systems and work attitudes: The mediating role of future time perspective. *Journal of Organizational Behavior*, 38(1), 45-67.
- Lappalainen, P., Saunila, M., Ukko, J., Rantala, T., Rantanen, H. (2019). Managing performance through employee attributes: Implications for employee engagement. *International Journal of Productivity and Performance Management*. Advance online publication. <https://doi.org/10.1108/IJPPM-10-2018-0356>
- Mishra, G. (2014). A comparative study of perceived satisfaction of employees regarding performance management system in context of IT organizations. *Asia-Pacific Journal of Management Research and Innovation*, 10(3), 225-237.

- Noronha, S. F., Aquinas, P. G., Manezes, A. D. (2018). Is job performance better attributable to performance management system through work engagement? *Indian Journal of Commerce and Management Studies*, 9(1), 1-6.
- Omboi, B. M. (2011). The Effect of Performance Appraisal Systems on Employees in Kenya Tea Development Agency. *Journal of Finance and Accounting*, 35(2), 205-223.
- Payambarpour, S. A., Hooi, L. W. (2016). The impact of talent management and employee engagement on organizational performance. *International Journal of Management Practice*, 8(4), 311-336.
- Solomon Sumumma Zayum. (2017). Performance Appraisal and Employee Productivity in Plateau State Internal Revenue Service, Nigeria. October 2017 *Journal of Public Administration and Governance* 7(4):24
- Teeroovengadum, V., Nunkoo, R., Dulloo, H. (2019). Influence of organizational factors on the effectiveness of performance management systems in the public sector. *European Business Review*, 31(3), 447-466.
- Wismeijer, A. A. (2012). Dimensionality analysis of the thought suppression inventory: Combining EFA, MSA, and CFA. *Journal of Psychopathology and Behavioral Assessment*, 34(1), 116-125.