Chapter 1

Introduction

Performance Appraisal: A Journey

Performance appraisal dates back to the time of the Second World War, i.e. around 60 years ago. It has been the most discussed topic in relation to the management practices followed since then. Traditional appraisal of an employee was largely based on rewarding his/her excellent performance at the end of year. However since 1960s, the words ‘performance appraisal’ have been considered as a tool for motivation and development of the employees. The Human Resource (HR) experts hold a view that the system of performance appraisal has assumed new form of a two-way communication link between an employer and an employee. The appraisal system, thus, has to shift more towards realism and impartial view with a positive goal of achieving unbiased assessment of the employee. Moreover, such an approach calls for skillful handling of performance appraisal as this being the sensitive topic and to review the same according to the changing needs of HR environment.

Presently, performance appraisal is a widely discussed issue and the most talked and debated concept. However, it is also the most subconsciously neglected one when it comes to its implementation. Idea of performance appraisal is far from new, it has long been recognised at the organisational and the individual levels. Over the years, many practices, techniques, tools, systems and philosophies too got evolved. Indeed, the term performance
appraisal itself may be seen as yet another philosophy or a system. So the same is not an exclusive component to dominate in practice – one that focuses on an individual and his / her performance.

Though performance evaluation occupies premier position in the most widely researched management practices, yet it continues to be a major source of frustration for the managers. Despite its deficiencies, however, performance appraisal is considered as an important assessment tool by the executives.

The very mention of the word ‘performance’ makes the managers and senior level executives raise eyebrows. Success in today’s business environment requires a much broader vision not only of an organisation, but also the people that make up the organisation, their skills, knowledge, competencies and experience and besides their relationship with each other and the organisation.

Human performance often seems imposing in its complexity and disagreements irresolvable in the corporate successes and failures. *But mystery, like beauty, is in the eye and has no objective existence.* If one has to make sense out of human performance, it would be because he/ she develops the simple useful vantage points when discussed. For example, a person designs a furnace that burns oil more efficiently. Can this be considered as accomplishment? No doubt and in the context of the organisation that sells furnaces, this implies more profits. But in the context of the society attempting to conserve fuel, it is great accomplishment. Such conflicts of interest, though common, complicate the evaluation of competence

When one talks about performance, a majority of management gurus right from Peter Drucker and Peter Senge to Jim Collins did put forth their opinions
about the subject under consideration. Kaplan’s ‘Balanced Scorecard’ followed by the ‘HR Scorecard’ should be considered as major breakthroughs in performance appraisal. Excellent performance is no longer viewed by the companies as annual ceremony or ritual for awarding an employee, as the system is getting more comprehensive to include motivational aspects and latent talents that could be harnessed and developed to the advantage of the firm.

In nutshell, *performance appraisal is still with us; yet formidable barriers remain to bring in maximum objectivity in its effectiveness as a useful management tool. So the researchers are right where they were a decade ago.*

The twentieth century was an era of a discontinuous change. Strengthened by the tools such as HR Scorecard and 360° feedback, the corporate world began to operate with greater transparency. The central theme of this thesis concentrates on the premise that the performance measurement system constitutes the most effective way of managing business for its continuous improvement and growth.

The present thesis, therefore, focuses on how to bring in objectivity with respect to the subjective parameters in the performance appraisal system. In the course of assessment, deeper insights in the nature of the organisation’s performance appraisal system and the gap that exists in different functions while appraising the employee provided desirable inputs. An effective and objective appraisal system would definitely have considerable effect on employee performance and, in turn, business performance. The analysis that follow attempts to break the ice in appraisal of the line / core and support
functions, thereby enabling the managers to achieve personal and business success while confronting the challenges and opportunities arising from the global market and the changing economy.

The experts believe that creation of an effective performance appraisal and reward system in an organisation may be viewed as one of the best talent retention strategies in the present knowledge-based economy and era of a discontinuous change. In fact, objective of the studies related to groups, structure of organisation, motivation, pay and rewards does have one thing in common, and that is to increase the level of performance. Such an approach helps the company in strengthening its brand image and goodwill thereby attracting and retaining the best talent in the industry.

People often face much harder times figuring out how best to perform. They paint vivid pictures but seldom suggest what to do. The great advantage of the approach is that it starts with real organisation and behaviour as opposed to stimulated behaviour of the laboratory research experiments. Since performance evaluation embodies history of human development, it is defined in innumerable ways depending on the context.

In the course of last two decades, two trends emerged as major factors in performance of the organisations in many sectors. First, the process and forces of globalisation transformed the world into a global village. Rapid increase in the flow of information, ideas and resources across the national boundaries led to creation of interdependencies, mutual understanding and learning that exceed expectations of all but the most radical visionaries. Secondly, globalisation demands enhanced capacity to deal with differences, greater
ability to learn from experience at the international level and higher investment in developing culture in recruitment, training, counseling, mentoring, succession and career planning, organisational development, employee engagement and other HRD activities. These trends do suggest that managing human elements in any organisation will be central concerns in the coming decades.

Performance appraisal constitutes the task frequently performed in the organisations for a variety of purposes including administrative decisions such as increments and promotions besides transfers, training and development and HR research.

If one shares a concern for organisational and human performance, it naturally follows that he/she must assess such performance. Historically, measurement of human and organisational performance persisted with many views and a variety of models which continue to be applied in the workplace. However, the success of any model or system depends on how well the same can be modified to fit in the organisation to which it would be applied. Success varies as widely as the models and organisations applying them. The fundamental question, however, remains: Can one develop the performance assessment system, and find an approach that builds on the proven techniques to assess human and organisational performance?

In the context of performance evaluation, many companies learnt that a big gap exists between good intentions and desired results. Though in theory, performance appraisal of the employees seems good in an organisation, in actual practice however, its implementation often yields unsatisfactory and
disappointing results. Some critics suggest that one must get rid of the performance appraisal approach even as a last hope, as they point to the scores of problems and pitfalls as evidence. But considering the potential of the appraisal programs, the issue boils down how to modify to make them better.

Objective assessment of potential of the employee requires information of huge dimension as desired by the assessing manager, and has to call out for appropriate data from his/ her performance history and track record. The question is what kind of data does the assessing manager require? What are specific qualities and capabilities that the organisations are looking for employing a candidate for their sustained growth? Notwithstanding, the factors a company would be seeking depend on the nature of its business activities. But certain characteristics common to all kinds of business activities such as initiative, perseverance, dedication and integrity are indispensable for entrusting key responsibilities to business operators. While such attributes could be expected from an employee for better outcome, reflection of the same must be vital part of appraisal. Similarly, performance appraisal should also include the employee’s own comments / views about work environment and facilities. Such a step opens a two way communication channel enabling the employee to communicate his/ her perception and expectations freely and frankly.

The senior managers and qualified professionals in HR – based on experience – too form their own standards for assessing employee performance, design appraisal formats and the stage of interview to gather required information. Supplementary to these, information gathered in the appraisal system covers
many areas that encompass performance and behavioural aspects as follows

- Analytical skills and capacity to deal with complex business problems.
- Accuracy in work.
- Time management to meet the set goals.
- Maintaining smooth relationship with clients by rendering relevant services related to business.
- Keeping cordial relationship with colleagues and capacity to carry the team along.
- Initiatives to shoulder additional responsibilities when a new task is assigned.
- Ability to prioritise certain functions whenever emergency situation arises.
- Ability to handle public relations.

The next issue which most of the organisations face pertains to the yardstick that needs to be considered in calibrating quality of performance. The way out followed by the organisations is to award marks for performance of the employee in each of the key areas to facilitate the assessing manager / executive, and then arrive at the total score based on the rating obtained by that employee.

However, this way of assessment does not include his/ her personal traits and qualities stated earlier. Combination of these (qualitative factors – integrity and perseverance) would then enable the appraiser to arrive at a realistic and impartial judgement of the performance and behavioural patterns of the assessed employee. Generally the HR managers in many organisations,
broadly classify the assessed employees in following four categories:

1. Those whose performance is above expectations in all key areas of functions assigned to them.

2. Those who show initiative and can be groomed up in career if proper training is imparted.

3. The employees whose performance falls short of expectations even after training, but they, in all probability, are likely to do well in the other spheres if responsibility is given to them.

4. The employees who do not perform well and have no inclination to improve may be asked to quit the organisation.

If such classification is followed and implemented by management, a plan of action for dealing with the employees each of the first three categories can be conceived. No difficulty would emerge, in particular, in dealing with the first two categories and conveying them the opinions officially by a letter and reward to encourage them to improve further in performance. In respect of the third category of the employees who are not upto the mark and record poor performance, management may initiate discussions with them to ascertain the reasons for their inability to live up to the mark and whether there exists any hindrance or indifference on the part of management standing in the way of their performance to the expected level. They may be given a chance to improve for a period of time say one year after which a harsh decision of dismissal may be taken if no improvement is recorded.
Some uphold the above system as a right approach in assessing the employees while the others discount it as a vain exercise having potential of receiving adverse reactions from the affected employees. That latter group feels that this process will be utilised by management as a tool for domination and personal vendetta against the employees who refuse it being a selfish motive of top management.

Classification of Quantitative and Qualitative Parameters

Performance appraisal takes into account, not only the parameters such as sales and production where quantification generally appears to be feasible, but also the qualitative parameters of support/ staff functions like HR, administration, purchase and legal which manage grievances, employee satisfaction, employee retention and managing employee relation (Exhibit 1.1). However the qualitative jobs, by nature, are difficult to appraise quantitatively.

Though a lot of research in area of performance appraisal is being carried out by the scholars, yet it remains one of the most fluid and formidable research areas in HR management. After all, the most talked and hyped areas such as career planning, succession planning, rewards, promotions, transfers, variable pay and stock options – all are linked to ones’ performance. Hence measuring performance objectively becomes inevitable. In other words, performance appraisal forms a stepping-stone in person’s career and growth. However, appraisals of the qualitative jobs being difficult exercise, many a times, it is a matter of discretion.
Exhibit 1.1

Quantitative and Qualitative Parameters

<table>
<thead>
<tr>
<th>Quantitative Parameters</th>
<th>Qualitative Parameters</th>
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<tbody>
<tr>
<td>Sales target achieved</td>
<td>Administration</td>
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<tr>
<td>Procurement of general stores</td>
<td>Recruitment and selection</td>
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<tr>
<td>Maintenance of plant</td>
<td>Competency mapping</td>
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<tr>
<td>Market research</td>
<td>Training</td>
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<td>Customer retention</td>
<td>Succession planning</td>
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<td>Employee retention</td>
<td>Mentoring</td>
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<tr>
<td>Preparation of accounts</td>
<td>Managing product life cycle</td>
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<tr>
<td>Fund raising</td>
<td>Managing employee relations</td>
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<tr>
<td>Managing cash flows</td>
<td>Brand management</td>
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<tr>
<td>Budgeting</td>
<td>Goodwill of the company</td>
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<td></td>
<td>Counseling and mentoring</td>
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<td></td>
<td>Auditing</td>
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<td></td>
<td>Annual accounting reconciliation</td>
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<td></td>
<td>Negotiation</td>
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Similarly, the measurement systems and evaluation techniques in performance appraisal, by nature, prove to be restrictive and inhibit organisation’s ability to respond to the change. Therefore, the organisation must be prudent in selecting and designing a system that would have long-term implications and impact. The focus must be on the simple and easily understood system that is flexible enough to meet the challenges of a fast-paced change. Hence, the organisation must try to bring in maximum objectivity in appraisal measurement.
Furthermore, an organisation traditionally uses seven criteria for measuring performance namely, quality, effectiveness, efficiency, market share, financial resources, quality of work life and innovation. These and the other criteria, if any, must be placed in the organisational context as and when measurement takes place.

To make appraisal effective, the organisation needs to give at least some weightage to employees' self appraisal. This should lead to more satisfactory appraisal.

Nonetheless and despite resource availability including funding and qualified personnel required for undertaking performance appraisal during last seven decades, the researchers find themselves trapped in midst of a desert, attempting to get a hold of oasis of objectivity in performance appraisal.