



## **M MODEL OF PERFORMANCE: MANAGEMENT, MEASUREMENT AND MONITORING**

**Khadilkar Sujay M, Ph.D.**

*Associate Professor, KITs IMER Kolhapur*

Performance management is a relatively new concept to the field of management. Performance management literature typically starts out with various examinations of the term "performance management". Performance management is about creating a culture that encourages the continuous improvement of business processes and of individuals' skills, behavior and contributions. It is also about managing, measuring and monitoring performance, assessing various performance indicators, performance improvement, performance reviews, performance appraisal, feedback, self appraisal, team appraisal and appraisal training. A performance appraisal is a systematic and periodic process that assesses an individual employee's job performance and productivity in relation to certain pre-established criteria and organizational objectives. Performance management systems are employed "to manage and align" all of an organization's resources in order to achieve highest possible performance. Therefore, improving PA for everyone should be among the highest priorities of contemporary" organizations.

The major contribution of performance management is its focus on achieving results - useful for employees who are in many cases customers inside and outside the organization. Performance management redirects our efforts away from busyness toward effectiveness.

Interest on performance measurement and management (PMM) has notably increased in the last 20 years (Taticchi, 2008). Particularly, it is important to note the evolution of focusing performance from a financial perspective to a non-financial perspective. Since the middle of 1980s, companies emphasized the growing need of controlling production business processes. Companies have understood that for competing in continuously changing environments, it is necessary to monitor and understand firm performances. Measurement has been recognized as a crucial element to improve business performance (Sharma et al, 2005). A performance measurement and management system (PMS) is a balanced and dynamic system that enables

support of decision-making processes by gathering, elaborating and analyzing information (Neely et al., 2002). The concept of “balance” refers to the need of using different measures and perspectives that tied together give an holistic view of the organization (Kaplan and Norton, 1996). The concept of “dynamicity” refers “Measuring Business Excellence” instead to the need of developing a system that continuously monitors the internal and external context and reviews objectives and priorities (Bititci et al., 2000). An increasing competitive environment, the proneness of growing in dimension, the evolution of quality concept, the increased focus on continuous improvement and the significant developments in information and communication technologies are the most important changes in recent years that have created a favourable context for the implementation of PMSs in SMEs, particularly in the manufacturing sector (Garengo et al., 2005). Although extensive research has been carried out to investigate the needs and characteristics of PMSs in large organizations, there is a distinct lack of published research on issues related to SMEs (Hudson et al., 2000).

Performance appraisal has been considered as the most significant and indispensable tool of an organization. It is highly useful in making decisions regarding various personal aspects such as promotion and merit increase. Performance measures also link information gathering and decision making process which provide a basis for judging the effectiveness of personnel's functions. In the eyes of the employees, the purpose of performance appraisal system is to describe their level of performance to determine the required output from them and also to provide them constructive suggestions which eventually improves their performance. From the organization's view point, one of the most important reasons for having a system of performance appraisal is to establish and maintain the 'principle of accountability'.

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Performance management systems are employed “to manage and align” all of an organization's resources in order to achieve highest possible performance (Muczyk, & Gable, 1987, ). “How performance is managed in an organization determines to a large extent the success or failure of the organization. Therefore, improving PA for everyone should be among the highest priorities of contemporary” organizations (Muczyk, & Gable, 1987).

Performance management is a process for establishing a shared understanding about what is to be achieved and an approach to managing people that increases the probability of achieving success (Weiss & Hartle).

Recently, organizations have been facing with challenges like never before. Increasing competition from businesses across the world has meant that all businesses must be much more careful about the choice of strategies to remain competitive. Everyone in the organization must be doing what they're supposed to be doing to ensure strategies are implemented effectively. The performance measurement revolution has prompted many organisations to implement new performance measurement and management systems, often at considerable expense. However, unlike the environment in which organisations operate, many such initiatives appear to be static. Senge (1992) argues that, in today's complex business world, organisations must be able to learn how to cope with continuous change in order to be successful. Goold and Quinn "in business that face rapidly changing environment, or in which strategy needs to change frequently and opportunistically, fixed strategy goals may be dysfunctional.

Further, Meyer and Gupta argue that a number of factors, especially the tendency of performance measures to run down or to lose the capacity to discriminate good from bad performance, trigger ongoing creation of new performance measures different from and therefore weakly correlated with existing measures. The consequence is a paradox of performance where organisational control is maintained by not knowing exactly what performance is. Eccles (1991) suggests that it will become increasingly necessary for all major businesses to evaluate and modify their performance measures and hence performance management in order to adapt to the rapidly changing and highly competitive business environment.

Numerous authors espouse the need for reflection on what is being managed to ensure that they are updated to reflect this continuous change (Meyer and Gupta, 1994; Ghalayini and Noble, 1996; Dixon et al., 1990; Wisner and Fawcett, 1991). However, there has been little evidence of the extent or effectiveness with which this takes place. Moreover, the literature suggests that ineffective management of the evolution of measurement systems is causing a new measurement "crisis". With organisations implementing new performance measures to reflect new priorities but failing to discard measures reflecting old priorities resulting in uncorrelated and inconsistent measures and hence the loss of focus of performance management (Meyer & Gupta, 1994). Kennerley and Neely<sup>43</sup> go on to identify the capabilities necessary to maintain a dynamic measurement system which changes to reflect the organization's circumstances. These capabilities fall under the categories of Process, People, Culture and Systems.

## **Purposes of PAS**

Boswell and Boudreau (2000) make a most useful and clear distinction between two types of functions for appraisal systems:

- Evaluative functions include use of performance appraisal for salary administration, promotion decisions, retention/termination decisions, recognition of individual performance and identification of poor performance. To conduct this evaluative function the appraiser takes the role of the 'judge'. Evaluative functions focus primarily on differentiating between people.
- Developmental functions include the identification of individual training needs, providing performance feedback, determining transfers and attachments, identification of individual strengths and weaknesses. For this developmental function the appraiser takes the role of a coach or mentor.

Developmental functions focus primarily on within person analysis.

The most known purpose of performance appraisal is to improve performance of individuals. Cummings and Shwab (1973) held that performance appraisal has basically two important purposes, from an organizational point of view and these are:

1. The maintenance of organizational control
2. The measurement of the efficiency with which the organizations human resources are being utilized.

Still, there are also a variety of other declared purposes for appraisal as per Bratton and Gold (2003) and Bowles and Coates (1993) and some are; improving motivation and morale of the employees, clarifying the expectations and reducing the uncertainty about performance, determining rewards, identifying training and development needs, improving communication, selecting people for promotion, discipline, planning corrective actions and setting targets.

According to Cornell University (2010), the main purpose of performance management process is to develop people and improve performance by clarifying goals and coaching regularly. A secondary purpose is to provide honest and accurate formal evaluations to support rewards for performance practices.

However, these early person-based appraisal systems were fraught with problems. As a result, a transition to job-related performance assessments continues to occur. Thus, PA is being modified from being person-focused to behavior-oriented, with emphasis on those tasks or behaviors associated with the performance of a particular job (Wellbourne et al., 1998).

Regarding the purpose of PA, Cleveland et al. (1989) describe four types of uses of performance appraisal: between person, within person, system maintenance and

documentation. Between person uses are what have been referred to as administrative purposes, consisting of recognition of individuals' performance to make decisions regarding salary administration, promotions, retention, termination, layoffs and so forth. Within person uses are those identified in Management by Objectives (MBO), such as feedback on performance strengths and weaknesses to identify training needs and determine assignments and transfers. PA also helps in organizational goals, which are referred to as system maintenance uses. Finally, documentation purposes are to meet the legal ratings collected for administrative purposes are more lenient than ratings for research or developmental purposes. Although rating scale formats, training and other technical qualities of PA influence the quality of ratings, the quality of PA is also strongly affected by the administrative context in which they are used (Murphy & Cleveland, 1995). Effective managers recognise PAS as a tool for managing, rather than a tool for measuring subordinates. Such managers use PA to motivate, direct and develop subordinates, and to maximize access to important resources in the organisation to improve productivity.

Some organizations are attempting to meet all of these goals simultaneously while they continue to use tools that were designed for one type of purpose (Wiese & Buckley, 1998). Jawahar and Williams's (1997) findings suggest that ratings collected for administrative purposes are more lenient than ratings for research or developmental purposes. Although rating scale formats, training and other technical qualities of PA influence the quality of ratings, the quality of PA is also strongly affected by the administrative context in which they are used (Murphy & Cleveland, 1995). Effective managers recognize PAS as a tool for managing, rather than a tool for measuring subordinates. Such managers use PA to motivate, direct and develop subordinates, and to maximize access to important resources in the organization to improve productivity.

Furthermore, Performance appraisal can thus be used as an effective tool to improve employees' job performance by identifying strengths and weaknesses, meeting of targeted goals and providing training if needed.

### **The process and purpose of performance appraisal**

Studies show that there are many approaches for evaluating employee behavior and performance with respect to job tasks and/or organizational culture. As a result, various applications of PA have left many managers in a state of confusion and frustration with the employee evaluation process (Gurbuz & Dikmenli, 2007). This situation seems to negatively impact the popularity of appraisal systems in many organizations. Most people support the concept and purpose of PA, in spite of their concerns about the process and application of

appraisal outcomes by managers (Grote, 1996). The biggest complaint from managers is that they are not given sufficient guidelines to assess people; and the biggest complaint from employees is that the process is not equitable and fair. PA concentrates much in assessing past behaviors of employees, a situation some managers exploit to victimize unfavoured employees (Bersin, 2008).

The appraisal process has been categorized into: (1) Establishing job criteria and appraisal standards; (2) Timing of appraisal; (3) Selection of appraisers and (4) Providing feedback (Scullen et al., 2003). Early PA processes were fairly simple, and involved ranking and comparing individuals with other people (Milkovich & Boudreau (1997).

Flanagan and Finger (1998) stated that most performance improvement processes consist of agreeing on the standards or expectations by and staff: monitoring progress; recognizing; achievement and reviewing the performance displayed with recognition and review featuring in the maintenance plan. It is imperative that supervisor and employee agree upon and understand each other's expectations of the job. This is the foundation upon which the entire performance management process will be built. The challenge is that both supervisor and employee have to possess negotiating skills as they are required to agree on each other's expectation of the job.

### **Principles of Performance Management Plan**

For effective working of performance management, management must keep certain guidelines in mind. These guidelines may help in proper working and avoid much confusion during work. Experts have suggested the following principles:

#### **(a) Continuous Coaching, Feedback and Communication**

Performance management is considered a continuous process, not an event. For its proper and effective working the principles of continuous coaching and feedback are integral to success. These will definitely coordinate the related activities properly.

#### **(b) Effective Communication**

The Performance Management Plan gets involved line managers, supervisors, experts and consultants. To coordinate between them a proper timely and effective communication is needed. If is not there the objective of the plan will be defeated. It will ensure mutual understanding of work responsibilities, priorities, and performance standards and measurements.

#### **(c) Discussion and Evaluation**

Discussion and evaluation of specific job should be there. The discussion and valuation should be regarding nature of jobs, tasks, competencies needed to perform these jobs, major

duties and responsibilities and the performance standards. These must be specifically defined and communicated as the first step in the process.

**(d) Performance Standards**

Performance standards for each major duty / responsibility must be defined and communicated to all concerned. These standards are to be decided in mutual discussion with line managers, manager in charge of the job, persons performing the jobs, in house experts and consultants. Through detailed discussion the lowest, highest and average performance of the performers are to be taken in to account before finalizing the performance standard. These must be feasible to achieve by an average performer.

**(e) Employee Involvement and Development**

The performance management revolves around the manpower. The management must kept in mind that they must be involved the it and efforts must be there for their development and improvement of performance at work They must be motivated to develop their competencies, involve in the jobs and give best output to contribute in achievement of the organizational goals. Without proper involvement and development of employees it is not at all effective.

**(f) Fair Performance Evaluation**

The evaluation of the performance of people at work should be carried out timely. It should be fair without favor and fear. If it is done so then the exact poison of the performance given by the employees will be clear. Otherwise misguiding result will be there. The very objective of the performance measurement will not be served. The performance evaluation should not be frequent but at least annually it should be carried out because it is time and efforts consuming.

**(g) Proper Documentation**

The principle of proper documentation should be considered an important principle for effective working of the plan. The plan should be drawn and documents should be prepared. It should be communicated for all concerned who have been identified. The development, recognition, compensation and reward plan should be in black and white. Proper records are to be maintained. Further, proper documents of performance appraisal are needed for further remedial action. If these are not prepared then whenever confusion is there the documentary evidence cannot be given and management has nothing to refer in case of doubts arise regarding past decisions taken.

**(h) Performance Evaluation for Every One**

The performance appraisal of all employees should be carried out. It is not only applicable to lower and middle levels. It should be applied to the top level also. The senior level performs



must be evaluation on the basis of the successful administration of the plan and ongoing performance management responsibilities.

**(i) Training for Managers, Supervisors and Employees**

The training should be made available for everyone in the organization. It should be encouraged. It will keep the knowledge of the persons up to date. With changing technology, working procedures and new methods the present competencies becomes outdated. This has the effect on the performance. Special importance must be given for training of all levels people.

**(j) Consistent Performance Management Plan**

The plan should be consistent. It should not be changed frequently. Further, should be consistent with federal and state laws. If proper attention is not given to this principle then confusion can be created among people those who are involved in performance management directly or indirectly.

**Strategic overview of performance management:**

An organization use performance management for various purposes. The main issue hovers around the question of what criteria should be used to appraise performance of employees. Given that all appraisals involve judgments which are not always fair, organizations use techniques and tools to measure performances as objectively as possible. Performance management is the method of evaluating the behavior of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance. It is the systematic and objective way of evaluating both work related behavior and potential of employees. It is the process that involves determining and communicating to an employee how he or she is performing the job and ideally establishing a plan of improvement.

The appraisal is a systematic process involving three steps:

- a) Setting work standards
- b) Assessing employees actual performance relatively
- c) Offering feedback to the employees so that he can eliminate deficiencies and improve thereof.

It tries to find out how well the employee is performing the job and tries to establish its plan for further improvement. The appraisal is carried out periodically, according to a definite plan. It is not a past-oriented activity; rather it is a future oriented activity showing employees where they have gone wrong. Performance management is not a job evaluation. It refers to how well someone is doing an assigned job. It helps in making following decisions.



**Compensation decisions:** It can serve as a basis for pay raises. Managers need performance management to identify employees who are performing at or above expected levels. This approach to compensation is at the heart of the idea that raises should be given for merit rather than for seniority.

**Promotion decisions:** It can serve as a useful basis for change or promotion. When merit is the basis for reward, the person doing the best job receives the promotion. If relevant work aspects are measured properly, it helps in minimizing feelings of frustration of those who are not promoted.

**Training and development programs:** It can serve as a guide for formulating a suitable training and development program. Performance management can inform employees about their progress and tell them what skills they need to develop to become eligible for promotions.

**Feedback:** It enables the employee to know how well he is doing on the job. It tells him what he can do to improve his present performance and go up the 'organizational ladder'.

**Personal development:** Performance management can help reveal the causes of good and poor employee performance.

Research from the Institute for Corporate Productivity indicates that there are several well-defined steps that can make performance management an effective process in any organization. Their study, *Finding the Keys to Performance Management: A Study of Current Trends and Future Possibilities* surveyed more than 1,000 HR professionals representing various industries and company sizes.

Nine key practices for effective performance management were found, and are listed below:

- The performance management process includes developmental plans for the future.
- Training is provided to managers on how to conduct a performance evaluation meeting.
- The quality of performance appraisals is measured.
- There is a system in place to address and resolve poor performance.
- The performance appraisal includes information other than that based on the judgment of managers.
- The performance review process is consistent across the organization.
- Employees can expect feedback on their performance more than once a year.
- 360 reviews are used to support the performance evaluation process.
- The performance management process includes ongoing goal review and feedback from managers.

**Problems with performance management:**

The problems inherent in performance management may be listed thus,

1. Judgment errors: people commit mistakes while evaluating people and their performance. Biases and judgment errors are of various kinds may spoil the show. These are of various types:
  - a. First impressions: the appraiser's first impression of a candidate may color his evaluation of all subsequent behaviour.
  - b. Halo: The halo error occurs when one aspect of the subordinate's performance affects the rater's evaluation of other performance dimensions. If workers have little absence, his supervisor might give the worker a high rating in all over areas of work.
  - c. Leniency: depending on rater's own mental make-up at the time of appraisal, raters maybe rated very strictly or very leniently. Appraisal generally finds evaluating others difficult, especially very negative ratings have to be given. If everyone is to be rated high, the system has not done anything to differentiate among employees.
  - d. Central tendency: an alternative to the leniency effect is the central tendency, which occurs when appraisers rate all employees are average performers.
2. Poor appraisal forms: the appraisal process might also be influenced by the following factors relating to the forms that are used by raters:
  - a. The rating scale may be quite vague and unclear.
  - b. The rating form may ignore important aspect of job performance.
  - c. The rating form may contain additional, irrelevant performance dimensions.
  - d. The forms may be too long and complex.
3. Lack of rater preparedness: the rater may not be adequately trained to carry out performance management activities. This becomes a serious limitation when the technical competency of rate is going to be evaluated by a rater who has limited functional specialization in that area.
4. Ineffective organizational policies and practices: if the sincere appraisal effort put in by a rater is not suitable rewarded, the motivation to do the job thoroughly finishes off. Sometimes, low rating given by raters are viewed negatively by management as sign of failure as a part of rater or as an indication of employee discontent. So, most employees receive satisfactory rating, despite poor performance.
5. Statement of Philosophy for performance management process: This performance management process is designed to evaluate an employee's performance over a specified

period of time. When the process works well, the employee and his/her supervisor plan together to build on strengths and develop those areas needing improvement. During the performance management session, time is set aside to:

1. Restate expectations about job responsibilities and performance standards
2. Evaluate job performance against previous expectations
3. Discuss future development opportunities and relate them to organizational needs

**Supervisors:** In evaluating an employee's performance, HR manager are to identify strengths and areas of performance which require improvement. HR manager are asked to provide examples of the employee's performance to illustrate the ratings HR manager give. Examples based on HR manager own observations work best. However, second hand observations are permissible if HR manager have verified the information. Such examples clarify the message. After the meeting, follow up on the plans mutually established by HR manager and the employee.

**Employees:** The more involved HR manager are in the performance management session, the more effective the process is likely to be. Be prepared by completing the self-appraisal form.

**Resources:** There are only two approved staff performance management methods at the University – the University of Pittsburgh Staff performance management Form or the **Performance Impact Workplace** program. **Performance Impact Workplace (PIW)** program users should continue utilizing the software that was previously installed in HR manager department. The Office of Human Resources, through Organization Development, is available to assist HR manager and the staff during the Appraisal period. We can work with department supervisors on how to write clear and measurable goals, collect meaningful feedback, provide coaching throughout the year, and plan for and conduct a meaningful performance evaluation. If HR manager find that the staff performance management method does not quite meet the needs of HR manager organization, please let us know. We can work with the organization so that the system works better for HR manager and HR manager staff. Please call the HR recruiter or Organization Development consultant to follow up on any of these services.

### **Difficulties in Implementing Performance Appraisal**

Performance appraisal is one of the most praised, criticized and debated management practices for decades (Lawler, 1994), yet, it has been identified as one of the least popular practices of human resource management. Human resource managers' themselves show little confidence in their performance systems (Beer, 1981) since they have to play the roles of

both judge and jury (Beer, 1981). Beer, 1981 further noted that most managers are not trained to handle difficulties that arise from negative feedback.

Grote (1996), in discussing the training of appraisers and appraises mentioned the importance of continuous training for personnel staff and human resource managers and especially for new managers (appraisers).

Taylor and O'Driscoll (1994), in concluding their study identified three directions for training in performance appraisal: improving managers' skills, addressing appraises' performance problems and discussing development needs and career aspirations of employees. To ensure successful implementation there needs to be a complete understanding, acceptance, and support of the appraisal system and its purposes.

**Primary data:**

The primary data for this purpose was collected on the basis of field survey. Two questionnaires were prepared for this purpose, and filled by respondents. Free and frank discussions with selected respondents, relevant literatures of Company / Organization and Observation method also has been included. One questionnaire was specifically prepared for the Executive from personnel / HR, responsible for carrying out the Performance Management System in Company / Organization for expressing his/her opinion regarding Performance Management System.

**Measures:**

Two separate questionnaires were developed one for H R managers and for Department managers to measure the factors found to influence the effectiveness of performance appraisal.

The questionnaire for H R managers consisted of information regarding H R practices related to Performance Management.

The questionnaire for managers consisted of questions pertaining to perception of H R practices related to performance appraisal system, their and acceptance of PMS, perception of organizational climate and commitment to the organization.

Three scales were used in the study. Perception of Performance Management System was assessed by a scale developed by Freinn- von Elverfeldt, A.C, von (2005) consisting of 11 dimensions-instrument validity, distributive justice, procedural justice, goal-setting, performance feedback, performance based pay, employee participation ,360-degree appraisal, ,Rating techniques, Rating accuracy and training. In order to validate the scale it was distributed to HR managers and academicians in the field. Based on the response it was found to be usable in the Indian context.

Organizational climate was assessed by a scale developed by Shalindra Singh (1988) consisting of seven dimensions.

organizational commitment was assessed by Mowday R.T, Steers R.M, Porter L.W (1979).consisting of 15 questions.

Organizational climate and commitment scales are widely used in the Indian context.

All the scales were assessed on a five-point Likert-scale ranging from one to five, with one being “I absolutely disagree”, three being a neutral score and five being “I absolutely agree”.

### **Secondary data:**

In order to conduct the research, the relevant and concerned book, reports, literatures from internet and various libraries were referred. Further, important contributions in the subject matter, from various journals, magazines, periodicals, reports, bulletins, survey material, newspapers published in India & abroad also used were widely used for study. The same is acknowledged at various relevant points in the thesis and listing is made on Bibliography, at the end.

### **Systems of performance management process:**

- It is found that employees are appraised by several sources (supervisor, peers, customers etc) .Employees feel comfortable with the scientific scales used to evaluate their performance .It is found that scientific scales allow an accurate assessment of different dimensions of performance.
- It is found that departmental managers need more training in conducting performance management interviews and needs training in all skills needed in appraising performance. It is found that maximum number of departmental managers able to give useful feedback to the employees.
- Departmental manager feels that existing form is too complex and .It is found that the departmental managers feel that they have sufficient opportunity to observe the employees for evolution .It is found that managers have enough information regarding performance standards to make accurate judgments about on each performance dimension.
  - **Hypothesis:** Performance Management system differs from organization to organization.
  - **Justification:**
- In the present study, researcher has made an attempt, to understand the opinion of the departmental managers regarding the application of the performance management

systems .As the type of sample used for the study is of random type and sample size is not to large Chi square test is thought to be the most appropriate one. The chi square distribution is a theoretical or mathematical distribution which has wide applicability in statistical work. The chi square test is based on the difference between the observed and the expected values for each category. The frequency distribution could be measured on a nominal, ordinal, interval or ratio scale.

- **Significance Level- 5%** The significance level is a fixed probability of wrongly rejecting the null hypothesis **H<sub>0</sub>**, if it is in fact true.
- **Confidence Level- 95%** A confidence level refers to the percentage of all possible samples that can be expected to include the true population parameter and makes clear why one should not accept the null hypothesis. In this survey the researcher has made an attempt to prepare a separate statement of alternative and null hypothesis.
- **Alternative Hypothesis:** Performance Management System differs from organization to organization.
- **Null Hypothesis:** Performance Management System does not differ from organization to organization
- **Chi-Square Test**

Tables showing the details of chi square value in SPSS

<b>Test Statistics</b>	
Chi-Square	79.380 <sup>a</sup>
df	1
Asymp. Sig.	.000

	Observed N	Expected N	Residual
Yes	163	100.0	63.0
No	37	100.0	-63.0
Total	200		

From the table it is clear that chi square value is greater than the tables value for df=1. Therefore, null hypothesis is rejected and alternative hypothesis is accepted. Thus, performance Management System differs from organization to organization. It is evident from the departmental manager’s opinion that there are changes in the execution of

performance management system. Execution is in form of the methods used in case of appraising the performance of the employees.

**Applicability and usefulness of the performance management system:**

Researcher has found that managers are having unique opinion about the applicability of the performance management system and the way in which it is used in the organizations .It is found that the departmental managers agree on that the preference for performance to be evaluated by an instrument developed and designed with the help of employees. Role of employees is quite critical in the success and failure of the performance management system It is found that departmental managers agrees on prefer performance to be evaluated additionally by colleagues because they have relevant performance information and insight. It is found that departmental manager like give feedback to supervisor on their performance. The appraising own performance would enhance awareness of performance of the employees .Departmental manager feel that they are able to clearly set goals that are relevant for the employee's position .Departmental managers feel that they are able to use appraisal instrument as intended. It is found that employees are regularly refreshed and updated through training.

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