CHAPTER- III

THEORETICAL BACKGROUND

3.1 INTRODUCTION
3.2 PRIMARY PURPOSES OF PERFORMANCE APPRAISALS
3.3 WHO EVALUATES?
3.4 DEFINITIONS
3.5 OBJECTIVES OF PERFORMANCE APPRAISAL
3.6 STRENGTH AND PURPOSES OF PERFORMANCE APPRAISAL
3.7 WEAKNESSES OR ERRORS IN PERFORMANCE APPRAISAL
3.8 PROCESS OF PERFORMANCE APPRAISAL
3.9 METHODS OR TECHNIQUES OF PERFORMANCE APPRAISAL
3.10 HISTORY OF 360 DEGREE APPRAISAL
3.11 WHY PERFORMANCE APPRAISAL?
3.12 SCHEDULE FOR PERFORMANCE APPRAISALS
3.13 CONDUCTING THE PERFORMANCE APPRAISAL
3.14 COMMON RATING ERRORS
3.15 THE APPRAISAL FORM
3.16 CHALLENGES OF PERFORMANCE APPRAISAL
3.17 QUALITY OF WORK FORCE AND ORGANIZATIONS’ PERFORMANCE
3.18 HUMAN RESOURCE ACCOUNTING FOR PERFORMANCE APPRAISAL
3.19 A BRIEF THEORETICAL BACKGROUND ABOUT SELECTED MANUFACTURING, TRADING AND SERVICE INDUSTRIES
3.20 CONCLUSION
3. THEORETICAL BACKGROUND

3.1 INTRODUCTION:

The performance appraisal is one of the most critical areas in the field of human resource management. Man is a very complex creature; however, performance appraisal is required. To manage human resource effectively, at least once in a year performance appraisal of an employee is required, which serves as an instrument of motivation. The researcher has undertaken the study to suggest some practical system for performance appraisal. Now-a-days performance appraisal is moving from confidentiality in appraisal to open system of appraisal. In the past, performance appraisal was used only for confidential rating of employees by the superior authority, which was used for promotion or punishment. At present, performance appraisal is used for developing employees. It helps for building trust between subordinate and his superior. It is also used for improving job performance, development of employees, building better relationship, personnel planning, etc. The things have been changing from “Tell and Listen” to “Tell and Solve” the business problems. The world is competitive and in competitive world; market research is required. Every business unit does not have an approach of a ‘trait oriented’ performance appraisal but ‘target oriented’ performance appraisal with behaviour indication such as relations with subordinates and relations with customers etc. Performance appraisal is unavoidable because of its multidimensional use in the business.

Performance Appraisal is the life cycle view of employee performance. The skill and competence of managers play major roles in the success or failure of any organisation. Moreover, it is not just the skill and characteristics of top level executives or chief executive officers that determine organizational performance, but also the expertise of all levels of management from the first level supervisor to the chairperson of the board of directors. The history of performance appraisal in brief is; its roots in the early 20th century can be traced to Taylor’s pioneering ‘Time and Motion Studies’. But this is not very useful for the same may be said about almost everything in the field of modern human resources management.

As a distinct and formal management procedure used in the evaluation of work performance, appraisal really dates from the time of the Second World War – not more than 70 years ago. Yet in a broader sense, the practice of appraisal is a very ancient art. “A basic human tendency is to make judgements about those whom you are working with, as well as about oneself”. Appraisal, it seems, is both inevitable and universal. In the absence of a carefully structured system of appraisal, people will tend to judge the work performance of others, including subordinates, naturally, informally and arbitrarily. The human inclination to judge can create serious motivational, ethical and legal problems in the work place. Without a structured appraisal system, there is little chance of ensuring that the judgements made will be lawful, fair, defensible and accurate. Performance appraisal systems began as simple methods of income justification. That is, appraisal was used to decide whether or not the salary or wage of an individual employee was justified.
Performance Appraisal (P.A.) is one of the important components in the rational and systematic process of human resource management. Personnel evaluation method seeks the measurement of employee work effectiveness using objective criteria. Performance appraisal system hopes to achieve higher productivity outcomes by delineating how employees meet job specifications. The information obtained through performance appraisal provides foundations for recruiting and selecting new hires, training, and development of existing staff, and motivating and maintaining a quality work force by adequately and properly rewarding their performance. Without a reliable performance appraisal system, a human resource management system falls apart, resulting in the total waste of the valuable human assets a company has.

Performance appraisal, also known as employee appraisal, is a method by which the performance of an employee is evaluated (generally in terms of quality, quantity, cost and time). Performance appraisal is a part of career development. Performance appraisals are a regular review of employee performance within organization. Performance Appraisal is essential for the effective management and evaluation of staff. Appraisals help, develop individuals, improve organizational performance, and support to business planning. Formal performance appraisals are generally conducted annually for all staff in the organization. Each staff member is appraised by his or her line manager. Directors appraise the CEO, who is appraises the Chairman or Company Owners, depending on the size and structure of the organisation.

Annual performance appraisals enable management monitoring of standards, agreeing expectations and objectives, and delegation of responsibilities and tasks, staff performance appraisals also establish individual training needs and enable organisational training needs analysis and planning.

3.2 PRIMARY PURPOSES OF PERFORMANCE APPRAISALS:

a) Evaluative performance appraisal
b) Developmental / Judgemental purposes
c) Specific purposes

a) Evaluative performance appraisal:

The evaluative purpose is intended to inform people of their performance standing. The collected performance data are frequently used to reward high performance and to punish poor performance. When performance evaluation results are the basis for salary, promotion and transfer decision, evaluative purposes are being served. The immediate objective is to improve performance by rewarding those individuals who are deemed “high performers”. Managers who use performance evaluation for evaluative/judgemental purposes must evaluate performance accurately and precisely and distribute rewards on the basis of performance. Past performance is the focus of attention and the role of manager is that of judge when judgemental purposes are sought. Many organisations are able to remove some of the stresses of performance appraisal particularly when there are straight forward and objective standards, accurate information and clear cut linkages between performance and pay and promotion.
The purpose of performance appraisal must be clearly communicated both to raters and retees, because their reactions to the appraisal process are significantly different and depending on the intended purpose. Failure to inform about the purpose or misleading information about the purpose may result in inaccurate and biased appraisal reports. In order for performance appraisal information to be useful, the Performance Appraisal system must be able to consistently produce reliable and valid results.

b) Developmental / Judgemental purposes:

The developmental purpose is intended to identify problems in employees performing the assigned task. The collected performance data are used to provide necessary skill training or professional development. The developmental purpose is accomplished when employees are made aware of their strengths and weaknesses and of ways to improve their skills and abilities.

The focus of attention is not so much on the appraisal of past performances as on the improvement of future performance. The manager's role in the process is to counsel guide and be generally helpful as subordinates through active involvement, seek better understandings of their potential for improved performance. Manager would avoid judgemental terms such as good-bad, positive-negative and right-wrong. Instead of making judgements about employees past performances, managers assist employees in identifying areas of improvement.

c) Specific purposes:

The two general purposes of performance evaluation are not mutually exclusive. In addition to evaluative and developmental purposes some specific purposes can be identified. Managers are continually faced with the need to make judgements, concerning the job performance of subordinates. For example, they must make judgement about promotions and pay raises. The separation is important because of the differences between the judgmental and developmental purposes of performance evaluation. A well-designed and well-implemented performance evaluation programme can have a motivational impact on employees. It can encourage improvement, develop a sense of responsibility, and increase organisational commitment. Another specific purpose of performance evaluation is to improve managerial understanding. Performance evaluation information also provides a basis for planning, training, and development. In specific performance appraisal one can check technical competence, communication skill and problem solving techniques, can be identified and analysed. The researcher has developed the specific format for performance appraisal.

3.3 WHO EVALUATES?

The most common raters of performance are employees’ immediate supervisors, who are usually in the best position to know and observe the employees’ job performance. They are also responsible for employees’ work. Their evaluation is a powerful tool in motivating employees to achieve successful and timely completion of tasks. However, as a result of working together over a long time with the same employees, the immediate supervisor may build up a fixed impression about each employee and use it every time he or she has to evaluate performance.

Some companies find that subordinates are in an excellent position to observe and evaluate their managers’ performance, especially when it comes
to measuring effective management of their department. While there is merit in asking subordinates to evaluate how they are managed, such evaluation may turn into a popularity contest. Accurate and objective assessment may not be obtained if employees are fearful of possible retaliation from their supervisors. Anonymity of the evaluator is a key to the successful use of subordinates for objective evaluation.

Other raters who are frequently used in some companies include peers, customers, and the employees themselves. Peer evaluation is particularly useful when teamwork and collegiality are important to successful task performance. Peer pressure is sometimes a powerful motivator in encouraging teamwork among members. Customer satisfaction is vital to a company’s success and can be used in performance appraisal. Many companies systematically collect performance information from customers, typically through surveys and interviews. Self-assessment is also a useful means, especially when the performance appraisal is intended to identify the training and development needs of potential employees.

Each of these raters contributes to assessing certain aspects of performance. Since job performance is multi-dimensional in nature, it is important to use different raters or a combination of multiple raters depending on the goal of a performance appraisal system. This multi-rater evaluation, or so-called 360-degree feedback system, is becoming increasingly popular among many American corporations, including General Electric, AT&T, Warner Lambert, and Mobil Oil. A periodic review (which can be monthly, quarterly, but most certainly annually) which assesses the standard, and efficiency of the work completed by an employee. This is also a time when the employees can discuss their future career development and raise any other issues they may have with their work.

3.4 DEFINITIONS:

1. “An evaluation of how well an employee performs his or her job accompanied to a set of predetermined standards”.
2. “Performance appraised is a systematic review of a person’s work and achievements over a recent period, usually leading to plans for the future”.
3. “Any system of determining how well an individual employee has performed during a period of time, frequently used as a basis for determining merit is called Performance Appraisal”.
4. “Performance appraisal is the evaluation of an individual’s work performance in order to arrive at objective personnel decisions”.
5. “Performance appraisals are a regular review of employee performance within organizations”.
6. “PA 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 skill development”.

34
Performance appraisal is the process of obtaining, analyzing and recording information about the relative worth of an employee. The focus of the performance appraisal is measuring and improving the actual performance of the employee and also the future potential of the employee. Its aim is to measure what an employee does.

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

It 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.

Performance Appraisal is a qualitative research. Qualitative research means mental thought process where attributes are measured. The qualitative research assumes its importance in behavioural science researches wherein the motives, intention and performance.

The formal, systematic assessment of how well employees are performing their jobs in relation to established standards and the communication of that assessment to employees” – Wendell French

Performance appraisal is the systematic, periodic and an impartial rating of an employee’s excellence in matters pertaining to his present job and his potential for a better job”. – Flippo

Performance appraisal is the process by which an employee’s contribution to the organization during a specified period of time is assessed.” – Fishar, Schoenfelt, Shaw

Performance appraisal includes all formal procedures used to evaluate personalities and contributions and positions of group members in a working organization. It is a continuous process to secure information necessary for making correct and objective decisions on employees”. – Del Yoder

Performance Appraisal is a systematic, periodic and an impartial rating of an employees’ performance on his present job and to his potentialities for a future job.”

The PA means formal and systematic assessment employees performance in their jobs in relation to established standards, and the communication of that assessment to employees”.

Performance appraisal is the systematic, periodic and an impartial rating of an employee’s excellence in matters pertaining to his present job and his potential for a better job”. - Flippo

Performance appraisal includes all formal procedures used to evaluate personalities and contributions and potentials of group members in a working organization. It is a continuous process to secure information necessary for making correct and objective decisions on employees”. - Dale Yoder

Performance appraisal is the process by which an employee’s contribution to the organization during a specified period of time is assessed”. - C.D. Fisher, L.F. Schoenfeld and J.B. Shaw.
20. “The performance appraisal is part of a larger system known as the performance management system. This system is the approach to the management of people using performance, planned goals and objectives, measurement, feedback and recognition to motivate people to realize their maximum potential. Performance appraisal involves the setting of clear quantifiable goals and objectives and assessing individual performance against these measures”.

From the above definitions, we can conclude that performance appraisal is a method of evaluating the behaviour of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating both work-related behaviour and the potential of employees. It is a process that involves determining and communicating to an employee, how he is performing the job and ideally establishing a plan of improvement. Performance appraisal emphasizes individual development. Now, it is used for evaluating the performance of all the human resources working at all levels of the organization including the technical, professional, and managerial staff.

### 3.5 OBJECTIVES OF PERFORMANCE APPRAISAL:

Performance appraisal plans are designed to meet the needs of the organization and the individual. Performance appraisal could be taken either for evaluating the performance of employees or for developing them. The evaluative purpose has a historical dimension and is concerned primarily with looking back at how employees have actually performed over the given time period and then compared with the required standards of performance. The developmental purpose is concerned with the identification of employee’s training and development needs. The objectives of performance appraisal are...

1. To improve the job performance of employees.
2. To identify the needs and areas for training.
3. To design rational compensation plan linked with performance.
4. To help employees for placement.
5. To reduce grievances among the employees.
6. To put psychological pressure on people to improve performance.

### 3.6 STRENGTH AND PURPOSES OF PERFORMANCE APPRAISAL:

1. Performance Appraisal gives valuable insights into the work and employees.
2. Employees receive timely corrected feedback on their performance, which helps for increasing productivity.
3. It helps for compensation determination and promotions.
4. It helps for training need determinations
5. It establishes fair relationship in groups.
7. It provides useful information to supervisors and management.
8. It increases confidence among employees.
9. Conversion of organizational mission into specific achievable goals is possible due to performance appraisal.
10. It helps to reduce overlap of job duties and ineffective use of employee skills.
11. Performance appraisal provides new ideas and information from staff.
12. It helps for skills and career development of employees.
13. Performance appraisal reduces stress of the supervisors and employees through expectations made clear.
14. Individuals get a broader perspective due to performance appraisal.
15. It increases awareness and relevance of competencies of employees.
17. It provides more reliable feedback to senior managers about their performance.
18. It encourages more open feedback which will provide new insights.
19. Performance appraisal reinforces the desired competencies of the business.
20. Performance appraisal provides a clearer picture to senior management of individual's real worth (although there is some 'halo' effect).
22. Identifying strengths that can be used to the best advantage of the business.
23. It helps for self-awareness of people about how they have personal impact upon others, may be positive or/and negative.
24. It supports a climate of continuous improvement and starting to improve the climate.
25. It helps to plan agenda for development of the human resource management in the organization.

The appraisal of employees serves the following useful purposes.

1. **Feedback:** Appraisal serves a feedback to the employee. It directs him to improve his present performance and climb up the 'organizational ladder'. The appraisal thus facilitates self-development. It also makes the employee aware of his key performance areas.

2. **Compensation Decisions:** The appraisal provides inputs to system of rewards. The approach to compensation is at the heart of the idea that increments should be awarded for merit, rather than for seniority.

3. **Data Base:** Appraisal provides a valid database for personal decisions concerning placements, pay, promotion, transfer, etc. It also makes the employee aware of his key performance areas. Permanent performance appraisal records of employees help the management to do planning without relying upon the personal knowledge of supervisors who may be transferred.

4. **Personal Development:** Performance appraisal can help to reveal the causes of good and poor employee performance. Thorough discussions with the individual employees, a line manager can find out the reasons for the poor performance and what steps can be initiated to improve their performance.

5. **Training and Development Programme:** By identifying the strengths and weaknesses of an employee, the performance appraisal serves as a guide for formulating a suitable training and development programme to improve his quality of performance. It can also inform the employees about their progress and what skills they need to develop to become eligible for pay rises and/or promotions.
6. **Promotion Decisions:** Appraisal can serve as a useful basis for job change or promotion. By establishing whether the worker can make better contribution in a different or a higher job, it helps in his suitable promotion and placement. If relevant work aspects are measured properly, it helps in minimising the feelings of frustration of those who are not promoted.

7. **Improves Supervision:** The existence of a regular appraisal system tends to make the supervisors more observant of their subordinates, because they know that they will be expected periodically to fill out rating forms and justify their estimates. This improves supervision.

Performance appraisal helps to obtain comparative worth of employees. Appraising employee performance is, thus, useful for compensation, placement and training and development purposes. M. W. Cummings stated that, ‘the overall objective of performance appraisal is to improve the efficiency of enterprise by attempting to mobilise the best possible efforts from individuals employed in it. Such appraisals achieve four objectives including the salary reviews, the development and training of individuals, planning job rotation and assistance promotions’. The information can also be used for grievance handling and maintaining the record. It helps in improving the quality of supervision and better the employee-employer relationship.

3.7 **WEAKNESSES OR ERRORS IN PERFORMANCE APPRAISAL:**

1. Appraisal has little responsibility for development of subordinate.
2. Attributes for appraisal are too many.
3. Appraisal forms and procedure are too lengthy and time consuming.
4. Employees are rated near the average scale and not factual.
5. Halo error i.e. one aspect of an individual’s performance influences the evaluation of the entire performance of the individual.
6. Rater effect i.e. favoritism, stereotype approach, ego, etc are affected on rater.
7. Rater’s perception influences the performance appraisal.
8. Horn effect i.e. it implies rating a person low in one quality which influence the rater to give a lower than desired rating in other qualities.
9. Initial impression influences the rater’s evaluation.
10. Stereotype is a standard mental perception holds by the rater for all ratees.
11. The rater is unable to express himself sometime honestly and unambiguously.
12. The raters are not trained enough regarding performance appraisal system.
13. The rater is rating on judgement basis.

3.8 **PROCESS OF PERFORMANCE APPRAISAL:**

Performance appraisal is planned, developed and implemented through a series of steps. Performance appraisal process starts with job analysis and job description in the organization. At beginning performance standard should be established and at the end corrective action should be suggested. On the basis of job analysis company should design the performance appraisal attributes for collection of information. The flow is as follows.
Performance appraisal process includes…

1. **Job analysis, job description and job specification**: Performance appraisal is a process not to be undertaken in isolation of various human resources functions. It begins with job analysis, job description and job specification. These help in establishing the standard performance.

2. **Establishing standards of performance**: Appraisal systems require performance standards, which serve as benchmarks against which performance is measured. The standards set for performance must be clearly defined and unambiguous. It should be attainable by normal employee. To be useful, the standards should relate to the desired result of each job. Performance standards must be clear to both the appraiser and the appraisee. The performance standards or goals must be developed with the supervisors to ensure that all the relevant factors have been included. Where the output can be measured, the personal characteristics, which contribute to employee performance, must be determined. Goals must be written down. They must be measurable within certain time and cost considerations.

3. **Communicating performance standards to employees**: Appraisal involves at least two parties; the appraiser who does the appraisal and the appraisee whose performance is being evaluated. The performance standards specified in the second step above are to be communicated and explained to the employees (both appraiser and appraisee), so that they become aware of what is expected from them. Feedback should also be taken to relieve of; from any confusion or misunderstanding. Feedback confirms the manager that the information has reached the employees. If necessary, the standards may be revised or modified in the light of the feedback obtained from the employees and evaluators. As pointed out by DeCenzo and Robbins, ‘too many jobs have vague performance standards and the problem is compounded when these standards are set in isolation and do not involve the employee’.

4. **Measuring actual performance**: After the performance standards are set and accepted, the next step is to measure the actual performance. This requires choosing the right technique of measurement, identifying the internal and external factors influencing the performance and collecting information on the results achieved. It can be affected through personal observation, written and oral reports from the supervisors. The performance of different employees should be so measured that it is comparable. Performance measures, to be helpful must be easy to use, be reliable and report on the critical behaviours that determine the performance. Performance measures may be objective or subjective.

   (a) **Objective Performance measures** - These are indications of job performance that can be verified by others and are usually quantitative. The objective criteria include the following:
   - Quality of production.
   - Degree of training needed.
   - Accidents in a given period.
   - Absenteeism.
   - Length of service, etc.

   (b) **Subjective performance measures** – These are ratings that are based on the personal standards of options of those performing the evaluation and are not verifiable by others. Subjective criteria include the following:
• Ratings by supervisors
• Knowledge about overall goals.
• Contribution to socio-cultural values of the environment.

It should be noted here that objective criteria could be laid down while evaluating lower level jobs, which are specific and defined clearly. This is not the case with middle-level and high-level positions that are complex and vague.

5. Comparing actual performance with standards and discuss the appraisal with employees: Actual performance is compared with the predetermined performance standards. The actual performance may be better than the expected and sometimes it may go off track. Deviations if any from the set standards are noted. Along with the deviations, the reasons behind them are also analysed and discussed. Such discussions will enable an employee to know his weakness and strengths. Weakness is discussed so that the employee takes interest in improving the performance. He will be motivated to improve himself.

The assessment of another person’s contribution and ability is not an easy task. It has serious emotional overtones as it affects the self-esteem of the appraisee. Any appraisal based on subjective criteria is likely to be questioned by the appraisee and leave him quite rejected and unhappy, when the appraisal turns out to be negative.

6. Initiating corrective action, if any: The last step in the process is to initiate corrective action essential to improve the performance of employees. Corrective action is of two types.

(a) The one which puts out the fires immediately – Employees can be scolded or warned so that he himself can make necessary attempts to improve the performance. But this is not enough and proper.
(b) The other one, which strikes at the root of the problem permanently – Through mutual discussions with employees, the steps required to improve performance, are identified and initiated. The reasons for low performance are identified and rectified. The reasons for low performance should be probed, take the employee into confidence and motivate him for better performance. Training, coaching, counselling, etc., are examples of corrective actions that help to improve performance.

Flow Chart:

```
Establish Performance Standard
↓
Communicate Performance Expectation to Employees
↓
Measure Performance
↓
Compare Actual and Standard Performance
↓
Discuss the Appraisal Results with the Employees
↓
Initiate Corrective Action
```
3.9 METHODS OR TECHNIQUES OF PERFORMANCE APPRAISAL -

The number of different performance appraisal methods or techniques is available for evaluating the performance of the employees. These methods try to explain how management can establish standards of performance and devise ways and means to measure and evaluate the performance of employees. There is no full-proof method of evaluating the performance of employees. Every method suffers from certain drawbacks in spite of some merits. These methods can broadly be divided into traditional and modern methods.
A. TRADITIONAL METHODS

1. Unstructured method
2. Straight ranking method
3. Paired comparison method
4. Man to man comparison method
5. Grading method
6. Graphic rating method
7. Forced choice method
8. Check list method
9. Weight check list method
10. Free essay method
11. Critical incidents method
12. Field review method
13. Confidential reports

B. MODERN METHODS

1. BARS – Behavioural Anchored Rating Scale method.
2. Result Oriented Appraisal or MBO method.
3. Assessment centre method.
5. Psychological Appraisal method.
6. 360 degree appraisal.

A. Traditional Methods: These methods are the old methods of performance appraisal based on personal qualities like knowledge, capacity, judgement, initiative, attitude, loyalty, leadership, etc. The following are the traditional methods of performance appraisal:

1. Unstructured method of appraisal: Under this method, the appraiser has to describe his impressions about the employee. This is a simple method of performance appraisal. The rater has to list his comments specifically on
qualities, abilities, attitude, aptitude and other personal traits of the employees. This makes the method highly subjective in nature. 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**: In this technique, the evaluator assigns relative ranks to all the employees in the same work unit doing the same job. Employees are ranked from the best to the poorest on the basis of overall performance. This method is also highly subjective and lacks fairness in assessing the real worth of an employee.

3. **Paired Comparison Method**: Under this method the employees of a group are compared with one another at one time. 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. **Man-to-Man Comparison Method**: Under this method certain factors are selected for analysis. These include leadership qualities, initiative, etc. The appraiser develops a scale for each factor.

5. **Grading Method**: Under this technique of performance evaluation, certain categories of worth are determined in advance and they are carefully defined. These selected and well-defined categories include:
   - Grade ‘A’ for outstanding
   - Grade ‘B’ for very good
   - Grade ‘C’ for average
   - Grade ‘D’ for poor, etc.

6. **Graphic Rating Scale**: The most commonly used method of performance evaluation is the graphic rating scale. The evaluator is asked to rate the employees on the basis of job related characteristics and knowledge of job. 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.

7. **Checklist Method**: A checklist represents, in its simplest form, a set of objectives or descriptive statements about the employee and his behaviour. The rater checks to indicate if the behaviour of an employee is positive or negative to each statement. The rater is given a checklist of the descriptions of the behavior of the employees on job. The checklist contains a list of statements on the basis of which the rater describes the on the job performance of the employees.

8. **Weighted Checklist**: The checklist provides statements relating to work-related behaviour of the employees, where every statement is given equal importance.

9. **Free Essay Method**: Under this method, no quantitative approach is undertaken. It is open-ended appraisal of employees.

10. **Critical Incidents Method**: Under this method, the performance of the worker is rated on the basis of certain events that occur during the
performance of the job (i.e. the evaluation is based on key incidents). 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.

11. **Field Review Method:** In this method, a HR specialist interviews line supervisors to evaluate their respective subordinates. 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.

12. **Confidential Reports:** A confidential report by the immediate supervisor is still a major detriment of the subordinate’s promotion or transfer.

**B. Modern Methods:** These are an improvement over the traditional methods. Modern methods are an attempt to remove defects from the old methods. The modern methods of judging the performance of employees are discussed below:

1. **Behaviourally Anchored Rating Scales (BARS):** It is designed to identify the critical areas of performance of a job. Under this method the behaviourally anchored ratings scales are outlined to recognize the critical areas of effective and ineffective performance behaviour obtaining. Behaviourally 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 expect knowledge.

2. **Result-oriented Appraisal or MBO Technique:** The result-oriented appraisals are based on the concrete performance targets, which are usually established by the superior and subordinates jointly. This procedure is known as Management by Objectives (MBO). 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 is actual performance with the standards set. Ideally, when employees themselves have been involved with the goal setting and the choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.

   **Unique Features and Advantages 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.

- 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 future rather than on 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 relationship within the enterprise and also solve many problems faced during the period.

3. Human Resource Accounting Method: Human resources are a valuable asset of any organization. This asset can be valued in terms of money. When competent and well-trained employees leave an organization, the human asset is decreased and vice versa. Human resources are valuable assets for every organization. Human resource accounting method tries to find the relative worth of these assets in the 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. Psychological Appraisals: These are conducted to assess the employee performance. It is conducted in the following areas of employees
   - Intellectual abilities
   - Emotional stability
   - Reasoning and analytical abilities.
   - Sociability
   - Interpretation and judgement skills
   - Motivational responses
   - Ability to foresee the future.

5. 360 Degree appraisal: It is a method of appraisal in which people receive performance feedback from those on all sides of them in the organization – their boss, their colleagues and peers and their own subordinates. Thus, the feedback comes from all around them, 360 degrees. This form of performance evaluation can be very beneficial to managers because it typically gives them a much wider range of performance-related feedback than a traditional evaluation. 360 degree feedback, also known as ‘multi-rater feedback’, is the most comprehensive appraisal where the feedback about the employee’s performance comes from all the sources that comes 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. Superiors appraisal
3. Subordinates 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. Superiors 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.

Process

Self assessment is an indispensable part of 360 degree appraisals and therefore 360 degree Performance appraisal has high employee involvement and also has the strongest impact on behaviour 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, 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. This method is used by the researcher for his study and preparation of the Performance Appraisal Model.
3.10 HISTORY OF 360 DEGREE APPRAISAL:

The US armed forces first used 360-degree feedback to support development of staff in the 1940s. The system gained momentum slowly, but by the 1990s most HR and OD professionals understood the concept. The problem was that collecting the feedback demanded a paper-based effort including either complex manual calculations or lengthy delays while a commercial provider assembled reports. The first led to despair on the part of practitioners; the second to a gradual erosion of commitment by recipients. When the first online 360 degree feedback tools appeared in 1998, it became possible to request feedback from raters anywhere in the world by email, to customize automated systems, and to generate reports for recipients in minutes. In recent years, Internet-based services have become the norm, with a growing menu of useful features: e.g. multi languages, comparative reporting, and aggregate reporting. Benefits of performance appraisal are as follows:

- Individuals get a broader perspective of how they are perceived by others than previously possible.
- Increased awareness of and relevance of competencies.
- Increased awareness by senior management that they too have development needs.
- More reliable feedback to senior managers about their performance.
- Gaining acceptance of the principle of multiple stakeholders as a measurement of performance.
- Encouraging more open feedback- new insights.
- Reinforcing the desired competencies of the business.
- Provided a clearer picture to senior management of individual’s real worth (although there tended to be some ‘halo’ effect syndromes).
- Clarified to employees critical performance aspects.
- Opens up feedback and gives people a more rounded view of performance than they had previously.
- Identifying key development areas for the individual, a department and the organization as a whole.
- Identifying strengths that can be used to the best advantage of the business.
- A rounded view of the individual’s/ team’s/ organization’s performance and what the strengths and weaknesses are.
- Raised the self-awareness of people managers of how they personally impact upon others -positively and negatively.
- Supporting a climate of continuous improvement.
- Starting to improve the climate / morale, as measured through the survey.
- Focused agenda for development. Forced line managers to discuss development issues.
- Perception of feedback as more valid and objective, leading to acceptance of results and actions required.
- Gaps are identified in one's self-perception versus the perception of the manager, peer or direct reports.
- Customizing the questions to one's organizational competencies.
3. 11 WHY PERFORMANCE APPRAISAL?:

1. **Aims:** Performance appraisals are a way to give feedback to staff regarding their performance. The appraisal can be used to encourage good work as well as point out opportunities for improvement. Appraisals can also be used to set measurable targets and objectives to continually achieve performance improvement.

2. **Increasing Role Clarity:** Performance appraisal is a tool for communicating the skills, knowledge and attitudes required for the different job roles. The appraisal criteria act as a guide to the attitudes and behaviours of their staff.

3. **Training and Development:** Performance appraisals measure an individual's performance and can identify opportunities for improvement of learning through training.

4. **Compensation and Reward:** As bonuses and annual increments are linked to performance, a system for measuring performance in an equitable way is necessary. The performance appraisal encourages the use of objective, quantifiable criteria to measure performance which will be known to all staff. This system improves fair judgement and the perception of equity among staff.

5. **Career Planning:** Performance appraisals will allow to assess the skill set of their existing staff to ascertain the career path for each individual.

6. **Enhance Corporate Values:** Corporate value is the pursuit of innovative quality in the areas of Customers, Employees, Society, Products, Technology, Management and Fairness. These values are translated to performance measures that are used in the appraisal. This enhances awareness of corporate values and promotes behaviours that are in line with company's values.
3.12 SCHEDULE FOR PERFORMANCE APPRAISALS:

STAGES OF THE PERFORMANCE MANAGEMENT SYSTEM

1st week of July
Schedule interviews

1st week of July
Inform Employees

2nd week of July
Preparation for Review

3rd and 4th week of July
Performance Review and Agreement

4th week of July
Management Review

1st week of August
HR Dept Review

- Appraisers to schedule 1hr sessions for each employee
- Appraisers to inform employees at least one week before the scheduled interview
- HR Dept to identify Appraisers for each department, particularly for departments with more than one appraiser
- HR Dept to provide Appraiser with appraisal forms
- Appraiser to complete forms for respective staff
- Appraisers to submit completed form to respective superiors for review and countersigning
- Appraisers to submit form to HR Dept
- HR Dept to confirm recommendations on salary increments and promotions with Managing Director
- HR Dept to prepare letters to staff accordingly
- HR Dept to file appraisals in personnel forms

• Conduct performance appraisal interview
• All Execs and Managers will undergo the appraisal interview including setting performance targets and goals for the next time period
### 3.13 CONDUCTING THE PERFORMANCE APPRAISAL:

<table>
<thead>
<tr>
<th>BEFORE THE APPRAISAL</th>
<th>Keep good records</th>
<th>Both praise and criticism are most meaningful when supported by factual examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review previous goals</td>
<td>Use previous goals to evaluate progress</td>
<td></td>
</tr>
<tr>
<td>Get input from others</td>
<td>Seek feedback from others who work with the appraisee in areas they will have objective knowledge of and get examples where available</td>
<td></td>
</tr>
<tr>
<td>Prepare carefully</td>
<td>Prepare in advance so that you can deliver the message that you intend to</td>
<td></td>
</tr>
</tbody>
</table>
| Prepare administrative details | - Agree on a time - set aside at least one hour. Avoid postponing the appointment, and give the employee full attention.  
- Select a location - office or conference room is best.  
- Ask employee to prepare - ask the employee to review his/her goals, and come prepared with questions. |

<table>
<thead>
<tr>
<th>DURING THE APPRAISAL</th>
<th>Explain the meeting agenda</th>
<th>Outline what is about to happen for the session</th>
</tr>
</thead>
</table>
| Encourage communication | - Listen  
- encourage two-way communication  
- ask for ideas on how they can improve their performance  
- ask for how they feel you can help them  
- ask for feedback on the appraisal section |
| Stay focused | Keep the session focussed on past and future performance, summarise discussion issues often to ensure agreement |

| DURING THE APPRAISAL | Evaluating shortcomings | The employee is aware of what he/she needs to improve  
- Follow this with areas that need improvement and a plan on how to address them |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Be open</td>
<td>Be concise with open-minded feedback to help the person grow and improve</td>
<td></td>
</tr>
</tbody>
</table>

| AFTER THE APPRAISAL | Administration | • Complete the paperwork required for the results of the appraisal  
• Make sure the appraisee signs on the bottom line  
• Mark the calendar on when your next appraisal session with the person will be |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow-up</td>
<td>Follow-up on agreements made during the appraisal</td>
<td></td>
</tr>
<tr>
<td>Learning</td>
<td>Review what you have learnt about the employee, your records and systems, yourself, the appraisal process and your management style</td>
<td></td>
</tr>
</tbody>
</table>
3.14 COMMON RATING ERRORS:

While completing the appraisal form, the appraiser is advised to exercise caution, as there may be several pitfalls which may skew the assessment:

*Halo Effect:* A person outstanding in one area tends to receive outstanding or better than average ratings in other areas as well, even when such a rating is undeserved.

*Negative Effect:* A low rating in one area yields lower than deserved ratings for other accomplishments.

*Central Tendency:* Assigning an average rating for all qualities.

*Confrontation Avoidance:* Discomfort with giving negative feedback.

*Initial Performance:* Rating an employee based solely on initial impressions of performance.

*Recency:* Rating an employee based solely on most recent performance, which overshadows the entire year's performance.

3.15 THE APPRAISAL FORM:

15.1 Elements of the Appraisal Form

The appraisal form covers the following key areas:

- Assessment of performance
- Employee’s growth and development - strengths and areas for improvement
- Training requirements
- Achievements
- Goals and targets (for managers and executives)
- Review with staff (for managers and executives)
- Recommendations
- Management review- Review by Countersigning Authority

15.2 Completing the Appraisal Form

15.2.1 Key Performance Indicators-

<table>
<thead>
<tr>
<th>Core Values</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Customer Focus</td>
</tr>
<tr>
<td></td>
<td>- Maintains high priority in achieving customer satisfaction (both internal and external customers) by quickly and accurately identifying and responding to customers actual needs</td>
</tr>
<tr>
<td></td>
<td>- Is effective in dealing and negotiating with internal and external customers</td>
</tr>
<tr>
<td>Core Values</td>
<td>Particulars</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Employees</td>
<td><strong>Staff Training and Welfare</strong></td>
</tr>
<tr>
<td></td>
<td>• Actively provides guidance and helps staff in their career development</td>
</tr>
<tr>
<td></td>
<td><strong>Interpersonal/Facilitation of Teamwork</strong></td>
</tr>
<tr>
<td></td>
<td>• Promotes and develops good working relationships with other staff</td>
</tr>
<tr>
<td></td>
<td><strong>Communication Skill</strong></td>
</tr>
<tr>
<td></td>
<td>• Speaks, listens and writes clearly and logically to share information and skills</td>
</tr>
<tr>
<td>Society</td>
<td><strong>Cost Consciousness</strong></td>
</tr>
<tr>
<td></td>
<td>• Demonstrates concern for the society through practices that save company’s resources and reduce wastage</td>
</tr>
<tr>
<td>Products and Services</td>
<td><strong>Job Knowledge/Technical Skills</strong></td>
</tr>
<tr>
<td></td>
<td>• Demonstrates good knowledge and skill in job area</td>
</tr>
<tr>
<td></td>
<td><strong>Work Attitude</strong></td>
</tr>
<tr>
<td></td>
<td>• Displays commitment, planning and organisational skill, initiative and a sense of urgency toward work and a willingness to learn</td>
</tr>
<tr>
<td></td>
<td><strong>Quality Mindset</strong></td>
</tr>
<tr>
<td></td>
<td>• Maintains high standards for how work is done in terms of accuracy and consistency</td>
</tr>
<tr>
<td></td>
<td><strong>Safety</strong></td>
</tr>
<tr>
<td></td>
<td>• Ensures careful work habits that comply with the safety requirements</td>
</tr>
<tr>
<td></td>
<td><strong>Quantity of Work</strong></td>
</tr>
<tr>
<td></td>
<td>• Ability to handle a reasonable volume of work</td>
</tr>
<tr>
<td>Technology</td>
<td><strong>Process Improvement</strong></td>
</tr>
<tr>
<td></td>
<td>• Recognises the need for continuous improvement</td>
</tr>
<tr>
<td>Management (to be completed for appraisees with supervisory duties)</td>
<td><strong>Problem Solving</strong></td>
</tr>
<tr>
<td></td>
<td>• Identifies issues and problems, secures relevant information from different sources and resolves problems effectively</td>
</tr>
<tr>
<td></td>
<td><strong>Leadership/Supervision &amp; Motivation of Staff</strong></td>
</tr>
<tr>
<td></td>
<td>• Sets a good example for subordinates and effectively controls and leads them</td>
</tr>
<tr>
<td></td>
<td><strong>Goal Orientation</strong></td>
</tr>
<tr>
<td></td>
<td>• Sets realistic challenges and acts to achieve them</td>
</tr>
</tbody>
</table>
## Core Values

<table>
<thead>
<tr>
<th>Core Values</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decision Making</strong></td>
<td>• Takes the right action at the right time</td>
</tr>
<tr>
<td><strong>Fairness</strong></td>
<td><strong>Integrity</strong></td>
</tr>
<tr>
<td></td>
<td>• Acts ethically and honestly in line with the company’s code of conduct</td>
</tr>
<tr>
<td></td>
<td><strong>Dependability / Responsibility</strong></td>
</tr>
<tr>
<td></td>
<td>• Is reliable in the discharging of duties and is willing and adaptable in taking on new responsibilities</td>
</tr>
<tr>
<td><strong>Attendance/ Punctuality</strong></td>
<td>• Has good attendance and is punctual</td>
</tr>
</tbody>
</table>

### Evaluation

15.2.2 **Evaluation**-

(a) **Total Evaluation** -

The final score is the average score, calculated as follows:

\[
\text{Total Score} = \frac{\text{Total Score}}{\text{(Number of Questions Answered X 5)}} \times 100
\]

(b) **Grading** -

The appraisee is then graded according to the level of his/her performance in each category according to the final score:

- **Outstanding**: Performance is exceptional and far exceeds expectations. Consistently demonstrates excellent standards in all job requirements.
- **Very Good**: Performance is consistent, and exceeds expectations in all situations.
- **Good**: Performance is consistent. Clearly meets essential requirements of job.
- **Fair**: Performance is satisfactory. Meets requirements of the job.
- **Needs Improvement**: Performance is inconsistent. Meets requirements of the job occasionally. Supervision and training is required for most problem areas.
- **Unsatisfactory**: Performance does not meet the minimum requirements of the job.
15.3 Growth and Development:

In this section, describe how the appraisee demonstrates their strengths and areas for improvement by providing specific examples. Specific action plans can also be developed together with the appraisee (for Executives and Managers) to address these areas. In particular, training requirements can be identified for the areas that can be enhanced or developed through training. Training requirements refer to the skill set required by the employee to either successfully, fulfill current job responsibilities or to prepare the employee for greater responsibility.

Achievement: This section allows any additional responsibilities outside of the appraisee’s job scope (e.g. ISO 9002 Steering Committee) to be acknowledged.

Goals Achievement: Appraisals for Executives and Managers, contain a section for goal setting and goal achievement assessment. Goals are specific and measurable objectives that the individual wishes to achieve by the end of the following appraisal period.

Recommendations: The appraiser provides recommendations for the career development for the employee. These may include: confirmation, extension of probation, promotion, increments, termination, etc.

Review by Director: The Managing Director will provide comments prior to filing with the administration department.

15.4 Writing Performance Targets and Goals -

15.4.1 Objectives of Writing Performance Targets and Goals

- Specific and measurable targets and goals define what is expected from a job holder
- The performance targets and goals serve as standards by which performance can be accurately measured

15.4.2 Steps in Writing Performance Targets and Goals

<table>
<thead>
<tr>
<th>Steps</th>
<th>Particulars</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Step 1 | Begin by writing down the basic nature of the task using only a verb and a noun | • Source new clients  
• Increase sales volume  
• Reduce rejection rates  
• Complete planning phase |
| Step 2 | Include the quantity or quality that must be met by the person responsible for the task |  
• Source X number of qualified clients within specific months  
• Increase sales volume  
• Reduce rejection rates by 5% by the end of the year |
| Step 3 | If necessary, add any procedures or criteria that describe the action to be taken to achieve the target or goal |  
• Number of qualified clients actively advertising services to potential clients within the industry |
Step 4 Review and refine the target or goal if necessary

15.4.3 Checklist of “SMART” Performance Goals:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**esults-oriented
- **T**ime-bound

To ensure that the objectives are properly defined, each of the following questions must be answered positively:

(i) Does the statement of performance targets/goals limit the results to one specific area?
(ii) Are the results well defined in terms of what is expected of the job holder?
(iii) Are the objectives measurable and observable? Are objectives quantified whenever possible?
(iv) Is a time frame specified?
(v) Are the performance targets/goals reasonable and within the reach of the job holder?

15.4.4 Example of Performance Targets -

<table>
<thead>
<tr>
<th>Position</th>
<th>Performance Targets/Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Manager</td>
<td>Increase share of market.</td>
</tr>
<tr>
<td>Warehouse Supervisor</td>
<td>Reduce response time to internal customers by 10%.</td>
</tr>
<tr>
<td>Human Resource Manager</td>
<td>Decrease turnover of clerical employees from 20% to 15%.</td>
</tr>
</tbody>
</table>

3.16 CHALLENGES OF PERFORMANCE APPRAISAL:

In order to make a performance appraisal system effective and successful, an organization carries across various challenges and problems. The main challenges involved in the performance appraisal process are:

- **Determining the evaluation criteria:**
  
  Identification of the appraisal criteria is one of the biggest problems faced by the top management. Performance data to be considered for evaluation should be carefully selected. For the purpose of evaluation, the criteria selected should be carefully selected and it should be quantifiable or measurable terms.

- **Create a rating instrument:**
  
  The purpose of the performance appraisal process is to judge the performance of the employees rather than the employee. The focus of the system should be on the development of the employees of the organization.

- **Lack of competence:**
  
  Top management should choose the raters or the evaluators carefully. They should have the required expertise and the knowledge to decide
the criteria accurately. They should have the experience and the necessary training to carry out the appraisal process objectively.

- **Errors in rating and evaluation:**
  Many errors based on the personal bias like stereotyping, halo effect (i.e. one trait influencing the evaluators rating for all other traits) etc. may creep in the appraisal process. Therefore the rating should exercise objectivity and fairness in evaluating and rating the performance of the employees.

- **Resistance:**
  The appraisal process may face resistance from the employees and the trade unions for the fear of negative ratings. Therefore, the employees should be communicated and clearly explained the purpose as well the process of appraisal. The standards should be clearly communicated and every employee should be made aware that what exactly is expected from him/her.

### 3.17 QUALITY OF WORK FORCE AND ORGANIZATIONS’ PERFORMANCE:

Work force refers to the employees in the organization in a collective form or a group. The quality of work force in the organization must be high, as this force executes the work to achieve the organizational goals. If this work force experience a sense of frustration due to any factor such as low wages, poor working conditions, unfavourable terms of employment, biased promotional policies, poor training and bad treatment by their supervisors, the unfair conditions of employment, inter personal conflicts, role conflict, job pressure etc, it cannot form a quality work force. The quality of work force results in 'high productivity'. For this, the employees in the organization should have high morale, participating tendency, innovative thinking and develop a work culture to work for the common goal of the enterprise. This could be achieved only when there is quality of work life.

Tight work schedule, speed of machine, tight supervision and control by supervisor and less social interaction, the limited scope of the job, short cycle of operations, lack of opportunity to exercise discretion and initiative, prevalence of bureaucratic controls, oppressive supervision, poor working conditions etc. will affect the quality of work life. Quality of Work Life (QWL) become required due to rapid technological advances and their applications in business have resulted in a situation in which employees have started developing the feeling of powerlessness, meaninglessness, normlessness, social isolation. For quality of work life which is useful to employees’ performance appraisal, following elements are required.

i) Adequate and fair compensation.
ii) Safe and healthy working conditions.
iii) Opportunity to use and develop human capacities.
iv) Opportunity for career growth.
v) Social integration in work force.
vi) Constitutionalism in the work organization.
vii) Work and quality of life.
viii) Social relevance of work.
To ensure growth and development of any organization, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The health of the organization is indicated by the human behavior variables, like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making. Men, materials, machines, money, motivation, movement, mentor, market and methods are the resources required for an organization. Here all physical resources are being activated by the human resources. Therefore, the efficient and effective utilization of physical resources depends largely on the quality, caliber, skills, perception and character of the people, that is, the human resources working in it. The term Human resource at macro level indicates the sum of all the components such as skills, creative abilities, innovative thinking, intuition, imagination, knowledge and experience possessed by all the people. An organization possessed with abundant physical resources may sometimes miserably fail unless it has right people, human resources, to manage its affairs. Thus, the importance of human resources cannot be ignored. Unfortunately, till Human resource is neglected, this is adversely affected on performance of employees.

The American Accounting Society Committee on Human Resource Accounting defines, “Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.” In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms”.

“Human Resource Accounting” is the offshoot of various research studies conducted in the areas of accounting, finance and human resource. Human resource is an asset whose value gets appreciated over the period of time provided placed, applied and developed in the right direction. Till the recent past, organizations took few efforts to assign monetary value to human resource in its accounting practice. Behavioural scientists initiated efforts to develop appropriate methodology for finding out the value of human resource to the organization. They were against the conventional accounting practice for its failure to value the human resource of an organization along with physical resources. At present the expenses incurred on human resource should be treated as capital expenditure as it yields benefits which can be derived for a long period of time and could be measured in monetary terms. The following are the reasons why Human Resources Accounting has been receiving so much attention in the recent years.

1. There is genuine need for reliable and complete management of human resources.
2. A traditional framework of Accounting is in the process to include a much broader set of measurement than was possible in the past. The people are the most important assets of an organization but the value of this asset yet to appear in financial statements. It does not get included in management information systems too. Conventional accounting of human resources took note of all expenses of Human
capital formation which does not seem to be correct or meeting the actual needs.

3. Human Resource Accounting is the measurement of the cost and value of people to the organization. It involves measuring costs incurred by the organizations to recruit, select, hire, train and develop employees and judge their economic value to the organization. This Human Resource Accounting is very much required for employee’s performance appraisal.

**Score card of human resource:**

The concept of considering the human beings as an asset is an old one. The importance which Emperor Akbar gave to the nine jewels (courtiers) is a strong evidence for the same. The history of our freedom movement will not be complete without mentioning the names of distinguished freedom fighters such as Shri Motilal Nehru, Mahatma Gandhi, Sardar Vallabh Bhai Patel and several others but no effort was made to assign any monetary value to such individuals in the Balance Sheet of the Nation.

Sir William Petty was the pioneer in this direction. The first attempt to value the human beings in monetary terms was made by him in 1691. Petty considered that labour was “the father of wealth’ and it must be included in any estimate of national wealth without fail. Further efforts were made by William Far in 1853 and Engle in 1883. The real work started only when behavioural scientists vehemently criticized the conventional accounting practice of not valuing the human resources along with other resources. As a result, accountants and economists realized the fact that an appropriate methodology has to be developed for finding the cost and value of the people to the organization. For a long period of time, a number of experts have worked on it and produced certain models for evaluating human resources. The important among them are Shultz, Flamholtz, Lav and Schwartz, and Kenneth Sinclare. Human Resource Accounting was first started with simple measures of trying to convert output data into contributions. When an HR programme had effected a change in the output especially for organizations operating on profit basis, its value was determined by calculating the profit contribution. Rensis Likert in the 1960s was the first to research in HR and emphasized the importance of strong pressures on the HR’s qualitative variables and on its benefits in the long-run. According to Likert’s model, human variables can be divided into three categories: (i) causal variables; (ii) intervening variables: and (iii) end-result variables. The interaction between the causal and intervening variables affect the end-result variables by way of job satisfaction, costs, productivity and earnings. Historically the first major systematic effort at evaluation was made by RG Barry Corporation of Columbus in 1967. This is very much required for measuring human resource performance in terms of value. Today they fall under three major categories namely replacement cost, present value of future earnings and present value to the organization, i.e. profit contribution. Human resources is one of the most valuable assets and needless to say that the human beings co-ordinate the best of machines, men and money. Computers, of course, may challenge the human resources but computer is not a brain and it simply carries out human commands. Therefore, Accounting for such human resources is very essential for the organization.
Importance of Human Resource Accounting:

Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below:
2. It helps in deciding the transfers, promotion, training and retrenchment of human resources.
3. It provides a basis for planning of physical assets vis-à-vis human resources.
4. It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm.
5. It helps to identify the causes of high labour turnover at various levels and taking preventive measures to contain it.
6. It helps in locating the real cause for low return on investment, like improper or under-utilization of physical assets or human resource or both.
7. It helps in understanding and assessing the inner strength of an organization and helps the management to steer the company well through most adverse and unfavourable circumstances.
8. It provides valuable information for persons interested in making long term investment in the firm.
9. It helps employees in improving their performance and bargaining power. It makes each of them to understand his contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on him.

Objectives of Human Resources Accounting:
The aim of HRA is to depict the potential of HR in monetary terms, while casting the organization's financial statements. The concept can be examined from two dimensions: (i) the investment in HR; and (ii) the value of HR. The expenditure incurred for recruiting, staffing and training and developing the HR quality is the investment in HR. The fruits of such investments are increased productivity and profit to the organization. The yield that the investment generates is considered as the basis for HR value.

1. Improve management by analyzing investment in HR
2. Consider people as its asset
3. Attract and retain qualified people
4. Profile the organization in financial terms.
5. The main objective of human resource accounting is to facilitate the management to get information on the cost and value of human resources.
6. Human resources accounting brings to light the quantum of human resources and indicates the right control of conservation, depletion and appreciation of it in the right perspective.
7. It provides data to the interested persons about the cost of human resources and correspondingly comparing it with the benefit obtained out of its utilization.
8. The main objective of human resource accounting is to facilitate the management for Human Resource Appraisal i.e. Employees Performance Appraisal, that’s why the researcher has purposefully incorporated the concept of Human Resource
Accounting in this chapter. Further more research is required in HRA and PA relationship.

3.19 A BRIEF THEORETICAL BACKGROUND ABOUT SELECTED MANUFACTURING, TRADING AND SERVICE INDUSTRIES:

It is accepted that there should be coordination between various departments in the organization. This coordination will help to take care of good employees and their evaluation. It is studied that there is no proper documentation of performance appraisal system, which should be proper. The performance appraisal system should be quantifiable and all employees should know all the performance parameters, which will be used for performance measurement. The workers suggested that there should be real workers participation in management as requirement.

In manufacturing industry it is expected that the employees should work in a company as an own company work. It is mentioned that behaviour of the employees should be studied for employees’ performance appraisal. The employer should consider the employees’ limitations and difficulties and motivation should be provided to employees, which will help for performance improvement in manufacturing industry. Good amount of coordination is requiring in the manufacturing industry.

It is observed by the researcher in the sample service industry, that there is only supervisor appraisal method in practice, but its analyses and corrective measures are not taken in the sample unit. The sample unit is using its own system such as the CMD / MD keeping watch over the activities of the employees and at the end of the year the performance appraisal is undertaken for promotion and increment of employees and it is based on the CMD / MD’s experience and perception.

The sample selected trading organization i. e. bazar is one more organization for data collection and preparation of model performance appraisal system. The bazar is selling daily use items to the nearest customers. The owner and the close members of the family are working at top level of management and supervisors are working at middle level management and all salesman and other attendants are working at lower level of management in this sample unit. The bazar is using traditional methods for selection of employees and considering traditional methods of employee selection that there is a scope for improvement in this area.

3.20 CONCLUSION:

The performance appraisal is one of the most critical areas in the field of human resource management. Performance appraisal is very much essential to manage human resource effectively. The researcher has undertaken the study to suggest some practical system for performance appraisal. It helps for building trust between subordinate and his superior. It is also used for improving job performance, development of employees, building better relationship, personnel planning, etc. The things have been changing from “Tell and Listen” to “Tell and Solve” the business problems. Performance Appraisal is the life cycle view of employee performance. The history of
performance appraisal in brief is; its roots in the early 20th century can be traced to Taylor's pioneering 'Time and Motion Studies'. Performance Appraisal (P.A.) is one of the important components in the rational and systematic process of human resource management. Personnel evaluation method seeks the measurement of employee work effectiveness using objective criteria. Performance appraisal, also known as employee appraisal, is a method by which the performance of an employee is evaluated (generally in terms of quality, quantity, cost and time). Performance appraisal is a part of career development. Performance appraisals are a regular review of employee performance within an organization.