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Performance Appraisal Systems in Service Industry in Nepal

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Abstract

In order to achieve organizational objectives, companies around the world make every effort to guaranty that every employe is sufficiently dedicated to their specialized work. In order to effectively compete in Nepal's current competitive environment—especially with the expansion of banking, hospitality, telecom, and educational services—organizations must consistently guaranty the highest level of employe performance. A key management technique for determining a worker's current and future relevance in a particular business is performance evaluation (PA). Even in this day and age of globalization and post-earthquake reconstruction, performance reviews are crucial for workers in Nepal's public and private sectors (including commercial banks, insurance businesses, hotels, and government corporations). The purpose of performance reviews is to assess employees' abilities and performance. However, due to a number of usage restrictions, these could not be reliable indicators of what they are meant to evaluate. The reliability and validity of PA systems are impacted by performance appraisal inaccuracies. This research paper's primary goal is to examine and evaluate the evaluation systems used in Nepal's service sector and investigate the connections between PA systems and elements such as corporate culture and work satisfaction. This research report also examines how long people want to stay in the organization and how they discuss it with others.

Keywords: Job satisfaction, employe satisfaction, attitude, performance appraisal biases, and the Nepalese service sector

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Introduction

Since human resources are the main drivers of organizational success, globalization and Nepal's growing integration with regional economies (SAARC, BIMSTEC) have made it necessary to maintain and improve human resources. Performance appraisals (PAs) are an essential tool for evaluating the standards that any firm sets for its workers. According to CBS Nepal data, the service industry in Nepal accounts for around 60% of the country's GDP, with notable expansion in banking, microfinance, hospitality, education, and telecommunications. PA is used to monitor individual performance and contributions in relation to organizational goals, to pinpoint individual strengths and areas for future development, and to determine whether organizational goals are met or act as a foundation for the organization's future planning and growth. The caliber and traits of an organization's workforce determine its performance in Nepal. Since employees represent the company's core, they become an important component of any firm.

"The forms are not the focus of performance evaluation. The ultimate goal of performance reviews is to make everyone better by enabling managers and staff to continuously develop and removing obstacles to job success. Resources may be squandered on insufficient activities and the investment and its results cannot be tested if HR practices are not assessed (Foot and Hook, 1996).

Performance appraisals are a methodical way to make sure that managers and their employees get together on a regular basis to talk about previous and current performance concerns and to decide what is suitable for both parties going forward. By continuously improving each employee's performance and concentrating on areas that could be improved, performance appraisals assist the company in gaining its strategic advantages and expanding efficient operational procedures. Performance reviews give the person who assigns the job and the person who completes it a regular chance to talk about what they anticipate from one another and how those expectations are being met.

The purpose of performance appraisal is to help employees reach their maximum potential in fulfilling the organization's purposes and to give managers and staff information to enable them make decisions about their work. Every year, the organization conducts a methodical and rational evaluation to assess an employee's capacity to complete a task. Analyzing an employee's talents and abilities for future development that boosts productivity is beneficial. Finding workers who execute their jobs well and those who don't, as well as the reasons why, is helpful.

An structured method of assessing employee performance, performance appraisal compares actual performance to predetermined benchmarks. The performance evaluation's findings are recorded. The employee is then given reviews regarding their performance over the course of the year to identify areas in which they need to improve. After a certain amount of time, employees also want to know where they stand in the company. Measuring an employee's real performance is the most difficult part of a performance review. Monitoring performance during the appraisal cycle requires an ongoing procedure because performance is determined by tasks completed. Therefore, selecting the appropriate measuring methods is crucial. Additionally, it is crucial to concentrate on the desired performance (standardized performance) and then contrast it with the employee's actual performance. The objective of all the planning that goes into a performance appraisal is to assess employees, give them insightful feedback, and have a positive impact on future performance. Even tho the procedure could be time-consuming, the outcome is crucial.

An employee's skill, knowledge, ability, and overall job performance can all be evaluated with the use of performance appraisals. The significance of performance evaluation in a Nepali organization is demonstrated by the following points:

1. It motivates workers to do better going forward.
2. It gives workers the chance to use their good work to get a pay raise or a promotion (especially in Nepal's cutthroat banking industry).
3. Employees can talk to a supervisor about their strengths and shortcomings as well as personal issues during an appraisal.
4. It facilitates regular communication between a supervisor and employee to address job responsibilities and performance concerns.
5. It enables staff members to determine which talents might be deficient and require improvement.
6. It makes workers responsible for their work output.
7. It gives managers the chance to describe company objectives and how staff members may help achieve them.

Applicability of Performance Appraisal

Development Uses for General Application and Specific Purpose Individual needs assessment, performance evaluation, job assignment and transfer decisions, individual strengths, and development needs Administrative Decisions and Uses Pay, advancement, retention or dismissal, individual performance evaluation, layoffs, and the identification of underachievers Organizational Upkeep and Goals HR planning,

identifying the need for organizational training, assessing the accomplishment of organizational goals, gathering data for goal identification, assessing the HR system, and documenting the need for organizational growth Validation research criteria, HR decision documentation, and legal compliance (e.g., Labor Act of Nepal, 2017) The use of performance appraisals for salary administration, promotion decisions, retention/termination decisions, individual performance recognition, and the identification of subpar performance are examples of evaluative functions. The appraiser assumes the role of the "judge." Developmental functions include identifying each person's training needs, giving performance comments, figuring out attachments and transfers, and identifying each person's strengths and limitations. The appraiser acts as a mentor or coach.

Performance Appraisal Biases

Comparing actual performance to performance standards is crucial for assessing performance. A performance review must be based on an employee's work-related behavior, not on personal characteristics or other unrelated issues, in order to be impartial and fair. When assessing employees, managers make blunders. A variety of biases and mistakes in judgment could ruin the performance review process. All prejudices should be avoided while evaluating performances.

1. First Impression (Primacy Effect): Based on some traits they have discovered; raters develop a general opinion of the ratee. In Nepal, this could include initial perceptions based on caste, ethnicity, place of origin, or level of education.
2. The "halo effect" occurs when a person's performance is solely evaluated in light of a perceived advantageous characteristic, attribute, or quality. A supervisor may rate an employee highly in all other areas of work if they have minimal absences.
3. Horn Effect: A person's performance is evaluated entirely on the basis of a perceived flaw. As a result, the ranking is generally lower than it might be.
4. Excessive Stiffness or Lenience: Ratees may receive extremely strict or lenient ratings, depending on the rater's personal standards, values, and physical and mental characteristics at the time of appraisal. Seniority-based cultures in Nepali companies might occasionally result in leniency toward senior staff members.
5. Central Tendency: By taking the middle route, appraisers assign average performance ratings to every employee. In Nepali government corporations, where differentiation is prohibited, this is typical.

6. Personal Biases: Whether a supervisor likes or dislikes each employee under them has a significant impact on performance evaluations. Information from coworkers, religious and philosophical beliefs, social and familial history, political affiliation (important in Nepal), and regional/ethnic factors are some of the sources of personal prejudice.
7. Spillover Effect: Previous performance is a major factor in evaluating current performance.
8. Recency Effect: Throughout the entire appraisal period, common actions are ignored in favor of the most recent conduct.
9. Pitchfork Effect: Occurs when an employee's rating is determined on a single shortcoming.

Muczyk and Gable (1987): The management of performance inside an organization determines its level of success or failure. If managers do not prioritize enhancing performance evaluation, an organization will not be able to accomplish its objectives.

According to Mullins (1996), performance reviews are widely utilized to support pay raises, promotions, employee retention, and behavior reinforcement. According to Longenecker (1997), a performance assessment system assists firms in identifying three key components: core competencies, performance standards, and communicating standards and competencies to employees.

According to Fletcher (2001), performance appraisals are activities that companies use to evaluate workers, help them become more competent, improve performance, and give awards. Cleveland, Mohammed, Skattebo, and Sin (2003) outlined four goals of PA: differentiating individuals, identifying strengths and weaknesses, implementing and assessing HR systems, and recording personnel choices. According to Jackson and Schuler (2003), performance appraisals are based on the opinions and judgments of peers, supervisors, other managers, employees, and subordinates.

According to V. Balu (2006), a performance evaluation is "a managerial process through which an individual employee's behavior and accomplishments for a fixed time period are measured and evaluated."

According to DeCarlo & Leigh (2006) and Jaworski & Kohli (2011), PA enhances performance and fosters organizational commitment and job satisfaction. Performance compensation, training and professional development, promotion and placement, recognition and awards, disciplinary actions, and selection criteria are all

areas where performance appraisal serves as a foundation for discovering and resolving performance discrepancies (Vance, 2006).

According to Bohlander and Snell (2007), a performance appraisal is a yearly, routine task that helps employees comprehend their responsibilities, goals, expectations, and performance success.

According to Brown et al. (2010), raters' attitudes are also crucial to the system. According to some raters, completing assessments is "second only to firing employees."

According to Kumari and Malhotra (2012), performance is "what is expected to be delivered by an individual or a set of individuals within a timeframe." Studies in Nepal (Related Context):

Adhikari, D.R. (2018): There are notable discrepancies between policy and execution in Nepali commercial banks' performance management procedures.

According to Sharma, P., and Neupane, R. (2019), there is a considerable correlation between Nepali service sector workers' job satisfaction and their perception of the fairness of performance reviews.

Khanal, S. (2020): Performance appraisal procedures in Nepali organizations are greatly impacted by cultural elements (hierarchy, seniority, and collectivism).

This research seeks to provide an understanding of the theoretical framework behind performance appraisal systems within service sector organizations in Nepal and the influence of different types of appraisal errors on the performance appraisals of employees. The research also seeks to find the connection between the appraisal process and job satisfaction of the employees, as well as organizational attitudes towards internal appraisal process.

Methods and Materials

A sample survey would be carried out in significant service sector firms in Nepal for this research paper (tailored to the Nepali context), including: Commercial banks, such as Himalayan Bank, NABIL, and Nepal Bank Limited The hospitality sector, which includes five-star hotels in Pokhara and Kathmandu Telecom firms (NTC, Ncell, Smart Telecom) Institutions of higher learning, including Tribhuvan University, Kathmandu University, Purbanchal University, and Pokhara University Microfinance organizations and insurance businesses

Hypotheses

H0: In Nepali service firms, there is no meaningful correlation between work satisfaction and performance evaluation systems.

H1: In Nepali service firms, performance appraisal systems and job satisfaction are significantly correlated.

H0: The contribution of several elements to the perception of performance appraisal systems in Nepal does not differ significantly.

H1: The contribution of several aspects to the perception of performance appraisal systems in Nepal does not differ significantly.

H0: The organization's performance appraisal processes and employee satisfaction are not significantly correlated.

H1: The organization's performance appraisal processes and employee satisfaction are not significantly correlated.

Expected Demographic Profile

- Sample size: 268–300 respondents from Kathmandu Valley, Pokhara, and Biratnagar
- Gender distribution: Approximately 65-70% male, 30-35% female (reflecting service sector employment patterns in Nepal)
- Age distribution: Majority between 25–45 years
- Education: Bachelor's and Master's degree holders dominate the service sector
- Work experience: Significant proportion with 5+ years of experience

Questionnaire Structure (5 factors, 29 variables):

1. Attitudes toward one's current position
2. Views of the appraisal procedure
3. Future career goals
4. Capacity to execute
5. Overall opinions on the current organization

Expected Findings

Factor	Expected Mean (1-5)	Interpretation
Attitudes toward one's current position	4.20 - 4.30	High positive feeling
Views of the appraisal procedure	3.30 - 3.50	Moderate satisfaction
Future career goals	3.10 - 3.30	High turnover intention
Capacity to execute	3.80 - 3.90	Strong self-efficacy
Overall opinions on the current organization	3.00 - 3.20	Lower than job satisfaction

Expected Nine Factors (Explaining ~70% variance):

1. Self-acknowledgement as a contributor

2. Sense of belongingness (particularly important in Nepali collectivist culture)
3. Positive attitude
4. Sense of being valuable to the organization
5. Sense of scope for future growth (highly relevant for Nepali youth seeking foreign employment)
6. Intrinsic driving force
7. Sense of happiness as part of organization
8. Not feeling as part of "family" (note: Nepali organizations often emphasize "family culture")
9. Discussing organization outside (word-of-mouth reputation)

Results and Discussion

The findings would likely show that while Nepali service sector employees have positive feelings toward their jobs, their satisfaction with the organization and appraisal process is lower. This gap has important implications:

1. Brain Drain Concern: Nepal faces significant labor out-migration. If PA systems are perceived as unfair, talented employees may seek opportunities abroad (Gulf countries, Malaysia, Australia, Europe).
2. Cultural Factors: Nepali organizational culture emphasizes hierarchy, respect for seniority, and collectivism. PA systems designed on Western individualistic models may face implementation challenges.
3. Sectorial Differences: Banking and microfinance sectors (highly competitive, performance-driven) may have more structured PA systems compared to government corporations (bureaucratic, seniority-based) or hospitality (seasonal, informal).
4. Political Interference: In some Nepali organizations (especially public enterprises), political affiliation can influence performance ratings, undermining PA credibility.
5. Training Needs: Many Nepali managers lack formal training in conducting objective performance appraisals, leading to biases and errors.

Recommendations for Nepali Organizations

1. Transparency: Make PA criteria and processes transparent to all employees
2. Rater Training: Train managers and supervisors on avoiding appraisal biases
3. Regular Feedback: Move from annual appraisals to continuous feedback mechanisms
4. Cultural Adaptation: Design PA systems that respect Nepali cultural values while maintaining objectivity
5. Legal Compliance: Ensure PA systems comply with Nepal's Labor Act, 2017

6. Employee Participation: Involve employees in setting performance goals and appraisal criteria
7. Technology Adoption: Use HR information systems to reduce manual biases

Conclusion

Employees in Nepal today must put in a lot of dedication and effort, and they expect much more from their employers. Effective performance evaluation has become essential for organizational success in Nepal's fast expanding service industry, which includes banking, tourism, education, telecom, and IT services. Instead of being an unwanted and time-consuming addition, performance appraisals should be viewed as an essential component of a manager's duties.

Performance appraisals must become a regular practice and play a key part in management if any organization in Nepal is to consistently achieve its objectives. PA is a crucial HR practice tool that offers data for numerous vital HR decisions. The validity of performance appraisal systems is still being tested worldwide, particularly in Nepal's particular sociocultural and economic setting, despite decades of intensive research.

Additionally, the efficiency of the Performance Appraisal system depends on how well an organization is focused on Human Resource Development. This is a particularly important factor to take into account as Nepal continues to grow its human capital and integrate with regional and global economies.

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