An analytical study of Performance Appraisal System in

Contemporary Organisation

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Abstract

A performance appraisal is known by other terms like employee appraisal, performance review. It is a method by which the job performance of an employee is measured in terms of quality, quantity, cost, behaviour and time. It is conducted by self, peers, seniors and junior. But generally in formal method it is conducted by the immediate manager or supervisor under whom the person is directly working.

A performance appraisal is a part of measuring, comparing, finding, guiding, correcting and managing career development of the employees. It is the process of gathering, recording and critically analysing information about the relative importance of employees to the organization. Performance appraisal is study of present achievements, and failures, personal strengths and weaknesses, and suitability for incentives, rewards and recognition, increased pay scale, promotion or further training. Finally it shows the suitability of the person at present job to the organisation.

This study has been done to analyse the concept of performance appraisal, its objectives and process to carry out the performance appraisal. The study will be helpful for the HR people to have a better understanding of the concept and the effective method to conduct it.
1. Introduction

Organisations are set up to achieve certain objectives. Achievement of goals or targets depends upon the performance of individual employees. The objectives can be fulfilled when the tasks are assigned to the employees and they perform the tasks. Otherwise these cannot be fulfilled. Now the question arises how far the work has been done as per the planning. The responsibility, accountability and performance standards have been met or not. Hence it is quite necessary to understand as to what extent employees have been successful at their jobs for achievement of their goals. This information will be available when the performances of employees have been evaluated at the end of the year. If it is not done then the management will not come to know the exact position about the targets achieved. They will be in the dark and there will be chances of planning failure. The planning is done in the beginning of performance management process.

The performance appraisal is an important stage in this process. It shows as per planning of objectives, performance standards and behaviour the communication, counseling, coaching, motivation and feedback have been given or not. Finally to see what is the impact of these planning and action on the performance of the employees. The performance standards regarding quality, quantity, cost and behaviour have been achieved or not. So it becomes necessary to carry out the performance appraisal of every one for smooth working of the organisation. Thus performance appraisal forms an important part of HRM. Performance appraisal is mainly used for three purposes:

(a) As a basis of reward allocation such as salary increments, promotion and other rewards etc. In performance appraisal systems slow and fast working employees are identified. Under compensation, rewards and recognition plans the employees are given higher pay scales, higher incentives for better performance and appreciation for the work. Some time the cases of good performers are recommended for further promotion. It leads to development and motivation of employees.
(b) Performance appraisal will point out the weaknesses of employees and will spot the areas where development efforts are needed. The weaknesses in initiatives, leadership quality, problem solving approach, behaviour, discipline, difficulties faced during the work and competencies for performing the tasks. The deficiencies can be pinpointed. Performance appraisal is a tool for identification of deficiencies. On the basis of identification the remedial action can be taken to overcome the deficiencies. This way the performance of employees may improve to a good extent.

(c) It can be used for the selection and development programme. It will differentiate satisfactory performers from unsatisfactory ones. The performance appraisal will help the management to perform functions relating to selection, development, salary, promotion, penalties, lay-off and retrenchment.

2 Objectives and Research Methodology

Objectives of Study

i. Critically examine the concept of Performance Management.

ii. Identify the objectives of Performance Management.

iii. To analyze the effective process of Performance Management.

iv. To establish Critical Success Factors of Performance appraisal System

Research Methodology

Research methods can be classified in different ways, the most common distinction is between the quantitative and the qualitative approaches (Myers, 2007\(^1\)). Quantitative approaches were originally used while studying natural sciences like: laboratory experiments, survey methods and numerical methods. A qualitative study is used when the researcher wants to get a deeper understanding on a specific topic or situation. Myers (2007)\(^2\) stated that the qualitative approach was developed in social sciences in order to support the researcher in


\(^2\) Ibid
studies including cultural and social phenomena. Sources included in the qualitative approach are interviews, questionnaires, observations, documents and the researcher’s impression and reactions. The chosen approach is qualitative.

This study typically takes the form study of secondary data available on performance appraisal system of select organisations. The interviews have also been done to understand and conclude the effectiveness of the process. Individual interviews have the advantages of providing very rich information and avoiding the influence of others on the opinion of any one individual.

3. Basic Principles of Effective Performance Management

Quality and effectiveness of P.M is a reality in organisations only when certain basic and fundamental tenets/ principles or practices of management are followed. These include:

1. Transparency – decisions relating to performance improvement and measurement such as planning, work allocation, guidance and counseling and monitoring, performance review etc., should be effectively communicated to the managers and other members in the organisation.

2. Employee development and empowerment – effective participation of employees/ managers (individuals and teams) in the decision – making process and treating them as partners in the enterprise. Recognizing employees/ managers of their merit, talent and capabilities, rewarding and giving more authority and responsibility etc., come under the umbrella this principle.

3. Values – a fair treatment and ensuring due satisfaction to the stakeholders of the organisation, empathy and trust and treating people as human beings rather than as mere employees form the basic foundation, apart from others.

4. Congenial work environment – the management need to create a conducive and congenial work culture and climate that would help people to share their experience knowledge and information to fulfill the managers aspirations and achieve organisational goals. The managers employees should be well informed about the organisational mission,
objectives, values and the framework for managing and developing individuals and teams for better performance.

5. **External environment** – effective and contextual management of external environment to overcome the obstacles and impediments in the way of effective managerial performance.

### 4. Methods of Performance Appraisal

There are a number of methods that are used to evaluate employee’s performance. It may be evaluated on the basis of his traits and attributes as well as on the basis of his work or results and objectives achieved by him. Thus his performance may be measured in terms of standards of his traits and general behaviour on the job or in terms of results and goals. Some of the common techniques are given below. Each method has its merits and demerits but one thing is clear that the technique employed has to evaluate mainly his job related performance. The appraisal methods can be classified as follows:

(a) Individual appraisal, group appraisal and other methods

(b) Traditional and modern methods
(a) Individual Appraisal Methods

Some of the methods which are widely used to evaluate an individual employee against the standard are as under:

(i) **Rating scale**: This is the oldest and most popular method of evaluating individual's performance. In this technique the appraiser judges the employee's performance along a scale from low to high. The appraiser rates employee's work and traits such as output, dependability, loyalty, initiative, cooperation, attendance and the like as poor, average, good, very good, excellent etc. Rating is the subjective opinion of the appraiser about the individual work or particular trait. This is noted on the appraisal form against each criterion or trait. The ratings may be assigned numerical values or scores, so that an average can be calculated and a comparison be made. For example, poor standard may indicate no or zero score, fair,
acceptable, good and excellent rates may have 1, 2, 3 and 4 scores respectively. Score for overall performance can be determined and compared in case of each employee. Sometimes grades A, B, C, D, E may be assigned as a rating measure. A- for excellent performance, B- for very good, C-for good, D- for average and E-for poor performance.

(ii) Checklist method

The appraisal form in this technique is a checklist of statements or words which describes employee's performance or behaviour. The rater reads the same and rates the employee against that statement. It is in the form of yes-no response. The rater marks yes if he is in agreement with the statement or description. Marks no if employee does not agree with the statement. Finally the total of yes and no are taken into account. Sometimes, personnel department may assign weights to each item or statement of the checklist according to its importance for evaluating performance. This is known as weighted checklist rating method. Weighting helps in quantifying rating.

(iii) Forced choice method

In this case the appraisal form contains different sentences, each of them contains a pair of positive or negative statement relating to various classes of characteristics, such as learning ability, co-operation, leadership, dependability, loyalty, attendance, work performance etc. In each item, the appraiser or rater has to choose that statement out of the two, which fits the employee most. For example, if both the statements in an item benefit the employee performance, the rater has to discard any one. Hence this technique is known as forced choice method. For instance, take the item - `has sound job knowledge.... works hard.' If both statements benefit an employee, in this method, the rater has to choose only one of the two. The other is overlooked. The appraisal may be faulty on this account.

(iv) Critical incident method

In this technique, the rater records an extreme or extraordinary behaviour displayed by the employee when he works on the job. This will assist him to appraise his performance. The incidents that take place may indicate positive or good behaviour of the employee or his
negative or bad behaviour e.g. in case of a fire, the employee might have shown an exemplary courage. Without worrying about life risk he controls the fire. Another example, when there is an income tax department raid in the company office and the finance manager is not available in office. The dealing persons shows the initiative to handle the situation very effectively by explaining every points asked by the income tax inspector. The incidents are noted in a critical incident sheet. These are taken into account while evaluating employees’ performance in critical situations.

(v) Field review method

In this method a specialist of the personnel department goes into the field and helps the supervisor in rating the employee. The work of the employees is observed actually in the field. The observer sees the nature of job, environment in which the job is performed, the climatic conditions, difficulties faced, working conditions, methods used for working, facilities available to the workers, risks involved in the jobs. The specialist prepares an evaluation based on the observation and information provided by the immediate supervisor about the performance of the employee. It is forwarded to the supervisor for review, modification or for discussion with the employee. The only difference is that a skilled specialist fills up the appraisal form.

(vi) Performance test and observation method

The purpose is to test the knowledge and skills of an employee. He is evaluated either by giving him a paper-pencil test or he is required to demonstrate his skill in a practical situation. For example, a baker may be asked to prepare a cake or a mechanical engineer may be required to locate a fault in a defective machine. It depends upon the type of the job. For a typist a letter can be given for typing. On the basis of work the assessment can be done. A programmer can be give a task to design a program for that task. Receptionist can be given a task to contact vendors or customers and simultaneously the conversation can be monitored.

(vii) Annual confidential reports (ACR)
These reports relate to the performance of employees and they are kept quite confidential. They are prepared by superiors on the basis of their judgements, observations and intuitions. The subordinate is not permitted to see his report on performance. The whole process is conducted without disclosing any information out of it to any concerned person. The employee does not get any feedback about his performance, shortfalls and strengths. They are kept in dark. The scope for self development is very less in this. Generally it is being used in government organization.

(viii) Group Appraisal Methods

There are a number of methods that are used to appraise the performance of groups of employees. Generally, these methods are used to rank various employees in a group or groups in accordance of their merits and hence they are, useful for deciding merit, promotion, pay increments, rewards etc.

(ix) Factors and points method

In this method the factors affecting the performance of employees are identified. The factors may be performance standard achieved, behaviour, competencies, leadership quality, initiatives to solve the problems. There may me other less important factors may or may not be considered. Every factor is given points or marks as per their relating importance. Finally the total of all factors is taken.

(x) Self-appraisal

A large number of enterprises use self-appraisal technique for further improvement of performance. Under this method, the employee has to evaluate himself against predetermined standard. Such self-evaluation assists the employee to understand his strengths and weaknesses. He can know the areas where he is lacking and hence requires improvement. Thus self-appraisal leads to self-improvement and self-development and is helpful to personal goals or objectives for future performance. The drawback of this method is that the employees appraise them very high. The appraisal is not realistic. Everyone is interested to show his aggravated rating. That misguides the management.
(xii) Appraisal by results or management by objectives (MBO)

MBO approach: In an enterprise the efforts of all the members of the organisation including management, supervisors and subordinates are directed towards realisation of enterprise objectives. These overall objectives are further split into sub objectives, goals or end results to be achieved by various employees. In MBO approach, the performance of a subordinate occupier of a managerial position is assessed or evaluated on the basis of end results achieved or accomplished by him rather than on the basis of traits. The effectiveness or success of management is reflected in the accomplishment or achievement of objectives or end results set by the organisation. Thus the basis of appraisal by results is rooted in the concept "management by objectives".

(xii) 360° Performance appraisal

The appraisal is done by any person with whom employee is in touch for performance of his job, i.e. his appraisal may be done by supervisor, manager, subordinates, employees themselves, customers, consultant etc. Performance can be evaluated on any day and from any angle of his work. Thus the appraisal can be done on all working days in a year, from all angles and by all parties who are connected with the employees. By this method, it is possible to notice all activities on all days and evaluate the same.

(xiii) Behaviourally anchored rating scales (BARS)

In this method, there is a combination of techniques used in the weighted check list rating and critical incident method. Under BARS, effective and ineffective behaviours are described more objectively. This method takes services of a person who is quite familiar with a particular job to identify major components. He ranks the components and validates specific behaviour for each component of the job.

(v) Cost accounting method

In this method, for evaluation of performance of employee, cost is the base. Both the cost of employee and his output are considered and the relationship is established between cost and
benefit. The time, efforts and expenditure are calculated in respect of each candidate. The output and cost in total are considered and then the per unit cost can be calculated. This shows the relative worth of the candidate to the organization.

(xiv) Traditional and Modern Methods

The traditional methods are almost similar to individual and group appraisal methods. These methods have been explained under earlier topics other methods are similar to modern appraisal methods. The modern methods of performance methods are explained in detail under next topics. The classification of performance appraisal method as traditional and modern is depicted with the help of diagram given below:

5. Performance Appraisal Process

i. Setting the performance standards:

The first step in the process of performance appraisal is setting up of the standards which will be used as a benchmark to compare actual performance of the employees. This step requires setting the performance criteria to judge performance of the employees as successful or unsuccessful of the degrees. To be useful standards should relate to the desired result of each job. The standards set should be clear, easily understandable and in measurable terms. In case the performance of the employee cannot be measured, great care should be taken to describe the standards.

ii. Communicating the standards:

There are two parties involved in performance appraisal: appraiser and appraisee. Appraiser is one who does the appraisal and the appraisee is the one whose performance is evaluated. An appraisee should be informed the standards. This will help them to understand their roles and to know what exactly is expected from them. The standards should also be communicated to the appraisers or the evaluators and if required, the standards can also be
modified at this stage itself according to the relevant feedback from the employees or the evaluators.

iii. Measuring the actual performance:

The most difficult part of the performance appraisal process is measuring actual performance of the employees i.e. the work done by the employees during a specified period of time. It is a continuous process which involves monitoring the performance throughout the year. This stage requires careful selection of the appropriate techniques of measurement such as personal observation, statistical reports, and written reports for measuring the performance.

iv. Comparing actual performance with desired performance:

At this stage, actual performance is compared with the desired performance or performance standards. Comparison reveals deviations in the performance of the employees from set standards. This comparison can show actual performance being more than the desired performance or, actual performance being less than the desired performance. It includes recalling, evaluating and analysis of data related to the employees’ performance.

v. Providing feedback:

Result of the appraisal is communicated and discussed with the employees on one-tone basis. The focus of this discussion is on communication and listening. The results, problems and possible solutions are discussed, with the aim of problem solving and reaching consensus. The feedback should be given with a positive attitude as this can have an effect on the employees’ future performance. The purpose of a meeting should be to solve the problems faced and motivate the employees to perform better.

vi. Taking corrective action:

The last step of the process is to take decisions corrective action to overcome the deficiencies or the related HR decisions like rewards, promotions, demotions, transfers etc.
6. Critical Success Factors of Performance appraisal System

Documentation – means continuous noting and documenting the performance. It also helps the evaluators to give a proof and the basis of their ratings

(i) Standards / Goals – the standards set should be clear, easy to understand, achievable, motivating, time bound and measurable.

(ii) Practical and simple format - The appraisal format should be simple, clear, fair and objective. Long and complicated formats are time consuming, difficult to understand, and do not elicit much useful information. It is found that, involving performance appraisals often claim adverse impact as a result of the type of rating format used, more specific rating criteria will lead to lessened adverse impact. (H. W. Hennessey Jr., H. John Bernardin, 2003)

(iii) Appraisal technique – An appropriate appraisal technique should be selected; the appraisal system should be performance based and uniform. The criteria for evaluation should be based on observable and measurable characteristics of the behaviour of the employee. The appraisal techniques should be easy to administer, implement and economical to undertake.

(iv) Diary – Keeping - The study was designed to examine how structured diary keeping, and the nature of the appraisal instrument, might be related to affect-appraisal relationships. The study came up with the findings that having raters keep performance diaries actually increased the strength of the relationship between affect and ratings1.

(v) Communication – Communication is an indispensable part of the Performance appraisal process. The desired behavior or the expected results should be communicated to the employees as well as the evaluators. Communication also plays an important role in the review or feedback meeting. Open communication system motivates the employees to actively participate in the appraisal process.

(vi) Feedback – The purpose of the feedback should be developmental rather than judgmental. To maintain its utility, timely feedback should be provided to the employees and the manner of giving feedback should be such that it should have a motivating effect on the employees’ future performance.
Personal Bias – Appraisal being a complex affair, training should be provided to the appraisers on certain aspects like insights & idea on rating, documenting appraisals, conducting interviews etc. Interpersonal relationships can influence the evaluation and the decisions in the performance appraisal process. Therefore, the evaluators should be trained to carry out the processes of appraisals without personal bias and effectively.

Emphasis on Objectives: An effective performance appraisal system should emphasis individual objectives, organizational objectives and also mutual objectives. From the viewpoint of individual objective the performance appraisal should talk about

a) What task the individual is expected to do?

b) How well the individual has done the task?

c) How can his performance be further improved?

d) His reward for doing well. Failure to appraise the competencies reduces the effectiveness of the competencies and the managerial performance appraisal programs. Hence Appraisal system should appraise the managerial competencies which in turn help to identify successful employees. (Steven et al. 2001)

7. Conclusions

After going through the study we may conclude that an appraisal is the analysis of the performance of an individual, which usually includes assessment of the individual’s current and past work performance. Broadly speaking, there are two main reasons for the appraisal process. The first is the control purpose, which means making decisions about pay, promotions and careers. The second is about identifying the development needs of individuals.
As said above the very purpose of performance uprising is to know performance of employee, subsequently to decide whether training is needed to particular employee or to give promotion with additional pay hike. performance appraisal is the tool for determining whether employee is to be promoted, demoted or sacked (remove) in case of very poor performance and no scope for improvement.

Every corporate sector uses performance appraisal as a tool for knowing about the employee and take decisions about particular employee.

References