



Constructing of Evaluation Index Modelling for Performance Appraisal on Employee Retention Evidence from Pharmaceutical Companies in Indian Context

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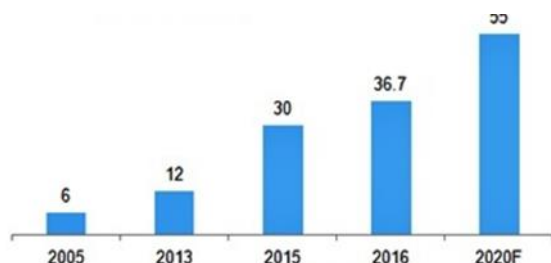
ABSTRACT

The present study examined the effects of employees' perceptions of performance appraisal on employee retention and intention to quit using survey data from an occupationally heterogeneous sample of white-collar employees from various pharmaceutical companies. This research focuses on two elements are performance appraisal motives influencing employee retention intention. The results show that perceptions of performance practices measured through pharmaceutical companies in Indian context and system positively affect the employees' retention. The perceptions of performance and process were examined to empirically validate the various factors that influence the employee retention. Findings highlight the Rewards, Career Advancement Opportunities, Compensation, Training and Career Development all the four factors should focused while doing the performance appraisal process, further it will gives Effective Employee Productivity, Organizational Justice, Supervisor Support Work Environment, that are influencing the employee retention. The implementation are interpreted as illustrating the importance of distinguishing between performance management system influence employee performances further supporting for employee retention.

Keywords: Performance appraisal, employee retention, Organizational Justice, Employee Productivity and Organizational behavior.

INTRODUCTION

The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value, as per a report by Equity Master. India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume. Of late, consolidation has become an important characteristic of the Indian pharmaceutical market as the industry is highly fragmented. The Indian pharmaceuticals market increased at a CAGR of 17.46 per cent during 2005-16 with the market increasing from US\$ 6 billion in 2005 to US\$ 36.7 billion in 2016 and is expected to expand at a CAGR of 15.92 per cent to US\$ 55 billion by 2020.



Source: Department of Pharmaceuticals, PwC, McKinsey, TechSci Research
Notes: F - Forecast, CAGR - Compound Annual Growth Rate

Figure: 1 Revenue of Indian Pharmaceutical Sector (US\$ billions)

After information technology (IT), the pharmaceuticals industry is grappling with the highest level of attrition. The fast growing knowledge-based sector suffers an

annual attrition rate of 30 to 35 per cent, according to a recent survey by Interlink Marketing Consultancy. The survey points out that the sector's high churn other than the natural rate of attrition is mainly due to poaching, burnout, high stress at work and inadequate payment. Globally, the rate of attrition in Pharma is only 10 to 12 per cent, says the IBS report. The research reveals that the Pharma industry annually experiences an employee turnover of 30 to 40 per cent at the field level and 8 to 10 per cent at the managerial level. Disaffected employees cite five main reasons poor management, lack of appreciation, support, and opportunity for advancement, inadequate compensation and ethical issues, for leaving their jobs. This study focuses on analyzing and exploring the impact of performance management system on employee retention According to Chan and Lynn (1991), the organizational performance criteria should include profitability, productivity, marketing effectiveness, customer satisfaction, but also employee morale. In this perspective, employee performance is tightly related to organizational performance, effective and efficient employee performance will positively influence organizational performance. On the other view, Millar (2007) built a framework of talent management which consists of planning, recruiting, performance, learning, career development, succession planning, compensation, and measuring and reporting. In order to organize a company effectively, companies must rethink how they hire, train and reward their employees; therefore the employees could be encouraged to be competitive. Undoubtedly, there is an important factor is human in



organizations. One of the main management strategies of the organizations is to invest in employees. Organizations are seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications Zhang, Y. (2012). Thus, performance management should be an important step in the organization's HRM system and influences employee performance and then to organizational performance. The reason why I chose this research topic is that nowadays there are many organizations that are relying on employees for success and competitiveness. According to the resource-based view, employees are the resources and assets of an organization. Consequently, organizations need to figure out strategies for identifying, encouraging, measuring, evaluating, improving and rewarding employees' performance at work. According to this respect, performance management and appraisal systems have come to play an indispensable role in helping organizations to reach their goals of productivity (Stevens & Joyce, 2000). In fact, human resource management practices could influence the behaviours of individual employees. The impact of Human Resources (HR) practices on employees' commitment and performance depends on employees' perception and evaluation of these practices Cawley, et al (1998). Recent theoretical developments have enabled the empirical study of trust for specific referents in organizations. The 3 proposed factors of trustworthiness (ability, benevolence, and integrity) mediated the relationship between perceptions of the appraisal system and trust.

Conceptual framework

Performance Appraisal System

Esen, H., Hatipoğlu, T., & Boyacı, A. İ. (2016). The main purpose of performance appraisal is not only to increase the performance of employees, but also to unite the individual targets with the company's targets. Performance appraisal requires evaluation and decision making in uncertain environments involving multiple factors. BårdKuvaas, (2011) the positive relationship between PA reactions and affective organizational commitment highlights the importance of positive PA reactions. At the same time, the relationship between PA reactions and work performance was moderated by regular feedback, which suggests that formal PA cannot compensate for low levels of regular feedback. Ilgen, D. R., & Feldman, J. M. (1983). The performance appraisal process is construed as a function of 3 interacting systems: organizational context, the appraiser's information processing system, and the behavioural system of the appraise. It is argued that aspects of each system constrain the ability of the appraisal process to produce accurate, unbiased, and reliable assessment of individual behaviour and performance. The following characteristics of the appraisal process are discussed: ⁽¹⁾ observation, reward opportunities, and systemic issues such as function and expectations within the context of the organization; ⁽²⁾ the appraiser's automatic attention

processes, categorization and memory, and information search and recall; and³ appraisers' automatic and controlled modes of behaviour. Vishal Gupta, Sushil Kumar, (2012). The research was cross-sectional and so any inferences regarding causality are limited. All responses on engagement and justice scales are from self-report measures and it is likely that method variance inflated the relationships among these variables. HR-performance management aims at developing potential capabilities of human resource. The performance management must be in line with the company's long-term policies (Kandula, 2006). Performance management involves managing employee efforts, based on measured performance outcomes. Therefore, determining what constitutes good performance and how the different aspects of high performance can be measured is critical to the design of an effective performance management process. And performance management effectiveness increases when there is ongoing feedback, behavior-based measures are used and preset goals and trained raters are employed Aguinis, H. (2009).

Employee retention

An effort by a business to maintain a working environment which supports current staff in remaining with the company. Many employee retention policies are aimed at addressing the various needs of employees to enhance their job satisfaction and reduce the substantial costs involved in hiring and training new staff. Wan, C. S., & Fu, (2012). In past decades, high employee turnover has been an important issue for many hoteliers and a focus of academic interest. This study indicates that managers need to understand more fully the needs of subordinates when providing career advice, and relevant training programs should be introduced to enhance career opportunities. The following motivational variables were found to have significantly influenced employee retention in both the public and private sector organizations: training and development, challenging/interesting work, freedom for innovative thinking and job security, Samuel, & Chipunza, (2009).

Performance appraisal on employee retention

Salim, B. N. (2013). The research used retention strategies and these are training and development, communication, compensation, working environment, career advancement and work life balance. Employee performance was measured by the use of performance indicators which are quality of work, quantity of work, cooperation, absenteeism and dependability. The outcome of the relationship between retention strategies (independent variable) and employee performance (dependent variable) was examined by using a regression model. The findings of the study revealed that there is a positive significant relationship between the two variables. Moreover, it was discovered that training and development strategy had the greatest significance on employees' performance. It is recommended that organizations develop retention strategies that will



motivate employees to remain in the firm and increase their performance. Having a work life balance has been seen to have an impact on retaining staff as it helps employees to have a balance between work and family life. This has helped employees to reduce pressure on them and end up increasing their performance at work. Having in place a work and personal life balance policy has shown to have an increase in the level of morale in the firm, a retention tool for valued employees, commitment and loyalty as well as a reduction in absenteeism and improved performance and productivity Lazar, I., Osoian, C., & Ratiu, P. (2010).

Organizational justice

Organizational justice refers to employee perceptions of fairness in the workplace. These perceptions can be classified into four categories: distributive, procedural, informational, and interactional. Williamson & Williams (2011). Perceived lack of justice in relation to the implementation of AfC, resulting in a lowering of staff morale and organisational commitment. However, no effect on co-worker relations was reported. Professional values appear to supersede issues of organisational justice, with staff asserting that patient care must override any matter of personal dissatisfaction. Esterhuizen, & Martins, (2008). Employment equity strategies should be adapted to suit an organisation's specific needs. Mahajan, & Benson, (2013). The paper suggests ways through which different types of justice climate – distributive, procedural, interactional – are related to different dimensions of social capital. This paper also extends the findings of organizational justice research from an individual level to organizational level by proposing an indirect relationship with firm performance. Jordan, etal (2009). Distributive, procedural, and interactional justice influenced student employee POS. Additionally, the authors explored whether perceptions of justice differed based on sex, tenure of employment, and type of supervision. All three dimensions of organisational justice were significantly related to POS, with distributive justice demonstrating the greatest effect. Based on findings from this study, it appears that employee perceptions of workplace fairness serve as an important determinant of PO

Statement of the problem

According to HRM experts, performance management and in the moment praises can be as satisfying as much as financial enumerations and can be crucial in retaining the most valued employees. Yet many HR managers as well as top management of an organisation fails to deliver praise and assistance to a high performing employee at the right time leading to the loss of highly skilled workers and professionals. Duster hoff, C., Cunningham, J. B., & Mac Gregor, J. N. (2014). The performance appraisal process is increasingly seen as a key link between employee behaviour and an organization's strategic objectives. Unfortunately, performance reviews often fail to change how people work, and dissatisfaction with the appraisal

process has been associated with general job dissatisfaction, lower organizational commitment, and increased intentions to quit. Macky and Johnson (2000) pressed that the importance of performance management system is on continuously improving organizational performance, and this is achieved by improved individual employee performance. Therefore, improving employee performance by using performance management system is a way to improve organizational performance. So, in this master thesis, I investigate the relationship between performance management system and employee performance further increasing employee retention empirically. And how could the different stages in performance management system influence employee retention respectively?

1. Research Gap

Michelle Brown, Douglas Hyatt, John Benson, (2010) Employees with low quality PA experiences (relative to those with mixed and high quality PA experiences) were more likely to be dissatisfied with their job, be less committed to the organisation and more likely to be contemplating leaving the organisation.

2. Research question

To what extent does the performance management system influence employee performance further supporting for employee retention?

3. Objective of the study

1. To assess employees' perception about the existing performance appraisal practice and its outcomes.
2. To assess the employees perception on organizational justice and its impact on employee benefits.
3. To examine the relationship between impact of performance appraisal and effective employee productivity
4. To examine the relationship between employees perception of employee productivity and organizational justice.
5. To examine the relationship between employees' perception of performance appraisal and employee retention.

4. METHODOLOGY

The research instrument was carefully designed containing 22 items specifically fashioned to examine the extent to which effective performance appraisal is influenced and its impact on employee retention. in selected pharmaceutical companies in Indian. The items were mainly based on salient gaps identified with regards to existing literature in a contemporary work setting which includes; the culture of the organization, Performance appraisal, employee retention, and Organizational Justice, Employee Productivity and Organizational behaviour was the obvious targets that



informed the questionnaire design. The fundamental scale measurement used in the development of the research instrument is 5-Point Likert scale. Likert scale is one of the most commonly used scaled-response in survey design in recent times.

Nine forty six employees were selected by stratified random sampling method pharmaceutical companies in Chennai and 679 questionnaires were deemed useable. The respondents are male and average age was 35 yrs. The overall mean for each of the variables (both independent and dependent) provides a summative disposition of respondents' views towards that particular variable (Morgan, 1998) thereby, embracing both positive and negative views. In lieu of this, a mean below 2.5 in this study signals positivity in the overall tendency of respondents relative to that particular variable.

Research Model

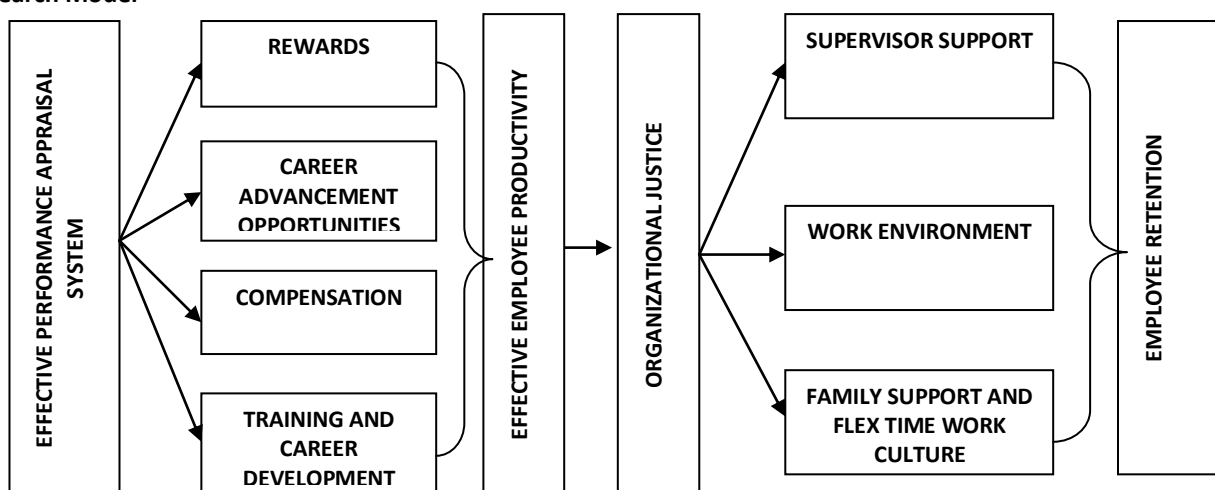


Figure 3: Constructing of evaluation index modelling for performance appraisal on employee retention

Data analysis and Results

The organisational characteristics of the firms where the respondents are employed is presented. The case summaries of the study variable are presented construct wise. To validate the data, reliability and confirmative factor analysis using AMOS is done and the results are presented. The hypotheses are further tested using the path analysis using the Structural model in AMOS. Further chi square and ANOVA results are also presented. The discussion on the hypotheses testing and its inference is done at the end. There are 14 items the data is subjected to factor analysis for data reduction. The Kaisen-Meyer-Olkin and Bartlett's test indicate the p value is less than 0.05 and sample adequacy equals to 0.836 indicating that factor analysis is appropriate for present study.

The test had been conducted to test the reliability of the primary data to examine whether random error grounds inconsistency and in turn lower reliability is at accepted level. Cronbachs Alpha value is 0.916 by reliability test so data has been accepted with high satisfaction

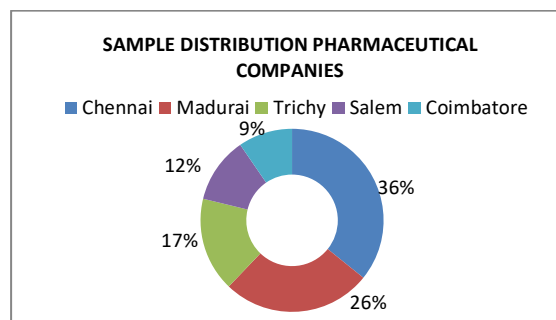


Figure 2: Performance Appraisal on Employee Retention in Pharmaceutical Companies in India

On the contrary, a mean above 2.5 is an indication of negative perception of respondents towards that variable.

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.916	.917	22

In this above Model summary table -3 exposed value. 452 is R- Squared model. Its explain that 45.2percent of the variation in employee retention perception in 10 independent variables. And also table shows .314 as adjusted R- square for the model. Further R – square value will decrease slightly if another independent variable is added. Consequently, it becomes difficult to determine which models do the best job of explaining variation in the same dependent variable. Thus, selecting the best job of explaining variation is becoming hard to determine. The adjusted R-square gives a pathway to compare the explanatory power of models with diversified predictor variables. This model summary can be used for determining the number of variables included in the regression model.

Table 2: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.673 ^a	.452	.314	.868	.452	3.264	21	83	.000

Table 3: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	51.626	21	2.458	3.264	.000 ^b
	Residual	62.507	83	.753		
	Total	114.133	104			

Predictors (Constant)

Rewards, Career Advancement Opportunities, Compensation Training and Career Development, Effective Employee Productivity, Organizational Justice, Supervisor Support, Work Environment, Family Support and Flex Time Work Culture, Employee Retention.

Dependent Variable

Performance Appraisal .The ANOVA table, as displayed in the above table shows the F ratio for the regression model that indicates the statistical significance of the overall regression, model. The F ratio is calculated the same way for regression analysis as it was for the ANOVA technique. The variance Independent variable that is associated with the dependent variable (performance Appraisal, retention) is referred to as explained variance.

Table 4: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.145	.425		2.694	.008
Rewards	.367	.106	.378	3.457	.001
Career Advancement Opportunities	.079	.102	.083	.776	.440
Compensation	.067	.095	.078	.711	.479
Training and Career Development	.194	.084	.206	2.103	.004
Effective Employee Productivity	.435	.093	.044	1.418	.004
Organizational Justice	.377	.104	.358	3.337	.002
Supervisor Support	.014	.106	.014	.129	.898
Work Environment	.061	.101	.066	.605	.546
Family Support and Flex Time Work Culture	-.062	.093	-.074	-.670	.505
Employee Retention	.191	.087	.216	2.203	.003

The standardized coefficient beta column reveals that Rewards has a Beta coefficient 0.378, which is significant (0.001). Career Advancement Opportunities has a beta coefficient 0.83, which is not significant (0.440). Compensation has a Beta coefficient 0.078, which is not significant (0.479). Training and Career Development has a Beta

coefficient 0.206, which is significant (0.004). Effective Employee Productivity has a Beta coefficient 0.044, which is significant (0.004). Organizational Justice has a Beta coefficient .0358, which is significant (0.002). Supervisor Support has a Beta coefficient 0.014, which is not significant (0.898). Work Environment has a Beta



coefficient 0.066, which is not significant (0.546). Employee Retention has a Beta coefficient 0.216, which is significant (0.003). Family Support and Flex Time Work Culture has a Beta coefficient -0.074, which is not significant (0.505). So it is inferred that the performance appraisal and its impact has really influenced the Employee Retention.

Confirmatory Factor Analysis

Factor analysis is a statistical procedure for investigative the connection between the sets of observed and latent variables. The researcher examines the co-variation among a set of observed variables in order to gather

information on their underlying latent constructs (i.e. factors) by using a factor analysis. Confirmatory Factor Analysis (CFA) is used when the researcher draws a relationship between the observed measures and the underlying factors „a priori“, based on knowledge of the theory, empirical research, or both, and then tests this hypothesized structure statistically. Because the CFA model focuses solely on the link between factors and their measured variables, within the framework of SEM, it represents what is called as a measurement model. In this study, the model was developed „a priori“, hence only the CFA was used.

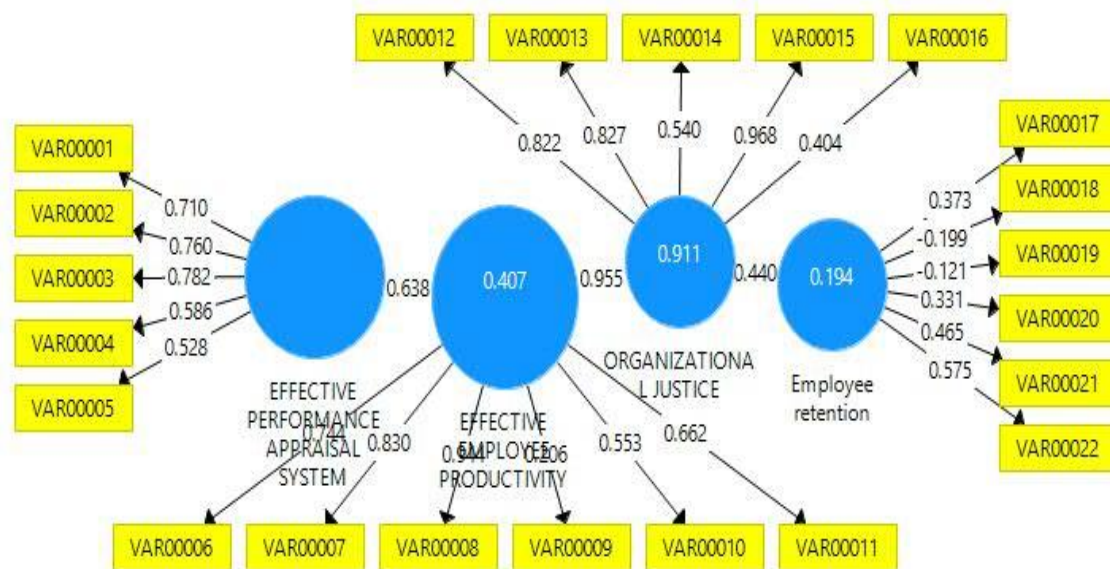


Figure 4: Constructing of evaluation index modelling for performance appraisal on employee retention in pharmaceutical companies

Table 5: Confirmatory Factor Analysis Model fit indices

Model fit indices	X2/df	GFI	NFI	CFI	IFI	RMSEA	SRMR
Reference value	< 5.0	> .9	> .9	> .9	> .9	< .05	< .1
Result	4.699	0.926	0.944	0.955	0.911	0.035	0.211
Fit	Good	Good	Good	Good	Good	Good	Good

Figure 1, although the x2 statistics was significant (x2 =7.98, df=2, p <.05, CMIN(x2/d.f) =4.699), this statistics is sensitive to sample size and model complexity. The fit indices were quite good (GFI = 0.926, CFI=.926, NFI=.944, IFI=.911, RMSEA=.035, SRMR=0.211) and indicated an acceptable fitting model. All the path estimates were significant and went in expected direction. Therefore the research model was considered structurally fit by the conventional criteria for acceptable Confirmatory model fitness.

DISCUSSION

The data analyses and results involving the respondents’, organisational profile and the descriptive analysis of the test measurements. Confirmative factor analysis of the measurement models were tested for discriminate and

convergent validity. Then the reliability of the constructs were assessed and found acceptable. The purpose of this study is to examine the relationship between performance management system and employee performance and also to what extent does the performance management system influence employee performance further supporting for employee this study focuses only on performance management system which is a model of performance management and its relationship with employee performance. Generally speaking, the results are quite mixed, however it is positive and insignificant. The confirmatory factor analysis showed evidence of four distinct but highly correlated justice constructs. Results supported hypothesized relationships between performance appraisal and helpful

employee productivity toward the Organizational Justice via employee retention.

CONCLUSIONS

The purpose of the study was to investigate the impacts of performance appraisal and its impact on the employee retention. The study used both qualitative and quantitative approaches. The data used for the study was collected through questionnaires and the analysis revealed a correlation between performance appraisal variables and employee retention. It also revealed a correlation between employee's productivity and organizational justices and performance appraisal variables. The study recommends that employers adhere to the reward systems which are linked with employee productive levels since rewards in terms of both salaries and promotion opportunities have an effect on employees' job related attitudes Duell, et al 92016). Finally, finding out that factors such as Rewards, Career Advancement Opportunities, Compensation Training and Career Development, Effective Employee Productivity have an effect on organizational justices , even though mild, I recommend that organizations encourage more organizational justices between employee retention. Even though these other studies were undertaken in different countries and continents with different cultures, the results were still in support of the facts that performance appraisals have an effect on employee's retention Rosen, et al (2016). This gives the impression that there might not be any significant cultural effects on how performance appraisals impact employee's retention.

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