**PERFORMANCE APPRAISAL**

**Introduction**

To survive and to succeed in the market, the business organizations should produce quality

goods, offer services that delight the customers and operate at minimal costs. For making all these

possible an organization should possess human resources that could function efficiently and effectively.

Human resources are valuable resources for any enterprise. They are vital as they possess the required

intelligence to make material, physical and financial resources productive and effective. The human

potential is the crux of organizational effectiveness. Appraising human potential in a scientific and

systematic manner paves way for enhanced corporate performance.1 Hence, after an employee has

been selected, trained and motivated he is apprised of his performance. The performance appraisal is a

process of evaluating an employee performance on a job. It is estimating an employee’s value in terms

of qualities and status.

**Meaning and Definition**

Performance appraisal is the most important and indispensable tool for an organization.

Performance appraisal measures the effectiveness of the personnel. Edwin B Flippo defines

performance appraisal as a systematic, periodic and as far as humanly possible an impartial rating of

employee’s excellence in matters pertaining to his present job and potentialities for a job.

2 To Maurice, B. Coming performance appraisal means “attempts to recognize and reward for

personnel abilities that an individual brings to his job, measured by the extent to which his output or

quality of his work exceeds the minimum that is fixed as the basic rate of pay”.

3 To Yoder Performance Appraisal refers to “the formal procedure used in an organization to

evaluate personalities, contributions and potentials of group members”.

4 According to Heyel it is “the process of evaluating the performance and qualification of the

employee in terms of requirements of the job for which he is employed, for the purpose of

administration including placement, selection for promotions, providing financial rewards and other

actions which require differential treatment among the members of the group as distinguished from

actions affecting all members equally.”

5 According to Martin Fisher performance appraisal is a process for establishing shared

understanding about what is to be achieved, and an approach for managing and developing people in a

way which increases the probability that it will be achieved in the short or long-term.

6 Performance appraisal is a method of evaluating the behavior of employees in the work spot,

normally including both the quantitative and qualitative aspects of job performances.

7 In order to find out whether an employee is worthy of continued employment or not, and if so, whether he should receive a bonus, a pay rise or a promotion, his performance needs to be evaluated from time to time.

8 The object of performance appraisal is to improve the efficiency of an enterprise by attempting to

mobilize the best possible efforts from individuals employed in it.

Performance Appraisal is a procedure to establish a clear understanding of what the

organization strives to achieve and streamline the combined efforts of all the employees so that the

company improves its effectiveness and competitiveness in the market place. It is a systematic

alignment of employee objectives, skills, abilities, efforts with the organization’s strategic objectives to

create a high-performance culture. The emphasis is on improving, learning and developing the career

potential of employees to achieve the overall business objectives. It aims at analyzing the performance

against the set standards, both quantitative and qualitative.

Performance appraisal is a measure of performance of an employee in accomplishing goals and

plans of an organization within a specific period of time. It gives a picture about how an employee is

working in his present job and what are the strong and weak points. Performance appraisal system

provides feedback to the employees on their performance and helps him to take utmost care and

attention, where it deserves.

The process of performance appraisal helps in linking information gathering and decision making

process which provides a basis for judging the effectiveness of personnel subdivisions such as coming as

rightly observed that the overall objective of performance appraisal is to improve efficiency of an

enterprise by attempting to mobilize the best possible efforts from the individuals employed in it.

The performance appraisal system has assumed a new shape and nature in the form of a

two-way communication link between the employees and the employers. Proper communication

between the assessing authority and the employee under appraisal is essential for gathering all

the required information from the employee. A performance appraisal system that is based on a

free and unrestrained approach would generate the preferred data and help organizational

productivity. To achieve the desired objectives performance appraisal system should be realistic

and impartial, with a positive orientation towards remedial steps. Therefore it requires skilful

handling.

**Need for Performance Appraisal**

People differ in their abilities and their aptitudes. There is always some difference between the

quality and quantity of the same work on the same job being done by two different people. Therefore,

performance appraisal is necessary to understand each employee’s abilities, competencies and relative

merit and worth for the organization. Performance appraisal rates the employees in terms of their

performance.

Performance appraisal helps to rate the performance of the employees and evaluate their

contribution towards the organizational goals. If the process of performance appraisals is formal and

properly structured, it helps the employees to clearly understand their roles and responsibilities and

give direction to the individual’s performance. It helps to align the individual performances with the

organizational goals and also review their performance.

Performance appraisal takes into account the past performance of the employees and focuses

on the improvement of the future performance of the employees. Its aim is to measure what an

employee does.9

It is a power tool to calibrate, refine and reward the performance of the employee. It helps to

analyze his achievements and evaluate his contribution towards the achievements of the overall

organizational goals.

**Benefits of Appraisal**

Appraisal offers a valuable opportunity to focus on work activities and goals, to identify

and correct existing problems, and to encourage better future performance. Thus the performance

of the whole organization is enhanced. However benefits of performance appraisal can be

summarized as follows.

a) Motivation and Satisfaction: Performance appraisal can have a profound effect on

levels of employee motivation and satisfaction - for better as well as for worse.

Performance appraisal provides employees with recognition for their work efforts. The

existence of an appraisal program indicates to an employee that the organization is

genuinely interested in their individual performance and development, which can have a

positive influence on the individual's sense of worth, commitment and belonging.

b) Training and Development: Performance appraisal offers an excellent opportunity -

perhaps the best that will ever occur - for a supervisor and subordinate to recognize and

agree upon individual training and development needs. Performance appraisal can make

the need for training by an employee's work performance, the presence or absence of

work skills, by linking it clearly to performance outcomes and future career aspirations.

c) Recruitment and Induction: Appraisal data can be used to monitor the success of the

organization's recruitment and induction practices. Appraisal data can also be used to

monitor the effectiveness of changes in recruitment strategies.

d) Employee Evaluation: Evaluation is a major objective of performance appraisal.

Performance appraisal is the process of examining and evaluating the performance of an

individual. The need to evaluate employees is to encourage and develop them.

e) Career planning and Development: Performance feedback guides career decisions about

specific paths one should investigate.

f) Compensation adjustments: Performance evaluations help decision makers determine who

should receive pay raises and who should not. Many firms grant part or all of their pay increases

and bonuses based upon merit, which is determined mostly through performance appraisals.

g) Placement decisions: Promotions, transfers, and demotions are usually based on past or

anticipated performance.

**Process of Performance Appraisal**

Performance Appraisal process consists of the following stages.

a) Establishing Performance Standards: The first step in the process of performance appraisal is

setting up of the standards which will be used as the base to compare the actual performance of

the employees. The standards set should be clear, easily understandable and in measurable

terms.

b) Communicating the Standards: Once the standards are set, it is the responsibility of the

management to communicate the standards to all the employees of the organization. The

employees should be informed and the standards should be clearly explained to them. This

helps them in understanding their roles and to know what exactly is expected from them. The

standards should also be communicated to the appraisers or the evaluators.

c) Measuring the Actual Performance: The next step in the process of performance appraisal is

measuring the actual performance of the employees that is 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. This stage requires the careful selection of the appropriate

techniques of measurement, taking care that personal bias does not affect the outcome of the

process.

d) Comparing the Actual with the Desired Performance: The actual performance is compared with

the desired or the standard performance. The comparison helps to know the deviations in the

performance of the employees from the standards set. The result can show the actual

performance being more than the desired performance or, the actual performance being less

than the desired performance depicting a negative deviation in the organizational performance.

e) Discussing Results: The results of the appraisal are to be communicated and discussed with the

employees on one-to-one basis. The results, the problems and the possible solutions are

discussed with the aim of problem solving and reaching consensus. 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.

f) Decision Making: The last step of the process is to take decisions which can be taken either to

improve the performance of the employees, take the required corrective actions, or the related

HR decisions like rewards, promotions, demotions, transfers etc.

5.06 Organizational Performance and Performance Appraisal12:

Performance appraisal process is one of the central pillars of the performance management

which is directly related to the organizational performance and has a direct impact on it. Employee

performance ultimately affects the organizational performance and objectives. Apart from the direct

benefits to the organisation, appraisals contribute to employee satisfaction, which in turn leads to

improved performance.

For an organization to be effective, the goals, the standards and the action plans need to be

planned well in advance. Thus, performance appraisal facilitates the achievement of organizational

goals. It also facilitates the optimal use of the organizational resources.

Performance appraisal is the strength of performance management, which in turn affects the

organizational performance. It helps to identify and overcome the problems faced by the employees in

their work.

**Methods of Performance Appraisal**

**a) Essay Appraisal Method:** This traditional form of appraisal, also known as “Free Form method”

involves a description of the performance of an employee by his superior. The description is an

evaluation of the performance of any individual based on the facts and often includes examples

and evidences to support the information.

**b) Straight Ranking Method:** This is one of the oldest and simplest techniques of performance

appraisal. In this method, the appraiser ranks the employees from the best to the poorest on

the basis of their overall performance. It is quite useful for a comparative evaluation.

**c) Paired Comparison**: This is a better technique of comparison than the straight ranking method.

This method compares each employee with all others in the group, one at a time. After all the

comparisons on the basis of the overall comparisons, the employees are given the final rankings.

**d) Critical Incidents Methods:** In this method of performance appraisal, the evaluator rates the

employee on the basis of critical events and how the employee behaved during those incidents.

It includes both negative and positive points.

**e) Field Review**: In this method, a senior member of the HR department or a training officer

discusses and interviews the supervisors to evaluate and rate their respective subordinates. A

major drawback of this method is that it is a very time consuming method. But this method

helps to reduce the superiors’ personal bias.

**f) Checklist Method**: The rater is given a checklist of the descriptions of the behavior of the

employees on the job. The checklist contains a list of statements on the basis of which the rater

describes on-the-job performance of the employees.

**g) Graphic Rating Scale**: In this method, an employee’s quality and quantity of work is assessed in

a graphic scale indicating different degrees of a particular trait. The factors taken into

consideration include both the personal characteristics and characteristics related to on-the-job

performance of the employees.

**h) Forced Distribution**: To eliminate the element of bias from the rater’s ratings, the evaluator is

asked to distribute the employees in some fixed categories of ratings on a normal distribution

curve. The rater chooses the appropriate fit for the categories on his own discretion.

**Modern methods:**

**a) Assessment Centres**: An assessment centre typically involves the use of methods like

social/informal events, tests and exercises, assignments being given to a group of employees to

assess their competencies to take higher responsibilities in the future. Generally, employees are

given an assignment similar to the job they would be expected to perform if promoted. The

trained evaluators observe and evaluate employees as they perform the assigned jobs and are

evaluated on job related characteristics. The major competencies that are judged in assessment

centres are interpersonal skills, intellectual capability, planning and organizing capabilities,

motivation, career orientation etc. Assessment centres are also an effective way to determine

the training and development needs of the targeted employees.

**b) Behaviorally Anchored Rating Scales:** Behaviorally Anchored Rating Scales (BARS) is a relatively

new technique which combines the graphic rating scale and critical incidents method. It consists

of predetermined critical areas of job performance or sets of behavioral statements describing

important job performance qualities as good or bad (for eg. the qualities like inter-personal

relationships, adaptability and reliability, job knowledge etc). These statements are developed

from critical incidents. In this method, an employee’s actual job behavior is judged against the

desired behaviour by recording and comparing the behaviour with BARS. Developing and

practicing BARS requires expert knowledge.

**c) Human Resource Accounting Method**: Human resources are valuable assets for every

organization. Human resource accounting method tries to find the relative worth of these assets

in terms of monetary units. In this method the performance appraisal of the employees is

judged in terms of cost and contribution of the employees. The cost of employees include all the

expenses incurred on them like their compensation, recruitment and selection costs, induction

and training costs etc whereas their contribution includes the total value added (in monetary

terms). The difference between the cost and the contribution will be the performance of the

employees.

**d) 360 degree feedback, also known as 'multi-rater feedback'**, is the most comprehensive appraisal

where the feedback about the employees’ performance comes from all the sources that come in

contact with the employee on his job.

e) **Management by Objectives:** In this performance appraisal method the supervisor and the

employee get together to set objectives in quantifiable terms. The appraisal method has worked

to eliminate communication problems by the establishment of regular meetings, emphasizing

results, and by being an ongoing process where new objectives have been established and old

objectives had been modified as necessary in light of changed conditions.