CHAPTER 4: THEORY OF APPRAISAL

4.01 Characteristics of Managerial Performance Appraisal.

Performance appraisal is a systematic, orderly and objective method of evaluating the present and the potential usefulness of the employees to the organisation. It is necessary to evolve a proper system of appraisal and appraisals are to be made by means of a standardised form that may be adopted to the needs of a particular organisation. The appraisals are made at periodic intervals and on an annual or bi-annual basis.

The need and importance of sound appraisals of performance has been recognised in industry and organisations for many years. In the words of Arch Patton "The first efforts in this direction tended to have psychological overtones and usually consisted of appraisals of traits that were deemed important to a successful manager/executive. Thus these early approaches did not appraise performance in terms of the results stemming from decisions made or influenced by an individual, but rather in terms of preconceived characteristics that management personnel were presumed to have.

Unfortunately, the managerial characteristics appraised in development programmes - leadership,
initiative, dependability, imagination, judgement do not necessarily measure a man's effectiveness on the job. Indeed, all too often, judgements of performance reflect what is thought of a man rather than what he does.

It has been observed that the great weakness in the approach has proved to be the lack of performance criteria that are related to job responsibilities. Such concentration on personality traits ignores the more objective measures of on-the-job performance that are developed from budgets and accounting reports. This highly subjective approach, in turn has made it difficult for management to communicate the judgement of a manager's performance to the man who has been evaluated. It is the rare individual who will concede that he does not display managerial characteristics, and even rarer boss who can comfortably explain overcoming of so personal a factor to his subordinate. By contrast, the more objective criteria — rising or falling sales, profit margins, scrap losses, employee turnover, machine down time and the like are more readily understood by the subordinate and easier to explain because they are in quantitative terms which are part of the operating language of the business.
There is another factor which tends to absolute trait oriented appraisals in recent years and it has been the increasing use of 'managers' incentive plans in industry. More and more companies have found their bonus plans "in trouble" because eligible managers do not believe that incentive payments based on subjective appraisals reflect their individual efforts. This belief apparently results from an instinctive revulsion among managers to having their compensation largely depending on what Senior Managers think of them. First they suspect favouritism and second, they exhibit a subconscious desire to have their performance measured by yardsticks that are based on more tangible, quantitative targets, they have learned to understand and trust.

In their performance evaluation and feed-back systems, many technology based companies and other organisations are learning that a big gap exists between good intentions and desired results. Too often, what management perceives as fair and optional for both its supervisors and managers leads to widespread discouragement, cynicism and alienation. The fallacy is that management attempts to devise one peer comparison or closed system to serve all needs. But what is needed is an objective focussed or open
system administered by a management which appreciates the difference between open and closed systems and the part management plays in determining that difference.

4.02 Analytical approach.

Some companies and organisations have taken steps to overcome the aspects of subjective appraisals and to meet the growing need for judging performance in terms of individual targets. Often, however, such procedures have swung to other extremities i.e. setting individual goals for the year in quantitative terms (e.g. increase sales by 12% or cut scrap losses by 8%) and paying off on 'performance', directly connected with these goals. This approach has the great advantage of eliminating subjective judgement as the determinant of individual's performance. Further more, it does measure performance in terms that are understandable to the individual.

However, Mr. Arch Patton points out in "How to appraise executive performance - Harvard Business Review, January-February 1960" serious shortcomings in adopting a purely mathematical approach to appraisal. The most important weakness revolves around the fact that once the individual targets have been established,
mathematics takes over the basic responsibility of management to manage. If the individual goals are set at the beginning of the year are not consistent between divisions or between functions within divisions, the mathematically derived pay off at the year's end, undoubtedly, will be unfair. More executives will be overpaid and others underpaid as a result of forces beyond the control of the individual. An unexpected price war, for instance, may seriously reduce profit margins in one division, while margins in another division benefit from the liquidation of a competitor. Thus, too, the mathematically derived pay off that result from present goals permits no adjustments in rewards for the difficulty in accomplishments. A manufacturing department, for example, may have major problems in fulfilling commitments that were easily attained by the Sales Department, or vice-versa. But unless the programme permits the judgment of management to reflect the difficulty of accomplishment, great incentive values are lost to the inflexibility of mathematics."

Hence, a certain amount of balance is necessary in utilising a purely quantitative or mathematical approach to appraisal.

4.03 **Qualitative consideration of performance.**
of goals, targets and tasks, but also the means adopted to achieve the ends. As the Chairman of a leading business group in India put it to his Senior Management Executives: "While we are interested in making profits, we are also highly concerned with how you make them". In other words, the means are as important as the ends particularly in managerial performances. Otherwise, there is a constant danger that in order to meet targets, the managers may resort to methods which may provide the payoff in the short run and, thus, achieve their objective of meeting the targets. But in the process, the long term organisational interests of growth, development and even survival may be sacrificed at the altar of short-term expediency.

4.04 Factors of sound appraisal system.

A sound appraisal system should consider the following factors:

(1) Performance – achievement of goals, tasks and targets.
(2) Knowledge – know-how, education, training, experience.
(3) Methods of achievement – philosophy, principles, policies, procedures and practices.
(4) Qualities of traits - Personality, behaviour,
(5) Potential - a reasonable estimate of the commitment, capabilities of the person to raise to higher assignments.
(6) Promotability - Is he promotable and how soon?
(7) Development - Strength and weaknesses - training, education, development.

The managers are appraised on the basis of these seven point criteria. Some organisations design their appraisal system in two parts:

1) Performance report which usually deals only with how the manager has developed over the year, has he accomplished his task, has he achieved the targets, how has he achieved the targets, what are his outstanding personality traits, what is his potential, is he promotable,

2) Development report dealing with what are his weaknesses, what are his strengths, how can we overcome his weaknesses, what specific training, education, development plan is necessary, does he need to attend an out country programme, how to capitalize on his strengths through further development, training and education.
While the performance report is utilised for the usual personnel decision making processes like promotion, transfer, salary administration, incentive plan, etc., the development report is utilised primarily for developing the individual and growing manager leadership to meet both organisational as well as individual interests and needs.

We have studied the theory of appraisal. There are different systems of performance appraisal. The same are dealt with in the following chapter.