A REVIEW ON PERFORMANCE APPRAISAL PRACTICES IN INDIAN INDUSTRIES

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Abstract: Performance Appraisal (PA) is gradually becoming a part of a more strategic move towards integrating HR practices and organizational objectives and might now be seen as a general term covering a range of actions through which organizations seek to measure employees and increase their competence, improve performance and distribute rewards. Globalization has created a niche to sustain and enhance human resource since they are the prime contributors to organizational performance. In this 21st century, human development is focused at hiring, training and retaining them. Retaining its valuable and talented employees becomes a major challenge for organisation if they do not know how to motivate them. This paper is aimed providing a review on the various performance appraisal techniques practiced in Indian economy. This paper also highlights literature review on effectiveness of the PA system in various Indian industries.

Keywords: Performance appraisal; employee performance

INTRODUCTION
Performance appraisal includes all formal procedures used to evaluate personalities, contributions & potentials of group members in a working organization. It is a continuous process to secure information necessary for making correct and objective decisions on employees. In simple words, performance appraisal is the systematic evaluation of the individual with respect to his performance on the job and his potential for development.

MEANING AND DEFINITION OF PERFORMANCE APPRAISAL
Performance appraisal is a formal system that evaluates the quality of an employee’s performance. An appraisal should not be viewed as an end in itself, but rather as an important process within a broader performance management system that links:

- Organizational objectives
- Day to day performance
- Professional development
- Rewards and incentives

In simple terms, appraisal may be understood as the assessment of an individual’s performance in a systematic way, the performance being measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, cooperation, judgment, versatility, health and the like. Assessment should not be confirmed to past performance alone. Potentials of the employee for future performance must also be assessed.

A FORMAL DEFINITION OF PERFORMANCE APPRAISAL IS:
“It is the systematic evaluation of the individual with respect to his or her performance on the job and his or her potential for development.”

A MORE COMPREHENSIVE DEFINITION IS:
“Performance appraisal is a formal, structured system of meaning and evaluating an employee’s job related behaviours and outcome to discover how and why the employee is presently performing on the job and he the employee can perform more effectively in the future so that the employee, organization and society and all benefit.”

GOALS OF PERFORMANCE APPRAISALS

<table>
<thead>
<tr>
<th>General Goals</th>
<th>Specific Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developmental Use</td>
<td>Individual needs, Performance feedback, Transfers and Placements, Strengths</td>
</tr>
<tr>
<td>Administrative Decisions /</td>
<td>and Development needs</td>
</tr>
<tr>
<td>Uses</td>
<td>Salary, Promotion, Retention / Termination, Recognition, Lay offs, Poor</td>
</tr>
<tr>
<td></td>
<td>Performers identification</td>
</tr>
<tr>
<td>Organizational</td>
<td>HR Planning, Training Needs, Organizational Goal achievements, Goal Identification, HR Systems Evaluation Reinforcement of organizational needs</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Documentation</td>
</tr>
<tr>
<td></td>
<td>Validation Research, For HR Decisions, Legal Requirements</td>
</tr>
</tbody>
</table>
METHODS OF PA IN INDIAN ORGANIZATIONS

Numerous Indian organizations still prefer traditional appraisal method in contrast to the modern approaches. According to Tripathi (cited form Balu V. (2006)) there are various techniques used by management in Indian organisation to evaluate their employee’s performance as discussed below.

<table>
<thead>
<tr>
<th>Traditional Method</th>
<th>Modern Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking Method</td>
<td>Management By Objectives (MBO)</td>
</tr>
<tr>
<td>Graphic Rating Scales</td>
<td>Behaviourally Anchored rating</td>
</tr>
<tr>
<td>Critical Incident Method</td>
<td>Human Resource Accounting</td>
</tr>
<tr>
<td>Narrative Essays</td>
<td>Assessment Centers</td>
</tr>
<tr>
<td>Check List Method</td>
<td>360 Degree</td>
</tr>
<tr>
<td>Forced Distribution System</td>
<td>720 Degree</td>
</tr>
<tr>
<td>Confidential Report System</td>
<td></td>
</tr>
</tbody>
</table>


1. **Straight ranking method**
   - This is the oldest and simplest method of performance appraisal. Under this method, superior ranks his subordinates in order of their merit, starting from his numerical rank. In this method, individuals ranked from heights to lowest. In this method, the manager compares each person with others than work standards (Dessler, 2000). The difficulty of this method is that, it is very difficult to compare persons on the whole when they differ in quantities, attitudes, etc.

2. **Graphic rating scales**
   - A rating scale lists traits and a range of performance values for each trait. The superior rates each subordinates by circling or checking the score that best describes his performance for each traits. The values assigned for the traits are then totalled. The selection of factors to be measured on the graphic rating scale is an important point under this system. Rating scale is of two types, continuous and discontinuous.

3. **Critical Incidents Method**
   - Critical Incidents Method developed by Flanagan and Burns (Flanagan & Burns, 1955) requires identifying critical job requirements which are vital for the success of a job. This critical incident represents the outstanding (positive) or poor (negative) behaviour of employees on the occupation. For instance, for customer service personnel the following incidents could be indentified:
     - a) Customer complaint — polite, punctual, enthusiastic in solving problems
     - b) Turn over time — very prompt with 10 minutes

4. **Free essay method**
   - Under free essay method, the supervisor writes a report about the employee which is based in his assessment. The supervisor continuously watches the subordinates and writes his assessment in the report. While preparing an essay on employee, the rater generally considers the following factors:
     - Job knowledge and potential of the employee
     - Employee’s relation with co-workers and supervisors
     - Employee traits and attitudes
     - Employee understanding of the company programme, policies, objectives, etc.
     - Development of evaluations, etc
   - Essay method of evaluation is a non-quantitative technique of appraisal. It provides a good deal of specific information about the employee and can reveal even more about the supervisor.

5. **Check list method**
   - Check list method is based on a series of statement that contains value in relationship to their importance. The superior is asked to select “yes” or “no” on each statement. Once the check list is completed, it is send to the HRD to prepare the final scores of the appraisee. The one disadvantage of this method is that it is difficult to assemble, analyse and weigh a number of statements about employee characteristics and contributions. This technique of appraisal also not suitable if there are copious job categories in the organization.

6. **Force distribution method**
   - Force distribution method is a very old method that is widely used by large organization in India such as Infosys, ICICI Bank, Aditya Birla Group (Saumya Bhattacharya & Shreya Roy, 2014). According to Indian times, 75 percent to 80 percent companies in India use this bell curve shaped PA system to rank their employees into three categories which is excellent, good and poor in a forced distribution order. Top ranked employees are considered “high potential” and often retained by the management for rapid career and leadership development programs. This method is somewhat controversial due to the competition it creates and also the employee that does not fit into any of the three categories will not have their performance reflected truly. Besides, there is lack of transparency in understanding the process of employee assessment for this method (Chattopadhayay, R., & Ghosh, A. K. (2012)).

7. **Confidential report**
   - This is a traditional form of appraisal used in most of the government organisations. A confidential report is a report prepared by the employee’s immediate supervisor. This method focuses on evaluating rather than developing the employee.
   - In the recent years, a negative confidential report is required to be communicated to the employee. If the employee disagrees, a noting to that effect has to be made on the report. This has been made necessary by trade unions and courts.

8. **MBO/ Appraisal by Objectives (ABO)**
   - The initial impetus for MBO was provided by Peter F. Drucker (1954) and by Douglas Mc Gregor (1960). Drucker first described MBO in 1954 in the book the “Practice of Management”.
According to Dr. George S. Odiorne (1965): “MBO is a process where by the superior and subordinate managers of an organisation jointly identify its common goals, define each individual’s major areas of responsibility in terms of the result expected of him, and use there measures as guide for operating the unit and assessing the contribution of each of its members”

The essence of MBO is the setting out clearly defined goals of an employee in agreement with his superior. Carroll and Tosi (1973), explains the characteristics of MBO in the following ways

- The establishment of organisational goals
- The setting of individual objectives in relation to organisational goals
- A periodic review of performance
- Organisational commitment
- Mutual goal setting
- Frequent individual performance reviews
- Some freedom in developing means of achieving objectives.

MBO as a goal setting and appraisal programme consists of six steps:-

- Setting organisational goals
- Set departmental goals
- Discuss departmental goals
- Define expected results.
- Performance review
- Provide feedback

9. BARS (Behaviourally based scales)

   BARS is a modern appraisal tool that anchors a numerical rating scale with specific examples of good or poor performance (Dessler, Gary. (2011). According to Tripathi, in developing BARS it requires five steps which are;

   a) A superior with knowledge on the job to describe effective and ineffective job performance incidents.
   b) To have these incidents to be grouped into smaller set 5 to 10 dimensions and defined.
   c) Get another group to verify, reassign each incident to the cluster which fits best.
   d) Scale the incidents.
   e) Develop and find instruments which comprise a series of vertical scales that are anchored by the included incidents.

Research has not proven conclusively that BARS are superior to other scale formats in terms of their ability to produce precise ratings of individual performance (Jacobs et al (1980), Kingstrom, P. O. & Bass, A. R. (1981), Landy, F.J, and Farr. J.L. (1980), Schwab et al (1975), Pounder, J. S. (2000)). However, the process of developing BARS regarded as ‘integral part of management’ in focusing and clarifying what exactly is meant by effective performance (Campbell et al (1973), J.S. Pounder (2000)).

10. Assessment Centres:

    The introduction of the concept of assessment centres as a method of performance method is traced back in 1930s in the Germany used to appraise its army officers. The concept gradually spread to the US and the UK in 1940s and to the Britain in 1960s. The concept, then, traversed from the army to business arena during 1960s. The concept of assessment centre is, of course, of a recent origin in India. In India, Crompton Greaves, Eicher, Hindustan Lever and Modi Xerox have adopted this technique of performance evaluation.

    In business field, assessment centres are mainly used for evaluating executive or supervisory potential. By definition, an assessment centre is a central location where managers come together to participate in well-designed simulated exercises. They are assessed by senior managers supplemented by the psychologists and the HR specialists for 2-3 days.

    Assessees is asked to participate in in-basket exercises, work groups, simulations, and role playing which are essential for successful performance of actual job. Having recorded the assesssee’s behaviour the raters meet to discuss their pooled information and observations and, based on it, they give their assessment about the assesssee. At the end of the process, feedback in terms of strengths and weaknesses is also provided to the assessees.

11. Human Resource Accounting

    Human resources are the valuable asset for any organisation and it can value in monetary terms. This method evaluates the performance of employee in terms of cost and contribution. Human resource cost include expenses incurred on HR planning, recruitment, selection, induction, and training. The difference between the cost and the contribution by an employee reflects the performance of that employee.

12. 360 degree feedback

    There are several performance appraisal methods used by IT sector as a whole. But this paper focuses only on the methods used by the top ten IT companies, as they are the market leaders of this sector. Amidst the high competition in the market, the top ten IT companies uses either of two methods – 360 degree feedback or balanced score card.

    The 360 evaluation feedback method was first used in the 1940s. It is a system or process in which employees receive confidential, anonymous feedback from the people who work around them. Analogous to the multiple points on a compass, the 360 method provides each employee the opportunity to receive performance feedback from his or her supervisor, peers, staff members, co-workers and customers.

    Usually, this tool is used for employees at middle and senior level. The complexity of their roles enables the organization to generate sufficient data from all stakeholders for a meaningful assessment. Most organizations that focus on employee development use the 360-degree tool to assess performance and potential of staff and enable the employees to map their career path based on the feedback. Organizations take 360-degree feedback about an employee before taking a major decision about the professional’s career.

13. 720 degree feedback

    In this method, the assessment is done not only by the stakeholders within the company but also from the groups outside the organisation. These external groups who assess the employee’s performance are customers, investors, suppliers and other financial institutions.

    In this system, we provide a feedback after the original / main 360 degree appraisal. This is only performed in exceptional cases. Some managers feel that doing “one ” comprehensive 360 degree is not complete in itself in some cases. These managers feel that an effective procedure to measure improvements and receives feedback is essential for the success of an appraisal. This gives a pre and a post intervention results. The pre-intervention results set the baseline. The development program is then carried out to improve the participants'
behavior through training / development/ education. The post intervention appraisal then shows the amount of improvement in the participant.

720 degree is appraisal by 8 dimensions (self, peers, supervisors, subordinates, suppliers, customers, family and shareholders). 90 degree is by one person by supervisor and in 180- reviewed by supervisor and self. Then in next 270 degree one more dimension of people are involved in assessing. 360 degree is four dimensions. Basically this evaluation is done in yearly basis by the peers, supervisor, managers etc. when this happens in encyclical basis is known as 720 degree appraisal.

360 degree performance appraisal is done by superiors, peers, subordinates and internal customers of a firm whereas 720 degree appraisal system consists of appraisal by all the persons consists of top management, superiors, subordinates, peers, internal clients and auditors, external suppliers, customers, and all stake holders of the firm.

DESCRIPTION ON INDIAN PA FOR VARIOUS SECTORS

Ever since the economic reformation in India, a number of organisations from small, medium and large scale have adopted performance appraisal in developing their human capabilities seeing that, hiring and training employees is costly to them. Companies in India have started to depart from the traditional method of evaluating performance which is “top to down appraisal” normally carried out by the superior (Armstrong, M., & Baron, A.(2000)) to contemporary methods in compliance with the important change in organisation’s structure, processes and culture. A study conducted by Rani, L., Kumar, N., & Kumar, S. (2014) for private banks in Rohtak City, India, has indicated that most banks in this province has started to use 360 degree appraisal to appraise their employees. 360 degree appraisal is a method that uses various sources of evaluation such as supervisors, peers, subordinates and the employees themselves and also provides multiple perspective of the individual’s performance in order to reduce subjective assessment errors (Sepehrirad, R., Azar, A., & Sadeghi, A. (2012)). The investigation of this study (Rani, L., Kumar, N., & Kumar, S. (2014)) focuses on the practice and application of 360 degree in the selected banks and the effect of this appraisal method on employee satisfaction and motivation level. The result of this research shows that there is a positive correlation between the 360 degree appraisal technique and the other tested variables therefore suggesting, this method is widely accepted by the employees in the region’s banking sector. The performance appraisal process itself should be carefully designed by integrating organisations objective and goals since it is as well used as a means of providing feedback to further motivate and maximize the performance of the employees to achieve the expected results (Boxall, P., Purcell, J., & Wright, P. (2007)).

The employee’s motivation and engagement has been a major concern and there are many research carry out on this part (Fletcher, 2001, Sanyal, M. K., & Biswas, S. B. (2014)). Ever since globalization and trade openness, India has encouraged foreign IT firms to venture into Indian economy and at the same time has allow to certain extent host country (Bhardwaj, A., Dietz, J., & Beamish, P. W. (2007)) cultural influences in Indian economy.

According the studies carried out by Sanyal, M. K., & Biswas, S. B. (2014) for IT field in West Bengal, India, the use of modern performance appraisal methods such as 360 degree and MBO which plays a vital role for the HRD activities. This research implies that the reinforcement of modern performance appraisal methods establishes a causal linkage between the applications of appraisal methods and employees motivation level. Other research includes performance appraisal practices in service and manufacturing sector by Rohan Singh, R., Mohanty, M., & AK, M. (2010) to examine the relationship between performance appraisal and employee’s performance in India.

The findings of this research indicate that there is an association exits between these two variables. Excellent performance appraisal practices leads to enhanced employee performance. Furthermore, in today’s working environment, the employee themselves wants to have the knowledge on how they fit their organisation. Whether they have met the organisation’s goals and target and also aspects of self improvement for greater performance in future through performance appraisal (Rohan Singh, R., Mohanty, M., & AK, M. (2010)). Since India is a “collectivist” nation (Hofstede, G. (1980)) and “hierarchy and inequality” deeply rooted in Indian traditions ( Jain, H. C., & Venkata Ratnam, C. S. (1994)), a research has been carried out by Varma, A., Pichler, S., & Srinivas, E. S. (2005) to assess the behavioural aspects on how “interpersonal” affect the performance appraisal system. “Interpersonal” in this context is defined as a “like-dislike relationship” between supervisor and his or her subordinates (Cardy R.L. and Dobbins, G.H. (1986)). The employees in India are often concerned with their personal relationships with their superior rather than the actual job performance itself (Kanungo R. & Mendocona. M. (1994)). Moreover, they also always rely on the superior to solve their problems (Varma, A., Pichler, S., & Srinivas, E. S. (2005)). Based on this research (Varma, A., Pichler, S., & Srinivas, E. S. (2005)) a sample of 113 supervisors was tested from large manufacturing organisations in India and it is proven that there is a significant correlation between the interpersonal of the subordinate and the performance appraisal rating system. In Indian situation, culturally influence dependence of subordinates on superior gives precedence to favourable or unfavourable performance appraisal evaluation over the actual job performance.

Performance appraisal tool frequently subject to criticism, hence there are research carried out to explore the relationship between perceived fairness of performance appraisal and employees satisfaction. The perceived fairness is an imperative instrument that affects the motivation level of employees (Sudin, S. (2011)). Fairness involves procedural, distributive, interpersonal and informational justice of performance appraisal (Vishal Gupta, Sushil Kumar, (2013)). J. Sheelam, J. Ravindran (2014) carried out a research for public, private and foreign banks in India aimed at measuring the fairness of performance appraisal rating system; accuracy of performance appraisal and the employees overall satisfaction with current performance appraisal procedures in their organisation. The results of this study indicate that there is a high degree of positive correlation exists between fairness in performance appraisal rating and overall job satisfaction. An appraisal system will be ineffective is employees does not see the performance appraisal as fair, useful, valid and accurate (Levy, P. E. and Williams, J. R. (2004)).

CONCLUSION

In the fast varying scenario of the Indian economy, performance appraisal has become an essential requirement of every organization to properly evaluate the performance of it employees. In a lot of organizations, rarely is an effort made to discuss with its work force as to whether expected results, as predetermined, were met, exceeded or not. Today’s employees want to know not only how they fit in with the targets of the organization for which they work but also what aspects of self-improvement is needed in their performance. Organizations supported through genuine performance appraisal. The existing relationship between performance appraisal and employee performance in service and manufacturing sectors, which was the objective of this study, was met and the variance have been projected. Performance appraisal has an important role to play on employee performance. But there are other factors also. Conducting periodical review
of workforce performance by organizations has become a fundamental requirement which will help to shrink the gap between employee performance and successful attainment of its objectives.

FUTURE Enhancements

A good performance appraisal must consist all of the following characteristics (V. Bahu, 2006):
- Setting appropriate work standards for employees. The standards set must be rigorous and achievable.
- The performance appraisal should be done by assessing the employee’s actual performance to the relative standards set.
- Each supervisor responsible to provide feedback to employees with the aim of motivating him or her and to eliminate performance deficiencies or to continue to perform above par.

Some of the traditional methods discuss earlier fails to incorporate the above stated features because PA is assessed based on “knowledge, initiative, loyalty, leadership and judgment” (Aggarwal, A., & Thakur, G. S. M. (2013). Hence, there is a keen need for Indian organisation to transform and adopt the modern techniques of appraisal such as MBO, 360 degree, 720 degree, BARS, Human Resource Accounting, Balance Score Card, Electronic Performance Monitoring, Assessment Centers and etc.

From the earlier discussion, we know that there are already some organisations in India practicing BARS, MBO and 360 degree however; the other mentioned methods are still new to the field and there is always room for improvement.

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