Chapter III

Performance appraisal in corporate sector

1. Concept of performance appraisal

Appraisal is the evaluation of worth, quality or merit. In the organization context, performance appraisal is a systematic evaluation of personnel by superiors or others familiar with their performance. Performance appraisal is also described as merit rating in which one individual is ranked as better or worse in comparison to others.\(^1\)

The basic purpose in this merit rating is to ascertain an employee's eligibility for promotion. However, performance appraisal is more comprehensive term for such activities because its use extends beyond ascertaining eligibility for promotion. Such activities may be training and development, salary increase, transfer, discharge, etc. besides promotion.

Beach has defined performance appraisal as follows: "Performance appraisal is the systematic evaluation of the individual with regard to his or her performance on the job and his potential for development"

Thus, performance appraisal is a systematic and objective way of judging the relative worth or ability of an employee in performing his job. It emphasizes on two aspects: systematic and objective. The appraisal is systematic when it evaluates all performances in the same manner, utilizing the same approaches so that appraisal of different persons is comparable. Such an
appraisal is taken periodically according to the plan: it is not left to chance. Thus, both raters and rates know the system of performance appraisal and its timing. Appraisal has objectivity also. It’s essential feature is that it attempts at accurate measurement by trying to eliminate human biases and prejudices.

2. Objectives of Performance Appraisal:

Performance appraisal is undertaken for a variety of reasons as stated below:

2.1. **Salary increase:** Generally salary increase of employee depends on how he/she is performing their job. There is continuous evaluation of his performance either formally or informally. The formal performance analysis discloses how well an employee is performing and how much he should be compensated by way of salary increase.

2.2. **Promotion:** Often organizations use a combination strategy of merit and seniority for promotion. Performance appraisal discloses how an employee is working in his present job and strengths and weaknesses. In the light of these, one can decide whether he can be promoted or not. Similarly, it can be used for transfer and termination of an employee.

2.3. **Training and Development:** As performance appraisal identifies the strengths and weaknesses of an employee, training and development program can be devised to overcome this.
2.4. Feedback: Performance appraisal tells an employee where he stands. It helps him to work better and contribute his efforts for the achievements of the organizational objectives. It provides him satisfaction that his work is meaningful and creates a proper organizational climate.

2.5 Control Mechanism: It puts a pressure on employee for better performance. If an employee is conscious that he is being appraised, he tends to have positive behavior and automatically acts as a control device.

3. Definition

Performance management, Performance review or performance appraisal as used by different establishments are all talking about the same thing, it has to do with aligning the human resources with the corporate goals of the firm, evaluate their performances and recommend commensurate rewards. It involves skill planning, skill development, and maintaining a good pay for performance culture in an organization.

Over the years, effective performance management has been proven to improve employee loyalty, morale and general productivity. Due mainly to the highly competitive business environment today, there is the need for firms to boost the morale and loyalty of their employees in order to stand the heat of competition. A very good Performance management system must include employee and management participation for it to be non biased and fair.
There are different steps involved in performance management or appraisal depending on the type of firm or size. These steps may not be followed rigidly, but they will assist in having a good review result.

4. Performance Management

The following steps will act as a guide to a good performance management:

- **Define different jobs.** Each job or duty should have a name. The department each duty reports to should be established and known.

- **Define Job Duties.** There should be clearly defined duties and responsibilities for each defined job. It should be done in a clear manner to avoid clash and interference between different jobs.

- **Define Performance Goals:** Performance goals should be defined with measurable outcomes. Define Priority for each job goal and responsibility. The main priority for each job goal should be clearly stated for easy assessment and measurement of result/outcome.

- **Define performance standard:** For each key component of the job, a performance standard should be defined to know when a staff has performed below or above the given standard.
• **Keep Record of all staff performances** before, during and after every appraisal exercise. It is always good to have records kept for each staff in his file. Discussions with staff supervisors and with staff should be noted even when appraisal exercise is not on. It sure will be of help during any appraisal exercise.

• **The Appraisal form should be elaborate:** The form should have columns for the appraiser and a part for appraisee's agreement or disagreement with the appraisers comments about him as well as the appriasee's comments (Self Assessment).

• **Providing a feedback column:** This column will be used to get feedback from employee's peers, customers or subordinates if need be.

• **Very Important to have a training need column in the form:** A very important aspect of an appraisal is to find out how an employee is performing in his present responsibility and if not why he is not performing as well as training needs that may be used to improve performance.

5. **Reasons for Performance Appraisal in a Firm**

Apart from the general reason of increasing the morale, motivation, involvement and productivity of staff, there are other streamlined reasons why firms carry out performance appraisal exercises. These reasons include;
• **To provide feedback on individual performance in a given period:** Firms employ appraisal because of the need they want met. During appraisals, firms find out if employees are adding value to the firm or not.

• **To plan for future Promotion:** As a reward for performance, employees are promoted and given greater responsibilities and authorities. Performance appraisal or review is needed to know staffs who are due for promotion.

• **As a succession Planning tool:** Dynamic and future oriented firms plan for tomorrow leaders today by planning how to hand over power, authority, and running of the firm in advance. Performance appraisal exercise showcases employees who are future leaders.

• **To assess Training and Development needs of employees:** A good performance appraisal exercise reveals training needs of employees.

• **Provides Information for salary planning:** After appraisal, some staff are promoted to the next level, which attracts salary and allowances increment. Also some staff who are not promoted are rewarded with gifts or salary increment too. This assists in planning for staff salaries.
• **Career Planning**: Career planning is a corporate organizational issue. After appraisals, it is always found out that most employees are working in departments they have little or no flair for. This generally affects their individual as well as general corporate performance. Performance appraisal results help in planning and repositioning employee’s career.

It should be noted that performance appraisal is a very important aspect of organization future growth and positioning as such it should be carried out with all seriousness and sincerity. The Human resources person should be able to advice all supervisors and managers before every appraisal exercise to avoid getting a biased result, which will ultimately affect the general productivity of the firm. Supervisor /Managers should avoid elements of favoritism or emotions during appraisals. Most Managers use appraisal exercise as a time to get back at subordinates. This is a wrong approach to appraisal.

Appraisal exercises should be fair and without bias. Before a manager can appraise his subordinate, he should be able to know the employee very well, the company goals, the products/services they are handling, their customers, other colleagues, the target given to the staff etc before a fair and non biased judgment can be given.

6. **Improving Performance Appraisals**

Although performance appraisals can be so easily biased, there are certain steps that can be taken to improve the evaluations and reduce the margin of errors through the following:
• **Training** - Creating an awareness and acceptance in the people conducting the appraisals that within a group of workers, they will find a wide range in difference of skills and abilities.

• **Providing Feedback to Raters** - Trained raters provide managers who evaluated their subordinates with feedback, including information on ratings from other managers. This reduces leniency errors.

• **Subordinate Participation** - By allowing employee participation in the evaluation process, there is employee-supervisor reciprocity in the discussion for any discrepancies between self ratings and supervisor ratings, thus, increasing job satisfaction and motivation.

7. **Human resource management & performance management**

Human resource management (HRM) conducts performance management. Performance management systems consist of the activities and/or processes embraced by an organization in anticipation of improving employee performance, and therefore, organizational performance. Consequently, performance management is conducted at the organizational level and the individual level.

At the organizational level, performance management oversees organizational performance and compares present performance with organizational performance goals. The achievement of these
organizational performance goals depends on the performance of the individual organizational members.

Therefore, measuring individual employee performance can prove to be a valuable performance management process for the purposes of HRM and for the organization. Many researchers would argue that “performance appraisal is one of the most important processes in Human Resource Management”.

The performance management process begins with leadership within the organization creating a performance management policy. Primarily, management governs performance by influencing employee performance input (e.g. training programs) and by providing feedback via output (i.e. performance assessment and appraisal).

“The ultimate objective of a performance management process is to align individual performance with organizational performance”. A very common and central process of performance management systems is performance appraisal (PA). The PA process should be able to inform employees about the “organization's goals, priorities, and expectations and how well they are contributing to them”.

8. Methods of collecting data

There are three main methods used to collect performance appraisal (PA) data: objective production, personnel, and judgmental evaluation. Judgmental evaluations are the most commonly used with a large variety of evaluation methods.
8.1 Objective production

The objective production method consists of direct, but limited, measures such as sales figures, production numbers, the electronic performance monitoring of data entry workers, etc. The measures used to appraise performance would depend on the job and its duties. Although these measures deal with unambiguous criteria, they are usually incomplete because of criterion contamination and criterion deficiency.

Criterion contamination refers to the part of the actual criteria that is unrelated to the conceptual criteria. In other words, the variability in performance can be due to factors outside of the employee’s control.

Criterion deficiency refers to the part of the conceptual criteria that is not measured by the actual criteria. In other words, the quantity of production does not necessarily indicate the quality of the products. Both types of criterion inadequacies result in reduced validity of the measure. Regardless of the fact that objective production data is not a complete reflection upon job performance, such data is relevant to job performance.

8.1.1 The happy-productive worker hypothesis

The happy-productive worker hypothesis states that the happiest workers are the most productive performers, and the most productive performers are the happiest workers yet, after decades of research, the relationship between job satisfaction and job performance produces only a weak positive correlation.
Published in 2001 by Psychological Bulletin, a meta-analysis of 312 research studies produced an uncorrected correlation of 0.18. This correlation is much weaker than what the happy-productive worker hypothesis would predict. There is no clear relationship between job satisfaction and job performance.

8.2 Personnel

The personnel method is the recording of withdrawal behaviors (i.e. absenteeism, accidents). Most organizations consider unexcused absences to be indicators of poor job performance, even with all other factors being equal; however, this is subject to criterion deficiency.

The quantity of an employee’s absences does not reflect how dedicated he/she may be to the job and its duties. Especially for blue-collar jobs, accidents can often be a useful indicator of poor job performance, but this is also subject to criterion contamination because situational factors also contribute to accidents. Once again, both types of criterion inadequacies result in reduced validity of the measure.

Although excessive absenteeism and/or accidents often indicate poor job performance rather than good performance, such personnel data is not a comprehensive reflection of an employee’s performance.

8.3 Judgmental evaluation

Judgmental evaluation appears to be a collection of methods, and as such, could be considered a methodology. A common approach to obtaining PAs is by means of raters. Because the raters are
human, some error will always be present in the data. The most common types of error are leniency errors, central tendency errors, and errors resulting from the halo effect.

Halo effect is characterized by the tendency to rate a person who is exceptionally strong in one area higher than deserved in other areas. It is the opposite of the Horns effect, where a person is rated as lower than deserved in other areas due to an extreme deficiency in a single discipline.

These errors arise predominantly from social cognition and the theory in that how we judge and evaluate other individuals in various contexts is associated with how we “acquire, process, and categorize information”.

An essential piece of this method is rater training. Rater training is the “process of educating raters to make more accurate assessments of performance, typically achieved by reducing the frequency of halo, leniency, and central-tendency errors”.

Rater training also helps the raters “develop a common frame of reference for evaluation” of individual performance. Many researchers and survey respondents support the ambition of effectual rater training. However, it is noted that such training is expensive, time consuming, and only truly functional for behavioral assessments.

Another piece to keep in mind is the effects of rater motivation on judgmental evaluations. It is not uncommon for rating inflation to occur due to rater motivation (i.e. “organizationally induced pressures that compel raters to evaluate rates positively”).
Typically, raters are motivated to give higher ratings because of the lack of organizational sanction concerning accurate/inaccurate appraisals, the rater's desire to guarantee promotions, salary increases, etc., the rater's inclination to avoid negative reactions from subordinates, and the observation that higher ratings of the rates reflect favorably upon the rater.

8.3.1 The main methods used in judgmental performance appraisal are:

- **Graphic Rating Scale**: On several different factors, subordinates are judged on 'how much' of that factor or trait they possess. Typically, the raters use a 5- or 7-point scale; however, there are as many as 20-point scales.

- **Employee-Comparison Methods**: rather than subordinates being judged against pre-established criteria, they are compared with one another. This method eliminates central tendency and leniency errors but still allows for halo effect errors to occur. The rank-order method has raters ranking subordinates from “best” to “worst”, but how truly good or bad one is on a performance dimension would be unknown.

- **The paired-comparison method**: requires the rater to select the two "best" subordinates out of a group on each dimension then rank individuals according to the number of times each subordinate was selected as one of the "best". The forced-distribution method is good for large groups of rates. The raters evaluate each subordinate on one or more dimensions and then place (or “force-fit”, if you will) each subordinate in a 5 to 7 category normal distribution. The method of top-grading can be applied to the forced
distribution method. This method identifies the 10% lowest performing subordinates, as according to the forced distribution, and dismisses them leaving the 90% higher performing subordinates.

- **Behavioral Checklists and Scales:** behaviours are more definite than traits. The critical incidents method (or critical incident technique) concerns “specific behaviours indicative of good or bad job performance”. Supervisors record behaviours of what they judge to be job performance relevant, and they keep a running tally of good and bad behaviours. A discussion on performance may then follow. The behaviourally anchored rating scales (BARS) combine the critical incidents method with rating scale methods by rating performance on a scale but with the scale points being anchored by behavioral incidents. Note that BARS are job specific.

- In the **behavioral observation scale (BOS)** approach to performance appraisal, employees are also evaluated in the terms of critical incidents. In that respect, it is similar to BARS. However, the BOS appraisal rate subordinates on the frequency of the critical incidents as they are observed to occur over a given period. The ratings are assigned on a five-point scale.

- The behavioral incidents for the rating scale are developed in the same way as for BARS through identification by supervisors or other subject matter experts. Similarly, BOS techniques meet equal employment opportunity because they are related to actual behavior required for successful job performance.
9. Peer and Self Assessments

While assessment can be performed along reporting relationships (usually top-down), net assessment can include peer and self-assessment. Peer assessment is when assessment is performed by colleagues along both horizontal (similar function) and vertical (different function) relationship. Self-assessments are when individuals evaluate themselves.

- **Peer Assessments**: members of a group evaluate and appraise the performance of their fellow group members. There are three common methods of peer assessments. Peer nomination involves each group member nominating who he/she believes to be the “best” on a certain dimension of performance. Peer ratings have each group member rate each other on a set of performance dimensions. Peer ranking requires each group member rank all fellow members from “best” to “worst” on one or more dimensions of performance.

- **Self-Assessments**: for self-assessments, individuals assess and evaluate their own behavior and job performance. It is common for a graphic rating scale to be used for self-assessments. Positive leniency tends to be a problem with self-assessments.

- **360-Degree Feedback**: 360-degree feedback is multiple evaluations of employees which often include assessments from superior(s), peers, and one’s self.

In general, optimal PA process involves a combination of multiple assessment modalities. One common recommendation is that assessment flows from self-assessment, to peer-assessment, to management assessment - in that order. Starting with self-assessment facilitates avoidance of
conflict. Peer feedback ensures peer accountability, which may yield better results than accountability to management.

Management assessment comes last for need of recognition by authority and avoidance of conflict in case of disagreements. It is generally recommended that PA is done in shorter cycles to avoid high-stakes discussions, as is usually the case in long-cycle appraisals.

10. Performance appraisal interviews

The performance appraisal (PA) interview is typically the final step of the appraisal process. The interview is held between the subordinate and supervisor. The PA interview can be considered of great significance to an organization’s PA system\textsuperscript{15}.

It is most advantageous when both the superior and subordinate participate in the interview discussion and establish goals together. Three factors consistently contribute to effective PA interviews: the supervisor’s knowledge of the subordinate’s job and performance in it, the supervisor’s support of the subordinate, and a welcoming of the subordinate’s participation.

11. Employee reactions

Numerous researchers have reported that many employees are not satisfied with their performance appraisal (PA) systems. Studies have shown that subjectivity as well as appraiser bias is often a problem perceived by as many as half of employees.
Appraiser bias, however, appears to be perceived as more of a problem in government and public sector organizations. Also, according to some studies, employees wished to see changes in the PA system by making “the system more objective, improving the feedback process, and increasing the frequency of review.”

In light of traditional PA operation defects, “organizations are now increasingly incorporating practices that may improve the system. These changes are particularly concerned with areas such as elimination of subjectivity and bias, training of appraisers, improvement of the feedback process and the performance review discussion.”

According to a meta-analysis of 27 field studies, general employee participation in his/her own appraisal process was positively correlated with employee reactions to the PA system. More specifically, employee participation in the appraisal process was most strongly related to employee satisfaction with the PA system.

Concerning the reliability of employee reaction measures, researchers have found employee reaction scales to be sound with few concerns through using a confirmatory factor analysis that is representative of employee reaction scales.

Researchers suggest that the study of employees’ reactions to PA is important because of two main reasons: employee reactions symbolize a criterion of interest to practitioners of PAs and employee reactions have been associated through theory to determinants of appraisal acceptance.
and success. Researchers translate these reasons into the context of the scientist-practitioner gap or the “lack of alignment between research and practice”.  

### 12. Performance appraisal exercise

Finally for any Performance appraisal exercise to be successful and without prejudice, the Goals set must be "SMART". This means that the goals must be Specific, Measurable, Attainable, Realistic and with a Time Frame. Individual goals must be aligned with corporate organizational goals. Employee self-evaluation/assessment must be included in the assessment form. The Supervisor and subordinate must be allowed to participate in the review. The ratings must be clearly stated with reasons for each rating. There must be a final column for the Human Resources personnel to evaluate the review and make a final recommendation for Managements approval.

Each person is different from others; they may differ in their skill, ability and attitude. If we compare two people with the same job, there will be difference in quantity as well as quality in the work. This is where performance appraisals come in to the act. Performance appraisals are essential measuring tool to understand the abilities and capability of employees in an organization. Performance appraisal rates the employees in terms of their performance. Performance appraisal is necessary to measure the performance of the employees and the organization to check the development towards the desired objectives and plan.
A proper structured and formal performance appraisal helps the employees to understand their responsibility and roles in the organization and it gives instruction to the better individual performance\textsuperscript{19}.

It helps to support the individual performances with the organizational objectives and also analyze their performance. Performance appraisal provides a chance to analyze past performance of the employees and focuses on the improvement of the future performance of the employees.

13. The main purpose of performance appraisal can be summarized as below\textsuperscript{20}:

i. Helps promotions.

ii. Develop international relationship

iii. Employee's development

iv. Aids to training and development programme

v. Employees effectiveness

vi. Serves as an feedback to the employee

vii. Identifying the strength and weakness

viii. Wages or salaries administration

ix. Helps management to do planning such as fixing targets, responsibilities

x. It provides rational foundation for the payment of piece-work wages, bonus and so on but sometime there may be some bad issues involved in performance appraisal it created an opportunity to bias.
14. Rate bias

The rate bias includes halo effect, personal prejudice, and the error of central tendency, the recent performance Effect and mercy and harshness biases such as follows;

14.1. Halo effect: It is the tendency of the raters to depend extremely on one characteristics to rate all other characteristics

14.2. Personal Prejudice: There may be likes and dislike within the employees. If the analyser has any dislike with the particular person may underrate that employee which may distort the rating purpose and affect the career of that particular employee.

14.3. The error of Central Tendency: Some analyser may make a safe policy by rating all the employees in the same scale. There won't be underrating and overrating, all employees will be rated in the middle point. This discourage good employee and may affect in the future performance.

14.4. The Recent performance Effect: Some analyser considers only the recent performance to rate employees. This rating on the basis of recent actions may be favourable or unfavourable than on the whole activities.

14.5. Mercy and harshness biases: Some time analyser has the tendency to be liberal or harsh in analysing. These rating yield nothing than adding damage to the organization.
References


