

Performance Appraisal - An Indispensable HR Tool

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Abstract

*I do the best I know I can,
The very best I can and I mean to keep on doing it to the end.
If the end brings me out all right,
What is said against me will not amount to anything.
If the end brings me out all wrong,
Then angels swearing I was right would
Make no difference.*

- Abraham Lincoln

In order to attain competitiveness and sustainability, organizations across the globe feel the constant urge to increase the performance levels of their employees. Organizations also lookout for highly efficient and outstanding employees who can bring best output and can contribute in enhancing their profitability. What drives the workforce of an organization to work with might and main is the price or reward for their performance. But the system of appraising the employees differs from organization to organization. Keeping this in view, information has been collected from two organizations, one private and other public namely, Kotak Mahindra Bank and Hindustan Aeronautics Ltd. respectively. A detailed description of how the system of Performance Appraisal works is highlighted in this article. The study also focuses on recent trends in performance appraisal systems.

Keywords: MBO, Pen Picture, Number-less appraisals, Moderation, Initiating Authority

Introduction

According to late Management Guru, **Peter Drucker**,

“An organization is like a tune, it is not constituted by individual sounds but by their synthesis”. Thus, the success of any organization depends more on its ability to accurately measure the performance of its employees and use that information to optimize their performance, than on anything else.

Human resource management has undergone transition from command and control to the facilitation model of leadership, from Personnel Management to Strategic Management of Human Resources.

Performance management also therefore has emerged and evolved in its approach and intent. From mere maintenance to development and now to be equated as human capital but whatever may be the focus performance management is and will remain fulcrum of organization. Providing healthy work environment for expansion of efforts in most efficient and effective manner to achieve individual and organizational goals in synergistic manner. Enhancing organizational net value along with that of employees, remains a key challenge for any human resources specialists even today, whether he is at the helms of public sector enterprise or at private sector.

Individuals differ in their knowledge; skills, abilities and aptitudes. There have always been differences between the quality and quantity of same task on same job being done by two different people. Hence, PA is of utmost importance to know each employee's knowledge, competencies and relative merit and worth for the organization.

The history of PA has its roots in early 20th century when Taylor gave time and motion studies.

Review of Literature

Dulewicz (1989), "... a basic human tendency to make judgements about those one is working with, as well as about oneself." Appraisal, it seems, is both inevitable and universal. In the absence of a carefully structured system of appraisal, people will tend to judge the work performance of others, including subordinates, naturally, informally and arbitrarily.

The human proclivity to judge can make grave motivational, ethical and legal tribulations at the workplace. Without a proper, formal and structured appraisal system, there are less chances of ensuring that decisions and judgments pertaining to performance are fair, lawful, valid, justified and correct.

Performance Appraisal (PA) was started as a method of justification of salaries and wages. That is appraisal was used to decide whether or not the salary or wage of an employee was reasonable. Traditionally it was resolutely related to output given by an individual. If an individual's output was found less than the output fixed by organization, then there would be pay cut. On the contrary, if his output is more than the expected, then he is eligible to get more salary. But now, performance appraisal does not only focus on compensating an employee fairly and squarely but also on training and developmental needs too.

Performance means outcomes achieved or accomplishments at work – the actual contribution of an individual or team to the organizations strategic goals like stakeholders satisfaction, clean image and economic sustainability.

Appraisal means to fix a price for something. PA is process of assessing, summarizing and developing the work of an employee on both qualitative and quantitative terms.

Performance appraisal takes into account the past performance of the employees and focuses on the improvement of the future performance of the employees.

According to *Edward Flippo*, “Performance appraisal is a systematic, periodic and an impartial rating of an employee's excellence in matters pertaining to his present job and his potential for a better job.”

C. Heigal defines “Performance appraisal is the process of evaluating the performance and quantifications of the employees in terms of the requirements of the job for which he is employed for purposes of administration including placement, selection for promotion providing financial rewards and other actions which require differential treatment among the members of a group as distinguished from actions affecting all members equally.”

The purpose of performance appraisal is two folded;

1. To assess the performance of employee and tell him about gaps in performance.
2. To give feedback to an individual relating to accomplishment of task.

The process of performance appraisal consists of various stages like establishing performance standards, communicating performance standards to employees, measuring actual performance, comparing actual performance with standards, discussing appraisal with employees and taking corrective actions.

Performance appraisal practices vary from no appraisal (only appraise for administrative purposes) to most sophisticated one (promotions, transfers, job-rotation, employee development, identification of training needs) in most of the Indian organizations .Some organizations include behavioral traits of employee like punctuality, sincerity, hard work, appearance, loyalty to the organization for consideration at the time of appraising whereas some only focus on job related results or outputs.

Research Methodology

An exploratory research work was done based on both - primary and secondary data.

The primary data has been collected by personal observation, interviews, discussion with employees. Secondary data has been collected through company document, corporate websites, online journals, news papers, and research & survey reports.

A comprehensive portrayal of how the system of performance appraisal works in two organizations, one private and other public namely, Kotak Mahindra Bank and Hindustan Aeronautics Ltd. respectively has been depicted.

The paper also highlights information on methods and practices of performance appraisal of few Indian Organizations. Moreover, the study also focuses on recent trends in performance appraisal systems.

The Academy of Human Resources Development in 1995 collected the experiences of most of Indian organizations from 1990 onwards which are as follows:

1. The new developmental appraisal system of ABB has 6 parameters which are based on the premise that the employees at all levels in organization have the capability to make significant contribution to overall team performance which finally help organization to progress by leaps and bounds. These 6 parameters are:
 - (a) Plan the job profile.
 - (b) Counsel to develop.
 - (c) Team performance.
 - (d) Process parameters.
 - (e) Training & development.
 - (f) Internal customer attention.
2. At Eicher, emphasis of appraisal is on teamwork, quality and process of development. Moreover, it has changed its focus from only appraising to development review.
3. TELCO follows MBO method of performance appraisal.
4. Hindalco considers reward to be a major prominent element of appraisal as without rewards, appraising employees becomes ineffective.
5. ICICI includes peer and reverse appraisal.
6. UTI espouses an appraisal system that relies mainly in building up superior –subordinate relationships.
7. The appraisal components of Vishakhapatnam steel plant has components like:
 - (a) Setting up of the target.
 - (b) Monitor periodic performance.

- (c) Give regular feedback.
 - (d) Self appraisal and discussion.
 - (e) Identify training and development needs.
 - (f) Assessment of performance.
8. Bokaro steel plant has introduced great objectivity in reviewing its officers against set goals or targets.
9. Union Bank Of India (UBI) has appraisal system where reporting officer evaluates his subordinate on human skills (emotional stability, expression power, leadership skills and inter-personal relations), technical skills(dependability, performance on job and job knowledge) and conceptual skills(grasping and alertness level, job relation, initiative and decision-making skill) on a five point rating scale for different categories of employees.
10. Punjab National (PNB) follows 10 different appraisal forms for 10 different categories of employees. For instance, in self appraisal form regional managers, AGMS and DGMS have to remark on the following:
- (a) Satisfaction towards job in performing duties and responsibilities.
 - (b) Appropriateness of job to knowledge, skill, talent and capability of individual.
 - (c) Pertinent achievements.
 - (d) Compliments received or lacunas pointed out by boss.
 - (e) Willingness to relocate or move out of station on posting.
 - (f) Training and other development programmes attended.
 - (g) Growth needs and plans for enhancing capabilities.

11. Modi Xerox links its appraisal system to career planning, succession planning and management of motivation through rewards. The performance planning and appraisal are based on company's roles and responsibilities (RROs) which focus on development action planning (DAP).
12. At LG Electronics, the annual performance appraisal system allows to assess employees' worth, the value addition they bring and understanding of themselves both functionally and behaviorally, as individuals and team members.
13. Various stages in the appraisal system of SAIL includes:
 - (a) Self-Appraisal.
 - (b) Performance review and planning.
 - (c) Performance assessment.
 - (d) Assessment by reviewing officer.
 - (e) Primary grading.
 - (f) Performance review committee and development plan.
14. Performance system of Grasim Industries has shifted from trait oriented subjective system to a more sophisticated objective form of performance appraisal.

Benefits of Performance Appraisal: The system of performance appraisal provides benefits to employees, managers and organization as a whole.

For Employees: They understand their job profiles clearly, know how they are evaluated and monitored, realize their strengths, weaknesses and developmental needs, how they can improve their skills, set their objectives for next year, thrash out career direction and prospects.

For Managers: Knowledge of available resources in the organization, plan improved performance, set new targets and goals for the future, recognize probable lacunas, problems and difficulties of employees.

For Organization: Succession planning of the employees, regular information about aspirations and expectations of employees from management, help in making decisions relating to promotions and motivation, develop training plans after identifying training needs.

Recent trends in PAST: These-a -days, new appraisal systems are being used by the organizations which are as follows:

(1) Number –less appraisals: Questions have always been raised about the desirability of applying numbers or ratings to human beings. Though without numbers, it will be very difficult for top management to reward the employees and there are greater chances of biasness and subjectivity. But if one looks at the human resource development philosophy of an organization, then depicting the performance of employees merely by using statistics is also considered anti-HRD. Now, emphasis is shifting from quantitative to qualitative assessment which has been successful in developed countries but Indian organizations will take time in reaching to that level when number game will come to an end and human beings will be treated as human only.

There are certain conditions where performance ratings can be eliminated to great extent:

1. When appraisal is to be conducted for teams rather than the individuals.
2. If organization has good working environment where every individual treat other with love, respect, dignity and can rely on each other.
3. As far as possible, performance of employees should be examined by either reporting officer i.e. immediate officer above employee or reviewing officer i.e. officer who is two levels above an employee.
4. In case, if appraisal has to be conducted by central team then it needs to discuss performance of employee with reporting officer and in some cases with the employee himself.

5. There are numerous means for appraising the performance of employees and performance appraisal reports is one of them.
6. If the organization is moving from tall organizational structure to flat organizational one.

(2) *Subordinate Assessment*: In this, assessment is made by subordinates about their reporting officers. Organizations like TISCO has even implemented it successfully in their appraisal system. But it is not appreciated by most of the organization as in this juniors evaluate the performance of their seniors. Although few managers who really want to improve themselves have started collecting feedback on their performance, styles and behavior from their subordinates anonymously.

IIM-A conducted a workshop on “Top Managers”, Styles and organizational effectiveness in which top brass of various organizations were invited to participate and enroll atleast 3 months in advance.

Moreover, they were asked to provide name, contact details and addresses of 10 employees who had worked under them. A structured questionnaire including parameters like strengths, weaknesses, and leadership styles, attitude, behavior, and decision – making was then sent to those 10 employees.

This filled up questionnaire in form of feedback was then to be sent anonymously to programme incharge of workshop. In workshop, top brass of organizations were told:

- (1) How to receive, give and use feedback.
- (2) How to do self-assessment .
- (3) Learn from evaluation done by their 10 subordinates.

This workshop served a good model for enhancing the skills and development of top bass of the organization.

Each organization should try to make their performance appraisal more effective in following ways:

- (1) Look at all the aspects of an employee's performance.
- (2) Make practical, beneficial and constructive judgements.
- (3) Conduct performance appraisal continuously and give feedback to employees from time-to-time.
- (4) Criticize bad, performance, habits, attitude and behavior but not the person.
- (5) Counsel and coach the employees on a continuous basis.

In this article, key / salient points of performance management have been described in public sector enterprises & private sector organizations by taking one each representative organization from each sector viz. : Hindustan Aeronautics Ltd and Kotak bank Ltd respectively.

Assessment of performance in Hindustan Aeronautics Ltd.

Hindustan Aeronautics was established in 1964. It has 16 production units and 9 Research and design centers spread across seven locations. Total number of employees are about 30,000 out of which 6500 are executive officers.

System of Performance Appraisal:

System of performance appraisal is in operation since thirty years but was revised in 2000 – 01 and renamed as PAR (Performance Appraisal and Review). PAR is annual exercise done in April each year with quarterly setting and evaluation. Instituted by HR department, involvement of top management is very high. Criteria for PAR are:

- a) Performance and
- b) Job traits of assessee.

New PAR is based on planning & commitment with task mutually agreed upon.

Objectives of PAR:

- a) Appraising employees of meeting company goals with focus on value addition
- b) Identify low performers and suggest corrective actions
- c) Provide faster career growth avenues for high performers.

Grades: Ten grades entry with grade I and growth up to grade X. Two grades are coupled in each level hence there are 5 levels. Grade I & II in level 1 to Grade IX & X in level 5.

There are five formats for each level of officers.

Stages of PAR:

1. Quarterly Task & Achievement

Quarterly task are set jointly by appraisee and the IA (Initiating Authority). Efforts are made to make task quantitative or at least measurable in ordinal scale and defined on time scale or quantity. IA may consult RA also (Reviewing Authority). There are four quarters and maximum marks are 100 distributed across tasks based on their relative weight age.

IA evaluates the performance with appraisee at the end of each quarter and marks are given at the start of next quarter. These marks form the basis for annual review.

2. Self Appraisal

Appraisee assesses his/ her performance against mutually agreed tasks. This is reviewed by IA & RA.

3. Assessment of Traits

Different skills are required by officers at different levels and marks are allotted to each trait by IA & RA. Performance traits marks are equal to %age average marks awarded by IA for the year by him for the tasks. In case RA marks vary from IA marks, RA will submit the reasons / justification for such variation.

For remaining traits IA & RA have to award marks against each trait. To remove ambiguity each trait has been explained extensively in the format.

4. Rating scale:

Four point rating scale is used. Grades are assigned on the basis of marks scored by appraisee:

Total Marks	90 -100	80-89	50-79	Below 50
Performance	Exceptional	Above	Average	Below
Rating		Average		average

Table 1

Overall performance rating is on the above scale of gradation.

5. Pen Picture (Qualitative Assessment)

Both IA and RA give brief description of appraisee highlighting aspects of personality as a “pen picture”.

6. General Assessment and Management review for categorization

Potential assessment is done by considering educational qualification, effectiveness, personal qualities, variety and experience, the job knowledge and actual performance.

There exists 3 categories:

1. Category A: An officer with high degree of potential for advancement
2. Category B: An officer who has potential for limited advancement
3. Category C: An officer who has no potential for advancement.

7. Identification of Training needs

Both IA and RA recommend job rotation and training for future advancement.

8. Performance review board

Corporate level board to determine final marks / ratings on the basis of evaluation done by IA & RA which are considered final.

9. Remarks of higher authority

General remarks appear here.

10. Feedback system

All officers scoring less than 50 marks and rated below average are informed by authorities in writing. In addition verbal feedback is also given from time to time. Areas / traits for improvement is communicated by HRD department.

11. Expunging remarks

An officer dissatisfied by feedback received on his traits can represent his concern. Competent authority examines such representation and if convinced, may order expunging such observation from the report.

Observation on PAR system:

Appraisal seems to cover broad objectives of PAR. There is emphasis on training needs, performance, traits and potential. It links it to career advancement. Various levels are there to take control of biases. Frequent review on quarterly basis ensures correction in time saving organizations time and effort. Short term tasks are reviewed in short term. Appraisal provides communication of low performance and also method to address appeal in case of aggrieved employees.

On the other hand number of attributes seems to be too low for some level of officers. Scale of gradation is not gradual. A fifth grade may be included between exceptional and above average. In categories one more category may be included where in an officer high degree of potential may be identified where

organization is unable to provide avenues / growth opportunity for career advancement.

In my personal view I feel an organization operating in high technology arena must have additional focus area, which its performance appraisal must additionally recognize are:

- a) Creativity
- b) Innovation
- c) Adapting to change and
- d) Teamwork (as all large projects have necessarily to be executed in teams)

It is also important that organization also provides written feedback of performance that is more than 50 i.e. average and above. This is particularly important in circumstances when employees are unable to show consistencies in performance where in his performance is restricted or develops organizational related constraints. If written record exists then such data can be put to use for analytical review to identify possible constraints or reasons for employee to become inconsistent with his / her performance.

Assessment of performance Appraisal in Kotak Mahindra Bank

Established in 1984, Kotak Mahindra Bank is one of the India's leading financial institutions, offering complete financial solutions from commercial banking, to stock broking, to mutual funds, to life insurance, to investment banking, the group caters to the financial needs of individuals and corporates. Kotak believes that monetary rewards per se do not motivate employees but it is hygiene factors (Hertzberg theory) that plays guiding principle behind performance appraisal philosophy of Kotak bank.

Salary is given for meeting performance standards

Increment is given as an incentive / reward for higher performance

Promotion is given to recognize the potential possessed / displayed by an individual to take on future

role.

System of Performance Appraisal

Kotak has annual performance review system with six monthly mid course review for all category of employees. Basic soft skills and technical skills are expected of all employees.

Objectives of Performance Appraisal

1. To provide recognition to high performing employees
2. Clarity of organizational and individual goals
3. Promotion and
4. Salary raise / increment

Management approach to performance Appraisal

Guiding principle of performance appraisal can be summed up as “FLAME” which stands for:

F – Focus

L – Leadership

A – Active participation

M – Maximizing challenge

E – Entrepreneurship

All these together provide what is known EVP – Employee value proposition. On the basis of which actions based on employees advancement and recognition takes place.

Stages of performance Appraisal

1. *Clarity of organizational goals*

Alignment of organizational goals with individual goals / targets is key at Kotak. It is achieved by clearly defining standards of performance and setting out competency requirement at each level of job operations.

All processes at Kotak follow the rule of SSI i.e. Strategic, Service and Integration.

2. *Self Appraisal*

Employee does his own self analysis of his own perception of his performance.

3. *Feedback*

Irrespective of level of performance employees at Kotak are regularly given feedback on their level of performance.

4. *Moderation*

Whenever there is sizeable / large difference between perception of same performance by different stakeholders and / or evaluators of the performance, it undergoes a process called moderation. During this process these perceptual gaps that exist are understood and limited or removed and record for the same is maintained.

5. *Deliver*

Delivering the action plan and preparation of next performance standards.

There exists a system of 360 degrees appraisals where in juniors are also roped in to evaluate their superiors performance for which Kotak uses standardized Gallup scorecard.

Conclusion

Both the organizations under study are progressive in their own respective fields and recognize the importance of performance appraisal. They both have successfully institutionalized the PA system by embedding employees need, providing basis for evaluation of job related performance, providing time

based discussion on objectives and plans for appraisal and looped in all stakeholders for shared understanding and responsibility on appraisal system for effective implementation.

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