CHAPTER-I

INTRODUCTION

1.1: Introduction:

One of the complex and controversial human resource techniques is performance appraisal. It can be made effective by active participation, intrinsic motivational value, the expansion of available information, and the opportunity to interject employee's voice. Genuine performance appraisal participation is a process that can alleviate many of the dysfunctions of traditional performance appraisal. Since a large number of problems are associated with appraisal practices. The problem of false degree of measurement accuracy engenders employee conflict and dysfunctional competition. It also assigns an inordinate amount of responsibility for poor performance to individual employees and undervalues the importance of the overall work process. In intrinsic motivational strategies, employee participation is a key element. This facilitates worker growth and development. It entails jobs that possess task significance, skill variety, task identity, and performance feedback and worker autonomy. It clearly communicates trust and confidence in employee abilities. Participation is a necessary precondition for employee's growth. Appraisal participation provides a voice to employees that empowers them to rebut ratings, documentation or verbal feedback which they disagree. Participation of employee create a cooperative and supportive environment, which encourages the development of a coaching or counseling relationship, thereby reducing appraisal related tensions, defensive behavior and appraiser-appraisee conflict. The quality of informal feedback and goal setting are the key processes for effectiveness of participation. For a valid and reliable performance appraisal system clear and specific standards of performance are major elements. These standards measure the essential job duties and responsibilities utilizing a balance of and individual normal group-based performance standards. Workers possess unique and essential information necessary for developing realistic standards. This helps in developing reliable, valid and fair performance standards. Employee participation is very important in developing the rating form and appraisal procedures to set performance standards. The rating form summarizes the formal operational definition of what the organization considers worthy of a formal
appraisal. Another important aspect in appraisal is self-appraisal. This provides the employees with an opportunity to systematically assess their performances.

In a participatory system, the goal is not an absolute agreement, but a process directed towards achieving consensus overtime, the appraisal process becomes effective if there is acceptance from the employees. Employees should be made clear about the value orientation of the system and build confidence about the accuracy of performance measurement. Government organizations emphasize on fair and unbiased performance appraisals for employee's career success, self esteem and mental health. The employee's acceptance and satisfaction with the appraisal process is strongly enhanced when employees have a meaningful role in the appraisal process. Clearly many variables contribute to dissatisfaction with formal performance appraisal systems, but failure to institute a participatory system will result in ineffective performance appraisal, always.

1.2: Performance appraisal: meaning, concept and definition

Performance Appraisal is one of the oldest, natural and most universal practices of Management. The basic purpose of Performance Appraisal is to ascertain the behaviour of an employee anchored to performance and integrate with the organizational performance. It helps both the employers and employees to understand the responsibility in the organization. Performance appraisal system is focused to integrate the expectations i.e., performance, which gives a total clarity between the appraiser and appraisee. It is an instrument to create a conducive atmosphere in the organization. The purpose of any management is to build a very competitive and congenial work culture, which builds healthy competition, gives a sense of achievement to the employees and the stakeholders. Performance appraisal system is the right instrument that plays a vital role directly or indirectly in achieving the above. It improves the interpersonal relationship among the employees and employers in the organization. It reflects an evaluative judgment of the traits, characteristics and the work performance of the employees on jobs. It is a continuous process to reach the desirous goal of not only the organization but also the employees (Bhagoliwala. 1991).
Human beings are considered as Human Resource in the modern, competitive and technological era. A continuous monitoring is needed to put the human resources into effective use for the desired results (A handbook on HRD; NIPM, 1998). Performance Appraisal is the tool which guides the management to provide training in the areas of needs of employees and extend facilities to the employees for the optimum utilization of human resources in the organization. Performance Appraisal is an ongoing, continuous and systematic effort to improve or gain an edge in the organizations through a sustained monitoring, coaching and mentoring eventually culminating into a formal evaluation at a particular period within the system prescribed and adopted by the organizations. A formal procedure is required for evaluating personnel within the organization. Such appraisals are called as “ratings”. Here one individual, after comparison with another is marked as excellent, normal or average. Such personnel of merit or efficiency ratings are generally used for ascertaining an employee’s eligibility for promotion. Performance appraisal system is a consultative process between the appraiser and appraisee. The yardstick for assessment, criteria fixing targets and characteristics is again a mutually accepted exercise by the appraiser, appraisee, the user department and HRD being a felicitator. Thus, the Performance Appraisal is only the instrument or subsystem which creates interest and concern in above methodology as Performance Appraisal System.

The outcome of the above system is keenly awaited by the individual employee, either for his increment, reward or recognition for good work i.e., Promotion or for a meaningful posting in a challenging job that would add to his chance for promotion and finally for a suitable training programme identified by his appraisal report that will give him an opportunity to acquire new knowledge and skills. Therefore it is without any doubt that Performance appraisal system in the organization is the sole document/ process which determines the gap analysis of performance in the organizations.

Performance appraisal is a powerful tool to calibrate, refine and reward the performance of the employee. It helps to analyze his achievements and evaluate his contribution towards the achievements of the overall organizational goals. By focusing the attention on performance, performance appraisal goes to the heart of
personnel management and reflects the management’s interest in the progress of the employees.

Flippo (1976) defines performance appraisal as, “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.” Performance appraisal is a systematic way of reviewing and assessing the performance of an employee during a given period of time and planning for his future.

Performance appraisal may be defined as a structured formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development.

At this juncture it will not be out of context to define the Performance Appraisal System. According to the “International Dictionary of Management”, “Performance Appraisal is a systematic assessment of an individual’s performance in order to assess training needs, potential for promotion, eligibility for a merit increment as a part of pay or salary review or for management succession planning”.

According to Roland Benjamin (Mamoria & Gaonkar 2008 p.363) “A Performance Appraisal determines who shall receive merit increases, counsels employees on their improvement, determines training needs, determines promotability and identifies those who should be relocated. It also improves employees’ job performance, encourages employees to express their views or to seek clarification on job duties, broaden their outlook, capacity and potential, promotes a more effective utilization of man power and improves placement, facilitates selection, reward and promotion of the best qualified employees, prevents grievances and increases the analytical abilities of the supervisors”.

In many organizations - but not all - appraisal results are used, either directly or indirectly, to help determine reward outcomes. That is, the appraisal results are used to identify the better performing employees who should get the majority of available merit pay increases, bonus, and promotions. By the same token, appraisal results are
used to identify the poorer performers who may require some form of counseling, or in extreme cases, demotion, dismissal or decreases in pay.

According to Levinson (1976), Performance Appraisal has three functions:

a) It seeks to provide an adequate feedback to each individual for his or her performance.

b) It purports to serve as a basis for improving or changing behaviour toward some more effective working habits.

c) It aims at providing data to managers with which they may judge future job assignments and compensation.

In the light of the above definitions, we understand that a performance appraisal system is used to evaluate the traits or qualities of an employee systematically at regular intervals. Adequate and ample opportunities are provided to the employees to enable them to the maximum utilization of their strong qualities. Thus performance appraisal plays a vital role such as “unity in Diversity” in the utilization of organisation. It contributes indirectly to the growth of GDP and per capita income through the development of employee as well as organisation. It is the powerful instrument of the Human Resource personnel’s to take right decisions with respect to labour turnover and other related aspects. It helps the organisation in the 3 ‘R’ process like Recruitment, Retention and Retirement.

**Performance Management: A Strategic Concept:**

Managing the through out of a process makes greater sense for this is what determines the output or results. Therefore to be successful in business, one should first know what the desired behaviour is vis a vis the business goals and then the conditions that encourage such desired behaviour. It is in such a context where PM steps in as a strategic input to generate the much desired behaviour from the employees of an organization. But before getting into the whys and how’s of performance management, let us first understand the very concept of behavior and its mechanics since a clear understanding about why employees behave in a particular fashion is a prerequisite for managers to effectively manage their performance.
Every behavior will have an antecedent and a consequence. An antecedent is that which precedes the behavior. They are the activators of the behavior. Both in private and public life, our behaviors are invariably prompted by the antecedents. In business it is the policies, practices, directives, procedures, vision and mission statements, goals, etc, of the firm that define the behavior of employees. They indeed set the stage for the required kind of behavior to take place, though such a trigger does not ensure their occurrence. The other side of the behavior is its consequences. As every behavior has an antecedent, it has also consequences. They are the end result of the behavior. The consequence, depending on its contribution to the personal interests of an individual, becomes the antecedent of a subsequent behavior. They, thus assume a greater significance as tools of behavior management. Yet, managers are often found spending 80% of their time in telling employees as to what they should do or figuring out what they should tell them to get the desired behavior, ignoring in such a transaction the consequence part of the behavior. Although the antecedent strategy appears to work, research reveals that it is not the most efficient way to manage a business.

The reason why smart managers are often found frequently using ‘consequence strategy’ to generate the right behaviour from their employees and thereby achieve the business goals. Positive reinforcement is often found to increase the scope for the repetition of a desired behaviour. For instance, praise, a hike in salary, a bonus, just giving attention, a job rotation, etc, could be positive reinforcements. People, of course, have preferences of their own. Some may get charged with a mere pat on the back or even without accompanying words such as “you did a fine job”, while others may get reinforced with a mere approving look or a cynical remark.

Negative reinforcements such as punishment, etc., also increase the likelihood of a behaviour recurring frequently. However, there is a great difference between the two: Negative reinforcement forces an employee to perform in a certain way not because he wants to but because he has to. It is simply to avoid the negative consequences that
the employees act in that particular way. Hence, use of negative consequences to ensure a particular behavior is less desirable than the positive reinforcements. Perhaps this realization might have prompted management pundits to propose Personnel Management as a HR tool to ensure desired behavior across the organization via ‘positive reinforcements’ and thereby achieve business goals.

Performance Management (PM) is systematic and data-oriented approach to managing people at work. It relies on positive reinforcement as the major way to maximize performance. It is an ongoing communication process between the manager and his employees (Illustration 1.1) to:

- Identify and describe essential job functions;
- Relate them to the mission and the goals of the organization.
- Evolve realistic and appropriate performance standards;
- Give and take feedback of performance.
- Write and communicate constructive performance appraisals.
- Plan, educate and develop opportunities to sustain, improve employee work performance.

**Illustration 1.1: Strategic framework of Performance Management process**

(Source: HRM Review 2003)
Performance Management is a new HR management model that takes away the management from command and control approach to a facilitation model of leadership. This shift in style has emerged from the realization that it is very critical for the employees and the business to relate to the work performance of employees to the long term goals and mission or the organization as a whole. The process of PM provides an opportunity for the managers to discuss the developmental goals of the organization with the employees and jointly draw a path to achieve those goals. Such a collaborative approach fosters ownership among the employees at the level where the work is done for the chosen path and to that extent it makes achievement of goals simple.

Such a strategic approach makes it easy to performance mission statement, identity goals related to the organization’s mission, as well as strategic initiatives necessary to accomplish each goal. A well designed PM process accomplishes greater management control over work and results; enhances management’s ability to identify problems early; aligns employee objectives and functions with organizational goals; increases employees’ commitment to the organization by facilitating their say in setting the corporate also, job description and standards of performance; widens the scope for two way communication between employees and managers paving the way for better understanding of the management expectations and results; supports fair remedial or disciplinary action as short fall in standards of performance can be measured objectively; institutionalizes objective feedback mechanism and reward system; and provides a centralized record of each employees performance.

**Constituents of performance management:**

**Job Description:**

It involves listing of essential functions and the tasks to be done under each job. It is a process of systematically collecting, analyzing, and documenting the important facts about a job. It also provides a basis for job related selection procedures and performance standards. It specifies:

- The specific job functions and tasks.
- The functions and tasks which are essential.
• The percentage of time typically spent performing each function.

• The skills, knowledge and abilities required to perform the job successfully.

• The physical and mental requirements of the position.

Performance Standards:

It describes standard of performance or describes how well a job should be performed. The defined performance standards offer a benchmark to evaluate the actual work performance. When standards are developed in collaboration with the employees for whose positions they are being developed. It is more likely that the standards will:

• Be appropriate to the requirements of the job.

• Reflect the realities of the work context and conditions.

• Be understood by the employee and performance manager.

• Be accepted by the employee and the performance manager.

In order to achieve these objectives, managers must ensure that the written down performance standards are:

• Realistic and job specific

• Based on measurable data, observation, or verifiable information

• Consistent with organizational goals

• Challenging

• Clear and understandable; and they are dynamic.

Observing Employee Performance:

As part of PM, managers must constantly observe the work performance and provide appropriate feedback to an employee. Feedback should be based on the observed work related behaviour and results vis-à-vis prescribed standards. Such observation of employee behavior and the results of performance enable the management to
identify the shortcomings and facilitate an employee to be successful at the job by continuously developing his or her skills, knowledge and competency. Wherever a manager cannot directly observe an employee’s performance it is desirable to put in place a process that enables the management to know how they are functioning from time to time. In this context, the following options can be exercised:

- Evaluating the output and products of the employer’s work;
- Periodically reviewing and discussing with employee’s their standards of performance of the job vis-à-vis management expectations.
- Obtaining feedback from customers.
- Doing brief stand up check-ins or phone calls.
- Performing routine spot checks of the employee at work.
- Asking for confidential evaluations of employee performance by peers.

The most critical part of PM is assessing, summarizing and developing the work performance of an employee. It is essential that every employee enjoys the benefit of looking at his performance appraisal at least once in a year. A manager should analyses the performance of the employee objectively against the set standards. It is desirable for the manager to meet and discuss with the employee about the appraisal process before writing as it fosters mutual understanding of the process extent it enhances the employees acceptance of the outcome.

The manager has to review the draft of the performance appraised form and supporting comments with the concerned employee. Here it makes sense to discuss the employee’s strengths first, covering each point in detail, for it sets a positive tone to start the discussion. Identifying the functional areas requiring improvement and establishing agreement with the employee about how improvement is to be accomplished. Performance manager and the concerned employee must mutually identify areas in which education, training, or their development opportunities are needed and design a strategy for developing skills and knowledge of the employee. Discussion with the employees, the steps to be taken by them to accomplish self development goals, as well as how the department will help them to arrive at an agreement to be done. It always makes sense for managers to meet employees for such discussions in private.
1.3: History of performance appraisal

The history of formal performance appraisal systems can be traced back to as early as the third century when the emperors of the Wei dynasty (A.D. 221-265) appointed an Imperial Rater to evaluate the performance of official family members (Harold Koontz, 1971). Researchers have reported, however, that performance appraisal for industrial workers was perhaps first introduced in 1800s, in Robert Owen's Cotton Mills in Scotland (David L. DeVries, Ann Monison, Sandra L. Shullman & Michael L. Gerlach, 1981). But this appears to have been an isolated instance.

Widespread use of formal appraisal systems started in military and government organizations in the western world in the latter part of the nineteenth century. This became necessary, because of the large numbers of people employed in these organizations and the need for uniformity of standards as well as the need for documentation, which is a normal requirement in governmental administrative systems. The purpose of the system was to make administrative decisions, such as promotion, on an equitable basis of evaluation of people by certain common standards.

Research evidence also indicates that in the western world, formal appraisal systems started being used in industry for hourly-rated workers after World War I. The practice developed in the wake of Frederick Taylor's time study and work measurement techniques. These techniques involved the breaking down of a job into its component parts, establishing norms of output for workers and quantifying work performance. The performance appraisal system (also called Merit Rating) which developed under the influence of the work of Taylor and his followers basically followed the same principles; it broke down job-requirements into assumed component factors such as diligence, loyalty, honesty, etc., assigned point-values to each factor and required the supervisor to rate each worker on a 4-to-6-point rating scale. This is the trait-rating system of appraisal. The purpose of the system was to determine wages of hourly-rated workers on the basis of performance appraisal. It was in the 1930’s and 1940’s, under the influence of the human-relations school of thought of Elton Mayo and others that certain human-relations oriented attributes such as 'getting along with people' were added to the rating list. At the same time, the practice of the supervisor communicating his evaluation to the worker also started.
The use of formal performance appraisal system for managerial personnel in industry and business, however, is a much later development; it really started only after World War II. (David L DeVries, Ann Morrison, Sandra L Shullman & Michael L Gerlach, Performance Appraisal on the Line, John Wiley & Sons, New York (1981)). And the same trait-oriented system requiring ratings of personality traits, which was originally intended for hourly-rated workers, was extended to the managerial personnel. It was only in the 1960’s that widespread use of performance appraisal systems for managerial personnel in industry was observed. A survey carried out in 1977 showed that 95% of large business organizations and 84% of smaller ones in the United States had formal performance appraisal systems. Gill's Survey in 1977 showed that 82% of British companies which participated in the survey had formal appraisal schemes.

It is not clear when the merit-rating system for workers started in the Indian industries. In any case, the system of deciding workers' wages on the basis of individual merit or output was hardly used in India; incentive schemes are a post-independence development. But as far as the use of appraisal systems for managerial personnel in Indian industries is concerned, the author's own survey reveals that Union Carbide had such a system as far back as 1940. The Tata Iron and Steel Company (TISCO) and Voltas introduced such systems in 1953 and 1954 respectively and Bata's also started one in the 1950's as the responses to the author's questionnaires issued to the chief executives have revealed. Public enterprises which were set up after independence had a confidential reporting system almost from their very inception and this was an extension of the government practice in respect of civil servants. Of course, appraisal systems were in use in the army and the civil services for a long time.

1.3.1: Managerial performance appraisal in India

Before independence these systems of managerial appraisal, also were typically ‘personality-trait’ oriented and the ratings were made on a 4-to-6-point scale. The purpose was mainly to decide about salary progression and promotion in the private sector, and promotion in the public sector.
Issues in appraisal

There are basically three issues in performance appraisal, which have been of major concern and have engaged the attention of practicing managers, human resource specialists, psychologists and social scientists:

i) What are the purposes of an appraisal system?

ii) What is to be appraised or measured (performance criteria)?

iii) How to appraise or measure performance accurately and objectively (measurement methods and techniques)?

In fact, these are all inter-related issues and each of them influence the other two.

Purposes

There are two issues relating to purposes: One relates to the different kinds of purposes that appraisal systems can serve and the second, whether and to what extent it is possible to achieve the different kinds of objectives through the same procedure and process of appraisal.

Different purposes

In the UK and USA, as well as in India, the original purpose behind the introduction of a formal performance appraisal system has invariably been to generate performance information which could be used for certain basic administrative decisions such as promotion and salary increase. Gradually over the years, however, the purposes of performance appraisal have proliferated a great deal. A number of factors have contributed to this development:

First, there has been an increasing awareness, not only in the industrially developed countries such as the UK and USA, but also in the developing countries like India, of the need for long-term organisation planning and planned development of managerial manpower resources on the one hand and, on the other, of the potential and value of effective performance appraisal systems in generating relevant information for purposes of such planning. This has led to the increasing use of appraisal systems for the assessment of 'potential' as well as for the identification of training and development needs.
Secondly, research on motivation in the 1930’s and 1940’s and the subsequent advances of behavioral sciences have opened up the possibilities of use of appraisal for purposes of motivation, for improving employee performance and for strengthening superior-subordinate relationships.

Thirdly, the development of management processes such as MBO (Management by Objectives) in the 1960’s significantly enhanced the possibility of providing opportunities to the managers to participate in setting their own goals, in planning their own work and in monitoring, appraising, controlling and improving their own performance. This has provided a wider perspective and given a deeper meaning to appraisal. It has led to a system of appraisal which facilitates the integration of the manager's personal goals with the goals of the organization; it motivates and enables the manager to grow and to develop his own capabilities through a process of achievement of company goals. This helps in manager development through performance development.

As a result of all these developments that have taken place over the past thirty years, performance appraisal systems (P.A.) are now being called upon to serve a variety of different purposes. These different purposes can be divided into four groups, viz.,

a) administrative (decisions on promotion, salary increase, placement, transfer, discharge etc., and organization planning);

b) Motivational (appraisal interviews, counselling, participation in goal-setting and work-planning, self-appraisal etc.);

c) developmental (counselling, training and development, communication); and

d) Performance development (through MBO and other goal-setting and work planning processes).

Devries et al (1981) have observed that in the United States, 'Overall, the purposes for which P.A. is reportedly used have expanded considerably over the years. The following uses of P.A. were all cited in several organizations: administrative decisions (salary, promotion, retention and discharge); counselling; training and development; human resource planning; and validation studies.
In USA, another major development over the past twenty years has been the use of performance appraisal for legal purposes. Devries et al (1981) have reported that after the passage of 1964 Civil Right Act and the formulation in 1966 and 1970 of Equal Employment Opportunity Commission (EEOC). Guidelines for the regulation of employment selection procedures, legal considerations created strong pressure on organizations to formalize and review their performance appraisal practices. And the authors predict that ‘When P.A. is considered as a specific, annual event, its primary purpose will be the documentation of administrative decisions for legal protection.

Gill's Survey Report (1977) about the practices in the UK indicates that the British industries also seek to achieve a variety of different objectives through appraisal systems. Gill reports that the three most important objectives of appraisal schemes in the UK, that emerged through his survey are as follows:

<table>
<thead>
<tr>
<th>Purposes</th>
<th>% age of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>To assess training and development needs</td>
<td>74</td>
</tr>
<tr>
<td>To help improve current performance</td>
<td>73</td>
</tr>
<tr>
<td>To assess future potential/promotability</td>
<td>52</td>
</tr>
</tbody>
</table>

Comparing the British practices with those in USA, the author observes: 'The emphasis of appraisal programmes in the States is, therefore, on par compared with improving current performance or assessing development needs as it is in the UK. This very marked difference in the main aim of appraisals almost certainly reflects deep-rooted cultural differences between the two countries. (Gill, 1977)

Surveys show that in India, too, appraisal systems are being used for a variety of purposes, the three most important ones being decisions on promotion, salary increases and identification of training and development needs.

**What different objectives can Performance Appraisal achieve?**

The second issue concerning the purposes of appraisal relates to the question of whether and to what extent it is possible to effectively achieve different objectives through the same appraisal system and process. This question was raised sharply for
the first time in 1957 by Douglas McGregor in his classic essay entitled, *An Uneasy Look at Performance Appraisal*. He found that formal performance plans were designed to meet three needs:

1) To provide systematic judgments to back up salary increases, promotions, transfers etc.,

2) To let the subordinate know 'where he stands' with the boss and

3) To provide a basis for the coaching and counselling of the individual by the superior.

It would appear that the first objective is administrative and the other two are motivational and developmental in nature. The first one casts a 'judicial' role on the supervisor requiring him to evaluate the personal worth of the subordinate; the other two place the superior in the role of a helper and a counsellor, seeking to help the subordinate to bring about needed changes in his behaviour, attitudes, skills or job knowledge and to improve his performance.

McGregor (1957) felt strongly that these two sets of objectives were disparate and mutually incompatible, especially when the appraisal was personality-trait oriented. He observed that 'the modern emphasis upon the manager as leader who strives to help his subordinates achieve both their own and the company's objectives is hardly consistent with *judicial* role demanded by most plans.

McGregor (1957) suggested a solution within the framework of Peter Drucker's concept of 'Management by Objectives'. For purposes of motivation and improving performance, he suggested a shift of emphasis from performance 'appraisal' to performance 'analysis'. The approach prescribed by him calls on the subordinate to establish clear and specific short-term (say, six monthly) performance goals for himself, in consultation with his superior, and to develop his plans of action to reach those goals. And at the end of the six-month period, the superior and subordinate together examine the subordinate's self-appraisal which culminates in a re-setting of targets for the next six months.

It will be seen that this scheme has all the essential characteristics of the MBO approach prescribed by Drucker. McGregor felt that such an approach of performance analysis will help achieve the motivational and developmental objectives of appraisal.
He did realize that the organization will still need some judgmental evaluation for the administration of salary and promotion policies but he felt that this need could easily be met within the framework of the analysis process suggested by him. Several other researchers have, also, pointed out the incompatibility of some of the different purposes that are being sought to be achieved through the same appraisal process.

Norman Maier (The Appraiser Interview: Three Basic Approaches, University Associates Inc, La Jolla, California, 1976) while analyzing the prevailing appraisal interview practices also warned against attempting to cover too many objectives using a single method. He argued that if several goals were aimed at, none might be achieved to the fullest or in the best manner and that any approach that seeks to accomplish a multitude of objectives is likely to accomplish some unwanted thing as well.

Based on their famous experiments in General Electric (USA), Meyer, Kay & French (Herbert H. Meyer, Emanuel Kay and John R. P French Jr, ‘Split Roles in Performance Appraisal’ Harvard Business Review, Jan-Feb 1965 as reproduced in the Reprints of Selected Articles Series, Harvard Business Review, 1972, p.81-87) also advocated a 'splitting' of the roles of 'helper' and 'judge' of the superior and recommended a process of "Work Planning and Review" for achieving the objectives of motivation and development. Randell (1974) identified three groups of purposes—reward reviews (pay, etc.), performance reviews (which relate to the need to improve the performance of the subordinate) and potential reviews, and recommended that they should be dealt with separately—not only separate in time, but also in paper work, procedure and responsibility.

It appears, however, that although scholars and researchers have been advocating separate processes and procedures for different objectives, most organizations are using the same systems and processes for a variety of objectives.

The position in this regard in India has been discussed in some detail in later chapters.

**Performance criteria**

The second issue of major concern in appraisal is: What is to be appraised? In other words, by what criteria should the performance of a manager be evaluated?
The determination of performance criteria has been one of the most intractable problems of appraisal systems. Since the criteria has to serve the purposes of appraisal, they should be relevant to job performance, directly observable, verifiable and measurable. And the search for appropriate criteria has been a continuing preoccupation of psychometricians, scholars, and practitioners for the past thirty years.

As has been mentioned earlier, the traditional approach in appraisal was to evaluate personality-traits. In this approach, typically a manager would be rated against a set of pre-determined personality traits, such as diligence, loyalty, initiative, dependability, judgment, integrity, etc. on a 4-to-6-point scale. The system was originally applied to hourly-rated workers, but was later extended after World War II to managerial personnel (Harold Koontz 1971).

This system remained more or less unchallenged till about the early fifties. In the fifties it came in for severe criticism. Managers felt deeply dissatisfied and scholars found serious deficiencies in the system.

The drawbacks of the system as experienced by practitioners and pointed out by a host of scholars (Douglas McGregor 1957) include the following:

i) Traits are not directly observable. The evaluation is inferential and subjective. It is vulnerable to various kinds of rater biases and errors, such as 'halo' and 'horns' effects, excessive strictness or leniency, 'central tendency', 'constant errors' etc.

1.4: The appraisal cycle

According to McKirchy (1998), the appraisal cycle can be conceptualized as below.

![Appraisal Cycle Diagram](image-url)
Performance appraisals involve setting goals, judging the results achieved, and creating performance criteria that can be met and measured over and over again for each employee’s job descriptions. In conducting the performance appraisals, one needs to make it very clear that one’s objective is performance, not personality issues. This is a big step towards “same-side-of the desk thinking. Together employer and employee look at what can be done to solve performance problems.

**Performance appraisal links and links with performance management**

![Diagram of Performance appraisal links and links with performance management]

**Illustration: 1.2 Performance appraisal links and links with performance management**

(Source: Havard, 2002)

**1.5: Types of appraisal system**

The following section lists different types of performance appraisal systems and some of the advantages of each. Four different types of appraisal systems are as follows:

1. Self-directed work teams.
2. Peer appraisal systems.
3. Self-rating systems combined with formal performance appraisal.
4. Other performance systems.
Self-directed work teams

Overview: In this model, the performance appraisal is the primary vehicle for communicating business strategy to employees. Each team has a family of critical measures linked to measures of performance that, in turn, constitute the overall business strategy. These measures are revised annually.

Powerful performance appraisals

Description: Performance measures usually fall into the following groups:

- Quality.
- Financial—cost and revenue considerations.
- Timeliness.
- Productivity/efficiency.

Associated with each measure are three criteria: a long-term goal, short-term goals, and the minimum standards of performance.

Teams usually:

- Identify behaviors that have the greatest impact on performance.
- Measure behavior and create specific feedback on team performance compared to the goal. Employees keep track of their own performance. Weekly and monthly team meetings are held to identify problems and work through solutions.
- Rely on managers who are trained to reinforce desired behavior as it occurs, not just once or twice a year.

Individual employee performance goals center primarily on learning and development. Goals for an individual might be to improve communication or build problem-solving skills. General actions to achieve these goals might be taking on more leadership responsibilities in meetings (communication) or serving on a task force (problem-solving). Specific tactics might include working on different communication or problem-solving techniques.
1.6: Process of performance appraisal

The process of performance appraisal involves several steps and they are delineated as follows:

**Preparation** – Preparation of all materials, noting down agreed tasks and recording of performance, achievements, incidents, reports etc - anything pertaining to performance and achievement - obviously include the previous performance appraisal documents and a current job description. A good appraisal form will provide a good natural order for proceedings. If the organization doesn't have a standard appraisal form then one has to locate standard appraisal form, or has to download and/or adapt the appraisal forms from standard websites. Whatever has been used, one has to ensure the necessary approval from his/her organization, and understand how it works. The paperwork to reflect the order of the appraisal and write down the sequence of items to be covered has to be organized. If the appraisal form includes a self-assessment section and/or feedback section (good ones do) one has to ensure this is passed to the appraisee suitably in advance of the appraisal with relevant guidance for completion. Many people are not particularly interested in job skills training, but will be very interested, stimulated and motivated by other learning and development experiences. One has to get to know what people are good at outside of their work. People's natural talents and passions often contain significant overlaps with the attributes, behaviours and maturity that are required and valued in the workplace. One has to use one's imagination in identifying these opportunities to encourage 'whole-person' development and can find appraisals can become very positive and enjoyable activities. Appraisals are not just about job performance and job skills training. Appraisals should focus on helping the 'whole person' to grow and attain fulfillment.

**Intimation** – One has to inform the appraisee and ensure that appraisee is informed of a suitable time and place (change it if necessary), and clarify purpose and type of appraisal – he has to be given and give a chance to the appraisee to assemble data and relevant performance and achievement records and materials. If the appraisal form does not imply a natural order for the discussion then an agenda of items to be covered should be provided.
**Venue** – One has to ensure a suitable venue, which is planned and available - private and free from interruptions - as with recruitment interviewing the same rules should be observed – One has to avoid hotel lobbies, public lounges, canteens - privacy is absolutely essential.

**Layout** - room layout and seating are important elements to preparation also - One should not simply accept whatever layout happens to exist in a borrowed or hired room - layout has a huge influence on atmosphere and mood - irrespective of content, the atmosphere and mood must be relaxed and informal - remove barriers – One should not sit in the boss's chair with the other person positioned humbly on the other side of the desk; one must create a relaxed situation, preferably at a meeting table or in easy chairs - sit at an angle to each other, 90 degrees ideally - avoid face to face, it's confrontational.

**Introduction** – One has to relax the appraisee - open with a positive statement, smile, be warm and friendly - the appraisee may well be terrified; it's one’s responsibility to create a calm and non-threatening atmosphere. One has to set the scene - simply explain what will happen - encourage a discussion and as much input as possible from the appraisee - tell them it's their meeting. The timings have to be confirmed, especially finishing time. If helpful and appropriate, one should begin with some general discussion about how things have been going, but one should avoid getting into specifics.

**Reviewing and measurement** – One has to review the activities, tasks, objectives and achievements one by one, keeping to distinct separate items one by one - avoid going off on tangents or vague unspecific views. If the person has done your preparation correctly he will have an order to follow. If something off-subject comes up then it should be noted down. He has to concentrate on hard facts and figures, solid evidence - avoid conjecture, anecdotal or non-specific opinions, especially about the appraisee. Being objective is one of the greatest challenges for the appraiser - as with interviewing, and he has to resist judging the appraisee in his own image, according to his own style and approach - facts and figures are the acid test and provide a good neutral basis for the discussion, free of bias and personal views. For each item a measure of competence should be agreed, and according to whatever measure or scoring system is built into the appraisal system. This might be simply a yes or no, or
it might be a percentage or a mark out of ten, or an A, B, C. Reliable review and measurement requires reliable data - if one does not have the reliable data, one can't review and one might as well re-arrange the appraisal meeting. If a point of dispute arises, one must get the facts straightened out before making an important decision or judgment, and if necessary defer to a later date.

**Agreeing an action plan** - An overall plan should be agreed with the appraisee, which should take an account of the job responsibilities, the appraisee's career aspirations, the departmental and whole organization's priorities, and the reviewed strengths and weaknesses. The plan can be staged if necessary with short, medium and long term aspects, but importantly it must be agreed and realistic.

**Agreeing on specific objectives** - These are the specific actions and targets that together form the action plan. As with any delegated task or agreed objective these must adhere to the SMARTER rules - specific, measurable, agreed, realistic, time-bound, enjoyable, recorded. If not, one should not bother. The objectives can be anything that will benefit the individual, and that the person is happy to commit to. When helping people to develop, one should not be restricted to job-related objectives, although typically most objectives will be.

**Agreeing on necessary support** - This is the support required for the appraisee to achieve the objectives, and can include training of various sorts such as external courses and seminars, internal courses, coaching, mentoring, shadowing, distance-learning, reading, watching videos, attending meetings and workshops, workbooks, manuals and guides; anything relevant and helpful that will help the person develop towards the standard and agreed task. Also one should consider training and development that relates to 'whole-person development' outside of job skills. This might be a hobby or a talent that the person wants to develop. Developing the whole person in this way will bring benefits to their role, and will increase motivation and loyalty. The best employers understand the value of helping the whole person to develop. One should be careful to avoid committing to training expenditure before suitable approval, permission or availability has been confirmed - if necessary discuss likely training requirements with the relevant authority before the appraisal to check. Raising false hopes is not helpful to the process.
Inviting any other points or questions – One must make sure to capture any other concerns.

Becoming close - Thanking the appraisee for their contribution to the meeting and their effort through the year, and commit to helping in any way one can.

Recording main points, agreed actions and follow-up – One must swiftly follow-up the meeting with all necessary copies and confirmations, and ensure documents are filed and copied to relevant departments, (HR and one’s own line manager typically).

1.7: Methods of performance appraisal system

One can classify the methods of performance appraisal under two categories-vis-à-vis, traditional and modern methods. Each method has been described briefly in the following paragraphs.

a. Traditional method

1. Essay appraisal method

This traditional form of appraisal, also known as “Free Form method” involves a description of the performance of an employee by his superior. The description is an evaluation of the performance of any individual based on the facts and often includes examples and evidences to support the information. A major drawback of the method is the inseparability of the bias of the evaluator.

2. Straight ranking method

This is one of the oldest and simplest techniques of performance appraisal. In this method, the appraiser ranks the employees from the best to the poorest on the basis of their overall performance. It is quite useful for a comparative evaluation.

3. Paired comparison

A better technique of comparison than the straight ranking method, this method compares each employee with all others in the group, one at a time. After all the comparisons on the basis of the overall comparisons, the employees are given the final rankings.
4. Critical incidents method

In this method of Performance appraisal, the evaluator rates the employee on the basis of critical events and how the employee behaved during those incidents. It includes both negative and positive points. The drawback of this method is that the supervisor has to note down the critical incidents and the employee behaviour as and when they occur.

5. Field review

In this method, a senior member of the HR department or a training officer discusses and interviews the supervisors to evaluate and rate their respective subordinates. A major drawback of this method is that it is a very time consuming method. But this method helps to reduce the superiors’ personal bias.

6. Checklist method

The rater is given a checklist of the descriptions of the behaviour of the employees on job. The checklist contains a list of statements on the basis of which the rater describes on the job performance of the employees.

7. Graphic rating scale

In this method, an employee’s quality and quantity of work is assessed in a graphic scale indicating different degrees of a particular trait. The factors taken into consideration include both the personal characteristics and characteristics related to the on-the-job performance of the employees. For example a trait like Job Knowledge may be judged on the range of average, above average, outstanding or unsatisfactory.

8. Forced distribution

To eliminate the element of bias from the rater’s ratings, the evaluator is asked to distribute the employees in some fixed categories of ratings like on a normal distribution curve. The rater chooses the appropriate fit for the categories on his own discretion.
b. Modern methods (New concepts)

1. Assessment centers

An assessment centre typically involves the use of methods like social/informal events, tests and exercises, assignments being given to a group of employees to assess their competencies to take higher responsibilities in the future. Generally, employees are given an assignment similar to the job they would be expected to perform if promoted. The trained evaluators observe and evaluate employees as they perform the assigned jobs and are evaluated on job related characteristics.

The major competencies that are judged in assessment centre’s are interpersonal skills, intellectual capability, planning and organizing capabilities, motivation, career orientation etc. assessment centre’s are also an effective way to determine the training and development needs of the targeted employees.

2. Behaviorally anchored rating scales

Behaviorally Anchored Rating Scales (BARS) is a relatively new technique which combines the graphic rating scale and critical incidents method. It consists of predetermined critical areas of job performance or sets of behavioral statements describing important job performance qualities as good or bad (for e.g. the qualities like inter-personal relationships, adaptability and reliability, job knowledge etc). These statements are developed from critical incidents. In this method, an employee’s actual job behaviour is judged against the desired behaviour by recording and comparing the behaviour with BARS. Developing and practicing BARS requires expert knowledge.

3. Human resource accounting method

Human resources are valuable assets for every organization. The Human resource accounting method tries to find the relative worth of these assets in terms of money. In this method, the performance appraisal of the employees is judged in terms of cost and contribution of the employees. The cost of employees include all the expenses incurred on them like their compensation, recruitment and selection costs, induction and training costs etc whereas their contribution includes the total value added (in
monetary terms). The difference between the cost and the contribution will be the performance of the employees. Ideally, the contribution of the employees should be greater than the cost incurred on them.

4. **360 Degree performance appraisal**

360 degree feedback, also known as 'multi-rater feedback', is the most comprehensive appraisal where the feedback about the employees’ performance comes from all the sources that come in contact with the employee on his job. 360 degree respondents for an employee can be his/her peers, managers (i.e. superior), subordinates, team members, customers, suppliers/ vendors - anyone who comes into contact with the employee and can provide valuable insights and information or feedback regarding the “on-the-job” performance of the employee.

360 degree appraisal has four integral components:

1. Self appraisal
2. Superior’s appraisal
3. Subordinate’s appraisal
4. Peer appraisal.

Self appraisal gives a chance to the employee to look at his/her strengths and weaknesses, his achievements, and judge his own performance. Superior’s appraisal forms the traditional part of the 360 degree appraisal where the employees’ responsibilities and actual performance is rated by the superior.

Subordinates appraisal gives a chance to judge the employee on the parameters like communication and motivating abilities, superior’s ability to delegate the work, leadership qualities etc. Also known as internal customers, the correct feedback given by peers can help to find employees’ abilities to work in a team, co-operation and sensitivity towards others.

Self assessment is an indispensable part of 360 degree appraisals and therefore 360 degree performance appraisals have high employee involvement and also have the strongest impact on behavior and performance. It provides a "360-degree review" of
the employees’ performance and is considered to be one of the most credible performance appraisal methods.

360 degree appraisal is also a powerful developmental tool because when conducted at regular intervals (say yearly) it helps to keep a track of the changes and others’ perceptions about the employees. A 360 degree appraisal is generally found more suitable for the managers as it helps to assess their leadership and managing styles. This technique is being effectively used across the globe for performance appraisals. Some of the organizations following it are Wipro, Infosys, and Reliance Industries etc.

Beatrice, van der Heijden and Andre (2004) in their research showed that there is a consistent difference in self- and supervisor ratings especially. This implies that, as long as these differences are understood as the result of several effects in measuring one's performance, the multi-source assessments will lead to a false sense of security and objectivity. Instead, when the differences are understood as subjective evaluations with a value in themselves, then different perceptions can be used for a better understanding between supervisors and employees of the working relations, personal performance and underlying motives for career development. They indicated that employees 'think' somewhat better of themselves than supervisors do, or at any rate they give a rosier image. The ratings made by the supervisor are all higher than the corresponding ones made by their employees. This is not caused by the measurement instrument itself, because the scale reliabilities are very high both for the self-ratings and for the supervisor ratings. It has been mentioned before that the tendency to present oneself positively, the so-called leniency effect, is common in performance ratings. Nevertheless, that an item can function differently for different groups of raters suggests the existence of a degree of measurement non-equivalence between the rater groups, and this non-equivalence may be indicative of systematic bias in ratings between particular groups of raters. This raises important questions about the reliability and objectivity of performance ratings. It might be that the self-ratings reflect a reliable, but somewhat more differentiated self-image. The supervisors are more consistent in answering. If they are asked to account for their employee's performance, it seems that they are inclined to give unanimous answers, meaning that the scores for items are more accommodated to each other. That is to say, the ratings
made by supervisors are more coloured by the ratings for other items and, also, for other dimensions.

5. Management by objectives

The concept of ‘Management by Objectives’ (MBO) was first given by Peter Drucker in 1954. It can be defined as a process whereby the employees and the superiors come together to identify common goals, the employees set their goals to be achieved, the standards to be taken as the criteria for measurement of their performance and contribution and deciding the course of action to be followed.

The essence of MBO is participative goal setting, choosing course of actions and decision making. An important part of the MBO is the measurement and the comparison of the employee’s actual performance with the standards set. Ideally, when employees themselves have been involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.

Unique Features and Advantage of MBO

The principle behind Management by Objectives (MBO) is to create empowered employees who have clarity of the roles and responsibilities expected from them, understand their objectives to be achieved and thus help in the achievement of organizational as well as personal goals.

Some of the important features and advantages of MBO are:

- Clarity of goals – With MBO, came the concept of SMART goals i.e. goals that are:

  Specific
  Measurable
  Achievable
  Realistic, and
  Time bound.
The goals thus set are clear, motivating and there is a linkage between organizational goals and performance targets of the employees.

- The focus is on the future rather than on the past. Goals and standards are set for the performance for the future with periodic reviews and feedback.
- Motivation – Involving employees in the whole process of goal setting and increasing employee empowerment increases employee job satisfaction and commitment.
- Better communication and Coordination – Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the enterprise and also solve many problems faced during the period.

6. Staffing reviews

Guido M.J. de Koning (2004) provides a detailed account on staffing review in performance appraisal process. Staffing reviews are management team meetings in which managers rank, evaluate, and discuss the employees in the organization. As with any methodology, staffing reviews can have some negative effects, but when they are properly implemented, they can be quite potent. Here's how they work: Prior to the staffing review session, each participating manager lists the names of the employees he or she supervises. As objectively as possible – and using a good balance of valid performance measures -- the managers then group those employees into three categories: top, middle, and bottom performers. (Sometimes a fourth category is included for employees who are new to their positions.) In the meeting, each manager goes through his or her list and shares the names that appear in each category. As they discuss and justify their classifications, others on the management team may challenge the manager when they have a different perspective on or evaluation of an employee. The management team incorporates any reclassifications and arrives at a final grouping of the employees by their level of performance.

Force-ranking employees into top-, middle-, and bottom-performing groups has intensified this process in some companies. General Electric sorts employees into these three categories, then systematically weeds out the bottom 10%. Other companies have adopted forced-ranking evaluation systems too, including IBM,
Hewlett-Packard, Ford, and Sun Microsystems. To be sure, this forced-ranking evaluation method is controversial. Although it actively differentiates performance in the workplace, studies have shown that it has negative side effects: Forcing the identification of a given proportion of bottom performers -- even in top-performing teams -- can alienate some employees and impede their development. But forcing a fixed proportion of employees into performance categories may not be necessary. The key to effective staffing reviews is not in the ranking, but in the discussions about it.

There are three aspects to the staffing review process that make it a best practice.

**a. Increasing transparency.** Although the managers are asked to evaluate or rank order the employees in the organization, they must defend their judgments to their peers. This intensifies the process as compared to an appraisal that stays between the manager, the employee, and the HR department. The discussion within the management team reduces some of the subjectivity and frequently increases the credibility of the evaluations as well.

**b. Driving the development of talent.** The moderator or management team leader will ask questions like these: What qualities do our top performers have, and what do they do that sets them apart? What must the company do to keep them? How can we support them and help them develop and grow? At the same time, it's also necessary to ask: Which employees consistently underperform, and why? How can the company best deal with them? All of these are crucial questions leaders should address on a regular basis. Without a formal staffing review process, however, questions like these usually aren't asked, let alone focused on.

**c. Increasing accountability.** Review sessions are usually conducted two to four times a year. In these sessions, managers reveal and discuss employees' performance. They may also decide to promote high-potential employees across business units, put a number of top performers on special assignments, or recast employees who have been underperforming. One or two quarters later, the same process takes place, and any lack of follow through will be blatantly visible to the management team. When executed well, staffing reviews may be your most effective approach to holding employees accountable.
1.8: Phases in performance appraisal system:

Illustration: 1.3 Phases in Performance Appraisal

(Source: Grote Consulting Corporation, Grote, 2002)

Performance appraisal is seen merely as a once-a-year drill mandated by the personnel department. But in organizations that take performance appraisal seriously and use the system well, it is used as an ongoing process and not merely as an annual event. In these companies, performance appraisal follows a four-phase model:

*Phase 1: Performance Planning.* At the beginning of the year, the manager and individual get together for a performance-planning meeting. In this hour-long session they discuss what the person will achieve over the next twelve months (the key responsibilities of the person's job and the goals and projects the person will work on) and how the person will do the job (the behaviors and competencies the organization expects of its members). They typically also discuss the individual's development plans.
Phase 2: Performance Execution. Over the course of the year, the employee works to achieve the goals, objectives, and key responsibilities of the job. The manager provides coaching and feedback to the individual to increase the probability of success. He creates the conditions that motivate and resolves any performance problems that arise. Midway through the year — perhaps even more frequently — they meet to review the individual’s performance thus far against the plans and goals that they discussed in the performance-planning meeting.

Phase 3: Performance Assessment. As the time for the formal performance appraisal nears, the manager reflects on how well the subordinate has performed over the course of the year, assembles the various forms and paperwork that the organization provides to make this assessment, and fills them out. The manager may also recommend a change in the individual’s compensation based on the quality of the individual’s work. The completed assessment form is usually reviewed and approved by the appraiser’s boss. Others — perhaps the department head or the compensation manager — may also review and approve the assessment.

Phase 4: Performance Review. The manager and the subordinates meet, usually for about an hour. They review the appraisal form that the manager has written and talk about how well the person performed over the past twelve months. At the end of the review meeting they set a date to meet again to hold a performance-planning discussion for the next twelve months, at which point the performance management process starts anew.

Of course there may be many individual variations on the basic theme, but most sophisticated companies generally follow this four-phase process. Figure 1.3 illustrates the basic four-phase process.

1.9: Foundation issues of performance appraisal

Many appraisal processes fail because those responsible for getting them off the ground do not think through what they are doing. They copy another organization's scheme, without necessarily finding out what it offers its host. Some start by designing forms and then design a process to get the forms completed. Some base the process on job descriptions, often out of date, or on badly conceived objectives or inadequately developed competencies. The Appraisal processes need to be as simple as possible but as complex as necessary. They should not be simplistic.
Illustration 1.4 suggests a sequence, those designing appraisal processes will need to go backwards at times before continuing the 10 issues presented: progression will be iterative not linear. For example, the first training session on the introduction or relaunch of appraisal usually brings up appraisal process policy and design issues which have not been resolved.

Illustration: 1.4 A framework for thinking about and introducing an appraisal process

(Source: Harvard, 2002)

1.10: Organizational purpose of performance appraisal

Performance appraisal serves over a dozen different organizational purposes, they are:

- Providing feedback to employees about their performance
- Determining who gets promoted
- Facilitating layoff or downsizing decisions
- Encouraging performance improvement
Motivating superior performance
Setting and measuring goals
Counseling poor performers
Determining compensation changes
Encouraging coaching and mentoring
Supporting manpower planning or succession planning
Determining individual training and development needs
Determining organizational training and development needs
Confirming that good hiring decisions are being made
Providing legal defensibility for personnel decisions
Improving overall organizational performance

A brief description of each of the above follows:

Providing Feedback: Providing feedback is the most common justification for an organization to have a performance appraisal system. Through its performance appraisal process, the individual learns exactly how well she did during the previous twelve months and can then use that information to improve her performance in the future. In this regard, performance appraisal serves another important purpose by making sure that the boss's expectations are clearly communicated.

Facilitating Promotion Decisions: Almost everyone in an organization wants to get ahead. How should the company decide who gets the brass rings? Performance appraisal makes it easier for the organization to take good decisions about making sure that the most important positions are filled by the most capable individuals.

Facilitating Layoff or Downsizing Decisions: If promotions are what everybody wants, layoffs are what everybody wishes to avoid. But when economic realities force an organization to downsize, performance appraisal helps make sure that the most talented individuals are retained and that only the organization's marginal performers are cut loose.

Encouraging Performance Improvement: How can anyone improve if he doesn't know how he's doing right now? A good performance appraisal points out areas where individuals need to improve their performance.
Motivating Superior Performance: This is another classic reason for having a performance appraisal system. Performance appraisal helps motivate people to deliver superior performance in several ways. First, the appraisal process helps them learn just what it is that the organization considers to be "superior." Second, since most people want to be seen as superior performers, a performance appraisal process provides them with a means to demonstrate what they actually are. Finally, performance appraisal encourages employees to avoid being stigmatized as inferior performers (or, often worse, as merely "average").

Setting and Measuring Goals: Goal setting has consistently been demonstrated as a management process that generates superior performance. The performance appraisal process is commonly used to make sure that every member of the organization sets and achieves effective goals.

Counseling Poor Performers: Not everyone meets the organization's standards. Performance appraisal forces managers to confront those whose performance is not meeting the company's expectations.

Determining Compensation Changes: This is another classic use of performance appraisal. Almost every organization believes in pay for performance. But how can pay decisions be made if there is no measure of performance? Performance appraisal provides the mechanism to make sure that those who do better work receive more pay.

Encouraging Coaching and Mentoring: Managers are expected to be good coaches to their team members and mentors to their protégés. Performance appraisal identifies the areas where coaching is necessary and encourages managers to take an active coaching role.

Supporting Manpower Planning: Well-managed organizations regularly assess their bench strength to make sure that they have the talent in their ranks that they will need for the future. Companies need to determine who and where their most talented members are. They need to identify the departments that are rich with talent and the ones that are suffering a talent drought. Performance appraisal gives companies the tool they need to make sure they have the intellectual horsepower required for the future.
Determining Individual Training and Development Needs: If the performance appraisal procedure includes a requirement that individual development plans be determined and discussed, individuals can then make good decisions about the skills and competencies they need to acquire to make a greater contribution to the company. As a result, they increase their chances of promotion and lower their odds of layoff.

Determining Organizational Training and Development Needs: Would the organization be better off sending all of its managers and professionals through a customer service training program or one on effective decision making? By reviewing the data from performance appraisals, training and development professionals can make good decisions about where the organization should concentrate company-wide training efforts.

Validating Hiring Decisions: Is the company hiring stars, or is it filling itself with trolls? Only when the performance of newly hired individuals is assessed can the company learn whether it is hiring the right people.

Providing Legal Defensibility for Personnel Decisions: Almost any personnel decision — termination, denial of a promotion, transfer to another department — can be subjected to legal scrutiny. If one of these is challenged, the company must be able to demonstrate that the decision it made was not based on the individual's race or handicap or any other protected aspect. A solid record of performance appraisals greatly facilitates legal defensibility when a complaint about discrimination is made.

Improving Overall Organizational Performance: This is the most important reason for an organization to have a performance appraisal system. A performance appraisal procedure allows the organization to communicate performance expectations to every member of the team and assess exactly how well each person is doing. When everyone is clear on the expectations and knows exactly how he is performing against them, this will result in an overall improvement in organizational success.
Key questions need to be answered to work towards introducing or modifying an appraisal process.

**Illustration: 1.5 Deciding on the purpose of appraisal –key questions**

(Source: Havard, 2002)

The concept of performance appraisal has changed over the years. Performance has been usually equated with annual appraisals which measure the entire year’s effort of an employee in terms of numbers. Drawing from his own experiences of designing
Integrated HRD systems for various companies, Rao (2008) stresses upon the importance of understanding the nature, potential, and complexities of performance management systems (PMS). Evaluating an employee’s performance on the basis of numbers assigned by another appraiser without an awareness of the context in which the ratings are assigned could inflict serious injustice to the performer. The outlook has to shift from an annual exercise to the on-going activities. Appraisal focuses on ratings while improvements focus on work, stakeholders, service levels, productivity, motivation effort and all such performance-related variables.

The following changes are suggested in order to improve PMS as a system:

- Change from ‘Appraisal’ to ‘Management’ and focus on “Contributions and Improvement”
- Recognize the comprehensiveness of PMS as a system
- Recognize the complexities of the multi-dimensional PMS
- Allocate adequate time and legislate the same and if required plan it into the company calendar
- Take HR managers out of PMS, decentralize and shift PMS to Performance Managers developed from line jobs
- Make PMS a part of the budgeting process and integrate it with other systems of the company
- Create a new Index—“Performance Index”—for each employee and make it quarterly and annual
- Use technology to support your work
- Implement PMS rigorously and give it the seriousness it deserves.

1.11: Benefits of performance appraisal

The benefits typically claimed by those who defend or advocate performance appraisal systems include the following:

- *Feedback*. Performance appraisals provide employees with feedback regarding their performance, usually at least once a year and often on an interim basis during the year. This leads to reduced errors and waste, increased productivity, improved quality and service for customers, as well as enhanced employee motivation, commitment, and a sense of ownership.
• **Goal setting.** Performance appraisal sessions provide an opportunity for discussions that include setting work related goals and objectives for the individual as well as aligning individual and organizational goals.

• **Career management.** Performance appraisal sessions also provide opportunity for identifying training and development needs and discussing career progression opportunities.

• **Objective assessment.** Performance appraisals are made objective through uniform processes and criteria. This also results in a fair, valid, and legally defensible basis for rewarding and recognizing individual performance.

• **Legal protection.** Performance appraisals afford the corporation legal protection against employee lawsuits for discrimination and wrongful termination. A candid and perhaps blunt observer might add a final benefit: The formal performance appraisal system buttresses the organization's hierarchical authority system. It gives the supervising manager control over some of the carrots and sticks in what is essentially a carrot-and-stick management system.

The list of benefits above must be balanced against the costs of performance appraisals. Some of these are "hard" costs that can be measured and expressed in dollars and cents. Others are "soft" costs, best gauged in terms of their drawdown on human and political capital.

**1.12: The need for research**

In Indian organizations, concern for managerial appraisal has been quite high. In recent years, several experiments and innovations have been attempted and more and more organizations have found it necessary to confront these issues in their formal appraisal systems. Yet there is much skepticism about current appraisal practices in many organizations. The validity, objectivity and usefulness of appraisals are often seriously questioned. In short, the state of the art on managerial appraisal indicates that there are more questions than answers. It has been observed, however, that while in the west, a great deal of experimentation with evaluation of appraisal practices has been undertaken and several important innovations have been made, the Indian scene seems to represent concern without enough rigorous and concerted research effort.
Performance Appraisal is an essential and inescapable managerial activity. Appraisal is necessary for all important decisions relating to people, such as placement and promotion, remuneration and reward, training and development, as well as long-term manpower planning and organization development. In recent years, efforts have been made to use appraisal systems for motivation, for more effective communication, for strengthening superior-subordinate relationships, for goal-setting and work planning and for improving the total performance of the organization. But in spite of its importance, uneasiness about appraisal has been a longstanding feature of management. There is no doubt that during the past three decades, many developments have taken place and many innovations, have been made in managerial appraisal systems. Still, many issues remain unresolved. Available literature on the subject reveals that even in western countries; where systematic appraisals have been widely practiced over a much longer period than in India and where a fair amount of empirical as well as theoretical research on the relevant issues has been conducted, serious doubts continue to persist about various aspects of appraisal.

It has been observed, however, that while in the west, a great deal of experimentation with evaluation of appraisal practices has been undertaken and several important innovations have been made, the Indian scene seems to represent concern without enough rigorous and concerted research effort.

If Performance Appraisal is not properly understood by the organisation, the organisation may fail in the area of development and will be surrounded by several problems. Work threats will increase in the organisation. Employees lose interest and confidence in the organisation. Poor team work, Non-Co-operation, wrong placement, poor job knowledge, insufficient training, physical illness, family problems, and other social problem viz. drinking, indebtedness, conflicts in families are some of the problems which may arise.

Therefore, more Empirical studies on the Performance Appraisal System are required to throw more light on the concept, its role, functions and importance so as to benefit both employer and employees in the organization.