CHAPTER - IV

THEORETICAL FRAMEWORK OF PERFORMANCE APPRAISAL

4.1 INTRODUCTION

Every organisation has to fight for survival, only the fittest would be able to get ahead with confidence. To remain at the top, organisations are virtually compelled to put their best foot forward. The scare inputs have to be channelized in the best possible manner. The material and financial resources must be put to productive use and this is possible only when an organisation is able to attract and retain talented employees. Appropriate rewards must be instituted. Growth opportunities must be put in place. Best performers must be singled out for praise and their contributions must be rewarded in a proper way. All this could happen only when the organisation is able to set challenging targets, measure the actual performance, identify the gaps and find innumerable ways and means to improve employee productivity consistently.

Measuring the job relevant strengths and weaknesses of individuals and team working in an organisation through annual performance appraisal plans is simply not sufficient. Organisations need to go a step further to ensure that employees perform well consistently. This is where performance management counts, because it demands willingness and commitment of
people striving harder and harder to meet the strategic aims of a company on a daily basis.¹

ORIGIN OF PERFORMANCE APPRAISAL

Employee appraisal techniques are said to have been used for the first time during the first world war, when at the instance of Walter Dill scott, the US army adopted the “man-to-man” rating system for evaluating military personnel. During the 1920-30 periods, rational wage structures for hourly paid workers were adopted in industrial units, the policy of giving grade wage increments on the basis of merit was accepted. These early employee plans were called merit rating programmes which continued to be so called up to the mid-fifties. By then most of these plans were of the rating scale type, where emphasis was given to factors, degrees and points. In the early fifties, however, attention began to be devoted to the performance appraisal to technical, professional and managerial personnel. Since then, as a result of experiments and a great deal of study the philosophy of performance appraisal has undergone tremendous changes. Consequently a change has also taken place in the terminology used. Now, the older phrase merit rating is largely restricted to the rating of hourly paid employees and is used frequently in developing criteria for salary adjustments, promotions, transfers etc. The later phrase, personnel appraisal, places emphasis on the development of the individual as and widely used to evaluate technical, professional and managerial personnel.
The appraisal of individuals in an employment has been labelled and described by experts over the years in different ways. Common descriptions include performance appraisal, merit rating, behavioural assessment, employee evaluation, personnel review, progress reports, staff assessment, service rating and fitness report. Some personnel authorities use such concepts interchangeably, while others interpret some of these appraisal phases differently. However, the term performance appraisal or evaluation is most widely used.

**Definitions of Performance Appraisal**

According to Cascio, “Performance appraisal is a review of the job relevant strengths and weaknesses of an individual or a team in an organisation. It is an exercise in observation and judgement. It is a feedback process and it is an organisation intervention”.

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

According to Dessler, “Performance appraisal is the process of evaluating an employee “current and/ or past performance relative to his or her performance standards”.”

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4.2 FEATURES OF PERFORMANCE APPRAISAL

The main characteristics of performance appraisal are,

• The appraisal is a systematic process involving three steps.
  a. Setting work standards.
  b. Assessing employee’s actual performance relative to these standards.
  c. Offering feedback to the employee so that employee can eliminate deficiencies and improve performance in course of time.

• It tries to find out how well the employee is performing the job and tries to establish a plan for further improvement.

• The appraisal is carried out periodically according to a definite plan, it is certainly not a one shot deal.

• Performance appraisal is not job evaluation. Performance appraisal refers to how well someone is doing an assigned job. Job evaluation, on the other hand, determines how much a job is worth to the organisation and therefore, what range of pay should be assigned to the job.

• Performance appraisal is not a past-oriented activity, with the intension of putting poor performers in a spot. Rather, it is a future oriented activity showing employees where things have gone wrong.
how to set everything in order, and deliver results using their potential in a proper way.

- Performance appraisal is not limited to ‘calling the fouls’. Its focus is on employee development. It forces managers to become coaches rather than judges. The appraisal process provides an opportunity to identify issues for discussion, eliminates any potential problems, and set new goals for achieving high performance.

- Performance appraisal may be formal or informal. The informal evaluation is more likely to be subjective and influenced by personal factors. Some employees are liked better than others and have better chances of receiving various kinds of rewards than others. The formal system is likely to be more fair and objective, since it is carried out in a systematic manner, using printed appraisal forms.³

4.3 OBJECTIVES OF PERFORMANCE APPRAISAL

Performance appraisal has been considered as a most significant and indispensable tool for an organisation, for the information it provides is highly useful in making decisions regarding various personal aspects such as promotion and merit increases. Performance measures also link information gathering and decision making processes which provide a basis for judging the effectiveness of personnel subdivisions such as recruiting, selection, training and compensation. Accurate information plays a vital role in the organisation as a whole. They help in pinpointing weak area in
the primary systems [e.g. marketing, finance and production]. It is easier for managers to see which employee needs training or counselling, because jobs are grouped by categories (e.g. production foreman, sales manager, financial analyst). If valid performance data are available timely, accurate, objective, standardised and relevant, management can maintain consistent promotion and compensation policies throughout the total system.

**MC Gregor** says, “Formal performance appraisal plans are designed to meet three needs, one of the organisation and the other two of the individual, namely.

- They provide systematic judgement to back up salary increase, transfer, demotions or terminations.
- They are means of telling a subordinate how he is doing, and suggesting needed changes in his behaviour attitudes, skills, or job knowledge. They let him know “where he stands” with the boss.
- They are used as a base for coaching and counselling the individual by the superior.
Main Objectives of Employee Performance Appraisal:

- To enable an organisation to maintain an inventory of the number and quality of all managers to identify and meet their training needs and aspirations.
- To determine increments, rewards and provide a reliable index for promotions and transfers.
- To maintain individual and group development by informing the employee of his performance standard.
- To suggest ways of improving the employee’s performance when he is not found to be up to the mark during review period.
- To identify training and development needs and to evaluate effectiveness of training and development programmes.
- To plan career development, human resources planning based on potentialities.

4.4 IMPORTANCE OF PERFORMANCE APPRAISAL:

Performance appraisal, basically, aims to meet two things, the administrative purpose includes decisions about who will be promoted, transferred or laid off. They also include compensation decisions and the like. The development decisions include those related to improving and enhancing individual’s capabilities. These cover identifying a person’s strengths and weaknesses, eliminating external performance obstacles,
establishing training needs and so on. Whichever way you look at it, performance appraisal is a highly useful and important tool for managers. It helps in looking at the characteristics, traits, behaviour, actions of employees from close quarters and assists managers in taking appropriate personnel decisions.

- It unifies the appraisal procedure so that all employees are rated in the same manner, utilising the same approach so that the ratings obtained of separate personnel are comparable.

- It provides information which is useful in making and enforcing important decisions about selection, training, promotions pay increases transfers, lay-offs, discharges, salary adjustments, etc. This information is supplied well in advance so that spot judgement may be avoided.

- It provides information in the form of records about ratings which may be produced as evidence when decisions on ratings are challenged in court of law. Even arbitrators accept these in the course of grievances handling procedures as authentic records.

- It serves to stimulate and guide employee development. Appraisal programme provide information on the weaknesses of employees and enable them to gauge their own value and accomplishments and to know what they are doing. The weaknesses provide the basis for an individual development programme. It used properly such
periodical appraisals will establish an atmosphere in which criticism can be taken without resentment and can be used constructively for self-improvement.

- A periodic and accurate appraisal constrains a supervisor to be alert and competent in his work that it improves the quality of supervision by giving him an incentive to do the things that he should normally be doing anyway.

- It gives supervisors a more effective tool for rating their personnel, enables them to make a careful analysis of their men and gives them a better knowledge and understanding of them.

- It maintains better employer-employee relations through mutual confidence, which comes as a result of frank discussions between a supervisor and his men.

4.5 PERFORMANCE APPRAISAL PROCESS:

The performance appraisal process consists of the following steps.

1. **Set Performance Standards:** The process of performance appraisal begins with the establishment of performance standard. At the time of designing of job and formulating a job description, performance standards are usually developed for the position. These standards should be clear and not vague, and objective enough to be understood and measured. These standards should be discussed with the supervisors to find out which different factors are to be
incorporated, weights and points to be given to each factor and these then should be indicated on the appraisal form, and later on used for appraising the performance of the employees.

2. **Communicate Standard to Employees:** The next step is to communicate these standards to the employees, for the employees left to themselves, would find it difficult to guess which is expected of them. To make communication effective, “feedback” is necessary from the subordinate to the manager. Satisfactory feedback ensures that the information communicated by the manager has been received and understood in the way it was intended.

3. **Measure Performance:** The third step is the measurement of performance. To determine what actual performance is, it is necessary to acquire information about it. We should be concerned with how we measure and what we measure. Four sources of information are frequently used to measure action performance: personal observation, statistical reports, oral reports, and written reports.

4. **Compare with Standard to Identify Gaps:** The fourth step is the comparison of actual performance with standards. The employee is evaluated and judged of his potential for growth and advancement. Attempts are made to note deviations between standard performance and actual performance.
5. **Discuss with Employees and Offer Feedback:** The results of appraisal are discussed periodically with the employees, where good points, weak points, and difficulties are indicated and discussed so that performance is improved. The information that the Subordinate receives about the assessment has a great impact on his self-esteem and on his subsequent performance. Conveying good news is considerably less difficult for both the manager and the subordinate than when performance been below expectation.

6. **Initiate Corrective Step:** The final step is the initiation of corrective action when necessary immediate correction action can be of two types. One is immediate and deals predominantly. The other is basic and delves into causes. Immediate corrective action is often described as “Putting out fires”. Whereas basic corrective action gets to the source of deviation and seeks to adjust the difference permanently.

### 4.6 METHODS OF PERFORMANCE APPRAISAL:

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TRADITIONAL METHOD

1. Straight Ranking Method: It is the oldest and simplest method of performance appraisal, by which the man and his performance are considered as an entity by the rater. No attempt is made to fractionalise the ratee or his performance, the “whole man” is compared with the “whole man” that is the ranking of a man in a work group is done against that of another. The relative position of each man is tested in terms of his numerical rank. It may also be done by ranking a person on his job performance against that of another member of a competitive group by placing him as number one, two or three in total group, i.e. persons are tested in order of merit and placed in simple grouping. This is the simplest method of separating the most efficient from least efficient, and relatively easy to develop and use. But the greatest limitation of this method is that in practice it is very difficult to compare a single individual with human beings having varying behaviour traits. Secondly, the method only tells us how a man stands in relation to the others in the group but does not indicate how much better or worse he is than another. Thirdly, the task of ranking individuals is difficult when a large number of persons are rated. Fourth, the rating system does not eliminate snap judgement, nor does it provide us with a systematic procedure for determining the relative ranks of subordinates. To
remedy this defect, the paired comparison technique has been evolved.

2. **Rating Scale:** The typical rating scale system consists of several numerical scales, each representing a job-related performance criterion such as dependability, initiative, output, attendance, attitude, co-operation etc, each scale ranges from excellent to poor, the number of points attached to the scale may be linked to salary increase, whereby so many points equal arise of some percentage. Nearly all type of job can be evaluated and large number of employees can be evaluated in a very short time. Disadvantage includes the rater’s biases to influence evaluation. Furthermore, numerical scoring gives an illusion of precision that is really unfounded.⁴

3. **Graphic Rating Scale:** Typical of the person to category type scale is the graphic rating scales, while there are many varieties of scales. In using these rating scales, a check mark is simply placed somewhere along the line.⁵

This is the most commonly used method of performance appraisal. Under it, a printed form, one for each person to be rated. According to Jucius, these factors are employee characteristics and employee contribution. In employee characteristics are included such qualities as initiative, leadership, co-operativeness’, dependability, industry,
attitude, enthusiasm, loyalty, creative ability, decisiveness, analytical ability and co-ordination. Employee contribution includes the quantity and quality of work, the responsibility assumed, specific goal achieved, regularity of attendance, leadership offered, attitude toward superiors and associates, etc. These traits are then evaluated on a continuous scale, wherein the rather places a mark somewhere along a continuum. The rating scale method is easy to understand and easy to use, and permits a statistical tabular scores. A ready comparison of scores among the employees is possible. These scores indicate the worth of every individual.

4. **Forced Distribution Method:** It is a form of comparative evaluation in which an evaluator rates subordinates according to a specified distribution. Here judgements are made on a relative basis, i.e., a person is assessed relative to his performance in the group he works. This procedure can be used for numerous traits if required by evaluating the individuals separately on each trait. The forced distribution method is primarily used to eliminate rating errors such as leniency and central tendency.⁶

5. **The Check List Method:** To reduce the burden upon the appraiser, a checklist system can be utilised. The rater does not evaluate employee performance, it is merely reported. The evaluation of the worth of reported behaviour is accomplished by the staff personnel
department. A series of questions is presented concerning the subject employee and his or her behaviour. The rater checks to indicate if the answer to a question is yes or no. The value of each question may be weighted. The rater is not aware of the specific values, but can distinguish the positive question from negative and thus introduce bias if desired. An attempt is made to determine the degree of consistency of the rater by asking the same question twice. One of the disadvantages of the checklist system is that it is difficult to assemble analyse, and weight a number of statement about employee characteristics and contributions. In addition, a separate list of questions must be prepared for different type of jobs. The checklist approach does have the advantage of requiring only a reporting of facts from the rater.7

6. **Critical Incident**: Critical incident appraisal focuses the rater’s attention on those critical or key behaviours that make the difference between doing a job effectively and doing it ineffectively. What the appraiser does is write down little anecdotes that describe what the employee did that was especially effective or ineffective. A behaviourally based appraisal such as this should be more valid than trait- based appraisal because it is clearly more job related. It is one thing say that an employee is “aggressive” or “imaginative” or “relaxed”, but that does not tell anything about how well the job is
being done. Critical incidents, with their focus on behaviours, judge performance rather than personalities.

The strength of the critical incident method is that it looks at behaviours. Additionally, a list of critical incidents of a given employee provides a rich set of examples from which the employee can be shown which of his or her behaviour are desirable and which ones call for improvement. Its drawbacks are:

- Appraisers are required to regularly write incidents down, but doing this on a daily or even weekly basis for their entire subordinate is time-consuming and burdensome for managers.
- Critical incidents suffer from the same comparison problem found in essay; mainly they do not lend themselves to quantification. Therefore the comparison and ranking of subordinate is difficult.⁸

7. **Field Review Method:** Under this method, a trainer employee from the personnel department interviews line supervisors to evaluate their respective subordinates. The appraiser is fully equipped with definite test questions, usually memorised in advance, which he puts to the supervisor. The supervisor is required to give his opinion about the progress of his subordinates, the level of performance of each subordinate, his weaknesses, good points, outstanding ability, promotability and the possible plans of action in cases requiring
further consideration. The questions are asked and answered verbally. The appraiser takes detailed notes of the answers, which are then approved by the superior and placed in the employee’s personal folder. The success of this system depends upon the competence of the interviewer. If he knows his business, he can contribute significantly to a reasonably accurate appraisal.

This system is useful for a large organisation, and does not suffer from the weaknesses which are evident in other systems. The overall rating are obtained by largely using a three-way categorisation, viz, outstanding, satisfactory and unsatisfactory. It relieves the supervisor of the need for filling out appraisal forms. The main defect is that it keeps management representatives busy with the appraisal.

8. **Essay Method:** Under this method, the supervisor makes an open-ended appraisal of an employee in his own word and puts down his impressions about the employee. He/she takes notes of these factors.

- Relations with fellow supervisors and personnel assigned to him
- General organisation and planning ability
- Job knowledge and potential
- Employee characteristics and attitudes
- Understanding and application of company policies and procedures
- Production, quality and cost control
- Physical conditions
- Development needs for future.

The description is always as factual and concrete as possible. No attempt is made to evaluate an employee in a quantitative manner. There are several advantages of this method. An essay can provide a good deal of information especially if the supervisor is asked, for instance, to give two or three examples of each judgement he makes. The explanation will give specific information about the employees and can reveal even more about the supervisor.

**Drawbacks of Essay Method:**

I. It contains a subjective evaluation of the reported behaviour of an individual and may affect such employment decisions as promotion, layoff, etc. There is no common criterion for evaluation.

II. Some appraisers may be good at narrative appraisal while others may not have the facility to write a descriptive report.

III. The appraisal may be loaded with a flowery language about the quality of the ratee than with the actual evaluation of the performance.
IV. Under this system, the supervisor is required to devote considerable time and thought to the procedure.

V. Rater bias is easily introduced into such ratings, since the essay is in the supervisor’s own words.

MODERN METHODS

**BARS (Behaviourally Anchored Rating Scales)** Scale represents a range of descriptive statement of behaviour varying from the least to the most effective. A rater must indicate which behaviour on each scale best describes an employee’s performance. Following are the features of BARS.

- Area of performance to be evaluated are identified and defined by the people who will use the scales.
- The scales are anchored by description of actual job behaviour that supervisors agree, represent specific level of performance.
- All dimensions of performance to be evaluated are based on observable behaviours and are relevant to the job being evaluated.
- Since the raters who will actually use the scale are actively involved in the development process, they are more likely to be committed to the final product.
- Unfortunately this also suffers from distortions inherent in most rating techniques.
Advantages of BARS:

Though BARS technique is more time consuming and expensive than other appraisal tool, yet it has got certain advantages such as;

- **A more accurate gnage:** since BARS is done by person’s experts in the technique, the results are sufficiently accurate.

- **Clear standards:** the critical incidents along the scale help to clarity what is meant by “extremely good” performance, “average” performance and so forth.

- **Feedback:** the use of critical incidents may be more useful in providing feedback to the people being appraised.

- **Rater Independence:** the technique is not biased by the experience and evaluation of the rater.

**MBO (Management By Objectives):** Employees are evaluated by how well they accomplish a specific set of objectives that have been determined to be critical in the successful completion of their job. This approach is frequently referred to as Management By Objectively. Management by objectives is a process that converts organisational objectives into individual objectives. It can be thought of as consisting of four steps: goal setting, action planning, self-control and periodic reviews.

In goals setting, the organisation’s overall objectives are used as guidelines from which departmental and individual objectives are set. At
the individual level, the manager and subordinate jointly identify those goals that are critical for the subordinate to achieve in order to fulfil the requirements of the job as determined in job analysis. These goals are agreed upon and then become the standards by which the employee’s results will be evaluated.

In action planning, the means are determined for achieving the ends established in goal setting. That is realistic plans are developed to attain the objectives. This step includes identifying the activities necessary to accomplish the objectives, establishing the critical relationships between these activities, estimating the time requirements for each activity and determining the resources required to complete each activity.

**George Oriorner**e, the author of the first book with title, Management by Objectives. The MBO philosophy is built on the assumptions that individuals can be responsible, can exercise self-direction and do not require external controls and threats of punishment to motivate them to work toward their objectives.⁹

Finally, with periodic progress reviews corrective action is initiated when behaviour deviates from the standards established in the goal-setting phase. Again, consistent with the MBO philosophy, manager subordinate reviews are conducted in a constructive manner. Reviews are not meant to degrade the individual but to aid in future performance.
**360 Degree Appraisal:** It is a system or process in which employee receives confidential, anonymous feedback from the people, who work around them. The inputs for the said appraisal are provided by subordinates, peers, superiors, team members, customers, suppliers and anyone else who could come into contact with the employee [whose performance is evaluated by multiple raters] in question. The appraisal measures behaviours and competencies exhibited by the ratee over a period of time. The skills that are being appraised include listening, planning, goal setting, etc. Other aspects of behaviour such as teamwork, leadership effectiveness are also assessed. The responses from different raters [subordinate’s appraisal, peer appraisal, superior’s appraisal along with self-appraisal] are combined to have an objective assessment of ratee’s performance and behaviours. There is less scope for individual bias or prejudice coming in the way of an unbiased assessment. 360 Degree Appraisal is beneficial for small and mid-sized organisation, but where the employee strength is large logistics could act as a deterrent in evaluating all the employees. In such cases, many large organisations conduct the feedback on a section of the top-rung managers. In most 360 degree feedback processes, key competencies are identified and statements are framed focusing on these. It is necessary that 360 degree be introduced in the company for the right reasons [development purposes]. This appraisal system has more to do with understanding communicating and articulating in the right way; it is what
ensures the success of the programme. If it is not articulated well-enough, different people will see it differently.

**Advantages of 360 Degree Appraisal:**

- It is transparent and bias free.
- Employees get to know the perception about them from other’s point of view; this helps them know more about themselves.
- Employees get a ready list of improvement areas from their customers to work on.
- Employees get to know their good points; this helps boost their self-esteem.
- The exercise helps in improving overall quality of the staff because each is helping the other to improve.

**Disadvantages:**

- Feedback can cause frustration and resentment, if the employee feels respondents have ganged up.
- Some people may fear retaliation if they give negative feedback. This is mostly in cases where the organisation does not have an open culture.
- The system could prove to be complex in combining all the responses.
- The responses could be mutually conflicting and may not match with one another.
**Human Resource Accounting:** Human Resource Accounting (HRA) is a sophisticated way to measure [in financial terms] the effectiveness of personnel management activities and the use of people in an organisation. It is the process of accounting for people as an organisation resource. It tries to place a value on organisational human resources as assets and not as expenses. The HRA process shows the investment the organisation makes in its people and how the value of these people changes over the time. The acquisition cost of employees is compared to the replacement cost from time to time. The value of employees is increased by investment made by the company to improve the quality of its human resource such as training, development and skill acquired by employees over a period of time through experience etc. When qualified, competent people leave an organisation, the value of human assets goes down. In this method, employee performance is evaluated in terms of costs and contributions of employees. Human resource costs include expenditure incurred by the company in hiring, training, compensating and developing people. The contribution of human resources is the money value of labour productivity. The cost of human resources may be taken as the standard. Employee performance can be measured in terms of employee contribution to the organisation. Employee performance can be taken as positive when contribution is more than the cost and performance can be viewed as negative if cost is more than contribution. Positive performance can be
measured in terms of percentage of excess of employee contribution over the cost of employee. Similarly negative performance can be calculated in terms of percentage of deficit in employee contribution compared to the cost of employee.

Limitations of HRA:

HRA is not welcomed wholeheartedly due to the following reasons.

- There is no proper clear-cut and specific procedure or guidelines for finding cost and value of human resources of an organization. The systems which are being adopted have certain drawbacks.

- The period of existence of human resource is uncertain and hence valuing them under uncertainty in future seems to be unrealistic.

- There is a fear that HRA may dehumanize and manipulate employees.

- The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a tool of the management facilities better and effective management of human resources.

- In what form and manner, their value to be included in the financial statement is the question yet to be classified on which there is no consensus in the accounting profession.
• As human resources are not capable of being owned, retained and utilized, unlike the physical assets, there is problem for the management to treat them as assets in the strict sense.

• There is constant fear of opposition from the trade unions as placing a value on employees would make them claim rewards and compensations based on such valuation.

• In spite of all its significance and necessity, tax laws do not recognize human beings as assets valuation.
REFERENCES:


2. Ibid, 1.


4. ibid, 1.


