

ABM MODULE – B

Chapter 14: Performance Management (PART-I)

What we will study?

***What is Performance Management?**

INTRODUCTION:

Performance of employees is the key to the success of any organization.

The main purpose of human Resource Development is to develop people in the organization and to ensure that an atmosphere is created and maintained in which the employees contribute their best.

It is, therefore, logical that their performance on the job is measured so that what they have contributed is known and made known.

If there are any areas of improvement, they have to be afforded an opportunity to do so.

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Flippo says, “no company has a choice as to whether or not it should appraise its personnel and their performance, it is inevitable that the performance of the hired person will be evaluated by someone at some time. The choice is one of the methods.”

He further describes the choices the organisation has in this regard:

- *a casual, unsystematic and haphazard appraisal,
- *a traditional and systematic measurement of employee characteristics and employee contribution,
- *mutual goal setting, i.e., Management by Objectives (MBO).

Performance appraisal is a process by which the management finds out how effective it has been in hiring and placing the employees.

Definitions:

Heyel defines performance appraisal as “a process of evaluating the performance and qualifications of

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the employees in terms of requirements of the job for which they are employed, for the purposes of administration including placement, selection for promotions, providing financial rewards and other actions which require differential treatment among the members of a group as distinguished from actions affecting all members equally.”

Monappa and Mirza Saiyadain put it as ‘a systematic evaluation of personnel by supervisors or others familiar with their performance because employers are interested in knowing about employee performance. Employees also wish to know their position in the organisation.’

From these definitions it is clear that performance appraisal is an important tool by which the organisations review employee performance, take corrective steps through training, interventions or placement decisions, reward good performance and attempt to take the employee performance to a higher level.

APPRAISAL SYSTEMS:

Performance appraisal is an organisational necessity. Various appraisal systems have evolved over a period of time.

These systems vary from simple to complex, from vague to objective, from unstructured to structured and from confidential to open.

An organisation has the option to device its own system or can adopt, with certain modifications, some other's system.

What system one should choose will depend on whether it fulfills the objectives the organisation wants the system to serve.

Indeed, the system's success depends on the time it takes to carry out the appraisal exercise and how easily people adopt the system.

An informal appraisal system is possible in a very small organisation where the employee's contribution is readily visible. However, this is not a scientific way.

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The organisation may grow over a period of time and it may be necessary to have a record of one's achievements or failures.

This emphasises the need for having a systematic appraisal system.

Objectives of Performance Appraisal System:

It is possible to achieve several objectives with a well-designed performance appraisal.

As observed by **McGregor** the performance appraisal plans meet **three needs**:

- 1- **Judgmental** – for salary increases, transfers and promotions;
- 2- **Developmental** – telling an employee how is he doing and suggesting changes in his skills, attitudes, behaviour;
- 3- **Counselling by the superior** – for giving feedback and understanding problems for poor performance.

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Many of the experts, however, consider that it serves **two needs**, i.e. **judgmental** and **developmental**; counselling being part of developmental need.

The overall objective of the performance appraisal is to improve the efficiency of the organisation.

The specific objectives the system achieves could be summarised as under:

- 1- to enable the organisation to maintain an inventory of the quality and skills of people and identify and meet their training needs;
- 2- to determine the performance-linked increments and provide data for promotions and transfers;
- 3- to maintain individual and group development and fulfil their aspirations by sharing with them their standard of observed performance and help them reach the benchmarks by skill upgradation programmes.

Performance appraisal is an important tool both for the organisation and the employee.

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If the objectives are well defined and understood by the parties concerned, its implementation becomes easy and meaningful.

It will then be in a position to reach a multi-useable level.

Uses of Performance Appraisal:

Having seen the objectives of the performance appraisal system, it is relatively easy to list down its various uses.

It is a tool to evaluate objectively the performance of the employees on the given job.

While doing so, it also throws light on the characteristics and traits of the employees.

Data on these from these aspects of the employee's personality can be useful for certain personnel decisions.

Viewed from this angle, the wide range uses of the system are:

*It rates all the employees in a unified manner by using the same rating scales and thus making them

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comparable on a common footing.

*It provides information which could be critical while deciding on promotion, pay increases, transfers, training, etc.

*It provides information about the areas of weaknesses of the employee to enable initiation of corrective steps.

*It improves the quality of supervision as the supervisor becomes a keen observer.

*The system, if implemented with openness and trust, ensures better interpersonal relations between the employee and his supervisor.

However, in practice, the system is generally criticised by the employees due its failure to meet one or the other objectives mentioned above.

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Chapter 14: Performance Management (PART-II)

What we will study?

***What is Performance Appraisal Process?**

Performance Appraisal Process:

To achieve the objective and to be in a position to use the system to the fullest extent, the organization has to choose an appropriate method from the various alternative methods.

Depending on its requirements and objectives, the chosen method can be modified suitably.

However, before deciding upon which method to adopt, it is necessary to understand the evaluation process.

There are following steps in the evaluation process:

1. The process begins with the organization setting the “Performance standards’ in advance.

These standards should be clear, realistic and measurable.

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It is advisable to involve the line managers in the exercise as they understand the nuances and nitty-gritty of the job.

2. The performance standards then are required to be communicated to the employees.

3. The next stage is to measure the performance. It can be done through the data available with the department, personal observations, and feedback from the appraisee.

4. Performance level of the employee is then compared with the benchmark or standard already established. Deviations are discussed and the reasons for deviations are noted.

5. The outcome is discussed with the employee, emphasising the strong points and counselling him on the weak points.

6. The last step is to initiate corrective measures and act on the positive performance by deciding on various incentives like increments, promotions, training needed, etc.

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The above steps seem quite simple and logical to be followed.

But there are only few organisations that take the appraisal process seriously and observe all these stages.

Apart from this, there are genuine difficulties in setting performance standards as many of the jobs involve sets of steps or actions which cannot be quantified or measured easily.

Special attention needs to be paid to these steps as otherwise the tool loses its credibility and the employee loses his faith in the system.

Many a problem stem from such dissatisfaction of the staff with respect to the appraisal system.

There are different methods of performance appraisal.

They can be grouped as **traditional methods** and **modern methods**.

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While the traditional methods emphasise on rating the individual's **personality traits**, the modern methods lay importance on the **results - job achievement** rather than on personality.

It is believed that concentrating more on the end results makes the process more objective.

Following is the list of the traditional and modern methods:

Traditional Methods:

1-Free Form Essay Method

2-Straight Ranking Method

3-Comparison Method

4-Grading Method

5-Graphic Rating Scale or Linear Rating Scales

6-Forced Distribution Method

7-Forced Choice Description Method

8-Group Appraisal Method

Modern Methods:

- 1-Assessment Centre Workshops
- 2-Management by Objectives (MBO)
- 3-Human Asset Accounting Method
- 4-Behaviourally Anchored Rating Scales (BARS)
- 5-360 Degree Appraisal Method

Let us now discuss these methods with their merits and demerits:

Traditional Methods:

Free Form Essay Method:

It is totally unstructured method of appraisal.

In this method, the appraiser makes a free form, open-ended appraisal of the employee.

The system thus gives absolute freedom to the superior to write about the job knowledge, employee's attitudes, development needs, etc.

The drawback of the system is that it could lead to a totally subjective evaluation and comparison

between two employees is difficult.

This type of appraisal system is generally used to appraise the top management.

Straight Ranking Method:

This is the oldest and simple method of performance appraisal.

The relative position of each employee is assessed.

People are rated in order of merit and placed in a grouping.

The system obviously suffers from numerous drawbacks such as it is difficult to compare an individual with others having varying behaviour traits.

Comparison Method:

This is a modification of the earlier method where each employee is compared on certain selected factors such as leadership, initiative, etc.

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This method is also known as factor comparison method.

When the number of employees is large it becomes difficult to compare and rank them on different attributes.

In case of large number of employees, **the pared comparison method** is quite useful where two employees are compared at a time and the overall ranking is worked out by taking into account how many times an employee was preferred in comparison with other employees.

Grading Method:

This is a simple method where certain features are considered for grading, such as analytical ability, job knowledge, etc.

Certain scales are then decided and the employee is graded on those features on the scale.

The scale could be A: outstanding; B: very good; C: average; D: below average.

This is a widely used method.

Graphic or Linear Rating Method:

This is another most commonly used method.

The method considers two factors: employee characteristics and contribution.

Personal qualities such as initiative, dependability, decisiveness, etc., are measured.

With regard to contribution, both quality and quantity of work are considered.

While measuring contribution, weightages are assigned to both the quality and quantity. Rating is on a continuous scale.

The drawback of the system is that the rating generally tends to be subjective.

The system assumes each character to be equally important for all jobs.

Forced Choice Description and Forced Distribution Methods:

These methods force the superior to make his choices.

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The underlying idea is to minimise the bias.

The employee is rated on a predetermined distribution scale.

The factors normally considered are job performance and suitability for promotion.

In the choice description method the superior is asked to select the statements which best describe the employee.

The statements are predetermined sets of description of people.

Group Appraisal Method:

This is a method in which employees are rated by a group of appraisers consisting of the immediate supervisor and three or four others, who have some knowledge of the performance of the employee.

The advantage is that it is a thorough method with least bias as it involves multiple raters.

But it is a very time consuming process and may get reduced to just a ritual if the number of employees to be rated is high.

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Chapter 14: Performance Management (PART-III)

What we will study?

***What are the modern methods of Performance Appraisal?**

Modern Methods:

1-Assessment center workshops:

This is a modern method of assessment.

It is a radically different method from the traditional appraisal techniques.

The method uses a number of assessors and different assessment tools in the form of activities.

**In a job-related simulated situation, the behavior of the employee is assessed through them
Performance on different activities/exercises such as group discussion, business game, in-basket exercise, committee meeting, psychometric tests, etc.**

Purpose of Assessment Centre:

1. to measure the potential of the candidate for higher managerial position;
2. to assess training and development needs;
3. to select candidates in campus recruitment or fresh students for employment;
4. to identify future potential leaders.

The Assessment Centre generally measures interpersonal skills, leadership qualities, organising and planning abilities, problem-solving abilities, stress tolerance capacity, motivational orientation and communication skills of the candidates.

The drawback of the Assessment Centre is that it is a time consuming activity.

Good performers are averse to the idea of exam-taking.

It also requires highly trained observers to assess various personality traits and behaviour pattern of candidates.

2-Management By Objectives (MBO):

This method attempts to minimise external controls and emphasises on the motivation levels of the employees.

This is sought to be achieved through joint goal setting and the employee participation in the decisions that directly affect him.

The objective of the MBO is to change the behaviour and attitude in respect of getting the results. It is a result-oriented system.

The system emphasises on goal achievement rather than the method involved.

MBO Process:

1. The organisational goals are first set and are clearly stated in measurable targets.

These goals have to be realistic and achievable, although challenging.

2. The goal setting process is a joint process. The short-term performance goals are set jointly by the employees and their superiors.

3. There are frequent reviews of performance through one to one meetings.
4. Sharing of feedback in such meetings helps in altering the course of action, if required.

It acts as a motivating factor as one gets to know where he stands through the feedback session.

It is, therefore, a process of setting goals, exchanging feedback and seeking participation of employees.

Advantages of MBO:

1. It involves participative approach in goal-setting.
2. It enhances the motivational levels of the employees.
3. It creates an atmosphere of competition within the organisation for enhanced performance.
4. It provides objective appraisal method.
5. Problems can be identified in the early stages through reviews and feedback sessions.

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6. It is an effective tool for identifying the training and development needs.

Disadvantages of MBO:

1. It is a system which concentrates on results and not on the process.
2. It may lead to unhealthy competition amongst the employees.
3. It may create a conflicting situation when it comes to goal-setting.
4. Sometimes, very soft targets are set to show higher performance achievement.

3-Human Asset Accounting Method:

In this method the employees of the organisation are treated as Human Capital and money estimates are attached to the value of an organisation's personnel and its external goodwill.

The principle behind this system is that, like any other asset, human asset is also valuable to the organisation.

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If any trained and experienced employee leaves, the human asset value depreciates and if someone joins the organisation bringing with him the skills and experience important to it, the human asset value increases.

The current value of the human asset is appraised by undertaking periodic measurements of two variables called '**key causal**' and '**intervening enterprise**'.

The first variable ('**key causal**') includes management policies, strategies, skills, etc.

The later ('**intervening enterprise**') includes loyalty, attitudes and motivation level, effective interaction, etc.

Again, this is not a method for individual performance measurement.

At best it can measure human performance of organisation as a whole in terms of increase or decrease in human asset or human capital value.

4-Behaviourally Anchored Rating Scales (BARS):

This is a new appraisal technique.

The jobs are described through illustrations or by giving critical incidents of effective and ineffective performance.

Based on these incidents a rating scale is devised.

A set of incidents are used as “behaviour anchors” for the performance dimensions.

While the system is reasonably objective, it is very time consuming.

BARS evaluates the performance in terms of critical employee behaviours.

Developing BARS typically requires five steps as follows:

- i. Identify effective and ineffective job behaviours to describe the performance measures.
- ii. Convert these job behaviours into set of performance dimensions.

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- iii. Job expert evaluates these dimensions keeping in view the job description and critical incidences.
- iv. Job experts rate the behavior described in the incident(s) as to how effectively or ineffectively it represents performance on the appropriate dimension
- v. A subset of the incidents is used as behavioural anchors for each identified.

5- 360 Degree Appraisal Method:

360 degree refers to full circle or all around the employee and the employee is in the centre.

Under this appraisal system an employee is rated by people who are affected by the performance of the employee and have adequate knowledge about his working and performance.

The appraisal is generally done by the seniors, colleagues (peers), subordinates, suppliers, customers and all other stakeholders.

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It also includes the self-assessment by the employee himself. Besides the performance appraisal, this system serves as a good feedback mechanism for the employee and the organisation for taking corrective measures and developmental initiatives to improve the performance.

Being a multi-rater appraisal system, it is likely to minimise human bias.