

## Unit V: Performance Appraisal

Concept & Objectives of performance appraisal, process of performance appraisal, methods of performance appraisal, benefits of performance appraisal, Barriers to effective performance appraisal

### **CONCEPT OF PERFORMANCE APPRAISAL**

Performance appraisal is defined as a process that systematically measures an employee's personality and performance usually by managers or immediate supervisors against the predefined attributes like skillset, knowledge about the role, technical know-how, attitude, punctuality and so on.

Performance appraisal has many names across organizations, some call it performance evaluation, some prefer performance review, merit rating, annual reviews, etc.

This process is carried out to identify the inherent qualities of an employee and the abilities and level of competency of an employee for their future growth and development and that of the organization they are associated with. It aims at ascertaining the value of an employee and his/her offering to the organization.

Performance appraisal helps managers and supervisors place the right employee to do the right job, depending on the skill set they possess. Without an ounce of doubt, every organization needs a robust performance appraisal system.

There are various methods that are used by managers and supervisors to evaluate employees based on objective and subjective factors, however, it can get a bit tricky, but to effectively evaluate an employee both factors are essential.

Newstrom – It is the process of evaluating the performance of employees, sharing that information with them and searching for ways to improve their performance.

“Performance appraisal is a meeting between workers and their manager to discuss how well they are doing in their work.” (Macmillan Dictionary)

### **Objectives of performance appraisal**

#### **Objective # 1. To Ensure a Right Man is Placed on Right Job:**

The data collected through merit rating facilitate that a right man is placed on a right job.

#### **Objective # 2. To Make an Employee Permanent on the Job:**

After the selection and placement of the employee on a job and after completion of the probation period, merit rating facilitates to judge the ability and competence of the employee on the job, so the management may be in position to take the decision of confirmation of the employee on the job.

#### **Objective # 3. To Give Promotion to the Employees:**

A well developed and administered performance appraisal system consists in determining whether individuals should be considered for promotions, where they can most effectively utilize their abilities and can judge his potentialities for higher jobs.

#### **Objective # 4. To Inform the Employee about his Capabilities:**

Merit rating technique gives the full information to the employee about his abilities, capabilities on the present job and as well as for the higher level jobs. It is necessary to inform the employee about his performance on the present job and the deficiencies and lapses on his part, if any, while performing on the job so that he may improve himself in that direction.

#### **Objective # 5. To Weeds out Training Needs:**

Due to implementation of merit rating technique it is possible to measure the employees performance on the job. The employees whose performance is very poor or not satisfactory will indicate that such employees should be trained. It means merit rating technique assists in finding out which employees require the training for their performance improvement on the present jobs.

**Objective # 6. To Ensure Maximum Utilization Human Resources:**

Merit rating technique aims at improving the abilities, capabilities, competence of the employees and overcoming their deficiencies, lapses, weaknesses therefore management may be in position to organize human resource development programme and thereby able to utilize their human resources at the optimum level.

**Objective # 7. To Assist in Supervision:**

The employee's performance is good, requires less amount of supervision but the employees whose performance is not satisfactory will require more close supervision and supervisor can concentrate on such employees, this can be done only through the merit rating technique.

**Objective # 8. To Determine Wage and Salary of the Employee:**

On the basis of the information provided by merit rating the management will be in position to determine the wage or salary to be given to their employees based on their performance on the job.

**Objective # 9. To Establish Good Industrial Relations:**

On the basis of information revealed by the merit rating helps in knowing the problems of employees and employer and efforts can be initiated by the management to improve the industrial relations. It ensures cordial healthy relations between the employer and employees. Moreover industrial peace and stability, work culture, environment, can be achieved.

**Objective # 10. To Assist in Personnel Research:**

Performance appraisal helps in the research specially in the field of human resource management and human relations. The research activities in the human resource area helps in resolving personnel problems, issues such as recruitment, selection, promotion, demotion, transfer, training and development, safety measures, employee grievances, absenteeism, layoff, labour turnover, wage and salary administration so on. Moreover to improve the productivity and efficiency of the employees the existing systems, procedures and practices should be amended and redesigned.

### **Objective # 11. To Facilitate Performance Record of the Employees:**

The merit rating technique aims at maintaining the update records of performance of the employees. The service books of the employees are kept updated. These records assists in determining the promotion, rewards, discipline, performance, behaviour, attitude, honesty loyalty of the employees towards their job and the organization as a whole.

### **Objective # 12. To Assist in Correcting the Employees:**

The data revealed from merit rating technique helps in guiding and correcting employees whose performance is not to the satisfaction of the management. This technique will stimulate the employees for their better performance.

## **PROCESS OF PERFORMANCE APPRAISAL**

### **1. Establish Performance Standards:**

The appraisal process begins with the establishment of performance standards. The managers must determine what outputs, accomplishments and skills will be evaluated. These standards should have evolved out of job analysis and job descriptions.

These performance standards should also be clear and objective to be understood and measured. Standards should not be expressed in an articulated or vague manner such as “a good job” or “a full day’s work” as these vague phrases tells nothing.

## **2. Communicate Performance Expectations to Employees:**

Once the performance standards are established, this need to be communicated to the respective employees so that they come to know what is expected of them. Past experience indicates that not communicating standards to the employees compounds the appraisal problem.

Here, it must be noted that mere transference of information (relating to performance standards, for example) from the manager to the employees is not communication. It becomes communication only when the transference of information has taken place and has been received and understood by the employees’.

The feedback from the employees on the standards communicated to them must be obtained. If required, the standards may be modified or revised in the light of feedback obtained from the employees. It is important to note that communication is a two-way street.

## **3. Measure Actual Performance:**

This is the third step involved in the appraisal process. In this stage, the actual performance of the employee is measured on the basis of information available from various sources such as personal observation, statistical reports, oral reports, and written reports.

This is because what we measure is more critical and important to the evaluation process than how we measure.

#### **4. Compare Actual Performance with Standards:**

In this stage, the actual performance is compared with the predetermined standards. Such a comparison may reveal the deviation between standard performance and actual performance and will enable the evaluator to proceed to the fifth step in the process, i.e., the discussion of the appraisal with the concerned employees.

#### **5. Discuss the Appraisal with the Employee:**

The fifth step in the appraisal process is to communicate to and discuss with the employees the results of the appraisal. This is, in fact, one of the most challenging tasks the manager's face to present an accurate appraisal to the employees and then make them accept the appraisal in a constructive manner.

A discussion on appraisal enables employees to know their strengths and weaknesses. This has, in turn, impact on their future performance. Yes, the impact may be positive or negative depending upon how the appraisal is presented and discussed with the employees.

#### **6. Initiate Corrective Action:**

The final step in the appraisal process is the initiation of corrective action when it is necessary. The areas needing improvement are identified and then, the measures to correct or improve the performance are identified and initiated.

The corrective action can be of two types. One is immediate and deals predominantly with symptoms. This action is often called as "putting out fires."

The other is basic and delves into causes of deviations and seeks to adjust the difference permanently.

This type of action involves time to analyse deviations. Hence, managers often opt for the immediate action, or say, “put out fires”. Training, coaching, counselling, etc. is the common examples of corrective actions that managers initiate to improve the employee performance.

## **METHODS OF PERFORMANCE APPRAISAL**

### **1. Management by Objective (MBO)**

In this method, managers and employees work together to identify, plan, organize, and communicate goals for success. The manager identifies the desired objectives to be achieved, giving the employee a major area of responsibility in terms of the results that are expected from him or her. Over regular touchpoint meetings, the manager and employee discuss the progress made. The employer can then use these measures of progress as a guide to measuring the contribution level of the employee.

While useful in determining rates of productivity, this process usually emphasizes career-oriented and tangible goals. Therefore, intangible aspects of an employee’s performance such as their interpersonal skills or job commitment often go ignored.

### **2. Behaviorally Anchored Rating Scale (BARS)**

This method is often thought of as being the most effective, as it succeeds in bringing out both the qualitative and quantitative benefits of the performance appraisal process. In the Behaviorally Anchored Rating Scale (BARS) system, the employer compares employee performance with specific behavioral examples that are anchored to numerical ratings.

Because this method accesses both quantitative and qualitative forms of measurement, while also incorporating intangible qualities of employees into the rating system, BARS succeeds in providing clear standards, improving feedback, and providing accurate performance analysis and consistent evaluation. Its primary

drawback is, like most other performance review methodologies, when done manually it poses the risk of being skewed by distortions caused by bias.

### **3. Critical Incident Method**

In this method, an employer evaluates an employee based on certain events, known as “critical incidents”, in which the employee either succeeded tremendously or failed in any given task. Throughout the process, the evaluator maintains a digital or physical journal in which they store the information from the different incidents.

This process, though manually demanding, is useful for the individual growth of employees. By keeping detailed records of both the positive and opportunity area milestones of an employee’s career trajectory, employers can give detailed information in their feedback, improving the chances of development in the future. These metrics can be readily reviewed during the scheduled progress / 1:1 meeting.

### **4. Assessment Centre Method :**

This performance appraisal method assesses employee performance in social-related situations. Employees are asked to take part in situational exercises (in-basket exercises, workgroups, simulations, role-playing exercises, etc.) that aim to highlight their potential success in various roles and bearing various responsibilities.

While this process is useful in giving insight into the employee’s personal characteristics that can influence their success (i.e. ethics, tolerance, problem-solving skills, judgment, introversion or extroversion, adaptability, collaboration, etc.), it can also result in unhealthy competition between workers. Also, it has the potential to bear adverse effects on low performers due to the social nature of the testing.

### **5. Psychological Appraisals**

This method is particularly useful when determining the hidden potential of employees because it focuses on evaluating an employee’s future performance rather than the results of their past work. In this performance appraisal method, qualified psychologists conduct a variety of tests on employees, including in-depth



interviews, psychological tests, and private discussions. These tests aim to identify an employee's emotion, intellect, and other related traits that could affect their future performance in an organization.

Although this method is thorough and insightful, it can evidently be a slow, complex, and costly process. Further, the quality of the results hinges upon the psychologist who administers the procedure and a variety of external influencers that may affect the employee during testing (e.g.; personal stress related events), so results can sometimes be inconsistent.

### **6. Human-Resource (Cost) Accounting Method**

The cost accounting method involves the analysis of an employee's performance through the monetary benefits they yield to the company. This measurement is usually obtained by comparing the cost of retaining an employee to the monetary benefits (contributions) the organization has ascertained from that specific employee.

This performance appraisal method considers many factors, including unit-wise average service value, quality, overhead cost, interpersonal relationships, and so on. However, its high dependency on the quality of cost and benefit analysis, as well as the memory power of the reviewer, is its primary drawback.

### **7. 360-Degree Feedback**

A common industry discussion is that the annual performance appraisal method is outdated and no longer useful. Workers need ongoing communication with team leaders and managers, and continuous feedback processes like 360-degree feedback, to stay motivated and interested in learning from the results of their performance appraisals.

In the 360-degree feedback method, multiple raters are involved in evaluating the performance of an individual. The feedback of the employee is collected by all agents within the organization who interact with him or her, including superiors, peers, subordinates, and even customers. Usually, this feedback is collected by an online questionnaire designed specifically for this purpose. When every employee in an organization appraises their managers, peers, customers, suppliers, and takes

part in regular self-evaluation, it ensures effective performance analysis with diverse levels of transparency.

## **BENEFITS OF PERFORMANCE APPRAISAL**

- **Creates career growth:** Performance appraisals help employees grow in their careers, particularly if they are looking to eventually advance with the company to a higher role. A regular evaluation can help employees create a plan for professional growth.
- **Improves performance:** Providing feedback helps motivate employees to do well. Employees can work harder when their manager shares positive feedback. Because performance appraisals are often used to determine how to give bonuses, they can help give employees an incentive and reward for their hard work.
- **Increases employee engagement:** Regularly involving employees in the performance review process can lead to more engagement and a desire to stay with a company long term. When employees can see how their actions affect the company overall, they are more likely to perform better. Frequent performance appraisals also show employees that their manager cares about them and is willing to take the time to provide them with the instruction needed to help them flourish.
- **Helps determine training:** Performance appraisals allow companies to see which employees need more training and determine what areas to provide training in. For instance, if multiple employees are struggling to meet a daily quota, an employer could provide a workshop on how to work more efficiently or consider lowering the quota for employees.
- **Clarifies expectations:** During performance appraisals, managers can reiterate their expectations for employees. This helps individuals to understand what their daily job responsibilities are and what their manager wants from them.
- **Allows for conversation:** Performance appraisals create a structured, set time for managers to discuss how each employee is doing overall and allows

for a flow of discussion with no distractions. During these meetings, managers can coach staff and offer tips for how to improve their performance. This scheduled time also provides employees with a chance to ask questions and clear up any concerns they may have.

- **Evaluates goals:** Employers can evaluate how well an employee reached their goals and provide feedback for what sorts of goals to set for the next period. Creating a system with continuous goal-setting helps to ensure employees are improving and contributing to the overall mission of the organization.
- **Provides documentation:** Keeping a record of employees' work over a specific period of time allows managers to track an employee's development journey and performance. Organizations can keep documentation of each employee in a personal folder to review at a later date. This helps inform superiors in upper management about employees who they may not interact with regularly.
- **Addresses areas for improvement:** When employers hold performance appraisals frequently, they can spot areas that need improvement before they affect the company or become irreversible. Often employers provide suggestions and measures employees can take in the future. This allows employees to continually grow and become the best that they can be.
- **Strengthens team bonds:** Performance appraisals help managers and employees align their priorities and brainstorm together. Frequent meetings can build relationships and make the manager appear more approachable. Peer reviews help individuals see how their coworkers appreciate them.
- **Refocuses work:** During the day-to-day operations of a company, employees sometimes forget why they are working or how their efforts make a difference. By receiving feedback on projects they have completed, employees can remember why their work matters. Performance appraisals also offer managers a chance to reiterate the company vision and what goals the company's employees are working toward.

- **Guides current projects:** Performance appraisals can give employees a chance to ask managers questions about current projects they are working on and receive further guidance or direction in how to complete their tasks at work. These reviews can give employers a chance to check in with employees and review employees' progress on projects without micromanaging.

## **BARRIERS TO EFFECTIVE PERFORMANCE APPRAISAL**

Every organization undertakes performance appraisal, either formally or informally. Performance appraisal methods are not fool-proof.

There are strengths and weaknesses in every method of appraisal. Since every method involves judgements of one or other kind, there is scope for errors.

### **Barrier # 1. Faulty Assumptions:**

Because of the faulty assumptions of the parties concerned — superior and his subordinates — in appraisal system, it does not work properly or objectively.

These assumptions work against an appraisal system in the following manner:

i. The assumption that managers naturally wish to make fair and accurate appraisal of subordinates is untenable. Both superiors and subordinates show tendencies to avoid formal appraisal processes, as well as to heed them in their respective work roles. Their assistance lies partly in their psychological characteristics, partly in their organizational roles, and partly in technical deficiencies and the unwise management of appraisal policies and procedures.

ii. Another faulty assumption is that managers take a particular appraisal system as perfect and feel that once they have launched a programme that would continue for ever. They expect too much from it, and rely too much on it, or blame for their faults. It should be recognized that no system can provide perfect, absolutely defensible, appraisals devoid of subjectivity.

iii. Managers sometimes assume that personal opinion is better than formal appraisal, and they find little use of systematic appraisal and review procedures. However, this 'management by instinct' assumption is not valid and leads to bias, subjectivity, and distorted decisions based on partial or inaccurate evidence.

iv. Managers' assumptions that employees want to know frankly where they do stand and what their superiors think about them are not valid. In fact, subordinates resist to be appraised and their reaction against appraisal has often been intense. As such, they tend to defeat the basic purpose of appraisal by providing camouflaged information as far as possible.

### **Barrier # 2. Psychological Blocks:**

The value of any tool, including performance appraisal, lies largely on the skills of the user. Therefore, the utility of performance appraisal depends upon the psychological characteristics of managers, no matter whatever the method is used. However, research tells more about the inhibiting rather than the facilitating characteristics of people. There are several psychological blocks which work against the effectiveness of an appraisal system.

These are- managers' feeling of insecurity, appraisal as an extra burden, their being excessively modest or sceptical, their feeling to treat their subordinates' failure as their deficiency, disliking of resentment by subordinates, disliking of communicating poor performance to subordinates, and so on. Because of these psychological barriers, managers do not tend to become impartial or objective in evaluating their subordinates, thereby defeating the basic purpose of appraisal.

### **Barrier # 3. Technical Pitfalls:**

The design of performance appraisal forms has received detailed attention from psychologists; but the problem of finding adequate criteria still exists there. At best, appraisal methods are subjective and do not measure performance in any but in the most general sense. The main technical difficulties in appraisal fall into two categories- the criterion problem and distortions that reduce the validity of results.

**i. Criterion Problem:** A criterion is the standard of performance the manager desires of his subordinates and against which he compares their actual performance. This is the weakest point in appraisal procedure. Criteria are hard to define in measurable, or even objective, terms. Ambiguity, vagueness, and generality of criteria are difficult hurdles for any process to overcome. Traits too present ambiguity. A particular trait is hard to define and variations of interpretation easily occur among different managers using them.

**ii. Distortions:**

Distortions occur in the form of biases and errors in making the evaluation. Such distortions may be introduced by evaluator consciously or unconsciously.

**An appraisal system has the following possible distortions:**

**(a) Halo Effect:**

This distortion exists where the rater is influenced by ratee's one or two outstandingly good (or bad) performances and he evaluates the entire performance accordingly. Another type of halo effect occurs where the rater's judgement is influenced by the work team or informal group with which a subordinate associates. If the group is not well liked, this attitude may work in the rating of the individuals, apart from the actual performance.

**(b) Central Tendency:**

This error occurs when the rater marks all or almost all his personnel as average. He fails to discriminate between superior and inferior persons. This may arise from the rater's lack of knowledge of individuals he is rating, or from haste, indifference, or carelessness.

**(c) Constant Errors:**

There are easy raters and tough raters in all phases of life. Some raters habitually rate everyone high; others tend to rate low. Some rate on potential rather than on recently observed performance. In such a situation, the results of two raters are hardly comparable.

**(d) Rater's Liking and Disliking:**

Managers, being human, have strong liking or disliking for people, particularly close associates. The rating is influenced by personal factors and emotions and

raters may weigh personality traits more heavily than they realize. Raters tend to give high rating to persons whom they like and low rating whom they dislike.