Chapter 5

Performance Appraisal Methods

Human capital has become the need of the day for various production and service activities. Hence, performance appraisal of the employees in the corporate world constitutes the most essential foundation to expand and improve profitability and to arrest occasional dips in profits. Dips in particular, weaken the prospects of generating internal resources, and adversely influence the mindset of general public, investors, banks and the term financial institutions indispensable for generating resources for investment, expansion, diversification and the new projects. Managing human resource, therefore, occupies a central stage in corporate governance. To get insight in the methods adopted for assessment of the present performance appraisal methods, a study of select companies was desirable, besides giving deeper understanding of their strengths and weaknesses. However, neither straight answers nor solutions and the blue print for recognising, developing, understanding and measuring intangible assets could be found to one's satisfaction.

Performance Appraisal Methods

The performance appraisal methods presently incorporated and executed by the companies fall in two categories namely, the traditional and modern methods

A. Traditional Methods of Performance Appraisal

These methods comprise the ones wherein the approach followed is one way example of top down approach lacking focus. These methods are also more

focused on appraiser's evaluation and assessment.

> ➢ Feedback mechanism method

> ➢ Performance ranking method

> ➢ Grading method

> ➢ Comparative standard or multi-person comparison method

> ➢ Critical incidents method

> ➢ Rating scale method

> ➢ Management by objectives method

> ➢ Peer- comparison rating method

Feedback Mechanism Method

As per this method, management evaluates periodically performance of its employees who are subsequently informed about the findings of assessment. The salient objectives of the method are as follows:

- It helps top management to evolve a system for motivating the high performers to do even better, and the low performers to improve further in order to become high performers over a period of time.

- The managers, in turn, design a system for identifing those having high potential for advancement, and those who consistently remain low performers to be encouraged to leave.

- The supervisors desire an 'objective rating' system to justify salary increases to ultimately motivate their subordinates.

- The managers and HR professionals desire accurate and complete information for taking decisions on promotions and transfers.

- The subordinates expect to know how they are viewed by superiors.

This method has certain drawbacks and limitations. The executives doubt that the supervisors may tend to rate most of their subordinates high and to award all of them fairly with identical raises, thus failing to clearly distinguish between the high and mediocre performers. Also at times, given feedback is biased.

Performance Ranking Method

The subordinates are evaluated and rewarded differentially according to performance. This is some sort of implied performance ranking. Such ranking is close to normal distribution curve popularly known as 'bell-curve'.

Drawbacks/ limitations of this method are obvious; it lets the average score to remain at the same level year after year. As a result, actual performance may not get reflected in assessment and eventually may cause frustration in the employees.

Grading Method

Though outdated, this method is now largely used in the public sector undertakings (PSUs). The employees are given salary raise and promotions based on the grades and experience. In this context, experience rather than qualifications and talent matter. The employees are placed in the grades and given salaries accordingly.

The main drawback is the absence of incentives. Complacency is set as salary increment and promotions are given irrespective of performance.

Comparative Standard or Multi-Person Comparison Method

As opposed to the absolute method, this method compares an employee relative to the others. The comparative standard method has following types:

> In individual ranking, the supervisor lists the employees from the highest to the lowest levels. The difference between two top employees' performance is assumed equivalent to the difference between the two bottom employees' performance.

> In group rank ordering, the supervisor places the employees in particular classification such as "top one-fifth" and "second one-fifth". If the supervisor heads ten employees under his/ her supervision, only two could be included in the top fifth, and two will be assigned to the bottom fifth.

> In paired comparison, the supervisor compares each employee with every other employee in the group, and rates each as either superior or weaker of the pair. After all comparisons are made, each employee is assigned ranking based on the scores he/ she receives.

Critical Incidents Method

Supervisor's attention is focused on specific or critical behavior that separates effective from ineffective performances. A critical incident is behavior that is critical for success on the job (a method of job analysis). For example, behavior termed as bad when the employee leaves machine running while unattended and good when he/ she always wears safety goggles on the job. The major drawback is, at times, so called turned bad behavior may be due to the circumstances and environment rather than actual.

Rating Scale Method

a.   Graphic Rating Scale Method

This method lists a set of performance factors such as job knowledge,

work quality and co-operation that the supervisor expects to rate employee performance using an incremental scale.

b. Behaviorally Anchored Rating Scales (BARS)

BARS is combination of elements of the critical incident and graphic rating scale approaches. The supervisor rates the employee according to the items on a numerical scale.

BARS is similar to a graphic rating scale, but has behavior anchors and implemented in the following order:

1. List critical incidents

2. Cluster these in dimensions

3. Critical incidents retranslated to dimensions

4. Critical incidents rated on 'nine' point scale

   - item means recorded
   - estimated standard deviation (low is better)

5. Critical incidents worded as expectations

c. Behavioral Observation Scale (BOS)

BOS is frequency rating of the critical incidents that the worker has performed. This method is mainly used to assess the shop floor employees.

Example: Employee 'A' knows the price of competitor's products

1	2	3	4	5
Never	Seldom	Sometimes	Generally	Always

d. Mixed Standard Rating Scale

Different job dimensions of behavior per dimension are rated (poor, average, good). The rater determines if the worker is better than (+), worse than (-) or same as (0) for the following

i. The employee is a real self-starter, and always takes the

   initiative = good

ii. The employee generally shows initiative, though occasionally

   must be reminded to get work done = average

iii. The employee has a tendency to sit around and wait for

   directions = poor

Management by Objectives Method

The concept of 'Management by Objectives' (MBO) was first initiated by Peter Drucker in 1961. The method can be defined as a process whereby the employees and superiors come together to identify the common goals which the former is expected to achieve for considering as a criterion for measurement of performance and deciding the course of action to be followed. The essence of MBO is participative goal setting, choosing the course of action and decision making. Important part of MBO is measurement and comparison of employee's actual performance with the standards set. Ideally, when the employees themselves get involved with setting the goals and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.

Generally MBO evaluates how well the employee accomplished the objectives determined to be critical in job performance. Such a method aligns objectives with the quantitative performance measures such as sales, profits and zero-defect units produced.

Peer- Comparison Ratings Method

This method is typically used to rate the peers in the company. Here, the

superiors play a partial role in the rating. In this, the entire team is considered while rating, and then the average of all is taken into consideration.

a. *Zero-Sum Game Rating*

It is a method in which any change for the participants adds up to zero. Example: if two men play cards and if one wins five dollars then the other looses five dollars. Similarly if there are ten men in a department working at different levels of effectiveness, five of them by definition are below average. Thus, if two of the below average leave, then one of the previously above average men must fall in the below – average category.

b. *Nonzero –Sum Game Rating*

This appraisal is based on the presumption that the employees always have the potential to improve, become more efficient, produce more, become more profitable and do the things better than they were in the past.

If a person finds a way to increase his/ her effectiveness, it does not follow that the other person's effectiveness will decrease by that magnitude. If anything, reverse is likely to be true. The second person may learn from the former and becomes more efficient himself. In this sense, there can be chances in which everyone wins. However, each of the above two alternatives has its own merits and demerits, though in the traditional method no employee possesses knowledge of his/ her fellow workers' exact standings.

This method has certain drawbacks such as whether a single number - percentile or decile reflects important realities: 'X' is invaluable who sees projects right from start to finish giving all details and also accomplishing minor work or touch ups, but he/ she lacks an initial design or 'Y' with his/ her excellent self motivation has great potential but lacks balanced judgment or 'Z' makes vital contribution when the organisation needs him/ her badly but lacks technical knowledge important for execution of the project.

A company is usually trusted by its employees to make judgments and appraisals fair and competent. However, it is only when the company attempts to emphasize how all the men are rank ordered that its judgment is challenged.

B. Modern Methods of Performance Appraisal

These methods resulted from conscious efforts on the part of researchers during last few decades and include

> 360° feedback method

> Balanced Scorecard method

> HR Scorecard method

> Key result area method

360° Feedback Method

The 360° feedback method emerged as an important HR tool globally. It resolves around a full circle, multi – source and multi – rater system of obtaining information about employee performance from the peers; subordinates and internal and external customers. The 360° method takes in account individual's management style, competencies and behavior based on

assessment by the colleagues horizontally and by his/ her superior peers and direct reports vertically (Exhibit 5.1).

Exhibit 5.1

Components of 360⁰ Feedback

Superior

Customers ———→ **Employee** ◄——— Peers

Direct Reports
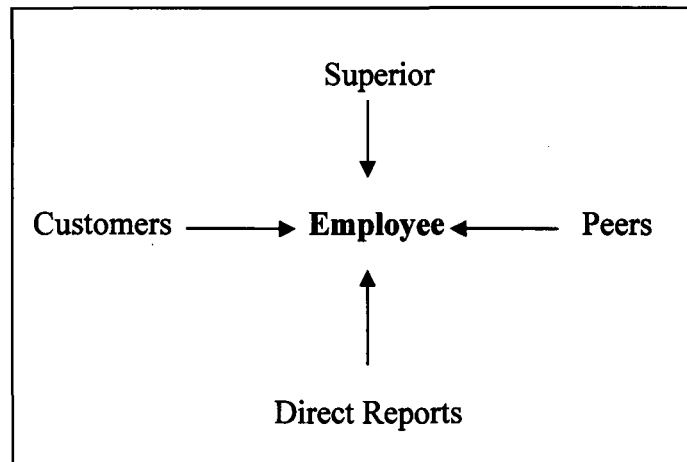
The 360° feedback process involves collecting perceptions/ opinions about employee's behaviour and its impact on company performance, by the superiors, peers and fellow members in the project team, besides the internal and external customers and the suppliers.

In India, the 360° method was first initiated in mid 1980s and emerged as a prominent HR tool being used extensively for developmental purposes in the companies such as Wipro, Indian Tobacco Company (ITC), Motorola, SmithKline Beecham, Nokia, Seagram, Shell (India), Philips, Aditya Birla Group, NIIT and Star TV.

However, the 360° method does have certain drawbacks such as halo effect, cognitive dissonance, bias or prejudice resulting from long association, fear, perception, central tendency, leniency and recency effect.

Balanced Scorecard Method

The Balanced Scorecard method was a breakthrough technique innovated by Robert Kaplan and David Norton. It takes into account four aspects covering areas such as financial, customer, learning and growth, besides the internal business process (Exhibit 5.2).

Exhibit 5.2

Components of Balanced Scorecard
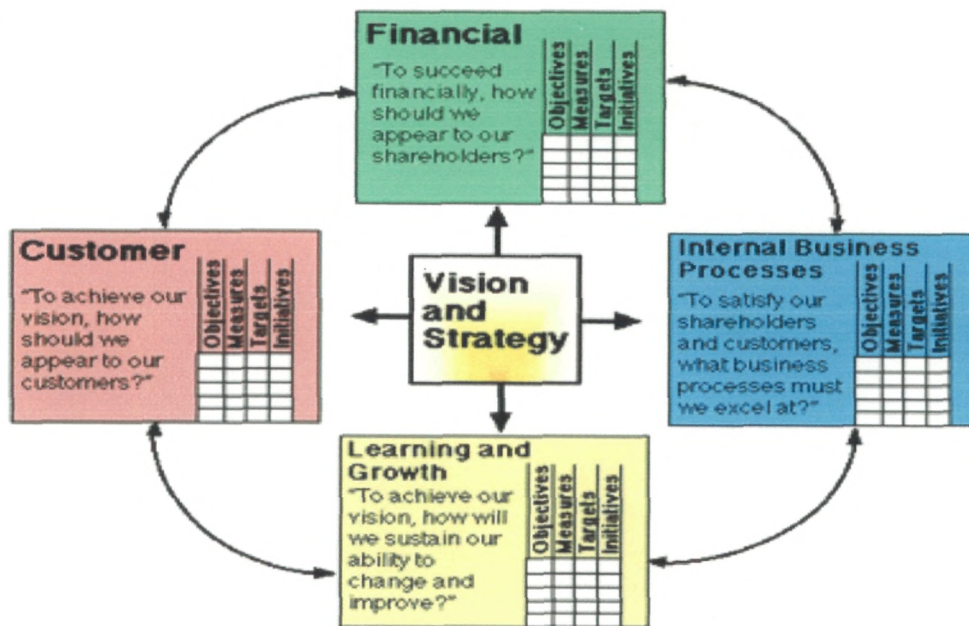
Adapted from The Balanced Scorecard by Kaplan & Norton

The balanced scorecard retains the traditional financial measures. But these measures tell a story of the past events -- adequate only for the industrial age companies for whom investment in long-term capabilities and customer relationship were not critical for success. Moreover, the financial measures are inadequate for guiding and evaluating the journey that the present information age companies must make to create future value through investment in the customers, suppliers, employees, processes, technologies and innovations.

HR Scorecard Method

The HR Scorecard is a management system for filling the gap between usually measured in HR and actually essential to the firm. There must be a focus on HR "architecture" - the sum of HR function, broader HR system and resulting HR behavior - and how to measure the HR function in terms of the value-creation process.

The ideal scorecard for an HR measurement system includes four themes: identifying the HR deliverables, identifying and measuring the high-performance work system elements that generate deliverables, developing a validated competency model that focuses on outcome, besides identifying the HR efficiency measures that link the costs and benefits.

Salient features of HR Scorecard Method

- The HR Scorecard measurement system identifies a gap between current and ideal HR architecture in quantitative terms, and provides data for both operational and strategic cost-benefit analysis.

- It determines return on investment (ROI) of specific HR intervention and requires knowledge of finance, accounting and capital budgeting.

- It identifies the most salient deliverables, besides the other aspects such as strategic importance, financial significance, widespread impact, linkage to a business element of considerable variability and the focus on the key issues and problems that the line managers face.

- HR managers must take a view of the other business disciplines in presenting its case in terms of capital budgeting among competing investment options.

- It identifies the costs and benefits which require understanding of the fixed and variable costs, sunk costs and the most difficult i.e., the financial impact of employee performance.

- Calculating benefits less costs in the HR programs is profoundly difficult because benefits unfold only in longer period. Calculation should use multiple time periods as well as time value of money in terms of currencies such as Dollars or Rupees.

- Most of the firms do not routinely measure costs and benefits of HR, and therefore fail to focus on ROI. A few firms that calculate HR costs and benefits, besides doing so objectively and precisely, are able to identify the programs for providing value and to decide whether to discard.

- Compared to HR Scorecard, the cost-benefit analysis is narrower; more project focused, provides only one specific answer and is generally seen only by the managers involved. The scorecard is developed to identify the future course and ROI analysis for the most efficient way to get there.

Key Result Area Method

Key Result Area (KRA) is a method of appraisal wherein each employee gets two or three areas for which he/ she has to focus for the next three to six months depending on the company's appraisal cycle. These KRAs provide guidelines to the employees for performing on which he/ she will be measured and evaluated. Generally, KRAs are directly linked to variable pay.

Performance management replaces traditional annual review or performance evaluation. It is not just an appraisal, but is more than a form and annual sit-down with boss to hear his/ her opinions about performance during whole year. It starts when a new employee comes onboard and ends with an exit interview with the departing employee. The performance management system enables management to help the employee to develop and reach the goals. The system supports it to develop both personally and professionally. The employees with clearly articulated goals and measurements can chart their future activity to be more successful at work. When they are successful, one can expect the organisation to be successful, and use extra resources thus generated to develop the performance management system to help the employees to improve their prospects in future.

In retrospect, significant differences do persist between the traditional and modern methods of appraisal (Exhibit 5.3). The former follows a doctrine of top down approach. The latter, in contrast, is more focused, transparent and takes into account employee perspective as well.

Inspite of many pitfalls, the traditional methods are still popular in many companies as they are convenient to measure employee performance as more of subjectivity is involved. To challenge the subjective attributes is a vital question.

With advancement in technology, however, the modern methods such as Human Resource Information System (HRIS) and System Application Procedure (SAP) do have become more convenient tools of HR management.

Exhibit 5.3

Pitfalls of Traditional Methods Versus Strengths of Modern Methods of Performance Appraisal

Pitfalls of Traditional Methods	Strengths of Modern Methods
Unclear and often legally inappropriate wording.	Provides clear language for supervisors. Provides a basis for developing narrative portion of review. Identifies legally appropriate language.
Poor documentation.	Helps the supervisors to track and document performance throughout the review period.
Inconsistent evaluations, biased ratings.	Provides consistent criteria and a systematic method of evaluating performance. Discourages rating biases.
Rigid forms, too general.	Allows the organisation to centrally define the performance criteria and standards, or lets supervisors create review practices specific to their business objectives.
Doesn't stress feedback between reviews.	Encourages supervisors to submit regular feedback. Provides online advice and coaching ideas.
Difficult to track and analyse results.	All performance data are available for analysis.
Late, infrequent reviews.	Step by step process and just-in-time learning reduce writing time and remove common barriers to completion.
High administrative cost.	Reduces time-spent for drafting and rewriting reviews, allowing more time for supervisor-employee interaction. Reduces training costs. Frees HR from "policing" the process.

Departmentwise Quantitative and Quantitative Factors

In the context of past experience, assessment and measurement of performance appraisal constitutes multi-dimensional scrutiny involving several jobs in departments such as HR, marketing, finance, production and purchase (Exhibits 5.4 (i) to 5.4 (v)).

Exhibit 5.4 (i)

Quantitative and Qualitative Jobs: HR Department

Quantitative Jobs

- Recruitment & Selection
- Employee turnover management
- Retention
- Competency mapping

Qualitative Jobs

- Mentoring
- Counseling
- Succession planning
- Policy development
- Grievance handling
- Employee development
- Training

Exhibit 5.4 (ii)

Quantitative and Qualitative Jobs: Marketing Department

Quantitative Jobs

- Volume achieved
- Sales expense to total sales
- Customer retention

Qualitative Jobs

- Price
- Enhancing goodwill
- Customer relationship
- Uniformity contract

Continued

Exhibit 5.4 (Continued)

Exhibit 5.4 (iii)

Quantitative and Qualitative Jobs: Finance Department

Quantitative Jobs	Qualitative Jobs
▪ Cash flow management	▪ Audit
▪ Fund raising	▪ Preparation of accounts
▪ Accounting reconciliation	▪ Accounting reconciliation
▪ Treasury management	
▪ Credit recoveries	
▪ Preparation of accounts	
▪ Working capital management	
▪ Profitability management	

Exhibit 5.4 (iv)

Quantitative and Qualitative Jobs: Production Department

Quantitative Jobs	Qualitative Jobs
▪ Shift scheduling	▪ Maintenance of plant
▪ Balancing Economic Batch Quantities	▪ Quality of product output
▪ Quantity of output	
▪ Inventory management	

Exhibit 5.4 (v)

Quantitative and Qualitative Jobs: Purchase Department

Quantitative Jobs	Qualitative Jobs
▪ Handling tenders	▪ Negotiation
▪ Purchase budgeting	▪ Vendor management
▪ Database management	▪ Resource management
▪ Pricing decisions	▪ Risk management

Diversity and complexity of jobs involve human beings influenced by the psychological, social and environmental factors, besides political setup - all of which create innumerable problems. Moreover, the jobs those are qualitative by nature, in particular, are difficult to convert quantitatively for the purpose of measurement.

Quantification of Appraisal Parameters at Various Levels of Responsibility

All the employees are differentiated in the context of their level of responsibility and authority. These categories include entrepreneurial employees, decision making employees, knowledge employees and robotic / systemic employees (Exhibit 5.5).

1. The *entrepreneurial employees* can be defined as the employees placed in the top management cadre. They frame the vision of the organisation.

2. The *decision making employees* comprise those who support and are partially involved in decision making along with top management. They constitute a part of the strategy formulation team.

3. The *knowledge employees* include those who are professionally qualified. They are also the corporate level employees and therefore lead a team of technical pool.

4. The *robotic/systemic employees* include the shop floor or the worker level employees.

In the context of the level of quantification, it may be observed that if one moves down the ladder from the entrepreneurial employees to the robotic

employees, the level of quantification increases. Correspondingly, subjectivity decreases. Reverse is also true.

Exhibit 5.5
Defining Executives, By Value Chain

Category of Employee	Value Chain Contents (Roles and Responsibilities)	Level of Quantification
Entrepreneurial Employees (Top Management)	Framing vision and mission, strategic planning, innovative drive and risk management	Low
Decision making Employees (Semi-top i.e. business and functional heads)	Implementing strategies through appropriate performance and financial budgets, monitoring and measuring performances	Medium
Knowledge Employees (Middle Level group leaders)	Implementing various components of budgets, by leading groups or teams of junior executives, coordinating between senior and junior executives, actual risk management	High
Robotic / Systemic Employees (Junior officers)	Achieving well-defined targets, guiding and monitoring the performance of workers	Very high

However, even if the degree of quantification is very high with respect to the robotic employees, it is more individual focused (Chart 5.1). In respect of the knowledge employees, this degree is less as compared to the robotic employees but more related and judged with reference to team performance. In respect of the decision making employees, it is related to performance of a function/ department in which the employee is placed. At the entrepreneurial level, degree of quantification once again increases in terms of corporate financial measures as the appraisal of the entrepreneurial employees is based

on company's performance i.e., revenue generation and profit as well as ethical standards maintained by the company. Hence, relationship between degree of quantification and the level of responsibility appropriately assumes a 'U shaped curve'.

Chart 5.1

Degree of Quantification v/s Level of Responsibility
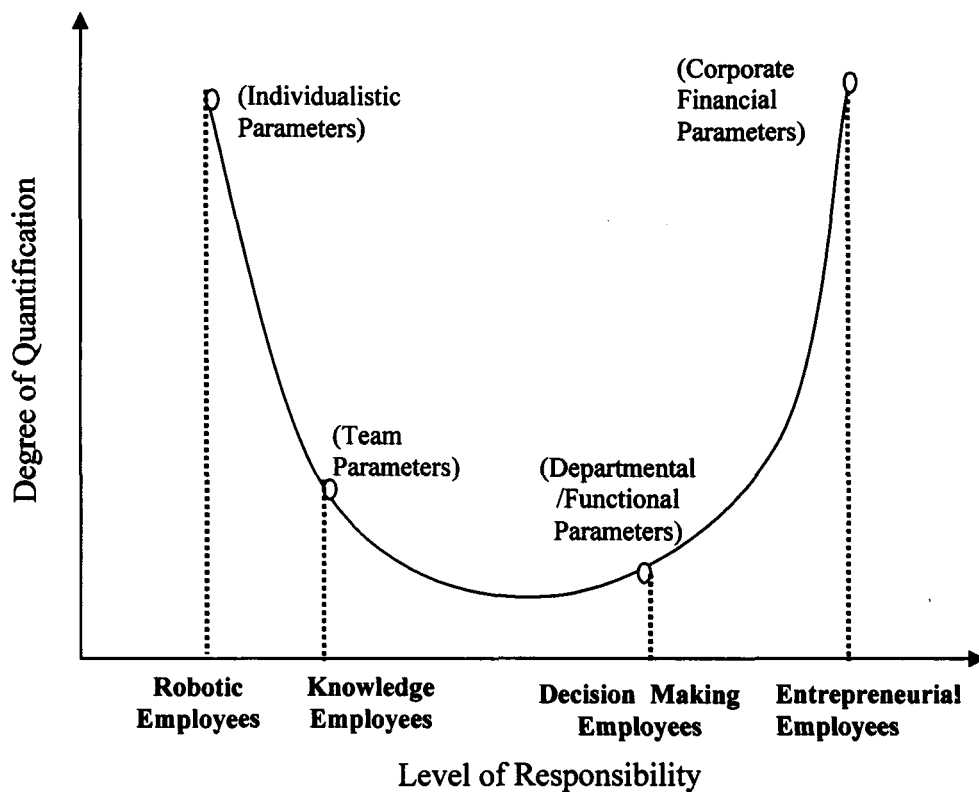
Note: Parameters indicate source of judgement with respect to level of responsibility.

Between objectivity and subjectivity in performance appraisal, relation between the latter and status of the employees is more crucial to understand implications for corporate management (Chart 5.2). As one goes higher up the ladder, the qualitative parameters of performance increase in strength and their influence on the corporate decisions rises. Correspondingly, the quantitative parameters decrease in their influence thereby increasing

subjectivity while appraising performance.

Chart 5.2

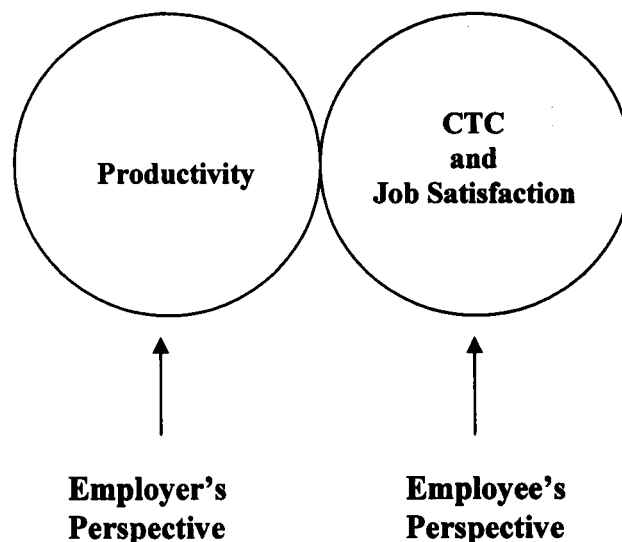## Subjectivity in Performance
Measurement v/s Employee Status
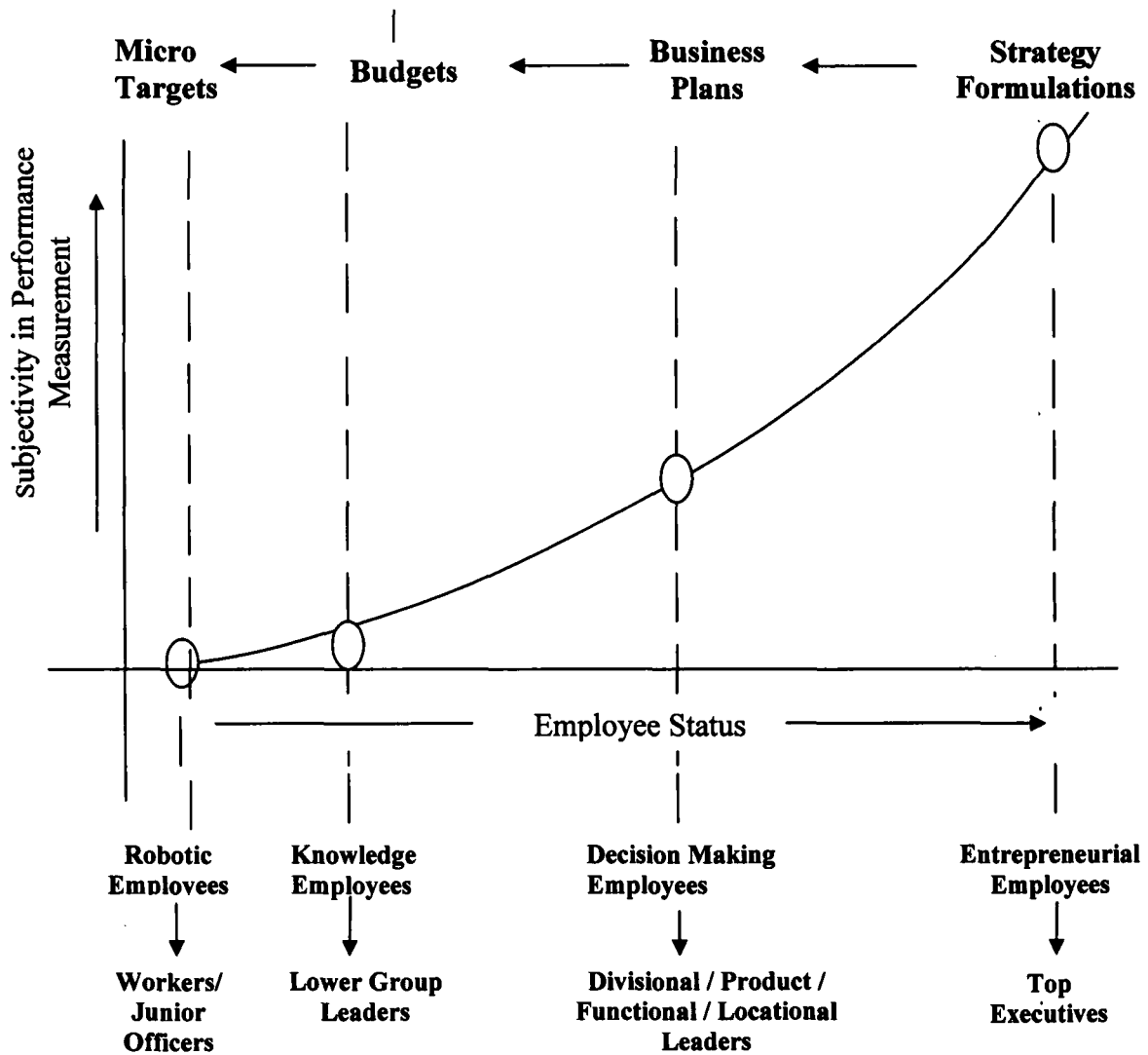
✓ First, as one goes up from the robotic employees to the entrepreneurial employees, the subjective parameters increase in importance and correspondingly the objective parameters decrease in importance and hence bringing in maximum objectivity in performance appraisal becomes difficult with the latter.

✓ Secondly, subjectivity is more prevalent in the support functions than in the line functions.

When it comes to employee employer relationship, the former is more concerned with his/ her earnings and job satisfaction (Exhibit 5.6). The top hierarchy, however, normally focuses on productivity gains with the ultimate objective of higher profits, growth and the corporate image in the market. The company needs to consider two aspects when a person is hired- the first pertains to the cost to the company (CTC) and job satisfaction and the second encompasses productivity. However while a employee gives more weightage to CTC and job satisfaction, productivity is more crucial from employer's perspective.

Exhibit 5.6

Employee Retention: Two Sides of Same Coin

To bring in transparency in the system, the percentage of objective measurement should, therefore, be more as compared to subjective measurement to eliminate bias, if any that may occur during performance

review. The task, however, becomes easier, if more of the objective parameters could be bought in performance appraisal, thereby resulting in the efficacy of higher order in appraisal, thereby further improving contribution to the growth and potential of the organisation directly.

In retrospect, it is necessary to measure what is important at each level of the organisation if one intends to have a complete performance measurement system. The employees at all the levels of organisation need to understand importance of their productive contribution to organisation's performance. Both the measurement system and evaluation techniques could be restrictive at the most, and inhibit organisation's ability to respond to change. Therefore, the companies must be prudent in selecting and designing the measurement system that could be put in place. The focus needs, therefore, be simple, easily understood and flexible enough to meet the challenges of fast changing corporate environment and circumstances. The companies may therefore abandon the complex and sophisticated systems wherever possible, thereby opting for the easier options to overcome inherent inertia in measurement of the subjective parameters objectively.