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# UNIT 18      PERFORMANCE MONITORING AND APPRAISAL

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## 18.0 OBJECTIVES

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Once you have gone through this Unit, you should be able to:

- appreciate the role of performance appraisal in the achievement of organisational objectives,
- caution yourself about the serious problems that may make the PA system unreliable and invalid,
- devise methods that will ensure objectivity in the PA system, and
- use performance appraisal as a development tool.

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## 18.1 INTRODUCTION

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A major concern of every manager should be to contribute positively towards the achievement of the organisational objectives. Organisational effectiveness is often equated with managerial efficiency. As a manager, you can ensure organisational effectiveness only by guaranteeing the full utilisation of the human resources available through the individual employees under your guidance. Hence, there is the need for monitoring and measuring the performance of employees. In this Unit, our attempt shall be to understand the meaning and relevance of performance appraisal systems. We shall also examine the popular methods of appraisal, the common problems of these methods, and look at the possibilities of overcoming these problems.

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## 18.2 WHAT IS PERFORMANCE APPRAISAL?

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Performance Appraisal (PA) is the process through which an individual employee's behaviour and accomplishments for a fixed time period are measured and evaluated. The major purpose of measuring and evaluating is to **assess** the worth or value of an employee based on various considerations rather than only on productivity. Performance appraisal is a systematic and objective way of judging the **relative** worth or ability of an employee in performing his or her task. It helps to identify those who are performing their assigned tasks well and those who are not and the reasons for such performance. Performance appraisal is thus the process of reviewing an individual's performance and **progress** in a job and assessing his or her potential for **future** improvement. It is a systematic method of obtaining, **analysing** and recording information about an employee that is needed:

- for the **efficient management** of **business/organisation**,
- by the **manager** to help him or, her to improve the job holder's performance and plan one's career, and
- by the manager to assist job holder to evaluate his or her own performance and develop themselves.

### Performance Appraisal from an Organisational Perspective

The PA process for organisations is typically led by the personnel function. Performance Appraisal can be viewed as a six-step sequence as shown in **Figure-I**. The sequence is significant because it begins and ends with the personnel function and is ultimately justified by the value of PA in helping to make several administrative decisions for the organisation. It **benefits** an organisation as:

- 1) It improves overall performance of the organisation due to better communication of the objectives and goals to the staff by the manager leading to a better relationship between the two. It helps staff to understand their own career prospects.
- 2) It shows the employees their potential and once the **potential** is identified both, the manager and the organisation, can decide how to use the potential for the company's betterment.
- 3) Long term ideas can be identified as also the training, retraining and developmental **needs** of the employees.
- 4) It helps the staff know that they are valued, increases loyalty and improves the working environment.

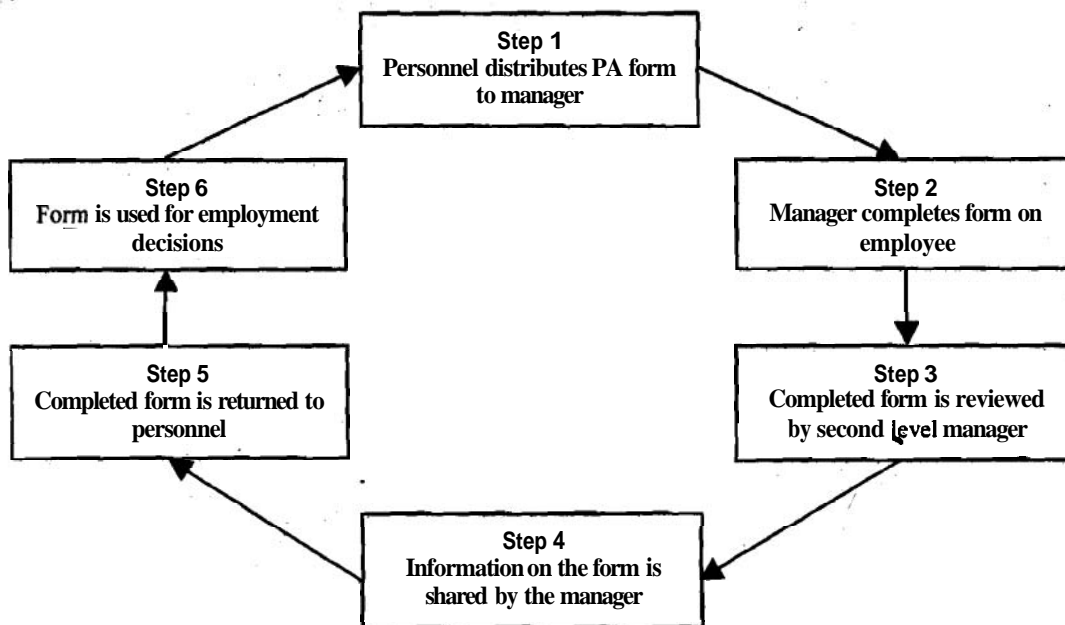


Figure I: Steps for PA

### PA from a Manager's Viewpoint

Much of the responsibility for doing the PA lies directly on your shoulders as the manager. You will be usually asked to define **the demands** of the employee's **position** and translate these into some expectations for the employee, such as "I expect you to reduce absenteeism by 20%" or "I expect you to respond promptly to customers' requests for service". How the employee actually performs is observed by you over a fixed time period, resulting in a final evaluation that is documented on a form. These **evaluations** should be shared with the subordinate. The process ends with recommendations from you to the higher management for one or more administrative

decisions regarding the employee, such as his or her promotion, a salary increase, training or any other matter. PA helps managers as it:

- gives an opportunity to know all the subordinates better and clarify what the expectations are from each employee. This improves relations and understanding between the two,
- helps to identify new ideas, gives an increasing sense of personal value and job satisfaction, and
- helps form the spirit of teamwork as the organisational targets can be discussed and linked with employee targets.

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## 18.3 JOB PERFORMANCE AND PERFORMANCE MEASUREMENT

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Most PA systems are designed to measure individual job performance. Defining job performance in an organisation at the individual level is often a difficult process. This attempt, however, is based on the following assumptions:

- 1) If production can be measured, there is less need for employee appraisal, because each person can be judged according to the amount produced. But, if the work performed cannot be measured, the personnel characteristics which **lead** to increased productivity and contribute to employee performance must be determined.

It is assumed here that there are traits and characteristics which lead to productivity. These traits and characteristics can be perceived, isolated, measured and evaluated. The following characteristics are generally accepted as meritorious basis for appraisal: **work quality, reliability, cooperation, job knowledge, initiative, attitude, safety consciousness, attendance, learning ability, health and physical condition adaptability, judgment and responsibility.**

- 2) A second assumption is that objective ratings or **rankings** of employees' productive contribution can be made on the basis of their performance characteristics. It is further assumed that these can be co-related with specific characteristics of job performance to show a cause and effects relationship between employee characteristics and productivity on the job.

Therefore the success of PA measurement rests on the extent to which job performance criteria can be specified. However, it is extremely important that you should select the performance criteria only after defining the job content with the help of a formal job analysis procedure. Thus, job performance involves defining what criteria are to be measured.

Although job performance involves identifying appropriate criteria, performance measurement involves how performance criteria, once defined, will actually be measured. Most organisations, in fact, depend on judgmental indices of job performance for performance measurement. When you depend on judgmental indices, the PA measurement is susceptible to numerous problems of rate accuracy and dependability.

**PA from an Appraiser's Viewpoint:** The staff member of an organisation realizes that a performance appraisal always takes place in his or her organisation. Usually the manager conveys some of the results **from** the appraisal to the staff concerned. It helps to appraise as it:

- increases the sense of personal value, job satisfaction and the self-motivation of the employee,
- gives an opportunity to discuss the problems faced during the period in between PA and give ideas for **improvement**, and

- provides opportunity to discuss one's own aspiration and seek support to attain the same by understanding to link them to organisation's goal. Thus, improving working relationship with the manager.

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## 18.4 THE PROBLEMS OF VALIDITY AND RELIABILITY

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It is important that you should be aware of the problems that can affect the validity and dependability of the PA systems.

### The Validity Problems

Performance appraisals are intended to evaluate the performance and potential of employees. Still, they may not be valid indicators of what they are intended to assess because of a variety of limitations on their use:

- i) **The halo effect:** The tendency of the evaluators to base assessments of all individual characteristics on the raters' overall impression of the person being evaluated is termed 'the halo effect'. The individual characteristics are presumed to be irdependent of each other but, the halo **effect** is the tendency to generalise from a predetermined overall impression, usually based on one of the appraiser's characteristics. For example, an employee might be rated high on productivity, quality of work and also motivation only because he or she constantly works till late hours.
- ii) **Bias:** Very often, the appraisal may become invalidated because of the biases of an appraiser. The appraiser may be biased for several reasons such as regional or religious backgrounds, social or interpersonal conflicts. It may also happen that, as an evaluator, one does not likes the person one is evaluating. Bias may also be a factor of time. Recent experiences are more likely to impress, while there is a tendency to forget or overlook more distant events.
- iii) **Different Rating Patterns:** The rating patterns usually differ from manager to manager. This results in lack of uniform rating. The pattern can be :
  - a) **Inflation of ratings:** There is a tendency to inflate ratings, which at times, happens over time, or it may even happen at all times with some raters.
  - b) **Central tendency:** This is the tendency to avoid using the extremes of rating scales and to cluster the ratings around the midpoint.
  - c) **Leniency error:** Leniency error occur when the rater artificially assigns all or a certain group of employees' high performance ratings and all or certain scores cluster at **top levels** of the management scales.
  - d) **Strictness error:** Strictness error occur when the rater artificially assigns all or certain groups of employees low performance ratings, and all or certain scores cluster at the bottom levels of the measurement scales.

### The Reliability Problems

Reliability ensures stability and consistency in the measurement results. Instability over time and inconsistencies among raters can considerably reduce the reliability of the PA. Moreover, reliability may be reduced due to inconsistent use of measuring standards, lack of training in appraisal techniques, and inconsistency between different raters.

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## 18.5 METHODS OF APPRAISAL

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There are many kinds of Appraisal Schemes but unfortunately, there are no accepted standards to **determine** which method of evaluation produces the best results. There is a

range of techniques that are **used** by **organisations**; here again, there are no commonly accepted and utilised norms. Let us look at some of them and examine their utility for us and also their shortcomings:

### i) **Global Essays and Ratings**

In a typical global rating approach, the rater is asked to provide an overall estimate of performance without making distinctions among performance dimensions. In the essay format, the rater is asked to respond narratively to a question such as "What is your overall evaluation of this individual's performance for the past year"? Without specific performance criteria derived from a job analysis procedure, neither the global rating nor the general narrative can be considered job-related. Therefore, both these techniques have serious limitations.

### ii) **Trait-rating Scales**

Graphic or trait-rating scales usually comprise a list of personality traits. The rater will be required to indicate on a numerical scale the degree to which the individual being appraised possesses these traits. The trait-rating approach is multidimensional to the **extent** that some informal analysis is usually conducted to generate a limited number of traits appearing on the PA form. However, since they lack specific job-related definitions, trait-rating scales are extremely vulnerable to errors such as halo, strictness, leniency, and central tendency that severely affect the validity and reliability of the **ratings**.

### iii) **Ranking Procedures**

In such a procedure, one is required to provide an overall evaluation of performance either by checking one of the following categories : Top 1%, Top 3%, Top 5%, Top 10%, Top 30%, Top 50%, (Typical), Bottom 30%, Marginal, and Unsatisfactory. Alternatively, one can distribute the employees along a scale on the basis of **performance** or simply list employees' names in order of effectiveness on particular dimensions.

Although ranking procedures **often** show reasonable inter-rater reliability and eliminate other rating errors such as central tendency, they are typically not based on specifically defined measures of job-relevant performance.

### iv) **Critical Incident Methods**

While using a critical incident method, one must document the positive and negative behavioural events that have occurred during a given performance period. The objective is that one can use this information to review performance as a series of **positive/negative** behaviours related to a job. **This** approach requires a great deal of inference on the part of the rater to determine which incidents are critical to job performance, and hence subject to all the problems relating to subjective judgements.

### v) **Behaviourally based Scales and BARS**

Behavioural Anchored Rating Scales (BARS) are description of various degrees of behaviour with regard to a specific performance dimensions. The behaviours, specifically defined, provide the anchors for rating scales.

- Although these scales represent jobrelevant dimensions of performance, they still pose problems in determining which actually observed behaviours match with specifically **anchored** performance scales. Despite this difficulty, BARS are significant improvement, since they require **less** inference on the part of the rater than traditional trait-rating **approaches**.

The BARS procedure typically involves five steps:

- 1) **Critical incidents:** Individuals who are knowledgeable of the job in question (incumbents and supervisors) describe specific examples of both effective and ineffective job behaviours.

- 2) **Performance dimensions:** The behavioural incidents are clustered into a smaller set of performance dimensions (**usually** five to ten).
- 3) **Retranslation:** Another group of job-knowledgeable participants assigns each incident to the dimension that best describes it. Those incidents meeting some predetermined\*percentage of agreement with the group in step 2 regarding placement (typically 50-80%) are considered to be retranslated.
- 4) **Scaling incidents:** The same group as in step 3 rates the behaviour described in each incident in terms of effectiveness or ineffectiveness **on the appropriate** dimension by typically using seven or nine-point scales. Average effectiveness ratings for each incident are then determined and a standard deviation criterion is set for determining which incidents will be included in the final anchored scales.
- 5) **Final instrument:** A subset of the incidents that meets both the retranslation and standard deviation criterion is used as a behavioural anchor for the final performance dimensions. A final BARS instrument typically comprises a series of vertical scales (one scale per dimension) that are anchored by the included incidents. Each incident is placed on the scales based on the rating determined in step 4.

### Objective and Goal-setting Procedures

While the behaviourally-based scales focus on job behaviours, objective and goal-setting procedures focus on **outcomes/outputs**. An employee is assessed on the basis of what he or she produces as a result of job performance. In these approaches, goals and standards should be set either by the manager or jointly by the manager and the subordinate and the manager is required to appraise. Evaluation then will be based on whether the **goals/objectives** have been met in relation to the predetermined standards. In this method, the rater determines not only which aspects of performance to measure, but also, which standards to use in determining goal achievement.

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## 18.6 MAKING PERFORMANCE APPRAISALS MORE EFFECTIVE

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If performance appraisals are to be successful, they should:

- be based on performance standards,
- result in a face-to-face performance review, and
- **be** based upon multiple assessments.

### Result-oriented Schemes

Result-oriented schemes embody the principles developed by **Douglas McGregor** and the Management by Objectives (MBO) philosophy based on **Peter Drucker's** writings, **McGregor** suggested that the emphasis should be shifted from appraisal to an analysis. This, according to him, implies a more positive approach. The subordinate is no longer being examined by the **superior** to determine the former's weaknesses; rather the subordinate is examining himself or herself in order to define not only his or her weaknesses, but also strengths and potentials. He or she becomes an active agent, not a passive object. The aim is to relate assessments to a review of performance against specific targets and standards of performance agreed jointly by the superior and the **subordinate**. This procedure has **the** following advantages:

- i) **The subordinate is given the opportunity to make his or her own evaluation of the results he or she obtains. When the subordinate is discussing results and the actions that produced these results with the appraiser, he or she is actually appraising him or**

herself and gaining insight on how he or she can improve his or her own methods and behaviour.

- ii) The role of a manager shifts from that of criticising the subordinate to that of helping him or her to improve his or her own performance.
- iii) It is consistent with the belief that people work better when they have definite goals which they must meet in specified periods. They are motivated as they have set the goals to be achieved themselves.

### **Performance Reviews**

The purpose of performance review is to analyse what a person has done and is doing in his or her job in order to help him or her to do better by developing his or her strengths or by overcoming the weaknesses. The phrase performance review suggests a deliberate stocktaking exercise. This stocktaking is an analysis of the actual performance based on the predetermined goals and standards.

### **Counselling**

Counselling is a vital part of performance reviews if they are to achieve their prime purpose of helping people to improve and develop. Unless carefully and sensitively handled the subordinates become more dissatisfied after the counselling than they were before. In a well-conducted performance review session, one should ensure that the employee discusses the work problems and he or she should be encouraged to bring out his or her own solutions to them. This will provide the intrinsic motivation that can be derived from work itself and also the process of tackling work problems.

However, it is important to remember that effective counselling requires the use of skills which few managers are likely to acquire in the normal course of the work. It is essential, therefore, that one should acquire the necessary skills through proper training and practice under guidance as no counselling is better than poor counselling.

### **Potential Reviews**

A **meaningful** exercise in performance appraisal should include a review and appraisal of potential. The review of potential is concerned with forecasting the direction in which the subordinate's career can and should go and the rate at which he or she is expected to **develop**.

The assessment of potential requires an analysis of existing skills qualities and how they can be developed to the mutual advantage of the company and the employee. There is also an important counselling aspect to the review of potential which consists of discussions with the individual about his or her aspirations and how these can best be matched to the future foreseen for him or her. These discussions are a vital part of the procedure because they can provide one with information about the employees' feelings on the subject, which may have a direct impact on plans such as development, including training and job rotation for the employed. They can also provide employees with additional motivation and encouragement which they need to remain with the company.

### **Using Multiple Appraisals**

To reduce problems of validity and reliability, it may be more useful to use multiple **ratings** rather than single evaluations. While the rating of one supervisor may not be valid, the overall patterns of **several** ratings do provide an indication of overall performance and potential for development. Peer ratings, self-ratings and subordinate-ratings are various attempts that have been made recently to improve the PA systems. More positively, self-ratings may be useful to include, because employee participation can improve the quality of PA process. In fact, the more objective methods like **MBO** and **goal-oriented** procedures necessarily include self-rating as an important part of the overall appraisal of **performance** and potential.

**Check Your Progress**

- 1) Why is PA needed?  
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- 2) Discuss the validity problems in PA system.  
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- 3) What is BARS procedure?  
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- 4) List any three methods of Appraisal with their shortcomings.  
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- 5) What makes a performance Appraisal effective?  
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**18.7 LET US SUM-UP**

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This Unit was meant to sharpen your understanding of performance appraisal system as a managerial tool. Appraisal **has** been dealt with in this Unit, primarily as a fundamental process of communication, and also as a technique of organisational intervention.

It has attempted to increase your sensitivity as **an** appraiser by bringing into focus the manifold problems that beset the PA systems and methods.

Finally, it ought to have increased your skill in evaluating the performance of others more systematically and objectively.

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**18.8 CLUES TO ANSWERS**

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**Check Your Progress**

- 1) Study carefully **Sec. 18.2** for your answer.
- 2) Read **Sec. 18.4** and mention the halo **effect, bias**, rating patterns, etc.
- 3) Read **Sec. 18.5**. Also mention the five steps of BARS.
- 4) **Read Sec. 18.6.**
- 5) Read **Sec. 18.6** for your answer.

Activity
Visit any hotel establishment and find out what kind of policy is there for performance appraisal for employees and managers.