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SUBJECT NAME
HUMAN RESOURCE MANAGEMENT

UNIT - IV
PERFORMANCE APPRAISAL METHODS AND THEIR MERITS & DEMERITS

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PERFORMANCE APPRAISAL

Performance Appraisal

MEANING OF PERFORMANCE APPRAISAL

* A **Performance Appraisal** is a systematic and objective method of judging the quality of an employee in performing his job and a part of guiding and managing career development .

* It is the process to obtain, analyze and record the information about the relative worth of an employee to the organization .

* **Performance Appraisal** is an analysis of an employee's recent successes and failures, personal strengths and weaknesses, and his/her suitability for promotion or further training .

* It is also the judgment of an employee's performance in a job based on considerations other than productivity alone . It is a part of a larger performance management system and includes both managerial and non-managerial employees in its scope .

DEFINITIONS OF PERFORMANCE APPRAISAL

* **There are various authors who defined the meaning of Performance Appraisal :**

* **According to Beach,** "Performance Appraisal is the systematic evaluation of the individual with regard to his or her performance on the job and his potential for development ."

* **According to Heyel,** "Performance Appraisal is the process of evaluating the performance and qualifications of the employees in terms of the requirements of the job for which he is employed, for purposes of administration, including placement, selection for promotions, providing financial rewards and other actions which require differential treatment among the group as distinguished from actions affecting all members equally ."

* **According to Dale Yoder,** "Performance Appraisal includes all formal procedures used to evaluate personalities and contributions and potentials of group members in a working organization . It is a continues process to secure information necessary for making correct and objective decisions on employees ."

CHARACTERISTICS OF PERFORMANCE APPRAISAL

* **The Characteristics of Performance Appraisal are as follows :**

* **1.** Systematic process of evaluation of an employee .

* **2.** Analysis of the strengths and weaknesses of an employee .

* **3.** To find out how well an employee is performing the job .

* **4.** Appraisal is done periodically .

* **5.** It is based on a definite plan .

* **6.** Performance Appraisal is different from job evaluation .

* **7.** Performance Appraisal is a continuous process that is accepted by every organization .

OBJECTIVES OF PERFORMANCE APPRAISAL

* **The Objectives of Performance Appraisal are as follows :**
* **1.** To provide employees feedback on their performance .

* **2.** Identify employee training needs .

* **3.** Document criteria used to allocate organizational rewards .

* **4.** A basis for decisions relating to salary increases, promotions, disciplinary actions, bonuses, etc.

* **5.** Provide the opportunity for organizational diagnosis and development .

* **6.** Facilitate communication between employee and employer .

* **7.** Validate selection techniques and human resource policies to meet regulatory requirements .

* **8.** To improve performance through counseling, coaching and development .

* **9.** To motivate employees through recognition and support .

IMPORTANCE OF PERFORMANCE APPRAISAL

* **The Importance of Performance Appraisal are as follows :**

* **1.** Providing information about the performance ranks on which decision regarding salary fixation, promotion etc. are taken .

* **2.** Review of the performance of the subordinates .

* **3.** Providing information that helps to counsel the subordinates .

* **4.** Getting information to diagnose deficiency in employees regarding skills, knowledge, etc.

* **5.** To prevent grievance and in disciplinary activities .

* **6.** It enhances motivation and productivity .

* **7.** It differentiates employees in job-related areas

* **8.** It helps ensure legal compliance .

METHODS OR TECHNIQUES OF PERFORMANCE APPRAISAL

Methods of Performance Appraisal

Traditional Methods

1. Ranking Method
2. Paired Comparison Method
3. Graphic Scale Method
4. Forced Distribution Method
5. Checklist Method
6. Field Review Method
7. Confidential Report Method
8. Forced Choice Method
9. Critical Incident Method

Modern Methods

1. Appraisal by Results or Management by Objectives
2. Grading Method
3. Assessment Centre Method
4. Human Resource Accounting
5. BARS Method
6. 360 Degree Performance Appraisal
7. Potential Appraisal

TRADITIONAL METHODS OF PERFORMANCE APPRAISAL

* The Traditional Methods of Performance Appraisal are as follows :

* **1. Ranking Method :** It is the oldest and simplest formal systematic method of performance appraisal in which employee is compared with all others for the purpose of placing order of worth . The employees are ranked from the highest to the lowest or from the best to the worst .

* **2. Paired Comparison Method :** In this method, each employee is compared with other employees on one-on one basis, usually based on one trait only . The rater is provided with a bunch of slips each coining pair of names, the rater puts a tick mark against the employee whom he insiders the better of the two . The number of times this employee is compared as better with others determines his or her final ranking .

* **3. Graphic Scale Method :** The Graphic Scale technique is simplest technique for appraising performance . It is also known as linear rating scale method . In this method, the printed appraisal form is used to appraise each employee . The form lists traits and a range of job performance characteristics for each trait . This method is good for measuring various job behaviours of an employee .

* **4. Forced Distribution Method :** This method was evolved by Tiffen to eliminate the central tendency of rating most of the employees at a higher end of the scale . The method assumes that employees performance level confirms to a normal statistical distribution . This is useful for rating a large number of employees job performance and promo ability . It tends to eliminate or reduce bias . It is also highly simple to understand and easy to apply in appraising the performance of employees in organizations .

* **5. Checklist Method :** The basic purpose of utilizing check-list method is to ease the evaluation burden upon the rater . In this method, a series of statements are prepared by the HR Department . The Check-list is presented to the rater to tick appropriate answers relevant to the appraisee . Ech Question carries a weight-age in relationship to their importance . When the Check-list is completed, it is sent to the HR Department to prepare the final scores for all appraises based on all questions .

TRADITIONAL METHODS OF PERFORMANCE APPRAISAL (CONTINUE)

* **6. Field Review Method :** In this method, when there is a reason to suspect rater's biasedness or his or her rating appears to be quite higher than others, these are neutrailsed with the help of a review process . The Field Review method is usually conducted by the personnel officer in the HR Department .

* **7. Confidential Report Method :** It is the traditional way of appraising employees mainly in the Government Departments . Evaluation is made by the immediate boss or supervisor for giving effect to promotion and transfer . Usually a structured format is devised to collect information on employee's strength, weakness, intelligence, attitude, character, attendance, discipline, etc. report .

* **8. Forced-Choice Method :** The Forced-choice method is developed by J.P. Guilford . It contains a series of groups of statements, and rater rates how effectively a statement describes each individual being evaluated . Common method of forced-choice method contains two statements, both positive and negative .

* **9. Critical Incident Method :** In this method, the rater focuses his or her attention on those key or critical behaviours that make the difference between performing a job in a noteworthy manner . The basic idea behind this method is to appraise the workers who can perform their jobs effectively in critical situations . This is so because most people work alike in normal situation . The strength of critical incident method is that it focuses on behaviours and, thus, judge's performance rather than personalities .

MODERN METHODS OF PERFORMANCE APPRAISAL

* **The Modern Methods of Performance Appraisal are as follows :**

* **1. Mangement By Objectives (MBO) :** Peter F. Drucker propounded a new concept, namely, Management By Objectives (MBO) way back in 1954 in his book . MBO requires the manager to goals with each employee and then periodically discuss his or her progress toward these goals . In fact, MBO is not only a method of performance evaluation . It is viewed by the Practicing managers and pedagogues as a philosophy of mangerial practice because it is a method by which managers and subordinates plan, organize, communicate, control and debate .

* **2. Grading Method :** In this method, certain categories of worth are established in advance and carefully defined . There can be three categories established for employees : outstanding, satisfactory and unsatisfactory . There can be more than three grades . Employee Performance is compared with grade definitions . The employee is, then, allocated to the grade that best describes his or her performance .

* **3. Assessment Centre Method :** The introduction of the concept of assessment centres as a method is traced back in 1930s in the Germany used to appraise its army officers . In business field, Assessment Centres are mainly used for evaluating executive or supervisory potential . An Assessment Centre is a central location where mangers come together to participate in well-designed simulated exercises . They are assessed by senior managers supplemented by the psychologists and the HR specialists for 2-3 days .

* **4. Human Resource Accounting :** Human Resource Accounting (HRA) is a method to measure the effectiveness of personnel management activities and the use of people in an organization . HRA is the process of assigning, budgeting and reporting the cost of human resources incurred in an organization, including wages and salaries and training expenses . In this method the performance appraisal of the employees is judged in terms of cost and contribution of the employees .

MODERN METHODS OF PERFORMANCE APPRAISAL (CONTINUE)

* **5. Behaviourally Anchored Rating Scales (BARS) Method :** BARS are descriptions of various degrees of behaviour with regard to a specific performance dimension . This method combines the benefits of narratives, critical incidents, and quantified ratings by anchoring a qualified scale with specific behavioural examples of good or poor performance . The proponents of BARS claim that it offers better and more equitable appraisals than do the other techniques of performance appraisal .

* **6. 360 - Degree Performance Appraisal Method :** This method is generally used for ascertaining training and development requirements , rather than for pay increases . Under 360 – Degree Appraisal, performance information such as employee's skills, abilities, and behaviours, is collected "all around" an employee, i.e. from his or her supervisors, subordinates, peers and even customers and clients .

* **7. Potential Appraisal :** Potential Appraisal is a future-oriented appraisal methodn whose main objective is to identify and evaluate the potential of the employees to assume higher positions and responsibilities in the organizational hierarchy . Many organizations consider and use potential appraisal as a part of the performance appraisal processes .

PROCESS OF PERFORMANCE APPRAISAL

Establishing Performance Standards

Communicating Standards and Expectations

Measuring the Actual Performance

Comparing with Standards

Discussing Results (Providing Feedback)

Decision Making – Taking Corrective Actions

PROCESS OF PERFORMANCE APPRAISAL (CONTINUE)

* **1. Establishing Performance Standards :** The first step in the process of Performance Appraisal is the setting up of the standards which will be used as the base to compare the actual performance of the employees . This step requires setting the criteria to judge the performance of the employees as successful or unsuccessful and the degrees of their contribution to the organizational goals and objectives .

* **2. Communicating the Standards :** Once set, it is the responsibility of the management to communicate the standards to all the employees of the organization . This will help them to understand their roles and to know what exactly is expected from them .

* **3. Measuring the Actual performance :** The most difficult part of the Performance Appraisal process is measuring the actual performance of the employees, i.e. the work done by the employees during the specified period of time . It is a continuous process which involves monitoring the performance throughout the year .

PROCESS OF PERFORMANCE APPRAISAL (CONTINUE)

* **4. Comparing the Actual With the Desired Performance :** The actual performance is compared with the desired or the standard performance . The comparison tells the deviations in the performance of the employees from the standards set .

* **5. Discussing Results :** The result of the appraisal is communicated and discussed with the employees on one-to-one basis . The feedback should be given with a positive attitude as this can have an effect on the employees' future performance . The purpose of the meeting should be to solve the problems faced and motivate the employees to perform better .

* **6. Decision Making :** The last step of the process is to take decisions either to improve the performance of the employees, take the required corrective actions, or the related HR Decisions like rewards, promotions, demotions, transfers etc.

ADVANTAGES OF PERFORMANCE APPRAISAL

ADVANTAGES OF PERFORMANCE APPRAISAL

* **1. Performance Improvement :** Appraisal system always aim at improving the performance of employees . It helps to analyze and evaluate opportunity factors such as technology and social process .

* **2. Development of Employees :** Appraisal systems determine which employee needs more training and becomes primary source of information regarding the strengths and potentialities of the employees .

* **3. Corrective Actions :** Any deficiency of employees can be detected and corrective steps can be taken through appraisal system .

* **4. Career Planning :** Performance Appraisal serves as a valuable tool in the case of career planning to the employees, since it helps in preparing SWOT Analysis of every employee .

ADVANTAGES OF PERFORMANCE APPRAISAL (CONTINUE)

* **5. Promotions :** Performance Appraisal also helps the management in deciding about the promotions, transfers and rewards of the employee .

* **6. Motivation :** It is a tool for motivating employees towards higher performance .

* **7. Other Benefits :**

(a) Performance Appraisal plans help the management provide systematic judgments to back up salary increases, transfers, promotions, and demotions regarding the employees .

(b) Superiors can guide the subordinates by making them aware of 'where they stand' .

(c) Performance Appraisal becomes the bare for coaching and counseling of individual employees by the superiors .

DISADVANTAGES OF PERFORMANCE APPRAISAL

DISADVANTAGES OF PERFORMANCE APPRAISAL (CONTINUE)

* **1. The Halo Effect :** Halo effect is defined as the 'influence of a rater's general impression on ratings of specific rate qualities' .It tends to occur when an evaluation rates an employee high on all jobs criteria, even if he has performed well only in one area .

* **2. Contrast Error :** The rating is always based on performance standards . The contrast error occurs when employee is rated without taking into account the performance standard . This can also occur if a rater compares an employee's present performance with their past performance .

* **3. Rater Bias :** The rater's prejudices and biasness can also influence rating . For example, a supervisor can underrate an employee based on race, sex, religion, appearance and favouritism .

* **4. Central Tendency Error :** When the supervisor rates all the employees within a narrow range, thinking all employees are of average level, this type of error occurs .

DISADVANTAGES OF PERFORMANCE APPRAISAL (CONTINUE)

* **5. Leniency or severity :** Performance Appraisal demands that the rater should objectively draw a conclusion about employee's performance .

* **6. Sampling Error :** If the rater uses a very small sample of the employee's work, it may be subject to sampling error .

* **7. Primary and regency errors :** Behaviour of an employee at the initial stage of rating and at the end of appraisal can affect the rating . For example, a salesman's performance may be very low for some part for the year .