ISSUES OF PERFORMANCE APPRAISAL

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A **performance appraisal** (PA) or **performance evaluation** is a systematic and periodic process that assesses an individual employee’s job performance and productivity in relation to certain pre-established criteria and organizational objectives. Other aspects of individual employees are considered as well, such as organizational citizenship behavior, accomplishments, potential for future improvement, strengths and weaknesses, etc. To collect performance appraisal data, there are three main methods: objective production, personnel, and judgmental evaluation. Judgmental evaluations are the most commonly used with a large variety of evaluation methods. A performance appraisal is typically conducted annually. The interview could function as “providing feedback to employees, counseling and developing employees, and conveying and discussing compensation, job status, or disciplinary decisions”. Performance appraisal is often included in performance management systems. Performance management systems are employed “to manage and align” all of an organization's resources in order to achieve highest possible performance. “How performance is managed in an organization determines to a large extent the success or failure of the organization. Therefore, improving PA for everyone should be among the highest priorities of contemporary” organizations.

Some applications of performance appraisal are performance improvement, promotions, termination, test validation, and more. While there are many potential benefits of performance appraisal, there are also some potential drawbacks. For example, performance appraisal can help facilitate management-employee communication; however, performance appraisal may result in legal issues if not executed appropriately as many employees tend to be unsatisfied with the performance appraisal process. Performance appraisals created in and determined as useful in the United States are not necessarily able to be transferable cross-culturally.

Following are issues of Performance Appraisal are:

1. Performance Appraisal and Change Management
2. Total Quality Management and Performance Appraisal
3. Performance Management & Succession Planning
4. Linking Compensation to Performance
5. Appraisal as a Motivating Mechanism
6. Micromanagement & Performance Management
7. Performance Appraisals and Organisational Performance
8. Employee Training Need Assessment
9. Performance Appraisal in Government Organisations
10. Arguments against Performance Appraisals
11. Managing without Performance Appraisals
12. Performance Management Outsourcing
13. Advantage of Performance Management Outsourcing
14. Performance appraisal for different levels of employees
15. Parameter to Appraise Performance in BPO Sector
The performance appraisal process provides an opportunity for introducing organizational change. It facilitates the process of change in the organizational culture. The interactive sessions between the management and the employees, the mutual goal setting and the efforts towards the career development of the employees help the organization to become a learning organization. Conducting performance appraisals on a regular basis helps it to become an ongoing part of everyday practice and helps employees to take the responsibility of their work and boosts their professional development.

Various studies in the field of human resources have already proved that performance appraisal process can affect the individual performance (in a negative or positive way), thus having an impact on the collective performance.

Performance appraisal: An opportunity for an organisational culture shift

- Performance appraisal process focuses on the goal setting approach throughout the organisation.
- Performance appraisal helps the clarity and understanding of the roles and responsibilities of the employees.
- The performance appraisal processes have the potential positive effects on recruitment.
- It increases organisational effectiveness i.e. what to do and how to do through a formal and structured approach.
- Some evidence of the beneficial effects of team rewards.

Therefore, performance appraisal is also an important link in the process of change in organization culture.

2. TQM and Performance Appraisal

According to Sashkin and Kiser, “Total Quality Management (TQM)” may be defined as creating an organisational culture committed to the continuous improvement of skills, teamwork, processes, product and service quality and customer satisfaction. TQM refers to the continuous improvement in the quality of work of all employees with the focus on satisfaction of the customers.

Elements of TQM are:

- Meeting customers requirements,
- Continuous improvement
- Empowerment of employees.

Both TQM and Performance appraisal / evaluation are focused on increasing the productivity of the organisation through continuous improvement. They both facilitate
the systematic management of all the processes, actions and practices at all levels in the organisation.

Some of the benefits of both the performance appraisal and TQM are:

- Improvement in the performance of the employees
- Brings quality consciousness
- Better utilization of resources
- Commitment to higher quality

But there also exists a few other schools of thought which refute the compatibility of the TQM and performance appraisal. According to them, both TQM and Performance appraisals differ in their fundamental nature, characteristics and requirements making it impossible to combine them.

Some fundamental differences between the two are as follows:

- TQM is team-based whereas performance appraisals are designed for individuals i.e. it undermines teamwork.
- TQM focuses on customer satisfaction whereas performance appraisal focuses on improving the performance of the employees.
- Performance appraisal generally results in some rewards like increased pay etc. whereas TQM may or may not yield visible results.

Performance appraisal can sometimes, encourage an employee to focus on his personal goals (like his promotion) rather than the organisational goals. Therefore, the suitable practice should be chosen carefully by the top management and the leaders of the organisation.

3. Succession Planning and Performance Management

Succession planning is ensuring the right people in the right place at the right time. It is a part of HR planning for the organization and involves finding the right people to take higher responsibilities in the organization. The success of the organization is largely dependent on the quality of its human resources and leaders of the organisations. Succession planning is proactive in nature and results in the creation of a talent pool of candidates with the required potential and competencies who can take the high positions in future and help in the growth of the organization.

Succession planning is being practiced since a long time now and has become an indispensable part of corporate strategy in most of the organisations. One of the best approaches to succession planning is "performance based succession planning".

HR planning for the probable future needs is a challenge for the HR managers and the performance review and can help tremendously to attain this challenge. Performance
appraisal process (like performance reviews and competency assessment) and succession planning together can help to strategically identify and develop the required talent pool.

Apart from the various other factors, succession planning is based on:

- The positions for which the planning is being done
- The current and past performance levels of the employees
  - Performance rating
  - Competency mapping
- How have the selected employees managed to improve since their last review?
- The growth potential and the attitude of the employees.
- Their ability to meet the changing and increased level of standards and measurements set by the management.

Succession planning is a complicated process and requires time and ongoing effort. Therefore, performance appraisal and review process helps to judge the knowledge, skills, attitude, competencies and potential of the employees and finding the mentoring and coaching requirements if any and thus identifying the right candidates for taking future responsibilities i.e. succession planning.

Therefore, performance based succession planning helps in creating a required talent pool of employees for the future needs of the organisation.

4. Linking Compensation to Performance

One of the latest strategies being followed in all sectors throughout the world for retention and talent management is “linking compensation to performance”. Commonly known as "Performance pay" or "Performance based pay", it links the compensation of the employees to their performance and their contribution to the organizational goals. Therefore, periodic performance reviews play a vital role and provide the basis of performance related pay.

Commissions, incentives and bonuses, piece rate pay help the employer to pay the employee according to their productivity and hard work.

The process of performance based pay involves:

- Deciding and clearly defining the performance goals and the performance measures
- Setting the target bonus for different levels of performances
- Measuring the performance of the employee
- Giving rewards and bonus according to performance

Organizations are also designing variable compensation plans for various roles and positions in the organization.
Types of Performance Pay

- **Merit pay** – The first step to performance pay, merit pay means setting some basic salary according to the position and the rank of the employee and the variable part of the salary is based on the periodic performance reviews.
- **Profit Sharing** – Sharing the profits of the enterprise with the employees as bonus.
- **Incentives and Performance Bonus** – Rewards for special accomplishments or fulfillment of the targets set such as sales commission.
- **Gain sharing** - Sharing of gains as a result of the increased performance of the employees with them.

Although performance related pay has always been a topic of discussions and controversies with many arguments against it, but it has also been proved that performance based pay motivates employees to perform better and earn, and encourages learning, innovation, creativity, problem solving and empowerment which can be facilitated through proper performance measurement and reviews.

5. **Appraisal as Employee Motivation Mechanism**

Keeping in mind the growing attrition rates and the employee dissatisfaction among the employees, the HR professionals are approaching and using the performance appraisal as a fuel to motivate employees. The latest trend being followed by the HR professionals is to use the performance appraisal and review process as a motivating mechanism. Various surveys and studies have testified the relationship between performance review, pay and motivation.

Other than the traditional goal of accessing the performance of the employees, Performance appraisals and reviews can be used as a tool to reinforce the desired behaviour and competent performance of the employees.

One of the most motivating factors for the employees, in the performance appraisal processes is to receive a fair an accurate assessment of their performance. Inaccurate evaluation is one reason because of which most employees dread going through performance appraisals. An employee always expects his appraiser to recognize and appreciate his achievements, support him to overcome the problems and failures.

The discrepancies and the inaccuracies in the performance review can demotivate the employees, even if there has been an increase in the salary. Such inaccuracies can kill the innovating and risk taking enthusiasm and spirit in the employees. Similarly, inaccurate reviews with no hike in compensation can increase the attrition rate in the organisation, forcing the employees to look out for other options.
An employee prefers an accurate performance review with no increase in the salary over inaccurate performance review with an increase in salary.

Employees, who receive both accuracy and a pay increase during their performance review, are likely to be the most motivated. Therefore, performance appraisal (review and its consequence in the form of compensation adjustments) has the potential of motivating employees and increasing their job satisfaction.

6. **Micromanagement and performance measurement**

A good performance review includes a close observation, timely checks by the superiors and discussions about the plan of action, or actively participating in the employees’ work throughout the time period. Many a times, managers or superiors also need to keep a check or some control over the work of the subordinates. But excessive interference or control of the work of the subordinates can reverse the effect of the control.

Micromanagement is a management style where a manager closely observes or controls the work of their employees, generally used as a pejorative term. In contrast to giving general instructions on smaller tasks while supervising larger concerns, the micromanager monitors and assesses every step.

**Micromanagement** is the authoritarian style of management which often includes not giving them the power to take even the smallest decision related to their work, exercising excessive control over their work and even the smallest step taken by them.

Many a times micromanagement is for used for collecting details that can be used for the during the **performance feedback**, increased performance pressure and to keep the employees under control. But sometimes it is wrongly used by the managers to show their power, eliminate or harass the employees. It can be used to create stress for the employees. Micromanagement adversely affects the performance of the employees. It demotivates the employees and dampens the creativity, experimentation and innovation.

**Performance reviews** should be based on the complete details, facts and events taking place throughout the year which needs continuous monitoring and checks through various means. Such need for details can lead to micromanagement by the superiors. Apart from limiting the employee’s growth and learning, micromanagement also hinders healthy superior subordinate relationships and eventually the manager’s career development. Therefore, a better idea would be periodic discussions and feedback based on the overall performance of the employees and the results achieved.

Micromanagement, often referred as "mismanagement" should be avoided in the Performance appraisal process.

7. **Relationship between Performance Appraisal and Organizational Performance**
Performance appraisal processes are one of the central pillars of the performance management which is directly related to the organizational performance and have a direct impact on it. Employee performance ultimately affects the organizational performance and objectives.

**Relationship between Appraisal and Organizational Performance**

According to a few HR professionals, the appraisals have no value for the organisation as there is no direct relationship in performance appraisals and the organizational performance. Also, there is no strong evidence to prove that appraisals positively impact the performance of the employees. But the HR professionals who see the organizational performance as a result or sum of the employee’s performance, argue that apart from the direct benefits to the organisation, appraisals contribute to employee satisfaction, which in turn leads to improved performance.

For an organisation 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 effects the organizational performance. It helps to identify and overcome the problems faced by the employees in their work.

**Performance appraisals a double edged sword**

Performance appraisal is like a double edged sword for an organisation. Although it has many benefits for the organisation, various studies have also revealed that performance appraisals have the equal probability of having a bad impact on the organizational as well as the employee performance.

Where the performance appraisal improves the work performance and employee satisfaction, it can also demotivate employees and leaving a bad impression on the good employees. Most of the employees do not approve of continuous performance monitoring and performance appraisals, and also consider it as a burdensome activity. According to Professor Kuvaaas "Performance appraisals and other tools which involve feedback and target management should be adapted to the employee’s individual needs and characteristics. Otherwise, there is a risk of harming the good employees without being able to help the less good."

Performance appraisal processes can create a sense of insecurity in the working environment and can become an obstacle in achieving the required changes in the attitudes and the performance of the employees. The element of bias in the appraisals can also worsen the situation.
Therefore, performance appraisals can effect the organizational performance both positively and negatively, and should be dealt with care and expert knowledge and experience.

8. **Employee Training Needs Assessment**

A "training needs assessment", or "training needs analysis", is the systematic method of determining if a training need exists and if it does, what training is required to fill the gap between the standard and the actual performance of the employee. Therefore, training needs analysis is

- Systematic method of determining performance discrepancies
- Causes of performance discrepancies

**Reasons to conduct training needs analysis**
- Identify the deficiencies
- Determine whether employees lack KSAs
- Benchmark for evaluation of training
- Makes sure training is provided to the right people
- Increases the motivation of training

Training needs analysis includes:

- **Organizational Analysis** – It includes the analysis of
  - Mission & strategies of organization
  - The resources and their allocation
  - Internal environment- attitudes of people
- **Operational Analysis**
  - Determine KSAs required for standard performance
  - Job analysis
- **Person Analysis**
  - Specific areas of training required by the individual
  - Whether an individual is capable of being trained
  - The data regarding the person analysis can be collected through-
    - Performance data
    - Behavioral and aptitude tests &
    - Performance appraisal

Performance appraisal can significantly help in identifying the training needs of the employees. Performance appraisal helps to reveal the differences and discrepancies in the desired and the actual performance of the employees. The causes of the discrepancies are also found whether they are due to the lack of adequate training or not. The employee can also tell about his training requirements (if any) in his self appraisal. A performance appraisal after the training program can also help in judging the effectiveness of the program.
9. Performance Appraisal in Government Organizations

The commitment to the performance appraisal system in public organizations in India is very low. Low commitment and lack of accountability are the major reasons for the low institutionalization of the performance appraisal processes in government organizations.

Performance appraisal in Government Organizations is not directly linked to rewards, training or promotions due to which the approach towards the whole process remains unprofessional. There is a lack of the appropriate atmosphere and professional approach towards the performance appraisal system and the objective of the whole exercise is defeated.

- The most common method of Performance appraisal that is used in most of the government organisations is confidential report (popularly known as CR) written by the superior of the employees.

The following are the major discrepancies found in the performance appraisal processes being followed at the government organizations.

- Most of the indicators used for measuring the performance the employees are not quantifiable in nature, making it difficult to measure the performance.
- Due to the lack of accountability and job security, most government employees have a laisser faire attitude towards their work.
- Unavailability of the job descriptions for many employees.
- Most of the objectives in government organisations are unchallenging, unrealistic and not timely reviewed and updated.
- It is difficult to measure the average performance of the government employees.
- Unprofessional and unstructured approach towards the process.
- There is often a lot of bias and subjectivity involved in the ratings given by the superiors.
- Lack of complete information on appraisal forms due to expertise and relevant training; often, the appraisals are not conducted on a regular basis.
- In government organisations, team appraisal is often not possible.

Other HR decisions like rewards, training or promotions are not directly linked to the results of the performance appraisal process.

10. Arguments against Performance Appraisal

A large number of managers, human resource professionals, human resource consultants and researchers are recommending companies to get rid of the performance appraisal systems. The main argument given by the researchers is that the system of performance
appraisals itself is based on a few wrong assumptions and it fails to fulfill its basic purpose.

The major arguments against performance appraisal given in favour of abolishing the performance appraisals are:

- The first and the foremost argument is the fact that discrepancies between the theory and its application. There is often disconnects between the theory and the practical implementation.
- PA is a bitter process for most of the employees which can create emotional pressures and stress for the employees.
- The focus of the PA process is too narrow i.e. just to determine the rewards and punishments for the employees by measuring their past performance.
- PA is often looked upon as a tool to control the employees by the superiors which dampen the intrinsic motivation of the employees.
- Most of the managers and superiors are not trained enough to carry the processes in the appropriate and the structured manner.
- PA process increases the dependency of the employees on their superiors.
- PA process encourages accountability, approvals and discourages the spirit of creativity and initiative by employees and also demotivates them.
- Performance appraisal is conducted by managers who are often not trained to be appraisers. This obstructs the genuine feedback, as it includes subjectivity and bias of the raters leading to incorrect and unreliable data regarding the performance of the employees.
- PA can adversely affect the morale of the employees and create dissatisfaction among them, thereby affecting the organizational performance.
- Performance appraisals and reviews are often time consuming, with faulty methods to measure performances and generating false results and the decisions taken can be politically influenced.

11. Managing without Performance Appraisals

According to Tom Coens and Mary Jenkins, (the authors of "Abolishing Performance Appraisals") - while eighty percent of U.S. businesses use performance appraisals, ninety percent of them are dissatisfied with the process.

Various researches have proved that performance appraisal is an effective means of neither motivating people nor improving their future performance. Performance appraisal is generally seen as a judgment of the management rather than feedback.

- A culture of open communication and feedback is recommended where the information and suggestions regarding the system is shared freely.
The "appraisals and review meetings", continuous accountability and check can cause emotional stress for the employees. Therefore, it is recommended to create such a work culture where

- the employees are made responsible for their own performance and development
- the manager’s / superior’s suggestions, inputs are encouraged and incorporated in the actions.

Changing pay practices:

Instead of the rise in the pay on the basis of the results of the Performance appraisal (i.e. merit pay) a periodic cost of living increases, rewards on some accomplishments, tem bonuses, profit and gain sharing are good alternatives.

Motivating people:

Researches have proved that appraisals have little or almost negligible motivating effect on the employees. The employees should be motivated by creating challenging and interesting work, telling them their contribution towards the organizational goals, their career development in the organization etc.

Therefore, creating an organization with a culture that encourages creativity, fosters innovative efforts and productivity, teamwork, empowerment requires around two years of time, reformulating strategic plans and assumptions but can be effectively put into place without the need of performance appraisals.

First of all, they list a number of false assumptions underlying the PA process, such as:

- A mandatory, organization-wide, one size fits all annual face to face feedback process is effective for just about everyone in all functions and groups;
- All our managers have the requisite interpersonal skills and sensitivity to give feedback accurately and counsel around emotional reactions to the feedback;
- The boss has the prime responsibility for ensuring the employee performs and develops himself;
- Ratings are objective enough to be perceived as fair and to motivate effort;
- PA’s are objective enough to stand up in court;
- People will withhold performance if they are not appraised and rewarded annually (i.e. they need their PA “fix” or they won't continue to produce).

12. Performance Appraisal for Employees at Different Levels

Performance appraisal is important for employees at all levels throughout the organization. The parameters, the characteristics and the standards for evaluation may be different, but the fundamentals of performance appraisal are the same. But as the level of the employees’ increases, performance appraisal is more effectively used as the tools of managing performance.
**Performance appraisal of Managers**

Appraising the performance of managers is very important, but at the same time, it is one of the most difficult tasks in the organization. It is difficult because most of the managerial work cannot be quantified i.e. it is qualitative in nature like leading his/her team, guiding, motivating, planning etc.

Therefore, the two things to be noted and evaluated for the purpose of appraisals are:

- Performance in accomplishing goals, and
- Performance as managers

**Performance in accomplishing goals**

Managers are responsible for the performance of their teams as a whole. Performance in accomplishing goals would mean to look at the completion or achievement of the goals set for a team of employees which is being assigned to or working under a particular manager. The best measuring criteria for a manager are hi goals, his plans of course of action to achieve them and the extent of achievement of the goals.

**Performance as managers**

The **responsibilities of managers** include a series of activities which are concerned with planning, organizing, directing, leading, motivating and controlling. Managers can be rated on the above parameters or characteristics

**Criteria for measuring performance at different levels:**

The criteria for measuring performance changes as the levels of the employees and their roles and responsibilities change.

**13 Global Trends in Performance Appraisal Program**

The performance appraisal process has become the heart of the **human resource management system** in the organisations. Performance appraisal defines and measures the performance of the employees and the organisation as a whole. It is a tool for accessing the performance of the organisation.

The important issues and points concerning performance appraisal in the present world are:

- The focus of the **performance appraisals** is turning towards career development relying on the dialogues and discussions with the superiors.
- Performance measuring, rating and review systems have become more detailed, structured and person specific than before.
- Performance related pay is being incorporated in the strategies used by the organisations.
- Trend towards a **360-degree feedback** system
- The problems in the implementation of the performance appraisal processes are being anticipated and efforts are being made to overcome them.
- In India, the performance appraisal processes are faced with a lot of obstacles, the most prominent being the lack of quantifiable indicators of the performance.