Institutional Learning Management System

For

Vidyasagar University

Content Writer

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**MBA 203**

**Performance Appraisal**

**Unit V:** Performance Appraisal: Meaning, traditional and modern methods, problems in Appraisal, potential assessment, errors in appraisal, basic issues in compensation management.

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**1. Concept Meaning and Definition of Performance Appraisal**

**Performance Appraisal:**

An evaluation of an object's or person's value is called an appraisal, and an assessment of an employee's value in terms of the effectiveness of the organization is called a performance appraisal. It is the procedure for gathering, evaluating, and recording data regarding an employee's relative value to the company.

A periodical evaluation of an employee's work performance and overall contribution to a firm is known as a performance appraisal.

It is a methodical and unbiased way to assess how well a person is doing his job and it plays a role in directing and controlling career development. An employee's personal strengths and shortcomings, recent accomplishments and failures, and readiness for promotion or more training are all examined in a performance review.

Periodically, but continuously, performance evaluations are conducted. It is a component of a wider performance management system, and both managerial and non-managerial staff fall within its purview.

**Definition:** According to Flippo, a prominent personality in the field of Human resources, "performance appraisal is the systematic, periodic and an impartial rating of an employee’s excellence in the matters pertaining to his present job and his potential for a better job."

Other definition: “Performance appraisal is the process of defining expectations for employee’s performance; measuring, evaluating and recording employee performance relative to those expectations; and providing feedback to the employee.”

**2. Objectives of Performance Appraisal:**

Appraisal of employees serves several purposes. The prime objectives are given below:

* To offer workers feedback on their output.
* Making choices pertaining to the training and development programmes. It can act as a manual for creating an appropriate training and development course.
* To make sensible decisions about compensation: a foundation upon which choices about pay raises, promotions, bonuses, etc. are made.
* Give organizations the chance to evolve and receive organisational diagnosis.
* To comply with regulatory standards, validate selection strategies and human resource policies.
* To enhance performance through growth, coaching, and counselling.
* To motivate employees with encouragement and recognition

**3.The process of Performance Appraisal.**

Performance appraisal is planned, developed and implemented through a series of steps which are discussed below:

1. Goal setting:For the purpose of evaluating performance, standards are set. Standards should be relevant, sufficient, and unbiased. Both the appraiser and the appraise must understand the performance expectations. A detailed analysis of the task must come before developing the performance standards or goals. Both written and quantifiable goals are required.

2. Communicate the Standards: Both the appraiser and the appraise are involved in performance appraisal. A clear job description should be prepared by the appraiser, who should also assist the appraiser in setting goals and objectives, reviewing the outcomes, and providing coaching and direction as needed. The appraiser, on the other hand, needs to be quite explicit about his intentions and motivations. Performance requirements must be shared with the appraisers for the intended purpose.

3. Measure performance:The next step once standards are created is to compare performance to those standards. A measurement may be continuous, periodic, or annual. Performance metrics must be simple to use and trustworthy. The following are the most typical information sources that managers typically use:

* Personal observation
* Statistical Reports
* Verbal feedback
* Written reports

4. Find deviations: At this point, the appraiser will assess the appraiser's real performance. A person's contribution and abilities must be evaluated, which is a difficult undertaking. Since it affects the appraiser's self-esteem, it has significant emotional implications. The appraiser must contrast the outcomes with the established benchmarks in order to identify performance variances.

**5. Corrective action:** When measured against goals or standards, some deviations are desired and some are undesired. It must be suggested for an incentive, prize, or promotion if the result is desirable. If the outcome falls short of expectations, corrective action must be taken. Finding out how and why performance deviates is the goal of basic corrective measures.Goals may occasionally be amended, if necessary, with a discussion of the appraiser and appraisers.

Diagrammatically, the performance appraisal process can be shown as follows:

**Goal setting**

**Communicate the Standard**

**Measure performance**

**Find deviations**

**Corrective action**

***Fig 5.2: Performance Appraisal Process***

**Conclusion:** We can draw the conclusion that under the performance evaluation system, managers should look forward to putting the fundamentals into practice, or implementation, rather than only performing their roles conceptually. He should pay attention to other important factors, such as personality, cooperation, maturity, intelligence, loyalty, competent trainers, etc., in addition to basic managerial duties.

Utilizing these areas should go hand in hand with reviewing plans and objectives. Managers use the appraisal system as a continuous and sequential activity to implement a good compensation system for their staff and to increase market share for their products.

**4.Importance of Performance Appraisal.**

It is necessary to conduct appraisals for the reasons listed below:

1. To know the quality of managers:

Every organization has high standards for itself, for which it requires capable management. An applicant for a job usually comes across as very passionate and promising. "A potential candidate" is what they call him. It is necessary to translate this potential into performance. Theory is having potential, but practice is turning potential into performance.

The organization might not hire a capable manager if a candidate has good theoretical credentials but lacks execution skill. The organization learns the extent of the managers' competency, which is the primary benefit of appraisals. It gives the management the ability to understand "where we are" and "where we would like to go." The company can concentrate on an executive's potential if they have already shown it by utilizing his strongest merit points.

2. To put right man on the right job:

There is a job design or description for every role. There ought to be a man who can fill the role. The suitable man for the task must exist. By using an appraisal process, this is attainable.

3. To re-structure the organization:

Knowing each employee's highest point of merit is the fundamental benefit of appraisal. An appraisal system can be used to rotate executives in a methodical manner. Job rotation has the benefit of providing the company with a capable manager. There is a chart in every organization. There are positions in the company that ought to be filled by the best qualified candidate. It will be able to restructure the organization once this is recognized. Today's organisations are adaptable and dynamic. Organisations must be reorganized, and managers' duties must change. Only effective evaluation mechanisms can make this possible.

4. To give feedback to employees:

A useful tool for communication is evaluation. Managers use appraisals as a resource when speaking with employees about their successes or shortcomings. Objective facts and jointly established goals are present in assessments. Therefore, it becomes simple for managers to persuade staff members and provide them with feedback on inputs and results.

5. To develop employees:

Employee development is a priority for a modern company. Organisations have plans and long-term goals. In order to succeed, they train individuals to take on the organization's obligations in the future. Organisations use evaluations to create Executive Development Programmes in order to achieve development. Employee development can be accomplished in a number of ways. An appraisal system aids in choosing the best approach. Employee development requires resources (both time and money), and a good appraisal system aids in making the greatest use of those resources.

6. To recommend rewards/transfers:

When appraisals are integrated with the compensation scheme, they are effective. The most effective motivator is financial reward for success. Promotion is one of the key drivers of motivation. There may be raises as well as financial rewards. Transfers may also occur at the employee's desire or at the organization's request. Ample evidence and cases are required for such decisions. Appraisals make it possible for this.

A successful performance appraisal technique must have a well-balanced mixture of quantitative and qualitative standards to compare performance to. Quantitative criteria are used by many businesses.

**5.Appraisal methods in reference to Traditional and Modern Appraisal methods**

Various techniques are employed to evaluate employee performance based on the size and kind of organisations. Using a numerical or scalar rating system, where managers are asked to rate a person against a set of goals or traits, is a frequent strategy for evaluating performance.

In certain organisations, employees self-assess as well as get feedback from their management, peers, superiors, and customers. There are two general categories for the most common performance evaluation techniques.

1. **Traditional Trait Appraisal Methods:** These methods include Ranking methods, Graphic Rating Scale method, Critical Incidents Method, Checklist Methods, Essay Method and Field Review Method.
2. **Modern Appraisal methods:** These methods include Management by Objectives, 360 – Degree Feedback Appraisal, Behaviorally Anchored Rating Scales, Assessment Cenre, Human Resource Accounting, and Balanced Scorecard.

**(A) Traditional Trait Appraisal Methods:**

**1. Ranking Methods:** Ranking can be based on the followings:

(а) Straight Ranking Method: One of the most basic and traditional methods of performance evaluation is this one. By evaluating each employee's total performance, the appraiser or evaluator assigns a ranking to each one, from best to worst. When comparing things, it is really helpful.

(b) Paired Comparison Method: It provides a more accurate comparison than the simple ranking system. With this approach, every employee is individually compared to every other employee before being ranked.

 (c) Forced Distribution Method: It is a technique for rating workers according to a predetermined distribution scale. The evaluator is required to place 10% of the employees in the highest bracket, 20% in the next bracket, 40% in the middle bracket, 20% in front of the bottom bracket, and 10% in the lowest brackets.

**2. Graphic Rating Scale Method:** This method evaluates an employee's quantity and quality of work using a graphic scale that shows various levels of a specific trait, or behaviour or characteristic as it relates to job performance.

For instance, a trait like job knowledge may be evaluated on the basis of numbers (1, 2, 3, 4, 5, and so forth) or on the scale of average, above average, outstanding, or unsatisfactory. The list of variables to be evaluated depends on the needs of the business.

**3. Critical Incidents Methods:** Using this approach, the employee is evaluated based on significant situations and how they were handled by the employee. Both its shortcomings and strengths are present. Damage to equipment as a result of disregarding safety precautions may constitute the incident's negative aspect.

Staying after hours to repair an equipment is a possible plus factor. This approach's disadvantage is that the manager must record serious situations as they happen and employee behavior right away.

**4. Checklist Methods:** The checklist includes a series of statements that the evaluator uses to explain how the employees perform while they are working. The item is left blank unless the rater thinks the employee possesses one of the specified traits.

**5. Essay Appraisal Method:** "Free Form Method" is another name for it. It entails the superior describing the performance of a specific employee in relation to a set of broad performance criteria, based on the facts and frequently accompanied by examples and evidence. How to avoid the evaluator's prejudice is one of the method's main shortcomings.

**6. Field Review Method:** In this approach, a member of the HR department or a training officer speaks with and conducts interviews with the supervisors in order to assess and rate the respective subordinates. This approach takes a lot of time. However, using this technique lessens the prejudice of the superiors.

Mentioning some of the drawbacks of trait-based performance evaluation techniques at this point wouldn't be out of place. First, the trait-based approaches are predicated on qualities (such as honesty and consciousness) that might not be directly related to good job performance. An employee can alter their actions but not their personality.

A dishonest employee may cease stealing, but he or she is likely to resume as soon as he or she feels no longer in danger of being found. Second, trait-based approaches are less trustworthy because they can be readily swayed by "office politics."

**(B) Modern Appraisal Methods:**

These methods are described as under:

**1. Management by Objectives**: Peter F. Drucker introduced the idea of 'Management by Objectives' (MBO) in 1954. It can be described as a procedure whereby subordinates and employees collaborate to identify shared objectives, such as organisational and personal objectives. Participatory goal-setting, action-course selection, and decision-making are at the heart of MBO.

***Fig: Process of MBO***

Benefits of MBO: It is more suited for managerial positions. MBO's drawbacks include: Allocation of merit pay is not applicable to all jobs. applicable to short-term objectives rather than long-term objectives

**2. 360 -Degree Feedback Appraisal Method:**

The most thorough evaluation, commonly referred to as "multi-rater feedback," includes comments on an employee's performance from all possible sources. Apart from the employee themselves, these sources include supervisors, subordinates, peers, team members, clients, and suppliers.

**3600 Appraisal**

***Fig: 5.3: 360 - Degree Feedback Appraisal Method***

The employee has the opportunity to assess his or her own performance by considering their accomplishments, flaws, and strengths.

Evaluation of subordinates provides a chance to assess an employee's leadership qualities, ability to motivate others, communication and motivating skills, and other traits.

Employees' teamwork, cooperation, and sensitivity to others can be determined through peer evaluation. As a result, a 360-degree review of an evaluation conducted by everyone involved is considered to be one of the most reputable. Wipro, Infosys, Reliance Industries, and others are a few businesses that employ this technique.

**3. Behaviorally Anchored Rating Scales:**

A contemporary method that combines the graphic rating scale and the critical incidents method is called behaviorally anchored rating scales (BARS). It includes set priorities for the performance of the work.

The average BARS consists of seven or eight performance behaviors, each of which is scored on a seven- to nine-point scale. Critical instances served as the basis for these assertions.

Through recording and BARS comparison, this method compares an employee's real job behavior to the planned behavior. Expert expertise is necessary for developing and using BARS.

**4. Assessment Centres:**

In order to evaluate a group of employees' readiness to assume more responsibility in the future, assessment centres frequently use techniques including social informal events, examinations, exercises, and assignments.

German psychologists have contributed assessment centres. Assessment Centres are made up of numerous multiples.

• A candidate's several competencies will be assessed.

• A large number of observers to reduce subjectivity and boost objectivity throughout the process.

• A variety of exercises, including role-playing games, case studies, presentations, and group discussions.

• Numerous simulations: These could be of the creative, crisis, or exploitation variety.

• Multiple observations: At least two observations are made for each observation. Evaluation can be done in five different methods. A team of skilled assessors watches a group of participants while they engage in a variety of activities and evaluates each one of them based on a set of planned, work-related behaviors. After then, decisions are pooled.

**5. Human Resource Accounting Method:**

Every organization's human resources are important assets. The relative value of these assets is assessed using the human resource accounting approach in monetary terms. The cost and contribution to the employers are taken into account when valuing the employees using this method.

In contrast to their contribution, which is the overall value added (in monetary terms), the cost of employees includes all expenses expended on them, such as their remuneration, recruitment and selection costs, induction and training costs, etc.

The employees' performance will determine how much the cost and contribution differ. The ideal situation would be for the employees' contribution to exceed the expense incurred for them.

**6. Balanced Score Card:**

In the 1990s, Robert Kaplan and David Norton created it. The balanced scorecard's objective is to assess both organizational and employee performance in the management of performance appraisals. The balanced scorecard offers a framework of many metrics to guarantee a comprehensive and impartial picture of employee performance. A balanced scorecard concentrates on the performance-enhancing metrics.

A balanced set of measures based on four measures

* Financial – profits, market share, ROI;
* Customer – perspective about organization loyalty to firm, acquisition of new customers;
* Internal business measures – infrastructure, organizational processes and systems, human resources;
* The innovation and learning perspective – ability to learn, innovate and improve

Finally linking these measures to employee performance. Senior managers are allocated rewards based on their success at meeting or exceeding the performance measures.

**6.Problems in Performance Appraisal Methods**

The following are some issues with rater bias and rater concerns in performance appraisal methods:

**(i)Halo effect:**

Generally Managers believe that if a person is successful in one area, they will also be successful in other areas. Sometimes, though, this is not the case. A person who excels at sales may not be adept at production, and vice versa.

**(ii) Horns effect:**

It is the halo effect in reverse. Managers make the assumption that employees who don't perform well in one area won't do well in other areas either. They frequently give someone a low mark when they perform poorly on one task even though they may have performed well on other jobs.

**(iii) Contrast error:**

Instead of evaluating each employee's performance to a set of standards, managers evaluate their subordinates based on how they compare to one another. When two sub- standard employees are evaluated on this basis, the manager may award one a grade of A and the other a grade of B when in reality both may be in Grade E.

 **(iv) Recent performance error:**

The evaluation of the personnel is based on their most recent performance. The previous performance is ignored. A top performer who just failed to complete their duty effectively for some reason will be downgraded to Grade D or E. This rating scheme is inadequate.

**(v) Leniency error:**

Supervisors give everyone a favorable evaluation without considering each employee's actual performance. The results are most likely biased as a result.

**(vi) Severity error:**

This is the complete opposite of a leniency error. The manager gives each employee a low grade regardless of how well they actually performed. As a result, the results would be inaccurate once more.

**(vii) Central tendency error:**

No matter how well they actually perform, everyone gets a standard rating or grade. The rater gives an average rating to everyone and does not differentiate on the basis of superior or inferior status. This could happen due to the rater's ignorance about employees or his lack of regard for them.

 **(viii) Constant errors:**

An individual may receive a high or low rating from some raters. They assign either a high or low grade to each person. Others grade based on the likelihood of future success, while some make their decisions on current performance. Accordingly, it is impossible to compare the results of two raters.

**7. ‘Potential Assessment’.**

Potential Assessment: Performance evaluation and potential evaluation are two different things. The skills that are already present but aren't being employed at the moment are described as potential. It's the latent capacity to perform increasingly difficult tasks in upcoming responsibilities.

Performance, on the other hand, refers to how well a person is able to meet the requirements of their current employment. It involves figuring out a worker's capacity to occupy positions higher up the organizational structure and take on more responsibility.

**8. Objectives of ‘Potential Assessment**

The main objectives of "Potential Assessment" are as follows:

i) To let the staff know that they have room for advancement.

ii) To offer advice to the personnel on how to improve their chances of advancing in their careers.

To help the organisation create a suitable succession plan (iii).

iv) To periodically refocus training initiatives.

**9. Steps to follow for a Potential Assessment system**

The following steps should be taken when adopting a Good Potential Assessment system:

1) Defining organisational roles and functions is step one. Job descriptions must be created for each job in order to do this.

2) Skills required for the work: Based on job descriptions, the responsibilities that employees will play (i.e., technical, managerial, and behavioural dimensions) must be prepared.

Along with a description of their responsibilities and qualifications, the potential assessment system must also include procedures for grading employee traits, such as:

a) Candidate's potential may be assessed by their immediate supervisor, who is knowledgeable of both their technical abilities and past experience.

b) Psychological assessments: A range of psychological assessments can be used to evaluate managerial and behavioural features.

c) Games: To determine a candidate's potential, exercises and simulation games (such as assessment centres, business games, in-basket, role plays, etc.) may be used.

d) Performance histories: The candidate's performance history and evaluations from his former work could be thoroughly examined on a range of dimensions, including initiative, inventiveness, risk-taking capacity, etc., which may be essential in how successfully he fulfils his duties in a new position.

4. Setting up the system: After discussing the aforementioned requirements, he must set up a framework that will make it simple to introduce the scheme and provide clarifications for the following queries.

a) What proportion of promotions should be based on merit rather than seniority?

b) How much weight should be given to the management, technical, and behavioural facets of performance?

c) How is the person assessed using a variety of possible indicators, and how does that evaluation compare to reality?

5. Feedback: The system must give each employee the chance to learn the outcome of his assessment.

**10. The major issues in Compensation Management.**

To attract and keep bright personnel, organisations are now having difficulty developing compensation plans. Following is a list of the key issues:

Issue:1: Talent Competition: In an effort to attract and keep the best employees, HR experts work to set competitive pay rates. But there are lots of subtleties that make it difficult

Issue: 2: Legal compliance concerns are a common concern for HR professionals in charge of pay schemes. Pay must be competitive with the outside market in addition to being fair within the organisation. Companies often work to enhance the pay of top performers and make an effort to create pay gaps amongst workers performing the same job in order to recognise extraordinary success.

Issue: 2: Designing Executive Compensation: The company may find it difficult to recruit and keep top employees if it doesn't provide them competitive salary and benefits. Any small corporation must go through the process of developing attractive executive compensation packages and maintaining their confidentiality.

Issue: 4: Recognizing and Rewarding Employees: Managers must be trained and educated on how to use rewards and recognition to make employees feel valued by the firm and content in their positions by the supervisors and managers in the organisation who recognise and reward employees, as well as by the compensation staff.

Issue: 5: External competition: Businesses are prepared to pay high salaries in this fiercely competitive world in order to hire the best people. The organisation needs to create a remuneration package competitive with that offered by other businesses in its industry and region if it wants to draw and keep talent.

Issue: 6: Gaps in employee expectations: There is almost always a conflicting difference between what an employee wants compensated and what the company wants to pay. The HR is caught in the middle of this. Employees frequently overlook the full value of their salary package. Only net pay is taken into account.