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## *A Study of Performance Appraisal Practices in Small and Medium Sized Enterprises in Mysore and Bangalore Region*

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*Abstract: Performance appraisal is the systematic evaluation of the performance of employees and should be done in a systematic way. To determine whether an employee is valuable for continued employment or not and if so whether an employee should receive a bonus, a pay rise or promotion, his performance needs to be evaluated from time to time. In small and medium sized enterprises appraisal systems are rare and as the firm grows it becomes formal. The questionnaire was developed and measured by using a five point Likert scales ranging from strongly disagree to strongly agree. ANOVA and Chi-square tests were used to examine relationship and impact of performance appraisal practices on organizational performance. The results revealed that there is a significant difference in the mean agreeability scores and also an association exists between those organizations who adopt formal performance appraisal practices with financial and non-financial performances of small and medium sized enterprises.*

*Keywords: Performance appraisal practices, organizational performance, Small and Medium sized Enterprises (SMEs)*

### I. INTRODUCTION

Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in a systematic ways. In order to determine whether an employee is valuable for continued employment or not and if so whether he should receive a bonus, a pay rise or promotion, his performance needs to be evaluated from time to time. Performance appraisal is generally done in systematic ways which are as follows:

- » The supervisors measure the pay of employees and compare it with targets and plans.
- » The supervisor analyses the factors behind work performances of employees.
- » The employers are in position to guide the employees for a better performance.

*The objectives of Performance Appraisal are as follows:*

- » To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
- » To identify the strengths and weaknesses of employees to place right men on right job.
- » To maintain and assess the potential present in a person for further growth and development.
- » To provide a feedback to employees regarding their performance and related status.
- » It serves as a basis for influencing working habits of the employees.
- » To review and retain the promotional and other training programmes.

## II. REVIEW OF LITERATURE

Wagar [1] studied performance appraisal practices in small firms of Atlantic Canada. He opines that few small firms and most of the large firms use formal performance appraisal.

Connie [2] explored performance appraisal practices in small and medium sized enterprises in China. He revealed that there is scope for improvement in the areas of performance appraisal. He described that evaluation of performance should be aimed at promoting skills, training and education for staff.

Reid and Adams [3] examined human resource management practices in small and medium sized of Northern Ireland. They opine that few family businesses use formal appraisal method to evaluate their family members.

De Kok and Uhlener [4] carried out HRM practices in small firms of Dutch. They explored that firm size is related with formal performance appraisal Catherine cassell et. al., [5] examined human resource management practices in European small and medium sized. They concluded that appraisal system is informal and is rare in some of the organizations. Kotey and Sheridan [6] carried out human resource management practices in micro, small and medium sized firms in Queensland. According to them as size of the firm increases peer and self-appraisal methods are used and rating scales is one of the methods adopted at the operational level.

Cardon and Stevens [7] studied human resource practices in small organizations. They concluded that no formal appraisal methods are used in small and medium sized enterprises.

Kotey and Slade [8] investigated the association between the size of the firm and adoption of human resource management practices in Australia. They revealed that responsibility of performance appraisal is handed over to middle management as the firm size enhances.

Fanny [9] examined the relationship between different HRM practices and financial success in small and medium enterprises in Hong Kong. He concluded that performance appraisal is associated strongly with company's success.

Mohammed et. al., [10] explored the influence of human resource practices on job satisfaction in manufacturing firms of Bangladesh. They opine that performance appraisal did not completely contribute to job satisfaction.

Islam and Siengthai [11] carried out human resource practices and organization performance in Dhaka of Bangladesh. They explored that performance appraisal have positive impact on performance of firm.

Rajesh and Ravindra [12] studied human resource practices in small scale industries in Miraj city. Their results describes that performance appraisal system in an organization will increase the productivity and efficiency of workers.

Kaveri and Prabakaran [13] investigated the influence of human resource practices on organizational performance in Vellore district of India. According to them evaluation of employees should be done based on their performance but not on their personal attributes.

Luc et. al. [14] revealed that productivity and profitability of the organization increases with intensity of human resource practices. They found that by adopting performance appraisal systems in an organization helps in achieving a better fit between the individual and the job and between the individual and the organization.

## III. METHODOLOGY

The objective of the research is to find the association of formal adoption of performance appraisal practices with financial and non-financial performances of SMEs.

Research hypothesis: The following null hypothesis is formulated and tested.

1. There is no significant association between those organizations who adopt formal performance appraisal practices and their financial performance.
2. There is no significant association between those organizations who adopt formal performance appraisal practices and their non-financial performance.

### Research instrument

The questionnaire covers questions on performance appraisal practices and organizational performance in terms of financial and non-financial measures. All the questions framed were closed ended type with a five point Likert scales ranging from strongly disagree to strongly agree.

## IV. RESULTS AND DISCUSSIONS

The analysis of variance has been carried out based on formal or informal adoption of performance appraisal practices by the enterprises and the mean agreeability scores of the respondents representing various organizations on the financial and non-financial performances of the organization. Table 1 and 2 shows mean agreeability score on financial performance and non-financial performance among the respondents representing the enterprises that adopt or do not adopt any formal performance appraisal practices.

**Table –1 performance appraisal practices and financial performance**

Performance Appraisal Practices	Respondents		Financial performance			
			Mean	Range		S.D.
	N	%		Min.	Max.	
Formal adoption	80	20.8	4.68	1	5	.742
Informal adoption	304	79.2	3.04	1	5	1.474
Total	384	100	3.38	1	5	1.509
F val.(df:1,382)= 92.539*						

Source: Primary data

\*Significant at 5 %

With respect to formal adoption of performance appraisal practices by organization, inference can be made based on the above table. As can be seen, 79.20 % of the organizations are not adopting any formal performance appraisal practices, whereas only 20.80 % of the organizations adopt formal performance appraisal practices. The analysis of variance show that there is significant difference in the mean agreeability score on financial performance among the respondents representing the organization that adopt or do not adopt any formal performance appraisal practices. The mean score ranged from 3.04 to 4.68 and it is higher among the organizations that adopt formal performance appraisal practices.

**Table –2 Performance Appraisal Practices and Non - Financial Performance**

Performance Appraisal Practices	Respondents		Non - financial performance			
			Mean	Range		S.D.
	N	%		Min.	Max.	
Formal adoption	80	20.8	4.55	1	5	.745
Informal adoption	304	79.2	2.91	1	5	1.439
Total	384	100	3.26	1	5	1.482
F val.(df:1,382)= 96.364*						

Source: Primary data

\*Significant at 5 %

With respect to formal adoption of performance appraisal practices by organization and the analysis of variance on non-financial performance, inference can be made based on the above table that there is significant difference in the mean agreeability score on non-financial performance among the respondents representing the organization that adopt or do not adopt any formal performance appraisal practices. The mean score ranged from 2.91 to 4.55 and it is higher among the organizations that adopt formal performance appraisal practices.

Chi-square test was conducted to check the association of performance appraisal practices with financial and non-financial performance of the manufacturing SMEs in Mysore and Bangalore region. Table 3 and 4 shows the results.

**Table –3 Association between Performance Appraisal Practices and Financial Performance of SMEs**

Performance Appraisal Practices	Financial Performance					Total
	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	
Formal adoption	1 (8.8)	1 (22.9)	4 (10.0)	11 (6.0)	63 (32.3)	80
Informal adoption	41 (33.3)	109 (87.1)	44 (38.0)	18 (23.0)	92 (122.7)	304
Total	42	110	48	29	155	384

Source: Primary data

\*Significant at 5 %

The expected frequencies are given in the parenthesis of the above table.

Chi-Square Value: **81.722\*** D.F: 4 p = 0.000

As the  $\chi^2$  value is statistically significant, the null hypothesis of no association between the two attributes is rejected and hence there is a significant association between those organizations who adopt formal performance appraisal practices and their financial performance.

**Table –4 Association between Performance Appraisal Practices and Non - Financial performance of SMEs**

Performance Appraisal Practices	Non - Financial performance					Total
	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	
Formal adoption	1 (7.9)	1 (28.3)	3 (7.1)	23 (8.8)	52 (27.9)	80
Informal adoption	37 (30.1)	135 (107.7)	31 (26.9)	19 (33.3)	82 (106.1)	304
Total	38	136	34	42	134	384

Source: Primary data

\*Significant at 5 %

The expected frequencies are given in the parenthesis of the above table.

Chi-Square Value: 99.472\* D.F: 4 p = 0.001

As the  $\chi^2$  value is statistically significant, the null hypothesis of no association between the two attributes is rejected and hence there is a significant association between those organizations who adopt formal performance appraisal practices and their non-financial performance.

## V. CONCLUSION

The analysis of variance shows that there is significant difference in the mean agreeability scores on financial performance and non-financial performances of SMEs and the mean agreeability scores are high among the enterprises that adopt formal performance appraisal practices. The Chi-square test reveals that there is an association between those organizations who adopt formal performance appraisal practices and their financial and non-financial performances.

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