PERFORMANCE APPRAISAL: A KEY TO HR ASSESSMENT AND DEVELOPMENT

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ABSTRACT

Performance Appraisal (PA) has been one of the most researched issues in the fields of Industrial Organizational Psychology and Human Resource Management. A review of literature have depicted that a positive and significant correlation exist between high performance and the firm’s financial performance. This paper explores the performance appraisal practices of selected Indian companies. It provides an insight into the concept of performance appraisal, the methods and approaches of performance appraisal and the appraisal process etc. The study observes that at L& T performance of human resources is appraised at three levels i.e. self appraisal by employee reviewing his past performance, critical attributes appraisal by immediate supervisor. Finally, the superior along with the employee carries out performance and development planning for the future period. At Voltas limited, PA strives to identify competency gaps and aims at employees’ development. At CMC Limited, performance appraisal is known as Performance Department Review (PDR), self appraisal and appraisal by immediate manager is part of appraisal process. It is evident that in the selected companies appraisal is mostly based on self appraisal and appraisal by the immediate superior. The study observes that Performance appraisal is indispensable to be aware of each employee’s abilities, competencies and relative merit and worth for the organization. Finally, PA is a pre requisite for the success of any organization as it aims at identification of competency gaps and taking steps to bridge such gaps through appropriate HR development measures to face the challenges of competitive world.

Keywords: performance appraisal practices, critical attributes appraisal, competency gaps.

INTRODUCTION

Performance appraisal system in India is quite varied. It varies from almost no appraisal system to a sophisticated appraisal system. In small and medium organizations, it is observed that there is no formal and sophisticated performance appraisal system. In these organizations, informal performance appraisal system is used and senior submit the appraisal report to the top management. However, in case of large organizations, there is a formal
The performance appraisal system and report is used. These reports are generally linked to rewards, promotions, job-rotations, transfers and employees developments. A formal and appropriately structured performance appraisal system helps the employees to visibly recognize their roles and responsibilities and give direction to the individual’s performance. It helps to align the individual performances with the organizational goals and also review their performance. A PA system in organization generally is the assignment and good reason of rewards and penalties. Performance appraisals may be based upon the behaviors, traits and management by objectives. The actual evaluation is broadly classified into four categories i.e. competitive employee appraisal, category employee appraisal, narrative employee appraisal and special employee appraisal. Competitive employee appraisal takes into account the level of performance in relation to the performance by other employee’s. It ranks the employees in the order of the highest performer to the lowest performer. A category employee appraisal evaluates performance based on the rating scale of 1 to 5, or it could involve selecting different categories, such as "always," "sometimes performs," "rarely performs" or "never performs." Something as easy as "satisfactory" or "unsatisfactory" can also be used. Narrative employee appraisal is usually done by the employee's immediate supervisor and written in words. The supervisor gives the appraisal of an employee's performance, strengths and areas needing improvement in paragraph form. In Special employee appraisal the motive is to reach a certain level of improvement. It pinpoints areas of weaknesses, what needs to be improved and how it can be accomplished. It also commends the employee for his strengths. A special appraisal often comprises setting goals on how the employee can meet company objectives. It also determines what behaviors and performance levels are expected from the employee. The most common methods include straight ranking, paired comparison, grading, and free response. The straight ranking method requires the supervisor to rank all employees with the same job responsibilities from best to worst. The paired comparison method of performance appraisals is similar to the straight ranking method. Employees are ranked from best to worst, but through a systematic process of comparing every employee to every other employee, determining who is superior, and developing a ranking system. The grading method evaluates performance based on certain predetermined categories with each category receiving a separate grade. A free response, or essay method, is the most subjective method because it allows managers to write anything on the performance appraisal. The purpose of PA is to update the worker on his progress, gauge his behavior and performance, praise good work, and note opportunities for improvement.
LITERATURE REVIEW

Arvind Sudarsan (2009) evaluated the “Performance Appraisal Systems” of 33 diverse organizations. Data was collected from a respondent from each organization by means of an open-ended questionnaire. Respondents’ views were sought on major concerns, desired changes, and number of forms used in evaluating performance in the organization. The study observed that subjectivity and appraiser bias were most common apprehensions in evaluating performance appraisal system in the organization. Strong needs were felt for identifying measurable parameters for performance evaluation, and providing multiple feedbacks to trim down appraiser bias. Further, objectivity and measurable performance were found to be most desirable areas to help improve performance appraisal system.

Florian P. Ederer (2008) conducted a study on “Feedback and Motivation in Dynamic Tournaments” to examine the option of organizations to conduct interim performance evaluations in a dynamic tournament model. The research observed that when workers do not differ in ability or ability does not influence the marginal benefit of effort, the choice between a full feedback and a no feedback policy depends on the shape of the cost of effort function. However, when effort and ability are complementary, feedback policies have two competing effects: they inform workers about their relative position in the tournament (evaluation effect) as well as their relative productivity (motivation effect). In addition, performance appraisals create signal-jamming incentives for workers to exert effort prior to performance evaluation in order to influence the inference process of their competitors in the tournament. The choice of the optimal feedback policy therefore depends on the relative strength of the evaluation, motivation and signal-jamming effects.

Samita Gupta & Manisha Agarwal (2007) evaluated “Participation Climate, Managerial Perceptions and Performance Appraisal Leading to the Development of the Human Capital in a Private Sector Organization.” This empirical based study examined the relationship between managerial perceptions of the climate of participation and the perceived effectiveness of performance appraisal system in a private sector organization in North India. It was expected that the patterns of relationship between the variables under study would be positive in the organization. The results focused on the importance of climate of participation for increasing organizational commitment with the help of a better performance appraisal system among managerial personnel in Indian organizations. The empirical findings, therefore, have an implication in development of skills, performance and commitment of the
human capital in organizations. The sample for the present case study belonged to a single private sector organization in Northern India.

Dirk Sliwka & Christian Grund (2006) conduct a study on “Performance Pay and Risk Aversion”. The study indicates that risk aversion has a highly significant and substantial negative impact on the probability that an employee's pay is performance contingent.

Hiromichi Shibata (2004) conducted a study on “Wage and Performance Appraisal Systems in Flux: A Japan-United States Comparison. Industrial Relations” in Unionized Japanese and American firms made changes in their wage and Performance appraisal systems during the 1990s that were inspired by features of each others' traditional employment systems. Although Japanese firms made greater changes in the wage-setting process compared to American firms, outcomes in Japan changed little. Even with these changes, the wage and Performance appraisal systems in the two countries retain distinctive characteristics. In the American firms' "segregation" between white- and blue-collar employees and high- and low-performers remains a feature of wage and Performance appraisal systems; the Japanese system maintained its characteristic "integrated" form, but underwent moderate modifications.

Geddes, Deanna and Konrad (2002) conducted a study on “Demographic Differences and Perceptions of Performance Appraisal”. They examined the differences between employees and their managers regarding perceptions of performance appraisals, in general, and negative feedback. The study attempts a sample of non-supervisory employees (n = 197) from an organization whose members represent over 120 nationalities. They hypothesized from status characteristics theory (Ridgeway, 1991; Ridgeway & Balkwell, 1997; Webster & Hysom, 1998) that employees would react more favorably to performance evaluations from "high status" management groups, including males, Whites, and native English-speakers. Study indicates accurate results regarding males and White managers.

NEED OF STUDY

The literature review revealed that there is a great degree of awakening in the managerial world about the performance and potential appraisal of human resources. In western and developing countries, performance appraisal systems are recognized as a potential tool for human resource assessment and development. In the coming decades, there is likely to be more experimentation with PAS that contributes to improvement in quality of work life as well as to development of HRs. In the background of these developments, it has been decided to conduct a study of performance appraisal system in selected Indian companies.
OBJECTIVES OF STUDY
The study is basically exploratory as well as descriptive in nature. It explores the performance appraisal system of three Indian organizations from diverse industries. The companies selected to study the performance appraisal system are L &T, Voltas Limited, and CMC Ltd.

PERFORMANCE APPRAISAL SYSTEM OF SELECTED COMPANIES: AN ANALYSIS
This section deals with the analysis of performance appraisal system of the selected companies. The study briefly examined the PA system of the companies as follows:

1. LARSEN AND TOUBRO (L&T) LTD:
HR Philosophy of L &T: Larsen & Toubro (L&T) is a technology-driven USD 8.5 billion company that infuses engineering with imagination. L&T’s success lies in its people. Its challenging work environment brings out the best in our people. L&T is a team of more than 29000 L&T-ites spread across multiple locations across the globe, having proven track record and professional skills, woven together with a common culture of trust & caring. It offers a professional value system, and extensive opportunities for growth and personal development. L&T offers its people freedom at work, unmatched leadership and opportunity to grow at a rapid pace. It provides them challenging, interesting & motivating assignments which brings a sense of professional fulfillment. The company encourages entrepreneurial skills thus, enabling and empowering employees to take appropriate risks. Employee participation is encouraged by inviting suggestions & opinions. This is coupled with competitive compensation & rewards and training through Core Development & Behavior Development Programmes, to enable them to unleash their full potential. Today L&T is growing at a rapid pace. This growth necessitates greater investment in talent.

Analysis of Performance Appraisal System of L &T
At L &T, performance appraisal is done at various levels in the organization. It consists of self-appraisal, appraisal by immediate supervisor, and appraisal by superiors. The appraisal processes initiate with each employee reviewing his past performance with respect to the objectives and targets and giving his overall assessment of the results delivered by him. He also carries out a self review with regard to significant contributions made by him and important factors that facilitated or hindered his performance.

The immediate supervisor, then, evaluates the achievement of his Subordinate by ranking his performance against objectives. The supervisor also assesses the critical attributes of his
subordinates with respect to five important criteria—innovativeness, initiative, interpersonal and team relationship, resourcefulness, and communication skills. Supervisor also notes down the areas of strengths and weaknesses and marks the areas of growth in which the employee has potential to make significant contribution. Supervisor assigns grades such as outstanding, very good, good, adequate, and inadequate to employees on the basis of the objectives achieved by the employees. After that, the superior along with the employee carries out performance planning and development planning for the next year. The Superior also analyzes the subordinate's past performance and pass on feedback on his performance. Finally the boss can suggest the areas in which training can be imparted to the employee. At the end of the exercise, the next higher supervisor makes an overall observation and gives his own specific development plans. The entire exercise of performance appraisal i.e. from self-review of an employee to final review by his superiors takes about three months. The overall performance report is handed over to HRD department, and then it decides various training needs and compiles various reports which are submitted to GMs and corporate management. At L &T, each employee is given opportunity to appraise his own performance. This ensures that the employee's perspective of his performance is also considered. Moreover, the employee feels a sense of accountability and knows that his performance is being judged on the basis of goals set for him in the previous year. The success of performance appraisal system depends on the sincerity shown by the management and the existence of transparent link between performance and reward. The strengths and weaknesses of the performance appraisal system in practice in L&T Ltd is discussed in the following paragraphs.

**Strengths**

(a) At L &T, each employee is given opportunity to appraise his own performance. This ensures that the employee's perspective of his performance is also considered. Moreover, the employee feels a sense of accountability and knows that his performance is being judged on the basis of goals set for him in the previous year.

(b) In this organization, objectives for employees are set on the basis of discussion between the superior and the employee. So, the organization gives an opportunity to employees in selecting and setting targets for themselves. This process ensures that unrealistic goals are not set for the employee and his superior also becomes responsible for the success of his employees.

(c) The performance of employees is evaluated by immediate supervisor with respect to the predetermined critical attributes and areas of strengths and weaknesses are deliberated. The
supervisor is supposed to objectively assess the personality traits of an individual. Besides this, he is supposed to dearly point out the strengths and weaknesses of the employee so that appropriate training and development programme can be decided for the growth and development of human resources in the organization.

(d) The performance assessed by immediate superior is then cross checked by the next superior. Hence, the bias of superior is checked by giving a role to next superior in evaluating the employee's performance. The next superior is supposed to examine very high or very low grades, thereby restricting the superior from indulging in favoritism or penalizing.

Weaknesses

(a) The performance appraisal process at L&T is very much time consuming and tedious. As a result of evaluation of large number of employees in the organization, there is possibility that superior may not able to provide a report reflecting the actual performance of employees. Furthermore, a lot of employees experience that this is a mere paper work which does not have much implication.

(b) The performance appraisal process not helps in identifying Key Performance Areas (KPAs) for the employees. The performance appraisal process should help identify KPAs and then communicate it to the employees to make the employee more focused and effective to achieve the desired targets.

(c) The general feedback of the employees is that performance appraisal process is a formality. Further, one view of employees is that there is no transparent link between the performance and the reward.

On the whole, there is no doubt that the performance appraisal system at L&T is scientific and aimed at doing justice to the employees.

2. COMPUTER MAINTENANCE CORP (CMC) LTD

HR Philosophy of CMC Ltd: CMC Limited is a leading IT solutions company and a subsidiary of Tata Consultancy Services Limited (TCS Ltd). It is a part of the Tata group, India's best-known business conglomerate. The company believes in the philosophy that its people are central to its objective of creating a world-leading organization that delivers outstanding solutions on all kinds of metrics - be it in developing the latest technology, providing cutting-edge services or attaining process milestones across the globe. The CMC culture emphasizes learning and drives each employee to surpass his or her capabilities to 'build, innovate and excel' in any given field. It sees growth as an unending voyage that challenges fresh frontiers and sets new standards of excellence. Its employees take pride in
the fact they are a part of the Tata group and are continuously endeavoring to keep its heritage and traditions alive. CMC's personnel policies are aimed at furthering the development of the employee as a whole, and it do this by providing a stimulating work environment, a variety of challenges, and a host of material rewards. The company believes that better human beings make better staff members.

**Analysis of Performance Appraisal System of CMC Ltd**

CMC Ltd has a very logical and absolutely systematic performance management system in the organization. At CMC Ltd, the practice of performance appraisal is identified as Performance Department Review (PDR). The salient features of its performance appraisal system are as follows:

(a) At CMC, the first step of performance appraisal is known as self-appraisal. At the inception, a self appraisal report is prepared by appraiser himself for the period under consideration.

(b) The next step is appraisal of the employee by its immediate superior. The immediate superior evaluates performance of employees during a period is on each area of responsibility. Each area of responsibility (function) has a priority (1 = High, 2 = Medium, and 3 = Low) attached to it. Supervisor assigns rating ranging from outstanding to poor for each area of responsibility. The diverse ratings are elaborated as under:

(i) Outstanding: Excellent performance far exceeds the high standards and strengths go beyond what is expected

(ii) Very Good: Exceeds requirements significantly and consistently

(iii) Good: Efficiently and effectively meets requirements, exceeds requirements at times

(iv) Fair: Meets only basic requirements, with much scope for improvement

(v) Poor: Does not meet basic requirements, performance must improve

(c) The superior and the employee talk about the reasons for evaluated grade, and also about the areas of employee’s growth and development. At this stage, the training and development needs are also discussed and identified.

(g) The overall rating of employee is assigned on the basis of priority and rating of each function. However, in case of disagreement on rating, reassessment is done jointly by immediate manager and his superior.

(h) At CMC Ltd, increment as well promotion is based on rating and the educational background of the employee. Generally, promotion for an engineer is at fourth PDR onwards.
Strengths
(a) The PDR system of the CMC Ltd a totally an open system.
(b) Each function has a priority of low to high attached to it.
(c) Appraise has excellent say in the appraisal done by the superior. In case of any disagreement, reappraisal is done by immediate manager and his superior.
(d) The PDR system’s aim seems to assist the employees in the detection of areas of improvement and identification of training needs.

Weaknesses
(a) The major weakness in the PDR system of CMC Ltd is that its goals are not quantified; hence there is possibility of disagreement during the appraisal.
(b) Further, the increment attached to better performance is very low, as there is not much of difference in increments for ratings 1, 2 or 3; hence there is no financial motivation for better performance.
(c) At CMC Ltd, promotion is usually done after fourth PDR; there is not much difference in time period between high performer and low performer.
(d) Performance appraisal is only a part of MBO and not the whole aim. But this is not realized in actual practice.

3. VOLTAS LIMITED
HR Philosophy of Voltas Ltd: Voltas is one of the world's Human Resources Management philosophies is the conviction that the well-being of the company and of its people are interdependent; and that the company's most valuable assets are its people. The company's commitment is premier engineering solutions providers and project specialists. The cornerstone of the Voltas is to employ the most competent, on the basis of merit; to ensure that every employee is treated with dignity and respect, and in a fair, consistent and equitable manner; to create a stimulating, enabling and supportive work atmosphere, To aid and encourage employees in realizing their full potential, ensure consistent and fair application of all HR policies; communicate constructive ideas and opinions to managers and team members either pro-actively, or on request; accept and support decisions made contrary to their expressed positions; Apply the highest standards of ethics, integrity and honesty. It recognizes that the success of this philosophy of the company depends in a large measure on the manner in which managers and their team members - at every level - carry out their duties and obligations to each other and to the company. Without mutual confidence and loyalty
among employees, as well as respect for each other as human beings, its philosophy will not work.

**Performance Appraisal System of Voltas Ltd:**

At Voltas Ltd, the employee’s performance evaluation starts from supervisor and goes up to operations manager. There is no appraisal above operations manager. A person at the post of operations manager normally has a work experience of 10-12 years. The strong point of Voltas form lies in asking a bundle of self-provoking questions starting from strategic to subordinate development. The performance appraisal in Voltas is done in the month of June. Promotions in Voltas are highly driven by the experience and while talking to the project engineers, a feeling of discontent could be observed. The employee’s of the organization revealed that Performance appraisal in the organization is more of a formality with majority of the employees who are cynical about its benefits or validity. Many of the employees even wanted to abolish it as they felt it was more of a burden and a useless paper work with no results.

**CONCLUSION**

The concept of performance appraisal used by Walter Dill Scott for the very first time during and after World War I to systematic evaluates the performance of military officers. It was applied in corporate sector during 1920’s and 1940’s to evaluate the output of hourly paid workers. Since then a large number of world renowned companies in India such as L&T, CMC Ltd, Voltas Ltd etc have implemented this concept to evaluate the performance of their employees to identify competency gaps and explore the potentiality of employees for facing the competitive world. Performance appraisal system is generally considered as a key to HR assessment and development. The study observed that in case of the selected companies under consideration performance appraisal is based on the self appraisal and appraisal by immediate superior level. The performance appraisal system of all the three companies has some strong as well as pathetic points. It is found that performance evaluation in the organizations is very much associated with identifying the training and development needs, which is in the interest of the organization as well as to benefit the employees. Even though, the concept of performance appraisal is now quite old, still a lot is to be done so as to make it effective and worthy.
REFERENCES