

PERFORMANCE MANAGEMENT

CH – 14 Module B ABM By Ashish Sir

- Performance of employees is the key to success of any organisation.
- Main purpose of human resource development is to develop people in the organisation and to ensure that an atmosphere is created and maintained in which the employees contribute their best.

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

It is an **important tool** by which the organisations **review employee performance, take corrective steps** through **training, interventions for placement decisions, reward good performance and attempted** to take the employee performance to a higher level.

HEYEL defined it as *“a process of evaluating the performance and qualifications of the employees in terms of requirement of*

the job for which they are employed, for the purpose of administration including placement, selection for promotion, for financial rewards and other actions”.

APPRAISAL SYSTEM

- It can be **formal or informal** depending upon the needs of the organisation.
- An **informal appraisal system is possible in a very small organisation** where the employee's contribution is readily visible.

OBJECTIVES

As observed **by McGregor**, the performance appraisal plans meet 3 needs:

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

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

The **specific objective**, the system should serve are:

- 1) To enable the organization **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 fulfill their aspirations by sharing with them**, their standard of observed performance and help them reach the benchmarked by skill up-gradation programs.

BENEFITS

- 1) It **rates all the employees in a unified manner** by using the same rating scales and thus making them comparable.
- 2) It **provides critical information** for deciding on promotion, pay increase, transfers, training etc.

- 3) **Provides information regarding areas of weaknesses** for enabling initiation of corrective steps
- 4) **Improves the quality of supervision**
- 5) ensures **better interpersonal relationships** between the employee and supervisor

APPRAISAL EVALUATION PROCESS

1. **Set performance standards.**
2. **Communicate standards** to employees.
3. **Measure performance** using observations and feedback.
4. **Compare performance** with benchmarks.
5. Provide **feedback** and counsel on weak areas.
6. Implement **corrective** measures.

METHODS

Traditional and modern methods

TRADITIONAL METHODS

FREE FORM ESSAY METHOD

- **Unstructured method** of appraisal.
- Appraiser makes a free form, open-ended appraisal of the employee.
- Superior is given total freedom to write about job knowledge, attitude, development needs etc.
- Drawback is subjective evaluation
- Generally used to appraise the top management

STRAIGHT RANKING METHOD

- Oldest and simplest method
- Relative position of each employee is assessed.
- People are rated in order of merit and placed in a grouping.

Drawback: Difficult to compare one employee with others due to varying behavior traits.

COMPARISON METHOD [Factor Comparison Method]

- Drawback of straight ranking is covered in this method

- Comparison is made based upon certain factors like leadership, initiative etc.
- When number of employee is large it is difficult to compare

GRADING METHOD

- Certain features are considered for grading such as analytical ability, job knowledge etc.
- Scales are then decided on the basis of these grades which can be A: Outstanding, B: very good, C: average, D: below average

GRAPHIC OR LINEAR RATING METHOD

- It considers 2 factors: employee characteristics and contribution.
- Personal qualities such as initiative, dependability, decisiveness etc. are measured.
- Rating is on a continuous scale

Drawback: rating tends to be subjective and system assumes each character to be equally important for all jobs.

FORCED CHOICE DESCRIPTION AND DISTRIBUTION METHOD

- Superior is forced to make the choices
- Employee is rated on a pre-determined distribution scale
- Factors normally considered for job performance and promotion
- In choice description method the superior is asked to select the statements which best describe the employee

GROUP APPRAISAL METHOD

In this method employees are rated by a group of appraisers consisting of the immediate supervisor and 3 or 4 others who have some knowledge of the employee's performance

Advantage is minimum biasness is there

Limitation: it is very time consuming process

Traditional Methods	Description
Essay Method	Unstructured evaluation; subjective; often used for top management.
Straight Ranking	Ranking employees by merit; limited for large groups.
Grading Method	Grades like A (Outstanding), B (Very Good); uses set parameters like knowledge, analytical ability.
Graphic Rating Scale	Continuous scale to measure traits like initiative and dependability; subjective.
Group Appraisal	Feedback from multiple evaluators; reduces bias but time-consuming.

LEARNING SESSIONS

MODERN METHODS

ASSESSMENT CENTRE WORKSHOPS

- **Employee's behavior is assessed on the basis of performance of different activities** such as group discussion, business games, in-basket exercise, committee meetings etc.
- It generally measures interpersonal skills, leadership qualities, organizing and planning abilities, problem solving abilities, stress tolerance capacity, motivational orientation and communication skills of the candidates.

Drawback

- **it is very time consuming.**
- It requires **highly trained observers** to assess various personality traits and behavior pattern of candidates.

MANAGEMENT BY OBJECTIVES - MBO

A modern performance management method that **focuses on setting and achieving goals through collaboration between employees and supervisors**. It emphasizes motivation and self-direction over external controls.

Objective: *To improve behavior and attitudes for achieving measurable results.*

Process:

1. **Set Goals:** Define clear, realistic, and measurable organizational targets.
2. **Collaborate:** Employees and supervisors jointly set short-term performance goals.
3. **Review Progress:** Regular one-on-one meetings to track performance.
4. **Feedback:** Share constructive feedback and adjust plans if needed.

Benefits:

- Boosts **motivation and accountability.**
- **Improves communication** and teamwork.
- Provides objective and measurable evaluations.
- Identifies problems early through regular reviews.

Drawbacks:

- Focuses on results over processes.
- May cause unhealthy competition.

- Conflicts can arise during goal-setting.
- Risk of employees setting easy targets to show high performance.

MBO **encourages collaboration and goal-oriented performance** but requires clear communication and balanced focus on results and processes for success.

HUMAN ASSET ACCOUNTING

It is a method of evaluating the monetary value of an organization's workforce and its external goodwill. This approach considers employees as valuable assets whose contribution to the organization can be quantified.

Current value of the human assets is appraised by undertaking periodical measurement of two variables called

1. **Key causal** Factors directly influencing the workforce, such as which includes management policies, strategies, skills etc.
2. And **intervening enterprise** Factors reflecting employee attitudes and behaviors which includes loyalty, attitudes, motivation level, effective interaction etc.

BEHAVIOURALLY ANCHORED RATING SCALES [BARS]

It **evaluates employees based on specific behaviors** linked to job performance. It uses real-life examples (critical incidents) to define rating scales.

How It Works:

1. **Critical Incidents:** Effective and ineffective job behaviors are identified and documented.
2. **Behavioral Anchors:** These incidents are used to create performance dimensions with clear descriptions.
3. **Rating Scale:** A scale is developed, anchored by these behaviors, to objectively assess employee performance.

This system is reasonably objective but very time consuming

360 DEGREE APPRAISAL

- It refers to full circle or all around the employee or employee in the centre.
- Employee is **rated by all having knowledge about employee** and affected by his performance.

- These may include his senior, colleagues, subordinates, suppliers, customers etc.

WHY POTENTIAL APPRAISAL IS REQUIRED?

1. The **performance appraisal system basically focuses on measuring the present performance** of the employee on the given assignment
2. The result of the appraisal system are **useful to know the performance of the employee on the current job** but they **do not throw any light on the potential of the candidate in taking up higher assignment**
3. Promotion decision based upon only on the performance appraisal system is a **judgmental prediction.**

Modern Methods	Description
Assessment Centers	Group exercises to evaluate interpersonal, leadership, and problem-solving skills.
Management by Objectives (MBO)	Participatory goal setting; periodic reviews to track performance.
Behaviorally Anchored Rating Scales (BARS)	Uses critical incidents as behavior anchors for performance dimensions.
360-Degree Appraisal	Feedback from peers, subordinates, customers, and superiors.
Human Asset Accounting	Measures employee value through skills, attitudes, and loyalty.

PERFORMANCE APPRAISAL VS CONFIDENTIAL REPORT

- The **form** in which the performance of the employee is evaluated and reported is called confidential report and is submitted to head office.
- There is **no transparency no developmental consideration**
- Slowly **new organizations are moving towards more open and transparent performance appraisal systems** involving employees in goal setting, providing for self-appraisal and regular feedback and taking corrective steps jointly with the employees for better results

MERITS OF PERFORMANCE APPRAISAL

- Reveals **concern for performance**
- Creates an **environment of openness and trust** in organizations
- **Provides feedback** to the employees and ensures corrective steps are taken in time.
- **Raises general motivation level** of the employees if implemented properly.

Demerits of Performance Appraisal

- There is **halo effect** i.e., to rate an employee consistently high or low. A tendency to allow one trait to influence the assessment.
- **Leniency or strictness** tendency of the superior which interferes with the appraisal and appraisal gets influenced.
- The **central tendency problem** that is assigning average rating to all aspects of appraisal.
- **Tendency of comparing the employee** with one self on various traits and parameters

What is the Halo Effect?

The **halo effect** is a **cognitive bias in performance appraisals** where the evaluator's overall impression of an employee (based on one positive trait or characteristic) influences their judgment of other unrelated aspects of the employee's performance.

Example: *If an employee is highly punctual, the evaluator might assume they are also efficient, hardworking, and dependable—even if there's no evidence to support these attributes.*

PERFORMANCE REVIEW [P-A-F]

- Appraising the performance of the employee is **reviewing his performance during a specified period.**
- **Review means appraisal of the performance of the employee by his superior.** There are three aspects involved in this:

#1 PREPARATION FOR REVIEW

- It involves **obtaining information** in the form of previous year appraisal, periodical performance reports, and discussions with the employee concerned.
- Appraisal interview with the appraisee is necessary.

#2 APPRAISAL INTERVIEW

- It involves **meeting of the appraiser and appraisee** for getting information and clarifications for performance appraisal.
- **Feedback** can be given to employee during interview about his performance.

#3 GIVING FEEDBACK

- It involves **sharing of honest feedback** with the employee.
- **Feedback should be objective** and should help the employee in reaching appropriate level of performance in future
- Should be **suggestive** in nature
- It should **focus on training and developmental needs** of the employee
- Superior should **adopt a problem solving approach** and not fault finding approach
- Superior should never lose sight that his **aim is to improve the performance** of the appraisee and not to criticize him

COUNSELLING

- 1) Counselling means **advising employee about the performance**
 - 2) an activity where **one individual uses a set of skills to help another to take responsibility for**, and to manage his own work or behaviour related decision making.
 - 3) to **communicate to employee the feedback of the performance and expectations** and help the employee to understand the areas of concern with the sole objective of improvement of his performance
 - 4) It may consist of **three stages**:
 - a. **Recognizing** the problem or issue
 - b. **Helping** the employee to realize the problem
 - c. **Managing** the problem
- Process should **start by communicating the purpose of counselling**
 - **Appraiser should be specific and descriptive** when he is evaluating the performance

- One should **avoid commenting on the person** and focus the discussion on the issues related to the performance
- The attention should be **to assist the employee to overcome his problems**
- Appraiser should **listen to the employee and try to help him**
- Appraiser should offer workable solutions
- Appraiser should **not be having any prejudice** about the employee
- Successful counselling is effective listening

MANAGEMENT OF AVERAGE PERFORMERS

The **organizations have a large no. of average performers**. Their **motivational level is generally low.**

The management of average performers can be in the form of

1. Job rotation
2. Transfer to another location
3. Training intervention
4. Exposure to special skill up gradation program.

Advanced-Level Multiple-Choice Questions

*Question 1 Which of the following is **NOT** a key objective of performance appraisal as outlined in the document?*

1. Developing employee skills and behavior through feedback
2. Providing financial data for investment decisions
3. Facilitating placement and promotion decisions
4. Identifying training and developmental needs

Correct Option: 2

Explanation:

- **Option 1:** Correct as performance appraisals focus on skill and behavioral improvement.
- **Option 2:** Incorrect as financial data for investment decisions is unrelated to performance appraisals.
- **Option 3:** Correct as appraisals are critical for placement and promotion.
- **Option 4:** Correct as appraisals help in determining training and development needs.