**Chapter Six**

**Performance Appraisal**

**Meaning of Performance Appraisal**

Performance appraisal system has been defined in many ways. The easiest way to understand the meaning of performance appraisal is as follows:

It is the systematic assessment of an individual with respect to his or her performance on the job and his or her potential for development in that job. Thus, performance appraisal is a systematic and objective way of evaluating the relative worth or ability of an employee in performing his job. The two aspects of performance appraisal considered to be important are: systematic and objective. The appraisal is said to be systematic when it evaluates all performances in the same manner, by applying the same approach, so that appraisal of different persons are comparable. Such an appraisal is taken from time to time according to plan; it is not left to probability. Thus, both raters’ and ratees know the system of performance appraisal and its timing. Appraisal has objectivity also. It’s important aspect is that it attempts at precise measurement by trying to remove human biases and prejudices.

**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.”

**In the words of Yoder,** “Performance appraisal refers to all formal procedures used in working organizations to evaluate personalities and contributions and potential of group members.” Thus performance appraisal is a formal programme in an organization which is concerned with not only the contributions of the members who form part of the organization, but also aims at spotting the potential of the people.”

It is a systematic way of judging the relative worth of an employee while carrying out his work in an organization. It also helps recognize those employees who are performing their tasks well and also- who are not performing their tasks properly and the reasons for such (poor) performance.

**According to International Labor Organization,** “A regular and continuous evaluation of the quality, quantity and style of the performance along with the assessment of the factors influencing the performance and behavior of an individual is called as performance appraisal.”

In short, we can say that performance appraisal is expected to result in an assessment of: development potential of the employees, training needs for the employees; capabilities of employees being placed in higher posts, behavior and obedience of the employees; and the need of the organization to evolve a control mechanism.

**6.1. Purpose of Performance Appraisal**

Performance is always measured in terms of outcome and not efforts. Performance Appraisal is needed in most of the organizations in order:

1. To give information about the performance of employees on the job and give ranks on the basis of which decisions regarding salary fixation, demotion, promotion, transfer and confirmation are taken.
2. To provide information about amount of achievement and behavior of subordinate in their job. This kind of information helps to evaluate the performance of the subordinate, by correcting loopholes in performances and to set new standards of work, if required.
3. To provide information about an employee’s job-relevant strengths and weaknesses.
4. To provide information so as to identify shortage in employee regarding ability, awareness and find out training and developmental needs.
5. To avoid grievances and in disciplinary activities in the organization.

Performance appraisals should be conducted on a frequent basis, and they need not be directly attached to promotion opportunities only. It is important because of several reason s such as:

1. **Personal Attention:** Performance appraisal evaluation, gives employee to draw personal concern from supervisor and talk about their own strengths and weaknesses.
2. **Feedback:** Employees on a regular basis get feedback of their performances and issues in which they lack, which needs to be resolved on a regular basis.
3. **Career Path:** It allows employees and supervisors to converse goals that must be met to grow within the company. This may encompass recognizing skills that must be acquired, areas in which improvement is required, and additional qualification that must be acquired.
4. **Employee Accountability:** Employees are acquainted that their evaluation will take place on a regular basis and therefore they are accountable for their job performance.
5. **Communicate Divisional and Company Goals:** It not only communicates employees’ individual goals but provides an opportunity for managers to explain organizational goals and in the manner in which employees can contribute in the achievement of those goals.
   1. **Performance Appraisal Steps**

The performance appraisal system of one organization may vary from other organizations, though some of the specific steps that an organization may follow are as follows:

1. **Establish Performance Standards:** It begins by establishing performance standards i.e. what they expect from their employee in terms of outputs, accomplishments and skills that they will evaluate with the passage of time. The standards set should be clear and objective enough to be understood and measured. The standards which are set are evolved out of job analysis and job descriptions. Standards set should be clear and not the vague one. The expectation of the manager from his employee should be clear so that it could be communicated to the subordinates that they will be appraised against the standards set for them.
2. **Communicating the Standards Set for an Employee:** Once the standards for performance are set it should be communicated to the concerned employee, about what it expected from them in terms of performance. It should not be part of the employees’ job to estimate what they are expected do. Communication is said to be two ways street, mere passing of information to subordinate does not mean that the work is done. Communication only takes place when the information given has taken place and has been received and understood by subordinate. . If necessary, the standards may be tailored or revised in the light of feedback obtained from the employees.
3. **Measuring of the Actual Performances:** It is one of the most crucial steps of performance appraisal process. It is very important to know as how the performance will be measured and what should be measured, thus four important sources frequently used by managers are personal observation, statistical reports, oral reports, and written reports. However, combination of all these resources gives more reliable information. What we measure is probably more critical to the evaluation process than how we measure. The selection of the incorrect criteria can result in serious consequences. What we measure gives an idea about what people in an organization will attempt to achieve. The criteria which are considered must represent performance as stated in the first two steps of the appraisal process.
4. **Comparing Actual Performance with Standards Set in the Beginning:** In this step of performance appraisal the actual performance is compared with the expected or desired standard set. A comparison between actual or desired standard may disclose the deviation between standard performance and actual performance and will allow the evaluator to carry on with the discussion of the appraisal with the concerned employees.
5. **Discussion with the Concerned Employee:** In this step performance of the employee is communicated and discussed. It gives an idea to the employee regarding their strengths and weaknesses. The impact of this discussion may be positive or negative. The impression that subordinates receive from their assessment has a very strong impact on their self esteem and, is very important, for their future performances.
6. **Initiate Corrective Action:** Corrective action can be of two types; one is instant and deals primarily with symptoms. The other is basic and deals with the causes. Instant corrective action is often described as “putting out fires”, where as basic corrective action gets to the source from where deviation has taken place and seeks to adjust the differences permanently. Instant action corrects something right at a particular point and gets things back on track. Basic action asks how and why performance deviated. In some instances, managers may feel that they do not have the time to take basic corrective action and thus may go for “perpetually put out fires.

Thus the appraisal system of each organization may differ as per the requirement of that Organization**.**

* 1. **Problems Associated With Performance Appraisals**

Performance appraisal technique is very beneficial for an organization for taking decisions regarding salary fixation, demotion, promotion, transfer and confirmation etc. But, it is not freed from problem In spite of recognition that a completely error-free performance appraisal can only be idealized a number of errors that extensively hinder objective evaluation. Some of these problems are as follows:

1. **Biasness in rating employee**: It is the problem with subjective measure i.e. the rating which will not be verified by others. Biasness of rater may include:
2. **Halo Effect**: It is the propensity of the raters to rate on the basis of one trait or behavioral consideration in rating all other traits or behavioral considerations. One way of minimizing the halo effect is appraising all the employees by one trait before going to rate on the basis of another trait.
3. **The Central Tendency Error**: It is the error when rater tries to rate each and every person on the middle point of the rating scale and tries not to rate the people on both ends of the scale that is rating too high or too low. They want to be on the safer side as they are answerable to the management.
4. **The Leniency and Strictness Biases**: The leniency biasness exists when some raters have a tendency to be generous in their rating by assigning higher rates constantly. Such ratings do not serve any purpose.
5. **Personal prejudice**: If the raters do not like any employee or any group, in such circumstances he may rate him on the lower side of the scale, the very purpose of rating is distorted which might affect the career of employees also.
6. **The Recent Effect**: The raters usually retain information about the recent actions of the employee at the time of rating and rate on the basis of recent action taken place which may be favorable or unfavorable at that point of time.
7. The superiors may be unsuccessful in conducting performance appraisal of employees and post performance appraisal interviews.
8. The performance appraisal is mostly based on subjective assessment.
9. The performance appraisal techniques have a low reliability and validity in terms of result.
10. Ratings an employee on the negative side may disturb interpersonal relations and industrial relations system.
11. Appraisers’ opinion on the performance of the employee may lead to setback on production.
12. An organization may give emphasis to punishment if an employee has not done a good job rather than providing training.
13. Few ratings are based on guess work.

Various other problems of performance appraisal are:

* There was a significant relationship between rating by superior and performance after promotions.
* Appraisal reports were completed within a short period of time.
* The circumstances were very unpleasant in feedback interview.
* The Subordinates were not given suggestion in a manner which may be helpful to them.

**6.4. Performance Appraisals Methods**

Performance appraisal methods are categorized in two ways traditional and modern methods. Each organization adopts a different method of performance appraisal according to the need of organization. In small organization, it may be on an informal basis where personal opinion of a superior about his subordinates may consider for appraisal.

**A. Traditional Methods**

**1. Ranking Method:** It is the oldest and simplest method of performance appraisal in which employees’ are ranked on certain criteria such as trait or characteristic. The employee is ranked from highest to lowest or from worst to best in an organization. Thus if there are seven employees to be ranked then there will be seven ranks from 1 to 7. Rating scales offer the advantages of flexibility comparatively easy use and low cost. Nearly every type of job can be evaluated with the rating scale, the only condition being that the Job-performance criteria should he changed’ .In such a way, a large number of employees can be evaluated in a shorter time period.

Thus, the greatest limitation of this method is that differences in ranks do not indicate how much an employee of rank 1 is better than the employee whose rank is last.

**2. Paired Comparison:** In method is comparatively simpler as compared to ranking method. In this method, the evaluator ranks employees by comparing one employee with all other employees in the group. The rater is given slips where, each slip has a pair of names, the rater puts a tick mark next those employee whom he considers to be the better of the two. This employee is compared number of times so as to determine the final ranking.

This method provides comparison of persons in a better way. However, this increases the work as the large number of comparisons has to be made.

For example If the following five teachers have to be evaluated by the Vice president of a University : Chalie (C), Mesfin (M), Rahel (R), Fiseha (F), and Bethelehem (B), the above formula gives

CwithM,

CwithR MwithR

CwithF MwithF RwithF

CwithB MwithB RwithB FwithB

Thus, the pairs to be compared give the maximum possible combinations in which an employee could be compared with one another. If an employee sores better number of times as compared to other employee is considered better, makes his/her score. Such scores are considered for each worker and he/she is ranked according to his/her score. This method cannot work when large number of employee is compared.

**3. Grading Method:** In this method, certain categories are defined well in advance and employees are put in particular category depending on their traits and characteristics. Such categories may be defined as outstanding, good, average, poor, very poor, or may be in terms of alphabet like A, B, C, D, etc. where

A may indicate the best and D indicating the worst. This type of grading method is applied during Semester pattern of examinations. One of the major limitations of this method is that the rater may rate many employees on the better side of their performance.

**4. Forced Distribution Method:** This method was evolved to abolish the trend of rating most of the employees at a higher end of the scale. The fundamental assumption in this method is that employees’ performance level conforms to a normal statistical distribution. For example, 10 per cent employees may be rated as excellent, 40 per cent as above average, 20 per cent as average, 10 per cent below average, and 20 per cent as poor. It eliminates or minimizes the favoritism of rating many employees on a higher side. It is simple and easy method to appraise employees. It becomes difficult when the rater has to explain why an employee is placed in a particular grouping as compared to others.

**5. Forced-choice Method:** The forced-choice rating method contains a sequence of question in a statement form with which the rater checks how effectively the statement describes each individual being evaluated in the organization. There may be some variations in the methods and statements used, but the most common method of forced choice contains two statements both of which may be positive or negative.

It may be both the statement describes the characteristics of an employee, but the rater is forced to tick only one i.e the most appropriate statement which may be more descriptive of the employee. For example, a rater may be given the following two statements:

(i) The employee is hard working.

(ii) The employee gives clear instructions to his subordinates.

Though both of them describe the characteristics of an employee, the rater is forced to tick only one which appears to be more descriptive of the employee. Out of these two statements, only one statement is considered for final analysis of rating. For example, a rater may be given the following two statements:

(i) The employee is very sincere.

(ii) Employee gives clear and fast instructions to his subordinates.

Both of the above statements are positive but the rater is supposed to rate only one which is more appropriate of subordinate’s behavior. For ranking only one statement is considered .As the rater is not aware about the statement to be considered the result would be free from bias. This method may be more objective but it involves lot of problems in framing of such sets of statements.

**6. Check-list Method:** The main reason for using this method is to reduce the burden of evaluator. In this method of evaluation the evaluator is provided with the appraisal report which consist of series of questions which is related to the appraise. Such questions are prepared in a manner that reflects the behavior of the concerned appraise. Every question has two alternatives, yes or no, as given below:

* Is he/she respected by his/her subordinates? Yes/No
* Is he/she ready to help other employees? Yes/No
* Does her behavior remain same for everyone in the organization? Yes/No

The concerned rater/evaluator has to tick appropriate answers relevant to the appraises. When the check-list is finished, it is sent to the personnel department to prepare the final scores for all appraises based on all questions based on yes or no. While preparing question effort is made to establish the level of consistency of the rater by asking the same question twice but in a different manner. This method is considered to be easy if questions are framed properly for different categories of employees.

However, one of the disadvantages of the check-list method is that it is very difficult to accumulate, analyze and evaluate a number of statements about employee characteristics and contributions. It is even costly method with lot of time and efforts required by the organization.

**7. Critical Incidents Method:** This method is very useful for finding out those employees who have the highest potential to work in a critical situation. Such an incidence is very important for organization as they get a sense, how a supervisor has handled a situation in the case of sudden trouble in an organization, which gives an idea about his leadership qualities and handling of situation. It is also said to be a continuous appraisal method where employees are appraised continuously by keeping in mind the critical situation. In this method, only the case of sudden trouble and behavior associated with these incidents or trouble are taken for evaluation.

This method is categorized in three steps. First, a list of notable (good or bad) on-the-job behavior of specific incidents or sudden trouble is prepared. Second, selected experts would then assign weightage or score to these incidents according to how serious a particular incident is and their degree of willingness to perform a job. Third, finally a check-list indicating incidents that illustrate workers as good or “bad” is formed. Then, the checklist is given to the rater for evaluating the workers.

The strong point of critical incident method is that it focuses on behaviors and, thus, judge’s performance rather than personalities.

Its drawbacks are that too frequently they need to write down the critical incidents which is very time consuming and burdensome for evaluators, i.e., managers. Generally, negative incidents are more noticeable than positives.

**8. Graphic Scale Method:** It is one of the simplest and most popular techniques for appraising performances of employee. It is also known as linear rating scale. In graphic rating scale the printed appraisal form is used to appraise each employee.

Such forms contain a number of objectives, and trait qualities and characters to be rated like quality of work and amount of work, job knowhow dependability, initiative, attitude, leadership quality and emotional stability.

The rater gives an estimate the extent to which subordinates possess each quality. The extent to which quality is possessed is measured on a scale which can vary from three points to several points. In general practice five-point scales is used. Some organizations use numbers in order to avoid the propensity of the rater to tick mark central points. It may be numbered or defined. Thus numbers like 5, 4, 3, 2 and 1 may denote points for various degrees of excellent-poor, high-low, or good-bad, and so on. Such numbers may be expressed in terms like excellent, very good, average, poor and very poor; or very high, high, average, low and very low.

Graphic scale method is good for measuring various job behaviors of an employee. But, it is bound to limitations of rater’s bias while rating employee’s behavior at job.

**9. Essay Method:** In this method, the rater writes a detailed description on an employee’s characteristics and behavior, Knowledge about organizational policies, procedures and rules, Knowledge about the job, Training and development needs of the employee, strengths, weakness, past performance, potential and suggestions for improvement. It is said to be the encouraging and simple method to use. It does not need difficult formats and specific training to complete it.

**10. Field Review Method:** In this method of appraisal direct superior is not going to appraise an employee but appraised by another person, usually, from personnel department .The rater, in such a case, appraises the employee on the basis of his past records of productivity and other information such as absenteeism, late corning, etc. It is more suitable in a situation where an organization wants to provide promotion to an employee. It also gives information for comparing employees from different locations and units. It reduces partiality to some extent as personnel department person is supposed to be trained in appraisal mechanism. This method suffers from two limitations:

1. As employees are not rated by immediate boss, the rater from other department may not be familiar with the conditions in an employee’s work environment which may hamper his ability and work motivation to perform.
2. The rater from other department do not get a chance to scrutinize the employee’s behavior or performance with different time interval and in a variety of situations, but only in an unnaturally structured interview situation which is for a very short period of time.

**B. Modern Methods**

**1. Management by Objectives (MBO):** The concept of ‘Management by Objectives’ (MBO) was coined by Peter Drucker in 1954. It is a process where the employees and the superiors come together to identify some goals which are common to them, the employees set their own goals to be achieved, the benchmark is taken as the criteria for measuring their performances and their involvement is there in deciding the course of action to be followed.

The basic nature of MBO is participative, setting their goals, selecting a course of actions to achieve goals and then taking decision. The most important aspect of MBO is measuring the actual performances of the employee with the standards set by them. It is also said to be a process that integrates organizational objectives into individual objectives.

Entire programme of MBO is divided in four major steps i.e setting up of goal, action planning, comparison and timely review.

1. Setting up of goal-In goal setting superior and subordinate together set certain goals, i.e the expected outcome that each employee is supposed to achieve.
2. In action planning, the manner in which goals could be achieved is determined i.e. identifying the activities which are necessary to perform; to achieve pr determined goals or standards. When the employees start with their activities, they come to know what is to be done, what has been done, and what remains to be done and it also gives an idea about the resources to be achieved.
3. In the third step, the goals set by the individual employee are compared with the actual goals achieved. It gives an idea to the evaluator as why there is a variation in desired outcome and actual outcome .Such a comparison helps create need for training so as to enhance employees’ performance.
4. Finally, in the timely review step, corrective actions are taken so that actual performances do not deviates from standards established in beginning.

**2. Behaviorally Anchored Rating Scales:** This method is a combination of traditional rating scales and critical incidents methods. It consists of preset critical areas of job performance or sets of behavioral statements which describes the important job performance qualities as good or bad (for e.g. the qualities like inter personal relationships, flexibility and consistency, job knowledge etc). These statements are developed from critical incidents.

These behavioral examples are then again translated into appropriate performance dimensions. Those that are selected into the dimension are retained. The final groups of behavior incidents are then scaled numerically to a level of performance that is perceived to represent. A rater must indicate which behavior on each scale best describes an employee’s performance. The results of the above processes are behavioral descriptions, such as anticipate, plan, executes, solves immediate problems, carries out orders, and handles urgent situation situations. This method has following advantages:

1. It reduces rating errors
2. Behavior is assessed over traits.
3. It gives an idea about the behavior to the employee and the rater about which behaviors bring good Performance and which bring bad performance.

**3. Assessment Centers:** It is a method which was first implemented in German Army in 1930. With the passage of time industrial houses and business started using this method. This is a system of assessment where individual employee is assessed by many experts by using different technique of performance appraisal. The techniques which may be used are role playing, case studies, simulation exercises, transactional analysis etc.

In this method employees from different departments are brought together for an assignment which they are supposed to perform in a group, as if they are working for a higher post or promoted. Each employee is ranked by the observer on the basis of merit .The basic purpose behind assessment is to recognize whether a particular employee can be promoted, or is there any need for training or development. This method has certain advantages such as it helps the observer in making correct decision in terms of which employee has the capability of getting promoted, but it has certain disadvantages also it is costly and time consuming, discourages the poor performers etc.

**4. 360 Degree Performance Appraisals:** This method is also known as ‘multi-rater feedback’, it is the appraisal in a wider perspective where the comment about the employees’ performance comes from all the possible sources that are directly or indirectly related with the employee on his job. In 360 degree performance appraisal an employee can be appraised by his peers, managers (i.e. superior), subordinates, team members, customers, suppliers/ vendors - anyone who comes into direct or indirect contact with the employee and can provide necessary information or feedback regarding performance of the employee the “on-the-job”.

The four major component of 360 degree performance appraisal are

1. Employees Self Appraisal
2. Appraisal by Superior
3. Appraisal by Subordinate
4. Peer Appraisal.

Employee self appraisal gives an option to the employee to know his own strengths and weaknesses, his achievements, and judge his own performance. Appraisal by superior forms the traditional part of the 360 degree performance appraisal where the employees’ responsibilities and actual performance is judged by the superior.

Appraisal by subordinate gives a chance to evaluate the employee on the basis of communication and motivating abilities, superior’s ability to delegate the work, leadership qualities etc. It is also known as internal customers; the correct opinion given by peers can aid to find employees’ who are co-operative, employees who ready to work in a team and understanding towards others.

**5. Cost Accounting Method:** In this method performance of an employee is evaluated on the basis of monetary returns the employee gives to his or her organization. A relationship is recognized between the cost included in keeping the employee in an organization and the benefit the organization gets from him or her. The evaluation is based on the established relationship between the cost and the benefit. The following factors are considered while evaluating an employee’s performance:

1. Interpersonal relationship with others.
2. Quality of product produced or service given to the organization.
3. Wastage, damage, accidents caused by the employee.
4. Average value of production or service by an employee.
5. Overhead cost incurred.

**6.5 Benefits of Performance Appraisal**

An effective performance appraisal system can be of benefit to three parties they are for organization, for appraiser and for appraisee.

**1) For the Organizations:** Following are the benefits of an organization.

* It leads to better performance throughout the organization, due to successful communication of the objectives and values of the organizations, sense of being close to the organization, loyalty and improved relationships between managers and staff.
* Overall improvement in the duties performed by each employee of the organization.
* Due to performance appraisal of employee new ideas for improvement in their work is generated.
* Long-term plans can be generated.
* The need for training and development can be identified more clearly.
* A traditions of nonstop improvement and success in the organization can be formed and maintained.
* Career development plans can be chalked out for capable employee to enhance their performance in future.

**2) For the appraiser:** Following are the benefits to the appraiser:

* It gives an opportunity to the appraiser to develop a general idea of individual jobs and departments.
* For every new or difficult situation new idea is generated for improvement or for overcoming that problem.
* It gives an opportunity to integrate team and individual objectives and targets with departmental and organizational objectives.
* It gives an opportunity to explain the amount of work expected by manager from teams and individuals.
* It gives an opportunity to focus more on targets.
* It enables to form more productive relationship with staff based on mutual trust and understanding.

**3) For the Appraisee:** Following are the benefits for the appraisee:

* Increased motivation.
* Increased job satisfaction.
* Increased sense of personal value.
* Increase in morale of an employee.
* It gives an opportunity to know their strength and weaknesses.
* It gives an idea about areas of their improvement.
* There will be a chance to subordinate to express his views even after performance appraisal
* An employee should express his emotional needs and his value system which is considered to be important today.