

# Impact of Performance Appraisal on Organizational Performance in Pharmaceutical Industry

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## Abstract

Performance appraisal is an essential instrument in the management of organizational performance. The main aim of the study is to understand the impact of performance appraisal on organization's performance in the pharmaceutical industry. The highly significant and positive relationship between the performance appraisal on organizational performance. The study recommends that performance appraisal is an important factor for organizational performance in the pharmaceutical industry.

## Keywords

Performance Appraisal, Organizational Performance, Pharmaceutical Industry, Employee Evaluation, Performance Management, HR Practices, Workforce Productivity, Employee Development, Organizational Growth, Human Resource Management.

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## Introduction

The prevailing economic environment, marked by globalization, market liberalization, and incessant shifts in consumer and investor needs, has rendered competition essential for the survival of any firm (Sutton, 2012). Competitiveness is fundamental to any corporate enterprise. The most valuable asset for a firm is its human resources. Effective personnel

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management is essential for enhancing competence and performance by elevating individual contributions. An organization's performance is enhanced when its personnel is proficient and operates at an optimal level (Shet et al., 2019). The renewed emphasis on human resources as a strategic lever has a substantial economic impact on the organization, necessitating a move toward value creation (Gerhart & Feng, 2021). Performance appraisal and management are fundamental to organizational growth. A performance evaluation is a methodical procedure whereby supervisors assess job-related strengths via identification, observation, measurement, and development (Zendehdel Nobari et al., 2021). It assists in identifying staff deficiencies, measuring them, and subsequently developing them. When executed effectively, performance assessments serve several essential functions inside the organization. Administratively, they have utilized this information to inform choices on transfers, promotions, demotions, terminations, and awards (Sagday, 2022). Directors utilize them to provide a framework for incentives and bonuses, offer performance feedback to employees, and enhance oversight, as the supervisor is informed of the subordinate's performance. The allocation of three promotions or bonuses based on appraisal outcomes ensures equity and diminishes employee grievances (Rubin & Edwards, 2020).

Organizational performance is an evaluation of a company's effectiveness relative to its established goals and objectives. Srivastava & Agrawal, (2020) define it as the actual output compared to the organization's intended output. Companies worldwide acknowledge the intrinsic link between business and talent strategies, asserting that both management and people are crucial for attaining superior organizational performance. The Indian pharmaceutical business has experienced substantial growth in recent years, marked by both domestic market expansion and worldwide market penetration (Milanesi et al., 2020). The growth of the Indian pharmaceutical sector has resulted in increased competition among companies. This requires the optimization of human resource systems to retain and develop talent. Performance evaluation is a crucial tool for enhancing organizational performance. A notable research deficiency exists in the Indian Pharmaceutical Industry regarding the impact of performance appraisal on organizational performance.

### **Objectives**

The objectives of the study are as follows: -

To study the impact of performance appraisal on organization's performance in the pharmaceutical industry.

## **Literature Review**

In an organizational context, performance appraisal is characterized as a formalized interaction between a subordinate and a supervisor, typically occurring through periodic interviews (annual or semi-annual), during which the subordinate's work performance is evaluated and deliberated (Barbieri, 2023). The objective of performance appraisal is to identify problems, strengths, possibilities for progress, and skills development (Malykhin et al., 2021). A performance appraisal entails the evaluation of job performance, which constitutes a fundamental aspect of the appraisal process, without detailing the specific measurement techniques employed (Brefo-Manuh & Anlesinya, 2023). Sinambela et al., (2022) define performance appraisal as the process of finding, observing, measuring, and developing human resources inside businesses. For the assessment system to be effective, it must be embraced and endorsed by its personnel. Simultaneously, performance appraisal constitutes a procedure of assessment and evaluation of a subordinate's performance by the supervisor.

Performance appraisal is a crucial component of the Human Resource Management system. An organization employs the performance appraisal system to provide awards to employees, offer developmental guidance, and gather their insights and perceptions of fairness regarding their roles, departments, supervisors, and the organization (Vidè et al., 2023). Performance appraisal is a continuous communication process between employees and supervisors aimed at enhancing organizational performance. Organizational performance is acknowledged as a primary outcome variable of interest, encompassing diverse domains such as human resources, marketing, operations management, international business, strategy, and information systems (Baloch et al., 2022). Organizational performance quantifies the efficiency and effectiveness with which a company attains its objectives. Monitoring and enhancing organizational performance helps ensure the effective utilization of resources and advancement toward organizational objectives (Awan et al., 2020). Performance appraisal can regulate organizational performance by enhancing asset management and improving the metrics of organizational knowledge. Furthermore, organizational performance metrics significantly influence an organization's reputation.

## **Method**

This study employs a quantitative research methodology. Quantitative research is a methodological approach that emphasizes the measurement and analysis of data through quantification. Quantitative research methodologies are categorized into two types: primary

and secondary. This study employed a primary quantitative research approach, wherein data was gathered by the researchers using survey research. Pharmaceutical firms in Delhi and the National Capital Region of India were selected for data gathering. This study utilized a simple random sample, which is a subset of individuals selected from a broader population, with each individual having an equal likelihood of being chosen.

The study participants were individuals who indicated a willingness to partake in the research and were employed by pharmaceutical companies located in Delhi and the NCR region. The sample size was calculated using the following formula, considering the employment of nearly 10,000 individuals in various vehicle industries throughout the city.

$$\text{Sample Size (n)} = \frac{\frac{Z^2 \times P(1-P)}{e^2}}{1 + \left(\frac{Z^2 \times P(1-P)}{e^2 N}\right)}$$

Where,

Z = Z- Score; N = Population Size; e = margin of error and P = standard of deviation

The determined sample size is 370 for a confidence level of 95%, with the actual value falling within  $\pm 5\%$  of the measured or surveyed value. For this study, the researcher selects a sample size of 400 respondents for straightforward calculation. Among these respondents, only approximately 200 completed the questionnaire accurately and answered all questions, hence they are the sole participants utilized for this study. The survey questionnaire comprises three sections: demographic information, employee motivation, and organizational performance. The demographic portion includes inquiries regarding gender, age, marital status, and experience, whilst the subsequent section on performance appraisal and organizational performance comprises six questions. The data was ultimately gathered from respondents following their completion of the questionnaire by email and subsequently entered into MS Excel for analysis. Descriptive statistics were performed to ascertain the mean, percentage, and frequency of responses. Furthermore, the data was exhibited through tables, bar graphs, or pie charts. Correlation and regression analyses were also conducted.

## Result

### A) Demographic results

The demographic findings indicate that the majority of respondents are male, with a statistically significant difference ( $p < 0.05$ ,  $df = 1$ ) in responses based on gender. The male percentage was 69%, whilst the female percentage was 31% (Table 1). Table 1 demonstrates the age distribution of respondents, indicating that the majority fall between the 36–45-year

range, while just one percent is aged 25 years or younger. One Way ANOVA indicates significant differences ( $p < 0.05$ ,  $df = 4$ ) among participants about their age.

**Table 1: Represent the demographic details of respondents**

S. No.	Demographic Factor	Frequency	Percentage	p-value; Test name
1.	Gender			
	Male	138	69%	p<0.05*, df=1; Student's T-test
	Female	62	31%	
2.	Age			
	Less than and equal to 25 years	2	1%	p<0.05*, df = 4; One Way ANOVA
	26-35 years	60	30%	
	36-45 years	102	51%	
	46-55 years	30	15%	
	56-65 years	6	3%	
3.	Marital status			
	Married	145	72.5%	p<0.05*, df=1; Student's T-test
	Unmarried	55	22.5%	
4.	Experience			
	4-6 years	16	8%	p<0.05*, df = 2; One Way ANOVA
	7-10 years	70	35%	
	More than 10 years	114	57%	

\*Significant

Table 1 demonstrates the marital status of respondents, indicating that the majority are married, while approximately 22.5% are single. A significant difference ( $p < 0.05$ ,  $df=1$ ) exists among respondents based on their marital status. Table 1 demonstrates the respondents' experience, indicating that the majority had over 10 years of expertise, while 35% have between 7-10 years, and 8% have between 4-6 years of experience. One Way ANOVA indicates significant differences ( $p < 0.05$ ,  $df=2$ ) among participants concerning their experience.

### **B) Performance Appraisal and Organizational Performance**

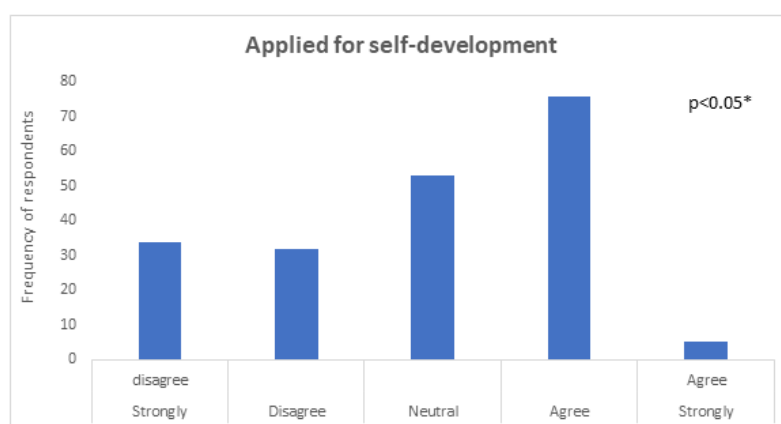
Figure 1 shows that most of the respondents agreed and strongly agreed with the statement that performance appraisal is aligned with the achievement of organizational goals while 52

respondents remained neutral and only 33 and 36 respondents respectively disagreed and strongly disagreed about the statement. One Way ANOVA represents significant differences ( $p < 0.05$ ,  $df = 4$ ) among respondents (Figure 1). Similarly, figure 2 shows that most of the respondents, about 81, agreed and strongly agreed with the statement that areas of improvement identified in a performance appraisal evaluation are applied for self-development only and not to assign ratings while 53 respondents remained neutral and only 32 and 34 respondents respectively disagree and strongly disagreed about the statement. One Way ANOVA represents significant differences ( $p < 0.05$ ,  $df = 4$ ) among respondents (Figure 2).



**Figure 1: Respondents' response to the statement "A performance appraisal is aligned to the achievement of organizational goals".**

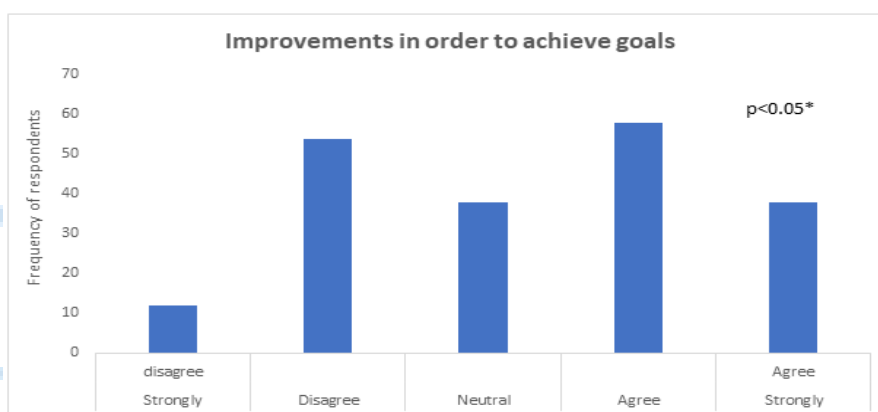
\*Significant, One-way ANOVA.



**Figure 2: Respondents' response to the statement "Areas of improvement identified in a performance appraisal evaluation are applied for self-development only and not to assign ratings".**

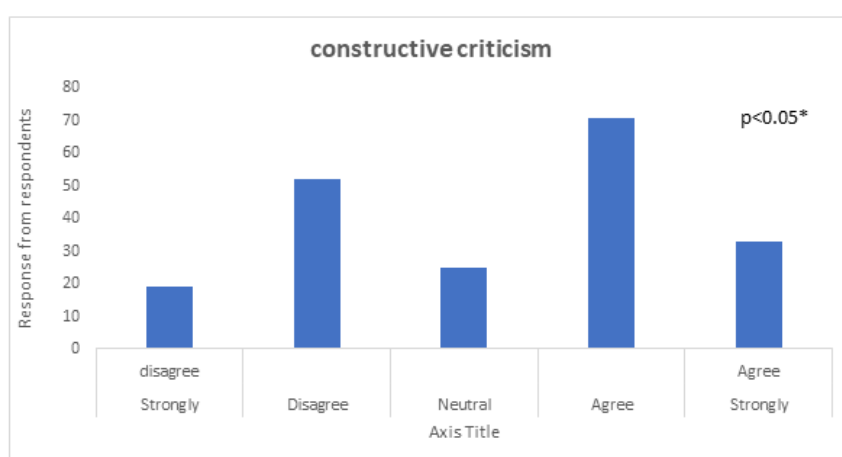
\*Significant, One-way ANOVA.

Figure 3 represents that about 58 and 38 respondents agreed and strongly agreed respectively about the statement that feedback received is followed up to account for needed improvements to achieve goals while 38 respondents remained neutral and about 54 and 12 respondents respectively disagreed and strongly disagreed about the statement. One Way ANOVA represents significant differences ( $p < 0.05$ ,  $df = 4$ ) among respondents (Figure 3). Similarly, figure 4 shows that about 71 and 33 respondents agreed and strongly agreed respectively about the statement that in performance appraisal, feedback must give rise to constructive criticism while 25 respondents remained neutral and only 52 and 19 respondents respectively disagreed and strongly disagreed about the statement. One Way ANOVA represents significant differences ( $p < 0.05$ ,  $df = 4$ ) among respondents (Figure 4).



**Figure 3: Respondents’ response to the statement “Feedback received is followed up to account for needed improvements to achieve goals”.**

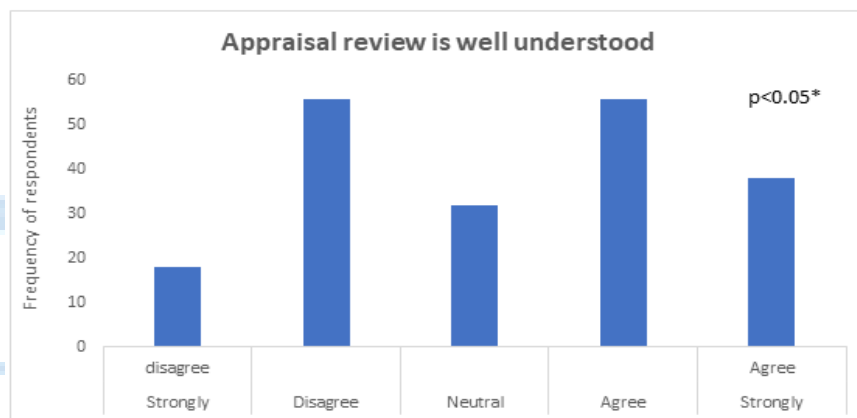
\*Significant, One-way ANOVA.



**Figure 4: Respondents’ response to the statement “In performance appraisal, feedback must give rise to constructive criticism”.**

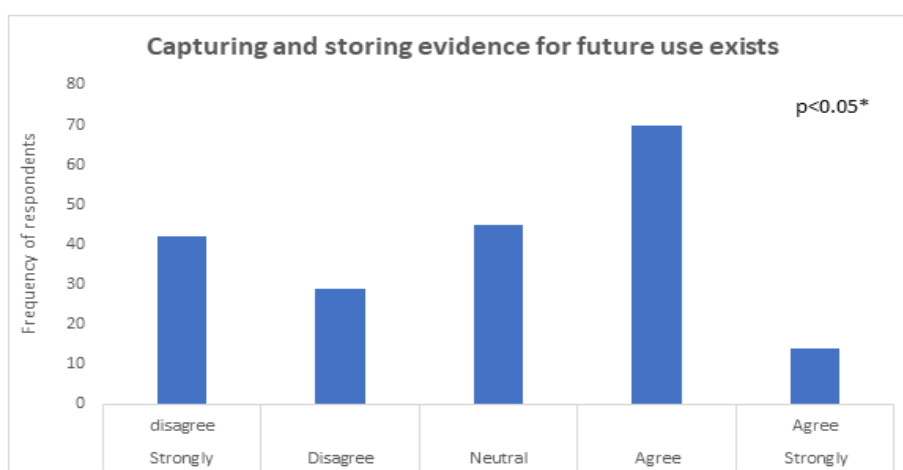
\*Significant, One-way ANOVA.

Figure 5 shows that about 56 and 38 respondents agreed and strongly agreed about the statement that the purpose of performance appraisal review is well understood while 32 respondents remained neutral and about 56 and 18 respondents respectively disagreed and strongly disagreed about the statement. One Way ANOVA represents significant differences ( $p < 0.05$ ,  $df = 4$ ) among respondents (Figure 5). Similarly, figure 6 shows that about 84 respondents agreed and strongly agreed that the performance appraisal is a mechanism of capturing and storing evidence for future use while 45 respondents remained neutral and only 29 and 42 respondents respectively disagreed and strongly disagreed about the statement. One Way ANOVA represents significant differences ( $p < 0.05$ ,  $df = 4$ ) among respondents (Figure 5).



**Figure 5: Respondents’ response to the statement “The purpose of performance appraisal review is well understood”.**

\*Significant, One-way ANOVA.



**Figure 6: Respondents’ response to the statement “The performance appraisal is a mechanism of capturing and storing evidence for future use exists”.**

\*Significant, One-way ANOVA.



The correlation results are presented in Table 2. Demonstrate a substantial positive correlation between the achievement of organizational goals and organizational performance ( $r= 0.827, p<0.05$ ). There exists a substantial positive correlation between applied self-development and organizational performance ( $r= 0.928, p<0.001$ ). There exists a substantial positive correlation between the improvements to achieve goals and organizational performance ( $r= 0.931, p<0.001$ ). A substantial positive correlation exists between constructive criticism and organizational performance ( $r = .854, p < 0.05$ ). A substantial positive correlation exists between appraisal review well understood and organizational performance ( $r= 0.829, p<0.05$ ). There exists a substantial positive correlation between capturing and storing evidence for future use and organizational performance ( $r = 0.935, p < 0.001$ ). Table designed to ascertain the link between the elements of effective performance appraisals and organizational performance across six variables. The results in Table 2 indicated a robust link between effective performance appraisals and organizational performance ( $r= 0.884, p<0.05$ ).

The regression analysis reveals that the  $r^2$  value of 0.781 signifies a highly significant regression relationship ( $p<0.05$ ) in predicting the impact of achievement of organizational goals, applied for self-development, improvements to achieve goals, constructive criticism, appraisal review is well understood and capturing and storing evidence for future use exists on organizational performance. The results indicate that the entire model was statistically significant. Numerous research on the impact of performance appraisals and organizational performance indicates that ongoing transparent communication and the equity of the performance appraisals are vital in shaping organizational performance (Prowse & Prowse, 2010; Ohemeng et al., 2015; Du Plessis & Van Niekerk, 2017).

An organization must also consider its culture for this type of analysis to be effective. The method is most effective in an organizational culture characterized by trust and collaboration. The process is most effective when fully integrated into the work environment as a mechanism to support development in achieving the organization's vision, purpose, and values. The process enables an organization to achieve outcomes relative to its strategy. An organization is incapable of attaining enhanced shareholder value (Mayer, 2021). Enhanced profitability or revenue cannot be attained without a systematic process that disaggregates strategies and appropriately disseminates pertinent and quantifiable components of the strategy across the workforce. Goal setting instills essential discipline within an organization, ensuring employee accountability for performance and maintaining emphasis and recognizing

things through effective performance appraisals help in achieving company goals which ultimately increase organizational performance.

**Table 2: Correlation and regression between factors of effective performance appraisals and organizational performance.**

	Achievement of organisational goals	Applied for self-development	Improvements in order to achieve goals	Constructive criticism	Appraisal review is well understood	Capturing and storing evidence for future use exists	Overall
Correlation with organisational performance	0.827*	0.928**	0.931**	0.854*	0.829*	0.935*	0.884*
Regression with organisational performance	0.684*	0.861**	0.867**	0.729*	0.687*	0.874**	0.781*

\* Significant at  $df=4$ .

### Conclusion

An effective performance appraisal system was very important. There are six indicators of an effective performance appraisal system - the impact of achievement of organizational goals, applied for self-development, improvements to achieve goals, constructive criticism, appraisal review is well understood, and capturing and storing evidence for future use — exert a strong and significantly positive influence on organizational performance, with p-values less than 0.05. Therefore, the implementation of an efficient performance appraisal system within the firm would positively influence organizational performance. Ongoing research and a comprehensive approach to efficient performance appraisal will assist firms in managing the intricacies of the contemporary workplace and sustaining a motivated workforce that enhances organizational performance in a swiftly evolving business environment.

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