

# CHAPTER 9: Performance Appraisal



# INTRODUCTION

Performance appraisal is a systematic and objective way of evaluating both work related behaviour and potential of employees.



# Features of performance appraisal

- ❖ It is a systematic process, essentially involving three steps: set work standards, assess employee's performance relative to these standards, and offer feedback to the employee so that he or she can eliminate deficiencies and improve performance
- ❖ The appraisal is carried out periodically according to a definite plan
- ❖ It is not a past oriented activity. The intention is not to put poor performers in a spot. Instead, it shows employees where things have gone wrong, how to set things in order and deliver superior performance using their potential fully
- ❖ The focus of appraisals is on employee growth and development. It forces managers to be coaches rather than judges.



# Benefits

## Benefits of performance appraisal

### Employer perspective [Administrative uses]

- ❖ Despite imperfect measurement techniques, individual differences in performance can make a difference to company performance.
- ❖ Documentation of performance appraisal and feedback may be required for legal defence.
- ❖ Appraisal offers a rational basis for constructing a bonus or merit system.
- ❖ Appraisal dimensions and standards can help to implement strategic goals and clarify performance expectations.

### Employee perspective [developmental purposes]

- ❖ Individual feedback helps people to rectify their mistakes and get ahead, focusing more on their unique strengths.
- ❖ Assessment and reorganisation of performance levels can motivate employees to improve their performance.





# Performance Appraisal Programs

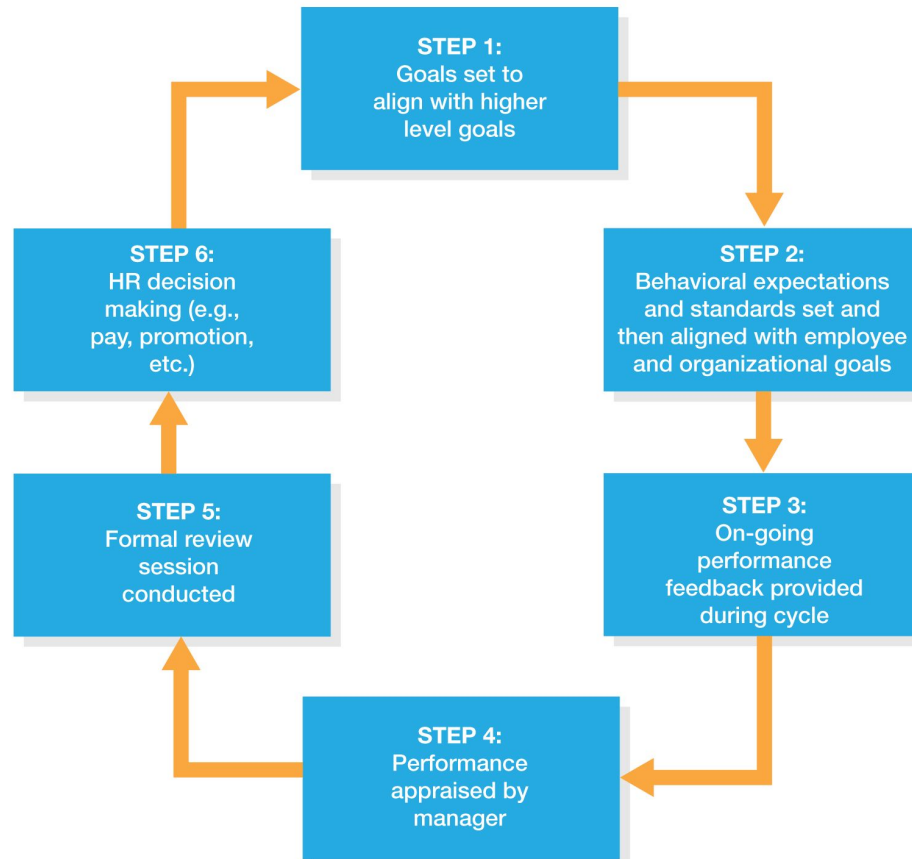
- **Performance Appraisal**
  - A process, typically performed annually by a supervisor for a subordinate, designed to help employees understand their roles, objectives, expectations, and performance success.
- **Performance Management**
  - The process of creating a work environment in which people can perform to the best of their abilities.



# Ongoing Performance Feedback

FIGURE  
8.1

Steps in the Performance Management Process

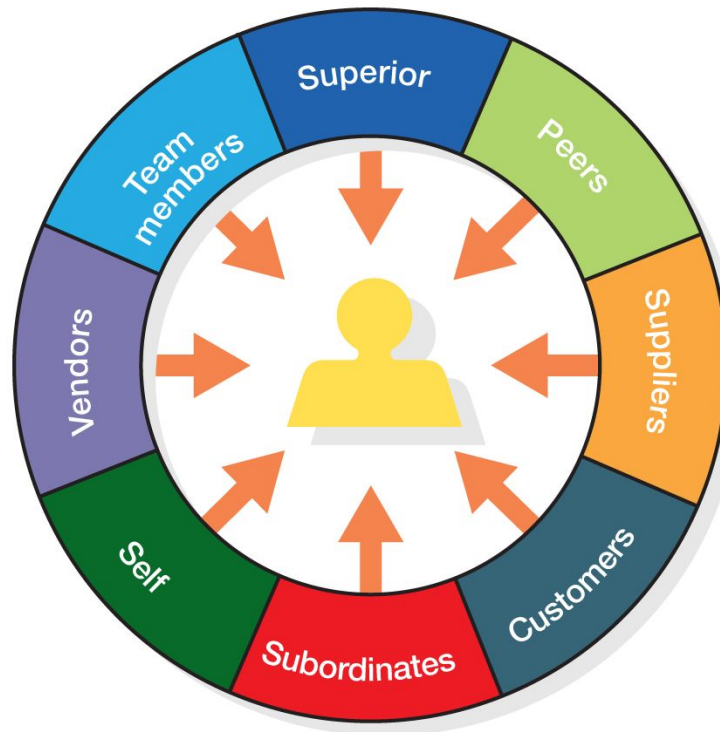




# Alternative Sources of Appraisal

FIGURE  
8.5

Alternative Sources of Appraisal





# Sources of Performance Appraisal

- **Manager and/or Supervisor**
  - Appraisal done by an employee's manager and reviewed by a manager one level higher.
- **Self-Appraisal**
  - Appraisal done by the employee being evaluated, generally on an appraisal form completed by the employee prior to the performance interview.
- **Subordinate Appraisal**
  - Appraisal of a superior by an employee, which is more appropriate for developmental than for administrative purposes.





## Sources of Performance Appraisal (cont.)

- Peer Appraisal

- Appraisal by fellow employees, compiled into a single profile for use in an interview conducted by the employee's manager.
- Why peer appraisals are not used more often:
  1. Peer ratings are simply a popularity contest.
  2. Managers are reluctant to give up control over the appraisal process.
  3. Those receiving low ratings might retaliate against their peers.
  4. Peers rely on stereotypes in ratings.



## **Sources of Performance Appraisal (cont.)**

- **Team Appraisal**
  - Based on TQM concepts; recognizes team accomplishment rather than individual performance
- **Customer Appraisal**
  - A performance appraisal that, like team appraisal, is based on TQM concepts and seeks evaluation from both external and internal customers



# Pros and Cons of 360-Degree Appraisal

## FIGURE 8.6

### Pros and Cons of 360-Degree Appraisal

#### PROS

- The system is more comprehensive in that responses are gathered from multiple perspectives.
- Quality of information is better. (Quality of respondents is more important than quantity.)
- It complements TQM initiatives by emphasizing internal/external customers and teams.
- It may lessen bias/prejudice since feedback comes from more people, not one individual.
- Feedback from peers and others may increase employee self-development.

#### CONS

- The system is complex in combining all the responses.
- Feedback can be intimidating and cause resentment if employee feels the respondents have “ganged up.”
- There may be conflicting opinions, though they may all be accurate from the respective standpoints.
- The system requires training to work effectively.
- Employees may collude or “game” the system by giving invalid evaluations to one another.
- Appraisers may not be accountable if their evaluations are anonymous.

Sources: Compiled from David A. Waldman, Leanne E. Atwater, and David Antonioni, “Has 360-Degree Feedback Gone Amok?” *Academy of Management Executive* 12, no. 2 (May 1998): 86–94; Bruce Pfau, Ira Kay, Kenneth Nowak, and Jai Ghorpade, “Does 360-Degree Feedback Negatively Affect Company Performance?” *HRMagazine* 47, no. 6 (June 2002): 54–59; Maury Peiperl, “Getting 360-Degree Feedback Right,” *Harvard Business Review* 79, no. 1 (January 2001): 142–47; Joyce E. Bono and Amy E. Colbert, “Understanding Responses to Multi-Source Feedback: The Role of Core Self-Evaluations,” *Personnel Psychology* 58, no. 1 (Spring 2005): 171–205.



## **360-Degree Performance Appraisal System Integrity Safeguards**

- Assure anonymity
- Make respondents accountable
- Prevent “gaming” of the system
- Use statistical procedures
- Identify and quantify biases



# Training Performance Appraisers

## Common rater-related errors

Error of central tendency

Leniency or strictness errors

Similar-to-me errors

Recency errors

Contrast and halo errors



# Rater Errors

- **Error of Central Tendency**
  - A rating error in which all employees are rated about average.
- **Leniency or Strictness Error**
  - A rating error in which the appraiser tends to give all employees either unusually high or unusually low ratings.
- **Recency Error**
  - A rating error in which appraisal is based largely on an employee's most recent behavior rather than on behavior throughout the appraisal period.



## **Rater Errors (cont.)**

- **Contrast Error**
  - A rating error in which an employee's evaluation is biased either upward or downward because of comparison with another employee just previously evaluated.
- **Similar-to-Me Error**
  - An error in which an appraiser inflates the evaluation of an employee because of a mutual personal connection.



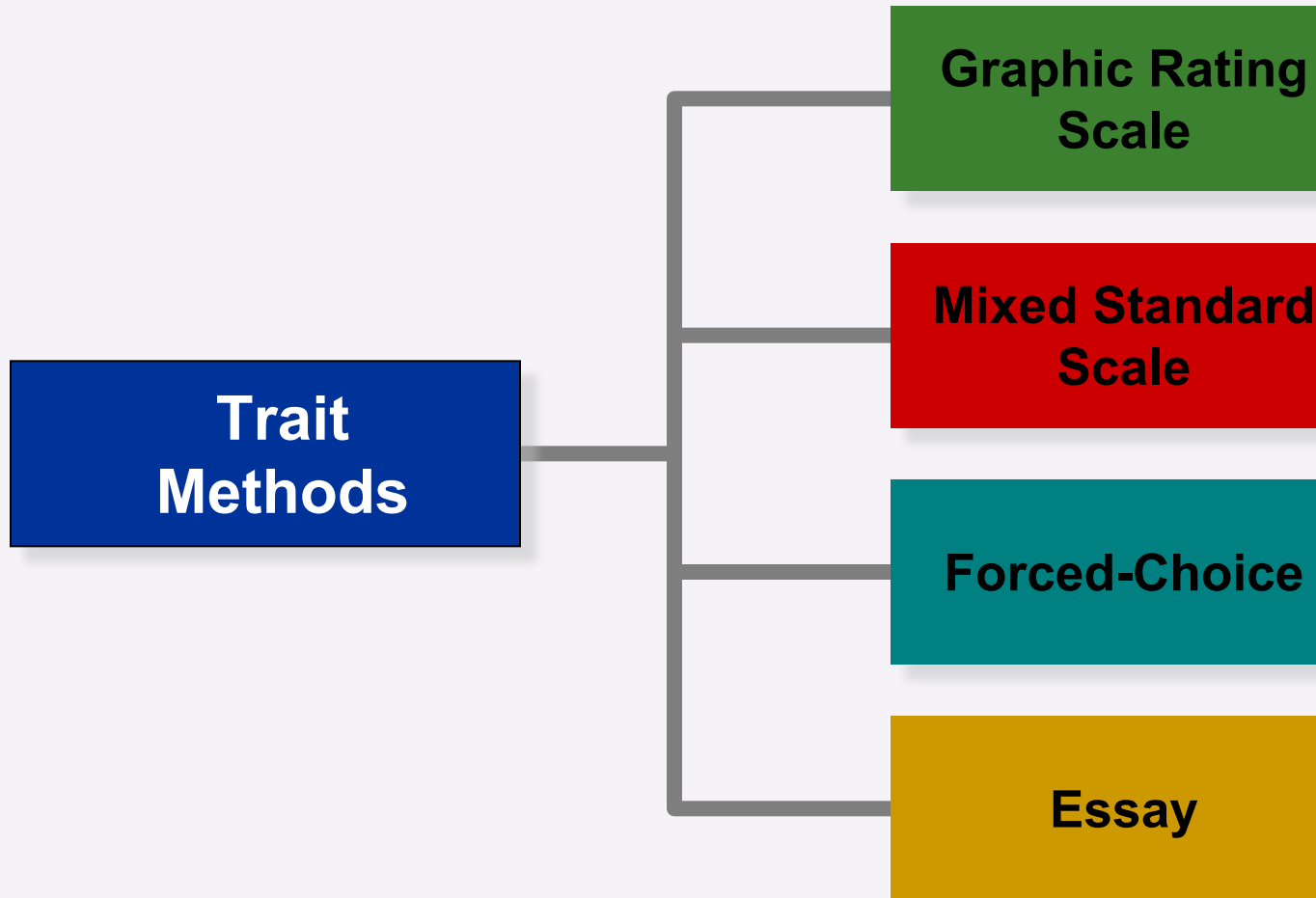
# Rater Errors: Training and Feedback

- **Rating Error Training**
  - Observe other managers making errors
  - Actively participate in discovering their own errors
  - Practice job-related tasks to reduce the errors they tend to make
- **Feedback Skills Training**
  - Communicating effectively
  - Diagnosing the root causes of performance problems
  - Setting goals and objectives





# Performance Appraisal Methods





## Trait Methods

- **Graphic Rating-Scale Method**
  - A trait approach to performance appraisal whereby each employee is rated according to a scale of individual characteristics.
- **Mixed-Standard Scale Method**
  - An approach to performance appraisal similar to other scale methods but based on comparison with (better than, equal to, or worse than) a standard.



## Trait Methods (cont.)

- **Forced-Choice Method**

- Requires the rater to choose from statements designed to distinguish between successful and unsuccessful performance.

1. \_\_\_\_\_ a) Works hard \_\_\_\_\_ b) Works quickly
2. \_\_\_\_\_ a) Shows initiative \_\_\_\_\_ b) Is responsive to customers
3. \_\_\_\_\_ a) Produces poor quality \_\_\_\_\_ b) Lacks good work habits

- **Essay Method**

- Requires the rater to compose a statement describing employee behavior.



# 2

## HIGHLIGHTS IN HRM

### Graphic Rating Scale with Provision for Comments



Appraise employee's performance in PRESENT ASSIGNMENT. Check (✓) most appropriate square. Appraisers are *urged to freely use* the "Remarks" sections for significant comments descriptive of the individual.

<b>1. KNOWLEDGE OF WORK:</b> Understanding of all phases of his/her work and related matters	Needs instruction or guidance <input type="checkbox"/>	Has required knowledge of own and related work <input type="checkbox"/>	Has exceptional knowledge of own and related work <input checked="" type="checkbox"/>
Remarks: <i>Is particularly good on gas engines.</i>			
<b>2. INITIATIVE:</b> Ability to originate or develop ideas and to get things started	Lacks imagination <input type="checkbox"/>	Meets necessary requirements <input checked="" type="checkbox"/>	Unusually resourceful <input type="checkbox"/>
Remarks: <i>Has good ideas when asked for an opinion, but otherwise will not offer them. Somewhat lacking in self-confidence.</i>			
<b>3. APPLICATION:</b> Attention and application to his/her work	Wastes time Needs close supervision <input type="checkbox"/>	Steady and willing worker <input checked="" type="checkbox"/>	Exceptionally industrious <input type="checkbox"/>
Remarks: <i>Accepts new jobs when assigned.</i>			
<b>4. QUALITY OF WORK:</b> Thoroughness, neatness, and accuracy of work	Needs improvement <input type="checkbox"/>	Regularly meets recognized standards <input type="checkbox"/>	Consistently maintains highest quality <input checked="" type="checkbox"/>
Remarks: <i>The work he turns out is always of the highest possible quality.</i>			
<b>5. VOLUME OF WORK:</b> Quantity of acceptable work	Should be increased <input type="checkbox"/>	Regularly meets recognized standards <input checked="" type="checkbox"/>	Unusually high output <input type="checkbox"/>
Remarks: <i>Would be higher if he did not spend so much time checking and rechecking his work.</i>			



# 3

## HIGHLIGHTS IN HRM

### Example of a Mixed-Standard Scale



DIRECTIONS: Please indicate whether the individual's performance is above (+), equal to (0), or lower than (–) each of the following standards.

1. \_\_\_\_\_ Employee uses good judgment when addressing problems and provides workable alternatives; however, at times does not take actions to prevent problems. (*medium PROBLEM-SOLVING*)
2. \_\_\_\_\_ Employee lacks supervisory skills; frequently handles employees poorly and is at times argumentative. (*low LEADERSHIP*)
3. \_\_\_\_\_ Employee is extremely cooperative; can be expected to take the lead in developing cooperation among employees; completes job tasks with a positive attitude. (*high COOPERATION*)
4. \_\_\_\_\_ Employee has effective supervision skills; encourages productivity, quality, and employee development. (*medium LEADERSHIP*)
5. \_\_\_\_\_ Employee normally displays an argumentative or defensive attitude toward fellow employees and job assignments. (*low COOPERATION*)
6. \_\_\_\_\_ Employee is generally agreeable but becomes argumentative at times when given job assignments; cooperates with other employees as expected. (*medium COOPERATION*)
7. \_\_\_\_\_ Employee is not good at solving problems; uses poor judgment and does not anticipate potential difficulties. (*low PROBLEM-SOLVING*)
8. \_\_\_\_\_ Employee anticipates potential problems and provides creative, proactive alternative solutions; has good attention to follow-up. (*high PROBLEM-SOLVING*)
9. \_\_\_\_\_ Employee displays skilled direction, effectively coordinates unit activities, is generally a dynamic leader, and motivates employees to high performance. (*high LEADERSHIP*)

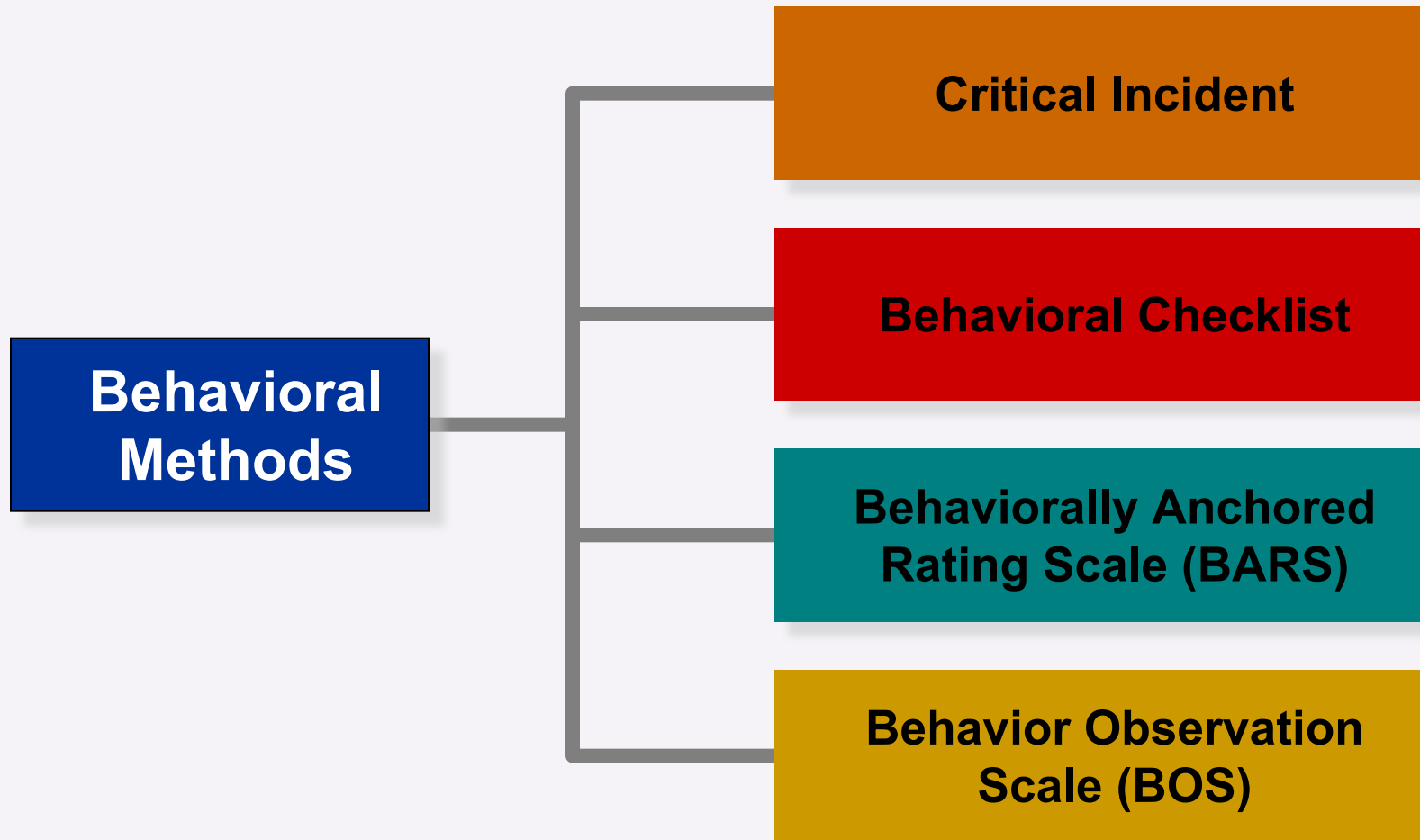


## Trait Methods

- **Forced-Choice Method**
  - Requires the rater to choose from statements designed to distinguish between successful and unsuccessful performance.
  - 1. \_\_\_\_\_ a) Works hard \_\_\_\_\_ b) Works quickly
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- **Essay Method**
  - Requires the rater to compose a statement describing employee behavior.



# Behavioral Methods





## **Behavioral Methods (cont.)**

- **Critical Incident Method**
  - Critical incident
    - An unusual event that denotes superior or inferior employee performance in some part of the job
    - The manager keeps a log or diary for each employee throughout the appraisal period and notes specific critical incidents related to how well they perform.
- **Behavioral Checklist Method**
  - The rater checks statements on a list that the rater believes are characteristic of the employee's performance or behavior.





## **Behavioral Methods (cont.)**

- **Behaviorally Anchored Rating Scale (BARS)**
  - Consists of a series of vertical scales, one for each dimension of job performance; typically developed by a committee that includes both subordinates and managers.
- **Behavior Observation Scale (BOS)**
  - A performance appraisal that measures the frequency of observed behavior (critical incidents).
  - Preferred over BARS for maintaining objectivity, distinguishing good performers from poor performers, providing feedback, and identifying training needs.



# 4

## HIGHLIGHTS IN HRM BARS and BOS Examples



### Example of a BARS for Municipal Fire Companies

**FIREFIGHTING STRATEGY: Knowledge of Fire Characteristics.** This area of performance concerns the ability of a firefighter to understand fire characteristics to develop the best strategy for fighting a fire.

HIGH	7	—Finds the fire when no one else can
	6	—Correctly assesses best point of entry for fighting fire
	5	—Uses type of smoke as indicator of type of fire
AVERAGE	4	—Understands basic hydraulics
	3	—Cannot tell the type of fire by observing the color of flame
	2	—Cannot identify location of the fire
LOW	1	—Will not change firefighting strategy in spite of flashbacks and other signs that accelerants are present

Source: Adapted from Landy, Jacobs, and Associates. Reprinted with permission.

### Sample Items from Behavior Observation Scales

For each behavior observed, use the following scale:

5 represents <i>almost always</i>	95–100% of the time
4 represents <i>frequently</i>	85–94% of the time
3 represents <i>sometimes</i>	75–84% of the time
2 represents <i>seldom</i>	65–74% of the time
1 represents <i>almost never</i>	0–64% of the time

SALES PRODUCTIVITY	NEVER					ALWAYS				
1. Reviews individual productivity results with manager	1	2	3	4	5					
2. Suggests to peers ways of building sales	1	2	3	4	5					
3. Uncovers specific needs for each contact	1	2	3	4	5					
4. Keeps account plans updated	1	2	3	4	5					
5. Follows up on customer leads	1	2	3	4	5					



# Results Methods

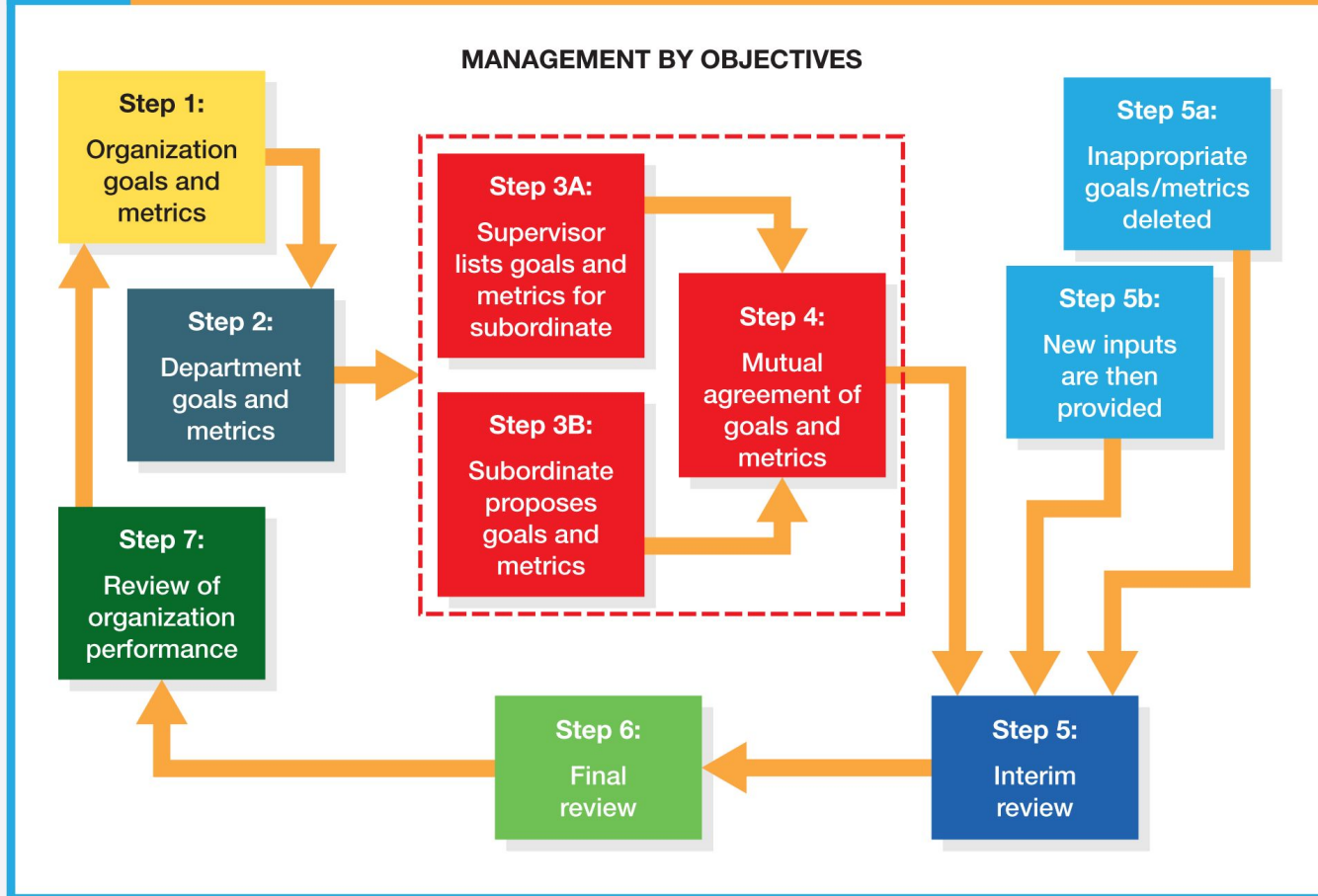
- **Productivity Measures**
  - Appraisals based on quantitative measures (e.g., sales volume) that directly link what employees accomplish to results beneficial to the organization.
    - Criterion contamination
    - Focus on short-term results
- **Management by Objectives (MBO)**
  - A philosophy of management that rates performance on the basis of employee achievement of goals set by mutual agreement of employee and manager.



# Performance Appraisal Under an MBO Program

FIGURE  
8.7

Performance Appraisal under an MBO Program





# Creating an Effective MBO Program

1. Managers and employees must be willing to establish goals and objectives together.
2. Objectives should be quantifiable and measurable for the long and short terms.
3. Expected results must be under the employee's control and free from criterion contamination.
4. Goals and objectives must be consistent for each employee level (top executive, manager, and employee).
5. Managers and employees must establish specific times when the goals are to be reviewed and evaluated.



# The Balanced Scorecard

- The appraisal focuses on four related categories
  - Financial, customer, processes, and learning
- Ensuring the method's success:
  - Translate strategy into a scorecard of clear objectives.
  - Attach measures to each objective.
  - Cascade scorecards to the front line.
  - Provide performance feedback based on measures.
  - Empower employees to make performance improvements.
  - Reassess strategy.



# 5

## HIGHLIGHTS IN HRM Personal Scorecard



### CORPORATE OBJECTIVES

- Double our corporate value in seven years.
- Increase our earnings by an average of 20% per year.
- Achieve an internal rate of return 2% above the cost of capital.
- Increase both production and reserves by 20% in the next decade.

- ☒ Corporate
- ☐ Business Unit
- ☐ Team/Individual

Corporate Targets				Scorecard Measures	Bus. Unit Targets				Team/Individual Objectives
2005	2006	2007	2008		2005	2006	2007	2008	
				<b>Financial</b>					1.
100	120	160	180	Earnings (millions of dollars)					
100	450	200	210	Net cash flow					
100	85	75	70	Overhead and operating costs					2.
				<b>Operating</b>					
100	75	73	70	Production costs/barrel					
100	97	93	90	Development costs/barrel					
100	105	108	110	Total annual production					3.
<b>Team/Individual Measures</b>					<b>Targets</b>				
1.									
2.									4.
3.									

Source: Adapted from Robert Kaplan and David Norton, "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review* (January–February 1996): 75–85.



# Summary of Appraisal Methods

## FIGURE 8.8

### Summary of Various Appraisal Methods

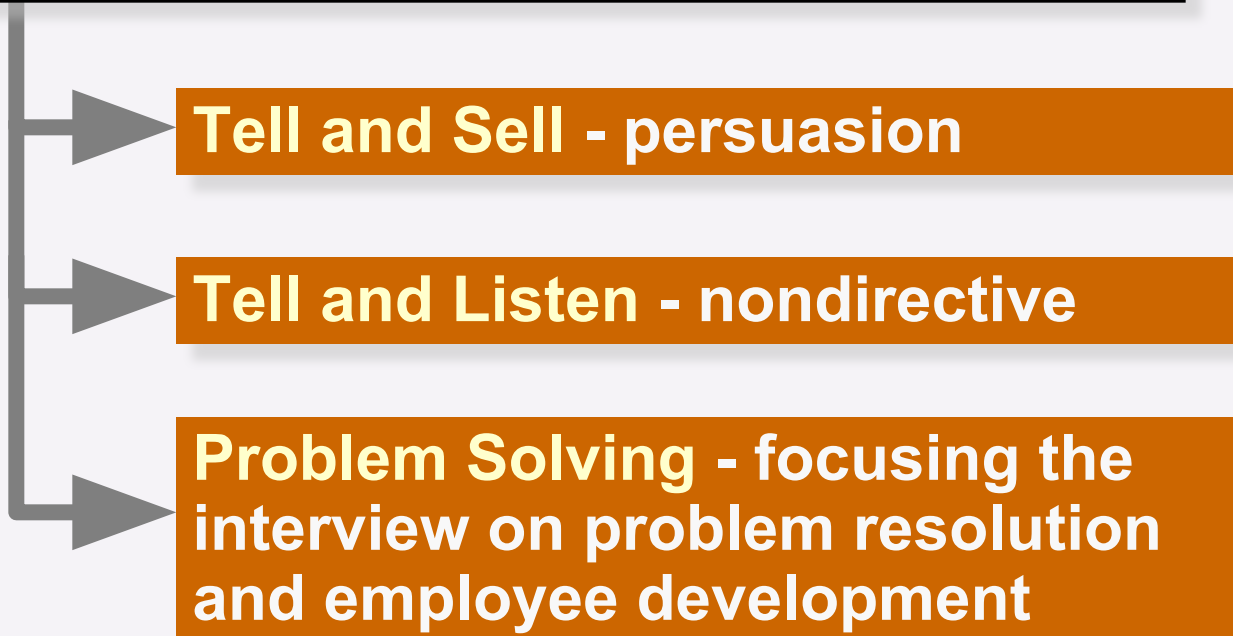
	ADVANTAGES	DISADVANTAGES
Trait Methods	<ol style="list-style-type: none"><li>1. Are inexpensive to develop</li><li>2. Use meaningful dimensions</li><li>3. Are easy to use</li></ol>	<ol style="list-style-type: none"><li>1. Have high potential for rating errors</li><li>2. Are not useful for employee counseling</li><li>3. Are not useful for allocating rewards</li><li>4. Are not useful for promotion decisions</li></ol>
Behavioral Methods	<ol style="list-style-type: none"><li>1. Use specific performance dimensions</li><li>2. Are acceptable to employees and superiors</li><li>3. Are useful for providing feedback</li><li>4. Are fair for reward and promotion decisions</li></ol>	<ol style="list-style-type: none"><li>1. Can be time-consuming to develop/use</li><li>2. Can be costly to develop</li><li>3. Have some potential for rating error</li></ol>
Results Methods	<ol style="list-style-type: none"><li>1. Have less subjectivity bias</li><li>2. Are acceptable to employees and superiors</li><li>3. Link individual performance to organizational performance</li><li>4. Encourage mutual goal setting</li><li>5. Are good for reward and promotion decisions</li></ol>	<ol style="list-style-type: none"><li>1. Are time-consuming to develop/use</li><li>2. May encourage a short-term perspective</li><li>3. May use contaminated criteria</li><li>4. May use deficient criteria</li></ol>





# Appraisal Interviews

## Types of Appraisal Interviews





# Factors That Affect an Employee's Performance

**FIGURE**  
**8.9**

## Factors That Affect an Employee's Performance

### **MOTIVATION**

- Career ambition
- Goals and expectations
- Job satisfaction and frustrations
- Fairness perceptions
- Relations with coworkers

### **ENVIRONMENT**

- Equipment/materials
- Job design
- Economic conditions
- Unions
- Rules and policies
- Managerial support
- Laws and regulations

### **ABILITY**

- Technical skills
- Interpersonal skills
- Problem-solving skills
- Analytical skills
- Communication skills
- Physical limitations



# Managing Ineffective Performance

- Possible Courses of Action
  - Provide training to increase skills and abilities
  - Transfer employee to another job or department
  - Attention of actions to motivate employee
  - Take disciplinary action
  - Discharge the employee
- Cautions
  - All actions taken must be objective and fair.
  - Do not treat underperformer differently, setting the employee up to fail.



- References
- G. Dessler and B. Varrkey, Human Resource Management, 15e. Pearson Education India, 2005.
- V. S. P. Rao and V. H. Krishna, Management: Text and cases. Excel Books India, 2009.
- K. Aswathappa, Human resource management: Text and cases. Tata McGraw-Hill Education, 2013.

Thank you