

## Lesson - 6

# PERFORMANCE APPRAISAL

## 6.0 Objective:

After studying this lesson, the student is able to understand:

- \* the concept of Performance Appraisal.
- \* describe the objectives of Performance Appraisal
- \* explain the process of Performance Appraisal
- \* discuss various methods of Performance Appraisal

## Structure:

- 6.1 Introduction
- 6.2 Definition
- 6.3 Objectives of Performance Appraisal
- 6.4 Uses and Importance of Performance Appraisal
- 6.5 Essentials of Good Performance Appraisal System
- 6.6 Process of Performance Appraisal
- 6.7 Problems in Performance Appraisal
- 6.8 Methods of Performance Appraisal
- 6.9 Summary
- 6.10 Key Words
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## 6.1 Introduction:

Organisations are having objectives. The achievement of these objectives mainly depends upon the performance of the people working in the organisations. The success of an organisation, will depend on its ability to measure the performance of its employees accurately. Performance Appraisal is the process through which an individual employee's behaviour and accomplishments for a fixed time period are measured and evaluated. It is the process of evaluating an employees performance in terms of its requirements. According to **Flippo**, "Performance appraisal is the systematic, periodic and an impartial rating of an employee's excellence in matters pertaining to his present job and his potential for a better job. Performance appraisal is also known as merit rating. Performance appraisal is very much useful for determining salary increments and also provides a rational basis for personnel decisions.

## 6.2 Definition:

According to **Terry and Michael D. Crino**, "Performance appraisal is the process of assessing quantitative aspects of an employee's job performance, which provides data to determine promotions, transfers and even demotions of employee".

**Dale Yoder** defines, "Performance appraisal refers to all formal procedures used in working conditions to evaluate personalities, contributions and potential of group members".

## 6.3 Objectives of Performance Appraisal:

The following are some of the objectives of performance appraisal:

- i) To determine salary fixation and increments.
- ii) To measure the individual development including behaviour, working ability and potential.
- iii) To help the organisation to maintain an inventory of number and quality of all managers and to identify and meet their training needs.
- iv) To increase the administrative ability over subordinates and to develop work culture in the organisation.
- v) To suggest ways to improve the employee performance when the performance is found not upto the mark during the review period.
- vi) To identify employee for deputation to other organisations.
- vii) To provide valuable and relevant information about employees.
- viii) To decide the quantum of punishments in case of disciplinary action.
- ix) To improve current performance.
- x) To plan career development, human resource planning based on potentialities.

## 6.4 Uses and Importance of Performance Appraisal:

Performance Appraisal is a method of evaluating the behaviour of employees in the work performance including both quantitative and qualitative aspects. Performance Appraisal is a significant element of the information and control system in the organisation. The importance of performance Appraisal is known through the following applications.

- i) A systematic Performance Appraisal provides valuable information for personnel decisions like pay increases promotions, demotions, transfers and terminations.
- ii) A sound Performance Appraisal system gives greater use of manpower planning and useful to prepare a successful manpower planning scheme.
- iii) Performance Appraisal helps to judge the effectiveness of recruitment, selection, placement and orientation programmes of the organisation.
- iv) A good Performance Appraisal system provides information on which performance comparison can be made.
- v) Performance Appraisal result tells each employee how he is doing and how he can improve for future development.

- vi) Performance Appraisal provides necessary information to the management for motivating the employees for overall development.
- vii) A sound Performance Appraisal system helps to develop confidence among employees. Employee grievances can be reduced to a greater extent.

### 6.5 Essential of a Good Performance Appraisal System:

Following are some of the essential of a good appraisal system.

- i) Appraisal must be simple and easy to understand.
- ii) Appraisal must have the support of all the people who administer the system.
- iii) Performance Appraisal system should fit to the organisations operations and structure.
- iv) Appraisal system should be both valid and reliable.
- v) Appraisal system should be supported by satisfactory incentives and rewards to be effective.
- vi) Performance Appraisal should be effective in implementation, must be periodically evaluated.
- vii) Open and participative - involve employees in goal setting process and provide feedback.

### 6.6 Performance Appraisal Process:

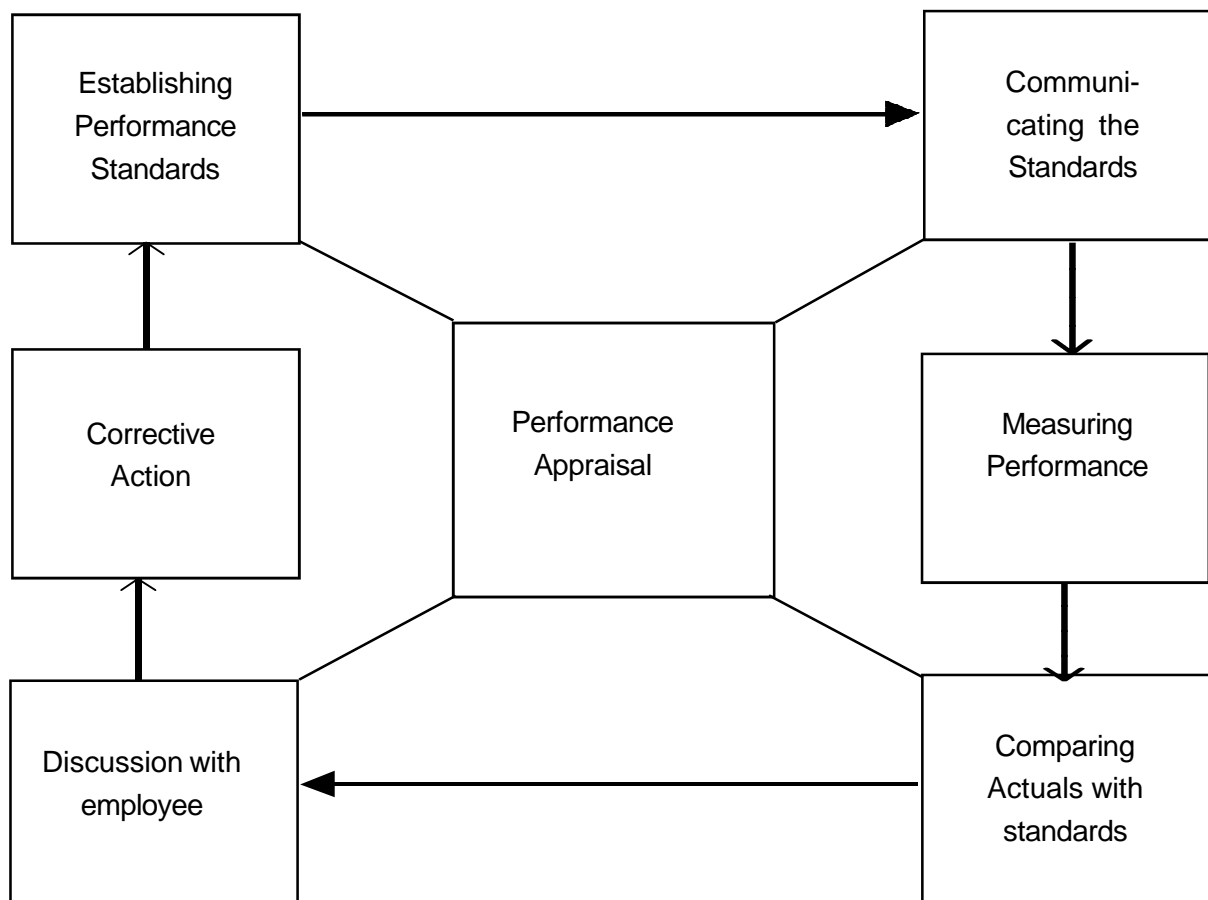


Fig 6.1 : Performance Appraisal Process

Performance Appraisal is a continuous process of evaluation in any organisation at any time by the superiors i.e., as a manager or as a staff specialist.

### **1. Establishing Performance Standards:**

Performance Appraisal process begins with the setting up of criteria to be used for appraising the performance of employees. The criteria is specified with the help of job analysis which gives the information about the job. The criteria should be clear and objective and in written form. The criteria should be discussed with the supervisors to see that all relevant factors should be considered where the output can be measured the standard can be fixed easily. If the work performance cannot be measured, the characteristics like work quality, honesty and reliability, team work, job knowledge, initiative, leadership, health and physical condition etc should be taken into consideration.

### **2. Communicating the standards to the employee's:**

The second step in performance appraisal is to communicate the standards to the employees, so that the employees come to know what is expected out of them. The evaluation system used for each job should be capable of providing whatever job related information that is considered important.

### **3. Measurement of Performance:**

Measurement of performance is intended to determine, what actual performance is, it is necessary to acquire information about it. The following are the important sources of measuring actual performance.

Personal Observation

Statistical Reports

Oral Reports

Written Reports

### **4. Comparison of Actual performance with standards:**

Actual performance is compared with the standard performance. Such comparison will reveal the deviations which may be positive or negative. Positive deviations occur when the actual performance exceeds the standards. If actual performance is below the standard performance the result is negative deviation.

### **5. Discussion with the employee:**

The result of the appraisal are communicated to and discussed with the employees. The reasons for deviations are also analysed and discussed. This type of discussion will help an employee to know his strengths and weaknesses. This climate will better motivate the employee. The information received by the employee about his performance will influence his subsequent performance.

### **6. Taking Correction Actions:**

Through mutual discussions with employees, the steps required to improve performance are identified and initiated. These corrective actions may be two types:

- i) immediate and deals predominantly with symptoms - desired as "putting out fires".
- ii) Other is basic sources of deviation and seeks to adjust the difference permanently.

## 6.7 Problems in Performance Appraisal:

The following are some of the problems encountered in Performance Appraisal.

### i) Shifting Standards:

Performance Appraisal should be based on uniform and fair standards, so that least employees might get confused. For example, last year, quality was the criteria for performance evaluation but the superior decided to judge them this year on the basis of quantity.

### ii) Central Tendency Problem:

It is most commonly found error. The rater assigns 'average ratings' to all the employees and avoid rating at both the extremes of the scale.

### iii) Similarity Error:

This type of error occurs when the rater rates other people in the same way he perceives himself.

### iv) Recency Error:

The raters generally remember the recent actions or behaviour of the employee at the time of rating and rate their subordinates on the basis of their recent actions rather than on the whole activities.

### v) Horn Effect:

Highly critical bosses have a tendency to compare performance of their subordinates with "What they did". This is not correct because the performance also depends upon the situation. For example, a salesman now operates in a buyers market as against the seller's market of yester years.

### vi) Spil-over Effect:

This is allowing part performance to influence present evaluation. When an employee reports to transfer, his earlier reports are also transferred along. This baises the mind of the new boss. There are other pitfalls such as taking too short appraisal interviews and failing to support opinions with evidence.

### vii) Halo Effect:

Some raters have a tendency to rate high/low on all performance measures based on one of their characteristics.

### viii) Personal Prejudice:

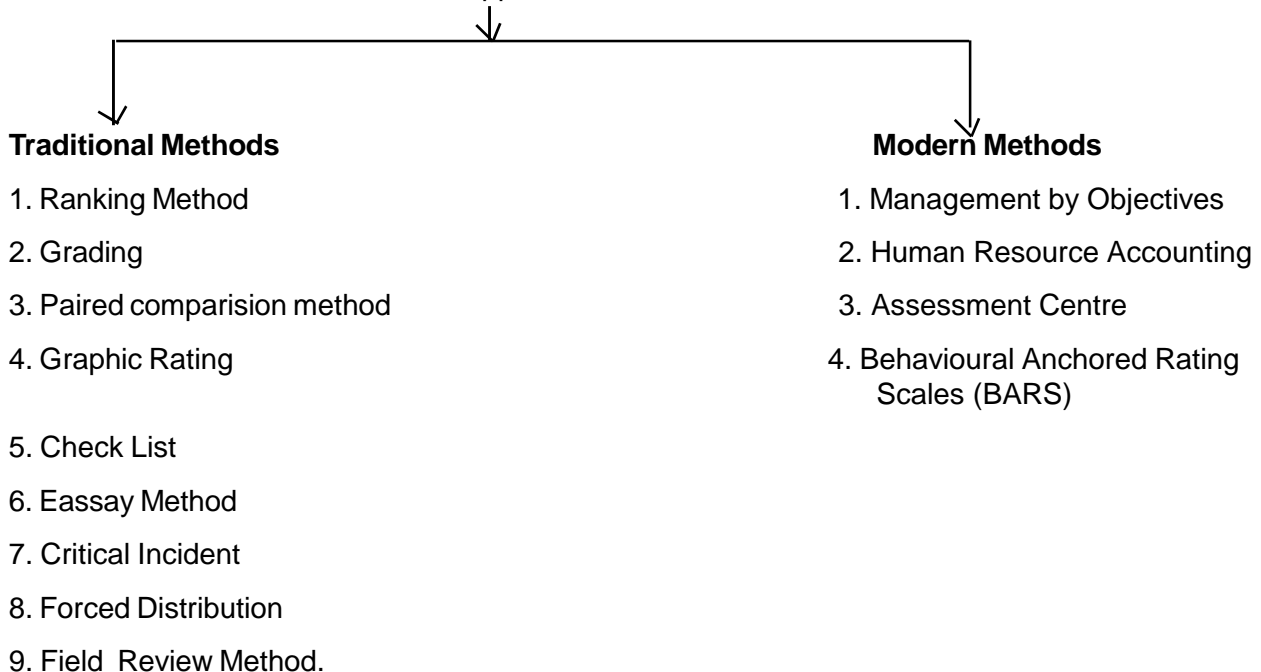
If the rater dislikes any employee or group, he may rate them at the lower end which may distort the rating purpose and affect the career of these employees.

## 6.8 Methods of Performance Appraisal:

Performance Appraisal can be appraised by a number of methods, which are used to evaluate the employees. These methods can be classified as traditional methods and modern

methods. some of the important methods are explained as follows:

### Performance Appraisal Methods



### Traditional Methods:

#### 1. Ranking Methods:

The oldest and simplest method of performance appraisal is ranking method. Under ranking method, the managers evaluate the subordinates working under them on an overall basis and then from exception to poor or very poor job performers. Each rank indicates the position of an employee in relation to others. The same employee may have worked under different managers, each manager will rank them, According to his own assessment. For example if five employees are working under three managers (or) supervisors the ranking would be as follows:

Employees	Managers			Rank
	X	Y	Z	
A	3	4	1	2.7
B	2	5	3	3
C	1	1	2	1.3
D	2	4	4	3
E	5	2	5	4

One represents the highest rank i.e. excellent performance and rank five stands for poor performance. The employees ranking of the three managers are added and then divided by the number of managers. Employee 'C' gets a mean rank of 1.3, he is good when compared to other four employees. This method is simple and most efficient. But the greatest limitation of this method is that in practice, it is very difficult to compare a single individual with human beings having varying behaviour traits.

## 2. Grading Method:

Under the grading method the managers establishes certain grades in advance and are carefully defined. Employee performance is compared with these grades and the employee is allocated to the grade which is best in terms of performance. The grading method is sometimes modified into forced distribution system in which certain percentages are given for each grade. For instance 10% to 20% grade E, 20% to 40% grade D, 40% to 60% grade C, 60% to 80% grade B and above grade A.

## 3. Paired Comparison Method:

Under this method, the appraiser ranks the employees by comparing one employee with all other employees in the group, one at a time. Under this method, judgement is easier than with the ordinary ranking method. One to one basis appraiser ranks each individual in comparison to all others. the number of comparisons to be made can be divided on the basis of following formula.

$$\frac{N(N-1)}{2}$$

where N is the number of persons to be compared. This method is easier and more reliable. But the limitation is employees are simply compared to each other on total performance rather than job criteria.

## 4. Graphic Rating Scale:

Graphic Rating scale is most widespread method of performance appraisal. In this method judgements about performance are recorded on the scale. The rater is presented with a graph and asked to rate each employee on each of the dimensions listed. The line starts with the best class and ends with the worst. For example five employees were given scales based on their efficiency, quality of work, cooperative nature and understanding of work. They may be rated as follows:

Efficiency	Very Poor	Poor	Average	Good	Excellent
Quality of Work	Very Poor	Poor	Average	Good	Excellent
Cooperative nature	Very Poor	Poor	Average	Good	Excellent
Understanding of Work	Very Poor	Poor	Average	Good	Excellent

This method suffers from the following limitations:

- 1) Separate factors are grouped together and superior is given only one box to check.
- 2) When descriptive words are used in scales, they possess different meanings to different evaluators.

## 5. Check List:

Check list is another method of Performance Appraisal which uses a list of statements that describe the characteristics and performance of employees on the job. The statements which are used in check list method are:

- |   |        |
|---|--------|
| 1) Is the employee really interested in his work          | Yes/No |
| 2) Is regular on his job                                  | Yes/No |
| 3) Is employee cooperative and helpful                    | Yes/No |
| 4) Does employee follows the instructions properly        | Yes/No |
| 5) Whether he accepts criticism on his job performance    | Yes/No |
| 6) Whether he tries for self-appraisal or working ability | Yes/No |

These check list could be changed according to different weights which are assigned to the statement and then qualified.

The method suffers from bias on the part of the rater because he can distinguish positive and negative questions. A separate check list must be developed for different classes of jobs. This process is expensive and time consuming.

## 6. Essay Method:

Under essay method evaluator has to give a written report describing each employee's task performance during the rating period. But this short essays are from pre-determined guidelines procedures and systems. This method gives more flexibility to the evaluators, but the effectiveness of this method depends upon the ability of an evaluator rather than the standard format.

## 7. Critical Incident Method:

While using this method, you must document the positive and negative behavioural events that have occurred during a given performance period. The objectives that you can use this information to review performance as a series of positive/negative behaviours related to a job. To identify the critical factors of an employee the following factors are to be considered.

- i) Planning for future
- ii) Right information, in right time
- iii) Highlighting the uses, benefits
- iv) Follow up and carrying promises
- v) Knowing job requirements.
- vi) Adaptability of new techniques.

## 8. Forced Distribution:

It is good method of performance appraisal through which ratings of individual employees performances are distributed along a bell-shaped curve. Forced distribution method requires a comparison among the employees in the work group under consideration. Under this method, an



employee would be placed at a particular percentage among the employees at each performance level. When each group has two favourable and two unfavourable statements, the evaluator makes two checks in each group one for the statement which best describes the individual and one for the statement which is least descriptive, but both statements have a redetermined weight. The employee's rating is determined by adding together the weights of each of the statements.

### **9. Field Review Method:**

In this a training officer from the personnel department interviews line supervisors to evaluate their respective subordinates. The interviewer prepares in advance the questions to be asked. By answering these questions a supervisor gives his opinion about the level of performance of his subordinates work progress, his strengths and weaknesses, promotion potential etc. The information given by the superior/supervisor will be placed in employee's personnel service file. The major advantage and limitation of field review method is accurate ratings will be awarded and reviewer may not have enough knowledge about employee behaviour respectively.

### **Modern Methods:**

#### **1. Management by Objectives (MBO):**

Management by objectives can be described as "a process where by the superior and subordinate managers of an organisation jointly identify its common goals, define each individuals major areas of responsibility in terms of results expected out of him and use these measures as guides for operating the unit and assessing the contribution of each of its members.

Under MBO programme both managers and subordinates work together in identifying goals and setting up objectives and make plans together in order to achieve these objectives. Their objectives and goals should be consistent with the organisational goals.

#### **Steps in MBO Process:**

1. Setting of organisational purpose and objectives.
2. Identifying short-term performance targets of superior and subordinate employees.
3. Conducting performance review meetings frequently.
4. Establishing major check posts to measure progress towards the goals.
5. Feedback of performance of specific, relevant information on individual job performance to take corrective action.

#### **Benefits of MBO:**

MBO stands as an effective tool for performance evaluation and for motivating subordinates by superiors at all levels.

- i) MBO helps to increase employee motivation to realise individual goals which are useful for better understanding of work.
- ii) MBO focuses on managerial effectiveness.
- iii) MBO helps in realising organisational goals.
- iv) MBO helps in making sound planning/strategies and goals.

v) MBO helps to identify the performance deficiencies and useful to develop various training and development programmes.

vi) MBO helps the individual managers to develop personnel leadership and managerial skills.

## **2. Human Resource Accounting Method:**

In modern days, Human resources are considered as a valuable asset of every organisation. This asset can be valued in terms of money. Under Human resource accounting performance is measured in terms of costs and contributions of employees. Cost of human resources consist of expenditure on human resource planning, recruitment, selection, induction, training, compensation etc. Difference between cost and contribution will reflect the performance of employees.

## **3. Assessment Centres:**

The significant feature of this method is to test the job related simulations and these simulations to be considered for job success. In general the evaluations observe and test the participant employees as they perform tasks at certain satisfactory level. Number of evaluators join together to assess the employee performance in several situations. The characteristics assessed in an assessment centre include assertiveness, communicating ability, self-confidence, resistance to stress, creativity, decision making and alertness. Assesses are requested to participate in work groups, computer simulations, role playing transactional analysis etc.

## **4. Behavioural Anchored Rating Scales (BARS):**

Behavioural Anchored Rating Scale method aimed at identify and evaluate the job related behaviours and compare, what an employee does with possible behaviours that might to shown on the job. It measures the performance as against a scale of performance levels. The evaluator appraises the behaviour rather than traits.

Procedure for BARS are as follows:

- i) Define critical incidents
- ii) Generate critical incidents
- iii) Develop performance dimensions
- iv) Reallocate incidents
- v) Scale of Incidents
- vi) Develop final instruments.

But this method is having problems like halo effect, constant errors, inadequate information and social differentiations etc.

## **6.9 Summary:**

Performance Appraisal refers to the assessment of an employee's actual performance, behaviour on the job and his potential for future improvement. Performance Appraisal provides an objective basis for taking personnel decisions. It provides information to the management for motivating the employees for overall development. The methods related to performance appraisal are

categorised into traditional and modern methods. Performance counselling helps the employee to grow and develop in the organisation.

### 6.10 Key Words:

**Performance appraisal** : It is a technique to know relative worth of employees both qualitatively and quantitatively on the job, so that his potentiality may be known and developed.

**Grading** : It is the technique of performance appraisal which represents the employees position in terms of results achieved.

**Ranking** : It is a method of performance appraisal and which lists all employees from highest to lowest in tasks performance.

**Management By Objectives (MBO)** : It is process where by superiors and subordinates jointly identify the common objectives and set the results that should be achieved by subordinate, assess the contribution of each individual to make best use of organisational resources.

### 6.11 Self-Assessment Questions:

1. What is Performance Appraisal? Explain its process?
2. Explain the various methods of Performance Appraisal?
3. Briefly examine the BARS and its applicability in modern enterprise?
4. What is Management By Objectives? Explain its benefits to the organisation?
5. What are the essentials of Good Performance Appraisal?

### 6.12 Reference Books:

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**Dr. A. SATYANARAYANA**