

Performance Management and Reward Systems

Block

1

FOUNDATIONS OF PERFORMANCE MANAGEMENT

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COURSE INTRODUCTION

Performance Management refers to the logical process by which an organization involves its employees, as individuals or members of a group, in improving organizational effectiveness in the accomplishment of its mission. It has become increasingly important for organizations today to have an effective system of performance management in place. Not only does the performance management system assess the performance of employees on objective parameters, but it also ensures that the workers are nurtured so that they continue to contribute and have a symbiotic relationship with the organization they work for. It ensures that the employees are kept motivated and upbeat in trying to achieve their targets.

Reward systems have come to play an important role in today's organizations. They serve a dual purpose – along with attracting and retaining the best employees, they ensure that the workers get an incentive to grow and perform in the areas that are desirable for organizations.

This Self Learning Material on *Performance Management and Reward Systems* examines the key issues that define performance management today. It brings out how the performance management and reward systems have become increasingly relevant for organizations to stay competitive in the new global economic order.

This edition has added a large number of contemporary examples and deleted old examples and exhibits. It has simplified the language and text layout to make it more readable.

BLOCK 1: FOUNDATIONS OF PERFORMANCE MANAGEMENT

The first block on the course on Performance Management and Reward Systems (PMRS) gives a basic understanding of the concepts of performance management, performance appraisal as well as the tools for measuring performance. The block contains three units. First unit gives a conceptual understanding of performance management. The second unit discusses the notion of performance appraisals and their role in performance management. The third unit examines the 360⁰ feedback.

Unit one, *Introduction to Performance Management*, takes a look at the process of performance management before moving on to understanding the principles of performance management. The unit closes with a brief discussion on the advantages and disadvantages of performance management.

Unit two, *Performance Appraisals*, deals with the concept of performance appraisal and its objectives. It goes into the process of performance appraisal besides touching on its limitations. The unit also discusses on potential appraisal. There are two approaches for performance appraisals. The traditional approach or the organizational approach looks at the past performance of the entire organization. The second approach is the modern one, which focuses on developing the employees through a process of goal setting.

Unit three, *360⁰ Feedback*, discusses the key concepts associated with the 360⁰ feedback, its merits and demerits, the process and the assessors involved in the appraisal. It explains how feedback is taken from all the people connected with the performance of employees.

Unit 1

Introduction to Performance Management

Structure

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Concept and Definition of Performance Management
- 1.4 Setting Performance Objectives
- 1.5 Factors that influence Performance Management
- 1.6 Objectives of Performance Management
- 1.7 The Performance Management Process
- 1.8 Principles of Performance Management
- 1.9 Benefits of Performance Management
- 1.10 Criticisms of Performance Management
- 1.11 Performance Management and Strategy
- 1.12 Summary
- 1.13 Glossary
- 1.14 Self-assessment Test
- 1.15 Suggested Readings/ Reference material
- 1.16 Answers to Check Your Progress Questions

“Performance management isn’t dead. The old way of thinking about it is.”

- Anita Bowness

1.1 Introduction

As has been propounded by Anita Bowness, performance management is evolving as development-centered continuous performance management models thus replacing old methods of annual performance measurement.

The performance of the employees is one of the important determinants of growth and productivity in the organization. It needs to ensure that the employees should continuously improve upon their skills and contribute their best to the organization so as to steer through the competition in the global world. Performance management channelizes the current skills and capabilities of the employees towards the desired goal. This unit focuses on the basic concept of performance management and the underlying principles and processes.

Block 1: Foundations of Performance Management

1.2 Objectives

After studying this unit, you will be able to:

- Understand the concept of performance management
- Conceptualize the various factors that influence performance management
- Identify the objectives of performance management
- State the principles of performance management
- Highlight the process of performance management
- Enumerate the benefits of performance management
- Examine the criticisms against performance management

1.3 Concept and Definition of Performance Management

Performance management ensures that performance goals are achieved consistently in an effective and efficient manner by monitoring the employees on a regular basis, ensuring that the required traits are developed and rewarded.

Performance management is more comprehensive than mere performance appraisal and combines constructive participation from both the employee and the employer in order to achieve the desired aims by aligning the behavior and actions of employees with that of the organization.

The concept rests on two basic propositions: First, by jointly participating in setting expectations along with the managers, the employees get a clear idea about what is expected of them. Second, through the support and training extended by the organization, it is ensured that there is a desirable improvement in the employees' skill sets and abilities.

Some of the fundamental aspects of performance management are enumerated below:

- a. Performance management is strategic since it looks at the broad issues in achieving the long-term goals of the business. It involves planning to achieve goals.
- b. It involves measuring the performance and capabilities of people.
- c. There is continuous communication between managers and employees while expectations are being set on what is to be achieved and a framework is being built for achieving it.
- d. Performance management is integrative at four levels. (i) There is vertical integration so that the team and the individual objectives are aligned; (ii) There is functional integration in that the strategies of different parts of the business are linked; (iii) There is linking between human resources development and rewards; (iv) There is a linking of individual needs to that of the organization.

Unit 1: Introduction to Performance Management

- e. Performance management goes one step ahead of traditional performance appraisal by involving both the manager and the employee in the setting of objectives and views deficiencies or performance gaps in a constructive rather than judgmental perspective.
- f. Performance management is proactive in nature and ensures that competencies of the employees are developed so as to help them to respond to the changes in the internal and external environment.
- g. Modern performance management system adopts a stake-holder oriented approach towards performance management. They also examine if each stake-holder is getting adequate returns that are in line with his/her contribution.

Performance management works as an integrated approach for the setting of goals, developing a single common system for appraisals and providing feedback to ensure matching of the employee performance with its strategic goals.

Example

Facebook has a performance management process that lays impetus on peer-to-peer feedback. In semi-annual reviews, they are able to use that feedback to see how well teams are performing and understand where collaboration is happening - and where it is not. They make use of the automated platform for providing continuous, real-time feedback. This helps employees to solve organizational issues before they turn into potential problems.

For more details, check out <https://about.google/> (accessed on 5/4/2022)

Check Your Progress - 1

- 1. On which of the following components does the concept of performance rest?
 - a. Efficiency only
 - b. Effectiveness only
 - c. Both Efficiency and Effectiveness
 - d. Simplicity
 - e. Complexity
 - 2. Performance management is a more comprehensive that which of these methods?
 - a. Performance appraisal
 - b. Employee evaluation
 - c. Performance rewards
 - d. Performance improvement
 - e. Performance analysis
-

Block 1: Foundations of Performance Management

1.4 Setting Performance Objectives

Objectives enumerate what organizations, departments, sections and individuals are expected to achieve over a period of time. Objective setting involves knowing where you are now, what you are trying to achieve, and determining challenging but realistic amounts of improvement needed to get there.

Based on scope, objectives are expressed as:

- Targets - which are measurable and quantifiable such as Return On Investment, output, throughput, sales, delivery, cost reduction
- Tasks - which represent units of work to be completed within a specified period of time

Based on time, objectives are expressed as:

- Short-term objectives - which talk about targets to be achieved for a specified period of time
- Long-term objectives - which state the accountabilities for achieving results. They are continuing objectives expressed as standards of performance

Characteristics of Objectives

The objectives of the organization should be

- Consistent - with the values of the organization
- Precise - clear and well-defined
- Challenging - stimulate high standards of performance
- Measurable - quantifiable
- Achievable - within the capabilities of the individual
- Agreed - by the employer and employee
- Time-related - achieved in the specified time
- Focused on team work - emphasis on teamwork along with attaining individual goals

In other words, these objectives should be SMART

- Specific - Clear, unambiguous, straight-forward and understandable
- Measurable - Measurable in quantity, quality, time or money
- Achievable - Agreed between individuals or teams and managers
- Realistic - Within the achievable limits if the individual or teams
- Time-bound - To be completed in a specific period of time

The important aims of setting performance objectives are:

- To understand what is to be achieved
- To develop the capacity of people and the organization to achieve it
- To provide support and guidance to individuals and teams to improve their performance

Example

Infosys uses iCount in its performance management system, whereby the employees are rewarded on the basis of how well they perform on specific short term but important targets during the year and are provided with feedback throughout the year.

For more details, check out <https://www.infosys.com/> (accessed on 5/4/ 2022)

1.5 Factors Impacting the Functioning of Performance Management

Performance management systems need to be holistic, taking into account the various aspects of the functioning of the individuals and teams in the organization. The following aspects of individuals, teams and organizations have a substantial impact on working of performance management:

- **Job design:** Job design considers various elements of a job, keeping in mind the requirements of the individual and the organization. It aims to increase productivity and job satisfaction. It acts as a motivator to perform the job better and provides measures for the performance management system.
- **Organizational structure:** The structure of organizations which reflects its authority and responsibility relationships across various departments, branches, teams, and individuals impacts the design of performance management systems.
- **Organizational culture:** The shared beliefs and the behavior expectations constitute the organizational culture. Organizational culture should emphasize upon the process of continuous learning so as to prepare themselves for changes in the internal and external environment.
- **Functionality:** Performance management is affected by the functions performed and the locus of control like centralization and decentralization in the organization.
- **Organizational statement of purpose:** The mission statement of the organization defines the purpose and scope of the organization and helps in formulating the performance management objectives for the various teams and individuals in the organization.
- **Strategic management:** Performance management system needs to be in line with the strategic objectives of the firm so as to achieve a competitive advantage.
- **Human resource management:** There needs to be a judicious fit between the human resource management practices like training and development, formal appraisal, communication mechanism and the performance management system of the organization.

Block 1: Foundations of Performance Management

- **Organizational development:** Organizational development involves interventions for improving organizational performance according to the changing beliefs, attitudes, values, and structure of the organization so that it is able to respond to the change itself.

Example

Publix Super Markets, grocery chain in the United States, encourages its employees to pursue opportunities that align with their goals. This is in line with its employee-centric organizational culture. Further, based upon the performance review results, Publix career site provides resources which help the employee find a career path that is right for them.

For more details, check out <http://corporate.publix.com/about-publix> (accessed on 6/4/2022)

Activity 1.1

Changes at Flash bolt Motors

Flash bolt Motor Corporation has long been an iconic firm manufacturing automobiles in the United States. However, of late, the firm has started facing stiff competition from the more efficient Japanese firms. For Flash bolt, the greatest difficulty lies in responding quickly to the challenges in a unified manner, given the vast size of its operations. Flash bolt has many divisions (which are), each headed by a different Vice President. Historically, the divisions have never co-operated with each other and are seen as ‘fiefdoms’. Which aspect of the firm, out of the factors affecting performance management is causing difficulties?

Answer:

Check Your Progress - 2

3. Which of the following options best describe job design?
 - a. The elements of a job, keeping in mind the requirements of the individual as well as the organization
 - b. How the job looks to a third party
 - c. A way to extract the maximum work in the least time
 - d. Pay related factors
 - e. Pay related anomalies

4. Which of the following options best describe organizational culture?
 - a. Values and norms shared by the members and groups of an organization
 - b. The mindset of a particular individual
 - c. The mindset of a few team members
 - d. Values shared by few individuals
 - e. Organizational rules and regulations
5. Which of the following is not the function of Human Resource Management in an organization?
 - a. Doing formal appraisal of staff
 - b. Developing a competent and motivated workforce
 - c. Ensuring a better fit between the organization and its objectives
 - d. Developing a competent and motivated personnel
 - e. Taking disciplinary action against undisciplined personnel

1.6 Objectives of Performance Management

The basic objectives of performance management are:

1. Enabling the management to determine the roles for employees based on their qualifications, aptitude, and interest.
2. Aligning the behavior and actions of individuals with the organizational goals.
3. Evaluating the performance of employees against established goals.
4. Developing employee competencies for continual improvement of performance.
5. Enhancing communication within an organization.
6. Promoting a proactive outlook in the organization that comes through anticipating changes and giving a desirable response.
7. Retaining high performing employees through the creation of a stimulating work environment. Such an environment gives employees an opportunity to accomplish challenging tasks and develop themselves.
8. Facilitating performance evaluation and fix wages and salaries.
9. Bringing out the difficulties being faced by the employees through an ongoing process of communication and joint setting of expectations.

Example

The "Googlegeist" is an annual survey of all employees of Google, where they are asked to rate their managers and life at Google. It acts as a communication enhancement tool that provides the necessary inputs for facilitating performance evaluations and providing necessary feedback.

For more details, check out <https://about.google/> (accessed on 5/4/2022)

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1.7 The Performance Management Process

Performance management can be conceptualized as a cyclical process that begins with the planning stage, followed by action and monitoring, and then by a review. The cycle renews itself when the outcomes of the review are incorporated into subsequent plans over time. Here we give a brief overview of the process:

- **Organizational mission and goals:** Performance management begins by considering the strategic goals and the mission statement of the organization. This ensures that all the activities are aligned with the desired mission and goals of the organization.
- **Departmental plans and goals:** After the organizational goals are in place, the objectives and goals of each department in the organization are considered. This is done to have a more realistic sense of the activities to be carried out in each department.
- **Performance contract:** When the departmental goals have been set, an agreement is reached upon with regard to the objectives, competencies, skills and accountability
- **Performance and development plan:** There has to be joint consideration of the performance aspect that looks into the activities that are required to achieve the desired objectives and the areas where the employee requires intervention from the organization for developing required competencies.
- **Action:** Post enactment of the outlined plan, employees start implementing the action plan for achieving the desired outcomes. Through the process of carrying out the tasks, experiential learning takes place among the employees along with the necessary organizational support.
- **Appraisal / Monitoring and feedback:** Evaluation by monitoring and providing feedback is equally important. While providing feedback, the manager takes on the role of a coach and gives feedback that is open, honest and positive so that the employees have the confidence to improve.
- **Formal meeting on reviews and plans:** The objective of formal meetings is to identify areas where the performance has been up to the mark and where further improvement is required along with the incorporation of feedback mechanism.
- **Overall Performance rating:** Lastly, the performance management systems require an overall rating to be given to the employees with more impetus provided on developmental aspects of performance management.

Refer to Exhibit 1.1. which illustrates about the performance management system at Sheldon Manufacturing Inc.

Exhibit 1.1: Performance Management at Sheldon Manufacturing Inc.

Sheldon Manufacturing, Inc., a manufacturer of high quality and innovative constant temperature equipment to the global market deploys intelliHr, a performance management software that provides the features of:

- Easy configurability
- Real-time analytics
- Ecosystem of best-of-breed technology provides through integration networks
- Accessible and intuitive user interface
- State-of-art security for people data

The performance management process of Sheldon Manufacturing Inc using intelliHR:

- Keeps employees aligned with organizational objectives through cascadable goals. It drives motivation and accountability with goal tracking and recognition.
- Streamlines check-ins and performance feedback by incorporating automated feedback and productivity check-ins to ensure that the teams have the necessary support and tools to perform their roles properly.
- It automates the performance reports so as to ensure accessing of performance reports anytime, anywhere with visibility over individual goals, achievement, training, performance improvement and more.

intelliHR provides leaders with clarity on how to grow, train and retain employees with remote performance processes that automatically pulse out to the right people, at the right time which enables them to focus on the insights for creating performance improvement plans.

Sources: <https://www.sheldonmanufacturing.com/> (accessed on 5/4/2022)

<https://intellihr.com/performance-management-software> (accessed on 5/4/2022)

Check Your Progress – 3

6. Retention of high performing employees requires the creation of which of the following work environment?
- a. Calculating
 - b. Stimulating
 - c. Penalizing
 - d. Weakening
 - e. Unruly
-

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1.8 Principles of Performance Management

Performance management communicates the results to be achieved to the employees in order to achieve them through a process of continuous learning and improvement. Thus, the principles of performance management work on employee development and meeting stake-holder expectations. This is evident below:

1. Performance management focuses on improving performance as an area of concern.
2. Performance management focuses on continuous employee development through improving the capabilities of the individuals and teams.
3. Performance management looks after the needs of the stake-holders in the organization – owners, suppliers, customers, and employees. Special attention is given to employees' needs in this process.
4. The entire process of performance management rests on communication. It works at creating conditions that promote dialogue between managers and employees. With this, the employees develop greater understanding on what has to be achieved and how it has to be achieved.
5. Ethical standards are maintained while following the process of performance management. Thus, there would be:
 - a *Greater respect for the individual*: People are treated as the most important resource themselves and not as a means to achieve other objectives.
 - b *Mutual respect*: The parties involved respect each other's needs.
 - c *Procedural fairness*: The entire process of performance management rests on the premise of fairness so as to minimize adverse effects on the individuals.
 - d *Transparency*: People affected by the performance process need to be able to access and understand the grounds on which the decisions are made.

Example

Google follows an annual upward feedback survey, a feedback review where supervisors are reviewed by their direct reports, and that is based on Google's Project Oxygen, a multiyear research initiative which has since then grown into a comprehensive program that measures key management behaviors and cultivates them through communication and training.

For more details, check out <https://www.google.com/> (accessed on 06/4/2022)

Check Your Progress - 4

7. Why is communication essential for performance management?
- Creating a dialogue between employers and employees
 - Building understanding
 - Creating both dialogue process as well as building understanding
 - Building personality development
 - Helps in self-appraisal
-

1.9 Benefits of Performance Management

An effective performance management system emphasizes creating a long-term perspective for the organization. The benefits of a well-conceptualized performance management system are as follows.

- Any activity that is done without a sense of purpose or direction is not useful for the organization. In this light, performance management emphasizes results rather than mere activities. It ensures that the activities undertaken by staff members have a sense of purpose which contributes to the organizational objective.
- Performance management creates healthy communication among the managers and employees. A direct benefit of this improved process of communication is that decisions can be made rapidly.
- Performance management aligns the activities of teams and individuals with that of the organization. The organizational goals and the means to achieve these are set out clearly. This ensures greater productivity and performance in the organization.
- Performance management creates a long-term perspective that looks at the future requirements and the changes required to be achieved.
- Performance management, in order to ensure results and development in an organization, focuses on quantifying the input and output. This leads to creation of standards of performance as well as setting of standards within the organization.
- It enables better functioning of the operations of an organization, since the goals and results are in tandem with each other.
- It depersonalizes issues by setting the target based on results and behavior rather than going into the personality.
- Performance management facilitates equitable treatment of employees. It judges people solely on the basis of the results achieved. It does not allow hierarchy or seniority to influence the rankings.

Block 1: Foundations of Performance Management

- Since performance management is an ongoing process, a continuous improvement takes place in the organization.
- It enables a clear understanding of the resource requirements in the organization.
- It can be used by managerial, technical as well as advisors to develop employees in the organization.

Example

eBay deploys impraise, a performance management platform, for building engaged and high performing teams by enabling managers to understand and grow their people. It incorporates feedback loops with goal setting, facilitates regular one to one discussions for fairer reviews and actionable feedback – all in one place.

For more details, check out <https://www.impraise.com/> (accessed on 5/4/2022)

1.10 Criticisms of Performance Management

Performance management systems have been criticized on the following grounds:

1. Studies show that there is no conclusive evidence that performance management leads to improved performance.
2. The entire sequence of performance management sometimes degenerates into a bureaucratic activity that ends up penalizing any deviance from the set path. It is seen as something that does not contribute to real output in an organization and may be sometimes demotivating for the employees.
3. The entire process of performance management if not planned well can have adverse effect on the performance in the organization:
 - Sometimes the performance management process shifts the emphasis from the performance of the individual to his/her identification with the beliefs of the organization. This might turn into a process in which the employees are judged on the basis of his/her mindset.
 - The fact remains that though employees are appraised on the basis of results, the results themselves are affected by various factors other than performance.
 - The emphasis on teamwork can sometimes interfere with the individual work ethics.
 - It is very difficult to construct procedures to measure the intangible aspects of a job.

Unit 1: Introduction to Performance Management

- The entire process of performance management makes the individual lose interest in performance meetings since it can threaten his/her future in the organization, especially when he/she is not being able to deliver in the key areas of performance.
- Performance management can sometimes turn into a cause of major dissatisfaction. There can be a great amount of subjectivity within the appraisal process. Further, the appraisal process rests in the hands of the superior, who in turn decides the future progress of the employee.
- Sometimes the managers themselves lack the social and psychological skills and experience to give constructive feedback.
- It may become quite difficult for an individual to comply with the requirements and expectations of performance management.

Example

Microsoft's performance review system has discontinued its hyper-competitive 'stack rankings' where employees were compared against each other due to criticism of forced ratings. As Microsoft drove towards the culture of collaboration, to overcome the limitations, the emphasis of performance reviews shifted on three factors: individual impact, how they contribute to other people's success, and how the individuals leverage other people's work.

For more details, check out <https://www.microsoft.com/en-in> (accessed on 5/4/2022)

1.11 Performance Management and Strategy

The offensive or the defensive move taken by an organization to be ahead of its competitors is known as strategy. It is the course of action that managers take to attain one or more of the organization's goals in the long term.

Strategy is concerned with the following six elements:

- *Direction* - Where is the business trying to get to in the long-term?
- *Scope* - Which markets should a business compete in and what kind of activities are required in such markets?
- *Advantage* - How can the business perform better than its competitors in those markets?
- *Resources* - What kind of resources (skills, assets, finance, relationships, technical competence and facilities) are required for combating the challenges arising out of competition?

Block 1: Foundations of Performance Management

- *Environment* - What are the possible external or environmental factors which affect the businesses' ability to compete?
- *Stake-holders* - What are the values and expectations of the various stakeholders who affect and get affected by the business?

Formulation of strategy helps the organization to achieve its planned outcomes. Performance management involves measuring and comparing the achieved outcomes with the expected outcomes. This calls for strategic planning for ensuring that the performance management system of the organization provide us with the required deliverables.

Thus, performance management system in an organization, should align its resources, systems and employees to strategic objectives and priorities of the organization. Performance management helps employees perform at their best by aligning their individual contributions with the strategic goals, values, and objectives of the organizations.

The Purposes of Strategic Planning are:

- It helps organizations define their identities.
- Strategic planning helps organizations to prepare for their future.
- It enhances ability to adapt to environmental changes and anticipate future changes.
- Strategic planning provides direction and allows better allocation of resources.
- An organizational culture of cooperation is facilitated by strategic planning.
- Strategic planning ensures that the employees are provided with necessary information to channelize their daily activities.

Strategic planning helps employees and organizations in performance management in not only fixing the day to day activities but also in realizing the overall goals and objectives of the organization.

Example

PerformYard is a software tool that facilitates review process across the functional areas of the organization and with a multitude of customizable inputs in line with the dynamic goals and objectives that are aligned with the organizational strategies and provides continuous feedback for recognition of achievement, documentation of individual performance and keeping track of important events in the organization.

For more details, check out <https://www.performyard.com/> (accessed on 5/4/2022)

Check Your Progress - 5

8. Performance management aligns the activities of the individuals and teams with which of the following organizational elements?
 - a. Organization
 - b. Motives
 - c. Intents
 - d. Teams
 - e. Groups
 9. Performance management promotes which of the following kind of treatment of employees?
 - a. Equitable
 - b. Exploitative
 - c. Subjective
 - d. Personal
 - e. Unjust
 10. Performance management looks at which of the following organizational perspective?
 - a. Short term
 - b. Long term
 - c. Time
 - d. Single
 - e. Profit
-

1.12 Summary

- There are various instances of lack of performance in organizations. To ensure the continuity of the organization in current times, there has to be emphasis on improvement and excellence.
- Performance is an important area of organizational functioning. It is based on the aspects of efficiency and effectiveness. While efficiency looks at the ratio of outputs to inputs, effectiveness refers to the capacity to achieve a particular goal.
- Performance management is a concept that ensures that goals are achieved consistently and in an effective and efficient manner. This is done by monitoring the employees on a regular basis, developing the required traits by rating their progress, and rewarding them for their achievements.

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- The aspects affecting performance management are: Job design, Organizational structure, Organizational culture, Functionality, Organizational statement of purpose, Strategic management, and Human Resource Management.
- The following activities constitute the performance management process: organizational mission and goals, departmental plans and goals, performance contract, performance and development plan, action, monitoring and feedback, mid-term meetings to review performance, overall performance rating, and performance related pay.
- Performance management has the following central principles: emphasis on improvement in performance as an area of concern, employee development, meeting the needs of the stake-holders, creating a dialogue between the employers and employees, and maintaining ethical standards.
- Performance management has numerous advantages such as emphasis on activities, aligning individuals, and creating a long-term perspective. However, there are drawbacks as well, such as creating a false sense of rationality, emphasizing on the beliefs of the individual rather than his/her actual performance, and basing the entire criteria on results which are affected by factors other than performance alone.

1.13 Glossary

Functionality: Performance management is affected by the functions of the organization. For instance, in organizations that are centralized, performance management emerges from the center, which looks at both what and how the results are to be achieved.

Human resource management: Human Resource Management (HRM) practices focus on improving performance by developing a competent and motivated workforce.

Job design: Job design considers the various elements of a job keeping in mind the requirements of the individual and the organization.

Organizational culture: These are the values and norms that are shared among the members and groups of an organization which determine how people interact with each other and with outsiders.

Organizational development: Organizational development deals with changing the beliefs, attitudes, values, and structure of the organization so that the organization is able to respond the change itself.

Organizational statement of purpose: A statement of purpose defines what an organization is and what it has set out to do.

Organizational structure: Organizations are structured in a way that depends on both their objectives and the environment. Depending on the structure, there is a distribution of responsibilities among the various departments, branches, teams, and individuals.

Performance Appraisal: It is a systematic evaluation of an individual with respect to performance on the job and individual's potential for development.

Performance management system: It is a systematic process by which the overall performance of an organization can be improved by improving the performance of individuals within a team framework.

Strategic management: Strategic management formulates action plans that keep in mind the future requirements of the organization.

1.14 Self-Assessment Test

1. Performance management is considered as a strategic and integrated approach to deliver sustained success to an organization by improving the performance and the capabilities of the people who work in them. What are the fundamental aspects of performance management that emerge from this definition?
2. Performance management seeks to achieve certain fundamental objectives. What are these objectives? Briefly explain each.
3. The performance management process is constituted of a comprehensive set of activities. What are these activities? Explain each activity.
4. Organizational culture deals with the shared values and norms of the members and groups of an organization which determine how people interact with each other and with outsiders. How does organizational culture impact performance management?

1.15 Suggested Readings/Further References

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1.16 Answers to Check Your Progress Questions

1. (c) Both efficiency and effectiveness

The concept of Performance management rests on both efficiency and effectiveness.

2. (a) Performance Appraisal

Performance management is a successor to performance appraisal and is more comprehensive than mere performance appraisal.

3. (a) The elements of a job, keeping in mind the requirements of the individual as well as the organization

Job design considers the various elements of a job, keeping in mind the requirements of the individual and the organization.

4. (a) Values and norms shared by the members and groups of an organization

Organizational culture deals with the shared values and norms of the members and groups of an organization which determine how people interact with each other and with outsiders.

5. (e) Taking disciplinary action against indisciplined personnel

Taking disciplinary action against indisciplined personnel is not the function of Human Resource Management (HRM) It is done by top hierarchy in the organization.

6. (b) Stimulating

Retention of high performance employees requires the creation of a stimulating work environment.

7. (c) Creating both dialogue process as well as building understanding

Communication is essential for performance management since it creates both a dialogue as well as building understanding. There should be an environment which is conducive to creating a dialogue between managers and employees as only then would there be an understanding of what is to be achieved and how it is to be achieved.

8. (a) Organization

Performance management aligns the activities of the individuals and teams with that of the organization.

9. (a) Equitable

Performance management promotes equitable treatment of employees.

10. (b) Long-term

Performance management looks at the long-term perspective.

Unit 2

Performance Appraisals

Structure

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Concept of Performance Appraisal
- 2.4 Objectives of Performance Appraisal
- 2.5 Performance Appraisal v/s Performance Management
- 2.6 Components of the Appraisal
- 2.7 Limitations of Performance Appraisal
- 2.8 Concept of Potential Appraisals
- 2.9 The Traditional Methods of Performance Appraisal
- 2.10 The Modern Methods of Performance Appraisal
- 2.11 Summary
- 2.12 Glossary
- 2.13 Self-Assessment Test
- 2.14 Suggested Readings/Reference Material
- 2.15 Answers to Check Your Progress Questions

“If you cannot measure it, you cannot manage it.”

- Peter Drucker

2.1 Introduction

As has been advocated by Peter Drucker, there is a need for measuring the performance and one cannot improve if there are no performance check-ins. In the previous unit, we have discussed how performance management can be conceived as an integrated approach for setting goals, developing a common system for performance appraisals and providing feedback to the employees.

The principal component of the performance management system is the appraisal itself. Performance appraisal has traditionally been a top-down approach which lays stress on providing ratings to employees. Performance appraisal is a regular review of an employee's job performance and contribution to a company. Companies use performance appraisals to determine which employees have contributed the most to the company's growth, review progress, and reward high-achieving workers. This unit deals with the concept of performance appraisal and its objectives. It elaborates the process and the traditional as well as modern approaches to performance appraisal.

Block 1: Foundations of Performance Management

2.2 Objectives

After studying this unit, you should be able to:

- Develop a conceptual understanding of performance appraisal
- Highlight the major objectives of performance appraisal
- Understand how the process of appraisal occurs
- Bring out the limitations of the appraisal process
- Define the concept of potential appraisal
- Develop an understanding of traditional and modern methods of performance appraisal

2.3 Concept of Performance Appraisal

Performance appraisal can be conceived as the formal assessment and rating of individuals by their managers after a specified period of time. It judges an employee's performance on various parameters like productivity, time taken to do the job, the number of units produced, the quality of the units made as well as the costs incurred in the process. It enables employers to secure desired information for making objective decisions about employees. The appraisal should be as objective as possible and should avoid subjective biases.

Example

As a part of performance appraisal, employees at Zappos, an American online shoe and clothing retailer, are rated on how well they embody Zappos' 10 core values such as delivering "Wow" service or showing humility. Managers document how many times they notice an employee exhibiting certain behaviours such as acting humble. This talks about the performance appraisal at Zappos.

Source: ICFAI Research Center

2.4 Objectives of Performance Appraisal

Objectives describe what has to be done in order to achieve the desired aim. Setting objectives for performance appraisal determines the areas where performance should be achieved, along with the desired level of expectation and pace of achievement.

The objectives of performance appraisal are enumerated below:

- 1 Measuring and improving performance: A primary objective of performance appraisal is to measure the performance level of employees in measureable areas of time, output, savings revenue or profit earned and quantity produced
- 2 Giving specific goals: The objectives are given in a clear, straight-forward and understandable manner. Generally, "stretch" goals are set that push an employee to the limits of his or her capacity.

- 3 Measurable: The goals that are set are measurable. Subjectivity is largely avoided in the entire process.
- 4 Ensuring enhanced communication: Increased communication builds stronger relationships between the managers and the employees.
- 5 Setting out achievable tasks: The objectives have to be challenging but within the reach of a person who has a reasonable amount of capability to do the particular job.
- 6 Relevance: The goals that are set should be relevant to the requirements of the organization.
- 7 Give feedback: Feedback is given on how the employees are performing. It reveals their strengths and weaknesses by rating them on the established goals and job responsibilities, and shows the areas that need improvement.
- 8 Set a time frame: The performance management system sets the goals that have to be achieved within the desired time frame.
- 9 Making administrative decisions: The appraisal system helps in deciding on the promotions, transfers, and demotions of individuals. It also helps the management justify wages and salaries. It promotes accountability.

The mnemonic “SMART” is generally used to give emphasis on the more important criteria while setting the objectives. These important criteria are S= setting specific goals; M = being able to measure; A = comprising achievable tasks; R = relevant goals that fit with organizational objectives and T = to be completed within a time frame. Refer to Exhibit 2.1 which illustrates about the performance appraisal followed at Adobe to meet its objectives of fostering teamwork and innovation.

Exhibit 2.1: Performance Appraisal at Adobe

Adobe follows the Check-in performance appraisal model which replaced their earlier annual performance reviews that made the entire process complex, bureaucratic and time-consuming. To overcome the barriers to team work and innovation and improve the motivation and morale of the employees, Adobe embraced Check-in.

The changes that were introduced by Check-in are enumerated below:

- A centralized employee resource centre administered the process of performance appraisal and provided required assistance for handling queries regarding the same as well as scaling up the program.
- The employee priorities are discussed and adjusted with the manager regularly along with ongoing process of feedback and dialogue with no formal written review or documentation.

Contd....

Block 1: Foundations of Performance Management

- They have completely abolished the formal rating or ranking method and instead the manager determines equitable performance-based compensation.

Implementation of Check-in:

- Adobe partners with their executive team as Check-in needs to be role-modelled from the top.
- They mobilized resources towards building managers' capabilities and development.
- The organization communicates.
- The organization takes into account the global differences into account, working with legal entities like regional work councils and vetting any concerns early.

Source: <https://www.adobe.com/check-in.html> (accessed on 6/4/2022)

Check Your Progress - 1

1. Which of the following options usually determines the aim of an appraisal?
 - a. Doing what the management wants
 - b. Doing what the employee wants
 - c. What both the management and employees want
 - d. Doing what the customers want
 - e. Doing what management and customers want
2. The appraisal gives emphasis on which of the following options while carrying out the rating?
 - a. Subjectivity
 - b. Objectivity
 - c. Traits
 - d. Duplication
 - e. Anomalies

2.5 Performance Appraisal versus Performance Management

Performance appraisal is a tool used to assess how well an employee completes his/her job. As a process, it is a part of the overall performance management system. Though most performance appraisals are held annually, they can be carried out whenever the employer finds it necessary to do so.

The major difference between performance management and performance appraisal is that the former is more broad-based, forward-looking, and development-oriented. It involves consultative planning and joint setting of objectives between the managers and the employees. To ensure the process of continual employee development, interim reviews keep on occurring throughout the entire year, before the final review takes place. This ensures that the employees and managers work in partnership.

On the other hand, performance appraisal is simply a backward looking process in which the focus is largely on how the employee could perform on a given criteria.

Since appraisal was not broad-based, it is being substituted by comprehensive performance management and is perceived as a part of performance management.

Example

Accenture discontinued its ranking system of appraisal and implemented a more fluid system of employee evaluation by incorporating timely and instant feedback from managers on a continuous basis after the completion of each assignment. This change has been brought about at Accenture to ensure continual development of employees instead of a backward looking process in which the focus was on how the employee performed in relation to a given goal. This is a step towards transition from performance appraisal to performance management.

Source: ICFAI Research Center

2.6 Components of the Performance Appraisal

The appraisal process starts with developing a clear understanding on the Key Performance Areas (KPA) on which the employees are expected to deliver performance followed by self-appraisal and then should the actual analysis start. Let us understand the same in detail:

2.6.1 Identification of the Key Performance Areas (KPA)

Key Performance Areas (KPAs) are the important areas of responsibility or functions in a job. They are clear in case of simpler jobs as compared to managerial jobs. Discussions are held with the employees in order to make them identify the important functions and be clear about what is expected out of them. Along with these, targets are set for the period for which the Key Performance Areas are considered.

The necessary steps for identifying the key performance areas are as follows:

- A group of specialists generates an exhaustive list of the tasks that are to be done in a particular job.
- Next, the various activities are grouped into meaningful categories to define the performance areas.

Block 1: Foundations of Performance Management

- The performance areas are given the desired weight age in relation to their importance for that role. The performance areas with the higher ratings would be termed as the key performance areas.
- Subsequently, the KPAs get listed and are made available to employees.

Key performance Indicators (KPIs) are quantified indicators which are measured for realizing organizational objectives. KPI is a metric that determines factors needed to achieve success in an organization.

Example

Scoro KPI dashboard software lets organizations to oversee every aspect of their businesses on one (or several) dashboards – and keep track of their project, work, and financial KPIs in real time. Scoro can help organizations to customize their dashboard with unlimited widgets and metrics to track every KPI.

Source: ICFAI Research Center

2.6.2 Self-appraisal

Before the actual analysis of performance, it is essential that self-appraisal is done by the concerned employee. This requires an in-depth reflection regarding one's own performance in various areas.

2.6.3 Analysis of Performance

Next, the appraiser looks into how the employee has been able to perform. For this, it is desirable that the appraiser should know about the working conditions, the appraiser's level of responsibility and the particular factors that operate at the workplace. Only then should the appraiser go ahead with this analysis.

2.6.4 Performance Discussion

The appraiser is usually given the self-appraisal form that has earlier been filled by the employee. The discussions are usually initiated on the basis of the comments that have been made by the employee. The appraiser should use his skills to promote a fruitful mutual discussion in which many aspects about an employee's performance and its reasons would emerge. It should be remembered that the benefit one can derive from the discussions is greatly a function of the level of trust that exists between both the parties.

2.6.5 Identifying Developmental Needs

The self-appraisal as well as the mutual discussion that takes place is meant to identify the developmental needs of the concerned employee. Typically, if an employee is not able to achieve the desired level of performance in the KPAs, it would mean that improvements are required in the level of performance. The HRD department would collect all the appraisal forms and depending on the need and priorities should go ahead with the training

2.6.6 Final Assessment

This is done only after all the above mentioned objectives have been fulfilled. By this stage, the appraisee is familiar with his strengths, weaknesses and developmental needs. He has also received counseling and training, as they case may be, to ensure that he or she is able to match up to the desired level of performance. These ratings are placed in record by the HR department. The results are also discussed with the employees on a one-to-one basis. The meetings are of a constructive nature and aim at motivating the employees and at arriving at a consensus on the issues of concern.

Check Your Progress - 2

3. Which of these is the fourth step in the performance appraisal process?
- Identifying developmental needs
 - Analysis of performance
 - Performance discussion
 - Self-appraisal
 - Giving feedback

2.7 Limitations of Performance Appraisal

There are various issues of concern that pertain to the appraisal process. Perhaps one of the most common complaints from the HR department is that conducting the appraisal process is a complex task that requires substantial time and effort. Then, the employees usually raise concerns about the objectivity of the entire process.

The various limitations that cause the actual performance to fall short of the expected results are:

- High demands on supervisors:** For a performance appraisal to be done, there has to be a periodic supervision of subordinates' performance. However, it may be difficult for a particular supervisor to maintain a close check on what exactly is being done by each subordinate. Then the entire appraisal exercise is lengthy and involves substantial contributions to be made by both the employer and employee.
- Halo effect:** This is a tendency to evaluate an employee positively based solely on his/her performance or trait in a particular area. For instance, an employee who keeps submitting his work in time might be considered a much better worker than someone else who takes slightly more time but delivers a much better quality of work. Thus, the entire appraisal gets a positive spin from the fact that the employee submits his work in time.

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3. **Horn effect:** This is the opposite of the halo error, where the low rating of a person in one area leads to lower ratings in other areas. For instance, an employee who does good work but came later to office on a particular day might end up with a negative rating. Here, the entire appraisal gets a negative spin off based on the fact that the employee came late.
4. **Wide variation in ratings:** The value system of the evaluator ends up influencing the performance evaluation. For instance, an evaluator who is lenient might end up giving a high rating to all the employees while a strict evaluator may award low ratings to everyone. This tendency to award a high rating is called positive leniency while the tendency to give a low rating is known as negative leniency. Consequently, employees might end up with ratings that are substantially different from what they actually deserve.
5. **Averaging:** Some appraisers end up giving mediocre reports to their employees' This problem occurs if the appraisers are not concerned about the employees or if they are not conversant with their own work. Such appraisals do not serve any purpose at all and end up seriously harming the interests of the organization and the employee.
6. **Similarity error:** The rater can give a higher rating than deserved if the subordinate has characteristics similar to his/her own. The appraiser uses his/her own characteristics as a basis to evaluate employees. For instance, in case the appraiser is soft and tolerant by nature, then he/she will endeavor to identify the same trait in the employees. Among the employees, those who have a similar characteristic will be graded higher while a person who is more aggressive would end up getting a lower rating, even if he does not deserve it.
7. **Recency error:** The appraiser may give undue emphasis on the recent behavior of the employees at the cost of ignoring the past behavior. Thus, it may happen that a person with a consistently good track record might end up with a lower rating since his recent performance was not up to the mark on that day. Such a rating would be faulty as it does not reflect the past performance, which has been consistently good.
8. **Stereotyping:** A stereotype is a generalization that people make about a member of a particular group. This generalization is made on the basis of a mental image that exists about the members of the group to which a person belongs. In the workplace, stereotypes can exist about age, sex, race and physical appearance. Stereotyping can turn into a serious issue. For example, an appraiser may end up giving an unfavorable remark about an employee just because he belongs to a certain racial group which is considered to lack a strong work ethic.

9. **Not a panacea:** Performance appraisal should not be considered as a cure for all the problems in an organization. For instance, if a worker lacks the basic ability or training for his/her job, it would be irrational to stimulate performance through performance appraisals. Instead, it would be better if the organization focuses on training and development of the particular employee. Only after the employee has attained the relevant skills can the organization go ahead with performance appraisal. There might be an emphasis on performance without regard to human values. Then there are cases where lip-service is done to the idea of giving objective ratings. The reality in such cases is that of blatant subjective appraisals that cast a question mark on the sanctity of the appraisal.
10. **Ratings can boomerang:** Adverse ratings can not only fail to motivate an employee, but can also cause him/her to perform even more badly. Criticism can motivate only employees with a high degree of self-esteem to improve their performance. Employees can be defensive.

Example

Cisco abandoned the bell curve system of appraisal that rates the workforce by comparing performances of people in similar tasks and subsequently segregates them into top, medium and poor performers. But this was criticized on the ground that it did not mandate open conversations and the employees were just interested in knowing their ranks and the perceived inequity affected their motivation and morale. To overcome this limitation, Cisco now follows quarterly “sync up” conversations between appraisers and the appraisee.

Source: ICFAI Research Center

2.8 Concept of Potential Appraisal

Potential appraisal examines the potential of an employee to take up greater responsibilities in the future. Potential appraisal is necessary for three fundamental reasons:

- First, every employee has limitations beyond which he/she cannot exert himself/herself. So, though he/she may perform the current job well, it cannot be taken as an indication of his/her ability to perform at a higher level of responsibility in the future.
- Second, every employee is cut out for a specific job and cannot be expected to take on a different role.
- Third, the employee may lack the ambition or motivation to achieve higher goals.

Potential appraisal examines whether or not the individual has the critical attributes that are required to handle higher level jobs. Thus, while performance

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appraisal looks at what an employee has already achieved, potential appraisal focuses on what the employee is further capable of achieving in the future. Thus, the potential appraisal complements performance appraisal in deciding the suitability of a candidate.

Example

Maruti Suzuki India Limited, formerly known as Maruti Udyog Limited, a car manufacturing company in India follows the concept of potential appraisal whereby they identify and develop talent for succession planning. The past performance of the employee along with his capabilities to man future responsibilities are assessed and the same are aligned to the organizational goals, not to forget the individual interests.

Source: ICFAI Research Center

Check Your Progress - 3

4. In performance appraisal, in case the raters are influenced by their own value system, which of the following errors would result?
 - a. Leniency error
 - b. Wide variation in ratings
 - c. Similarity error
 - d. Halo error
 - e. Recency error
5. In case an evaluator gives an unfavorable remark to an employee just because he belongs to a certain racial group, which type of error would he be committing?
 - a. Horn effect
 - b. Stereotyping error
 - c. Similarity error
 - d. Averaging
 - e. Leniency error

2.9 The Traditional Methods of Performance Appraisal

The traditional approach to performance appraisal looks at an employee's personal traits and work related characteristics. Where personal traits are concerned, the focus is on traits such as the ability to make judgments, initiative, and leadership. Work-related characteristics considered would include job knowledge, ability to complete a given assignment, success in carrying out plans, and efforts in cost reduction.

Traditional performance appraisal is used for:

- Deciding on promotion, separation and transfers.
- Making reward decisions, including merit increases, promotions, and other rewards.
- Giving feedback on how the organization views employee performance.
- Evaluating the relative contribution made by individuals or the departments in achieving higher organization goals.
- Formulating criteria to evaluate the effectiveness of selection and placement decisions.
- Developing criteria for evaluating the success of training and development decisions.
- Collecting information on work scheduling plans, budgeting, and human resources planning.

The methods of traditional performance appraisal are:

2.9.1 Confidential Report

This technique asks the rater to write a paragraph or more on various areas about an individual's performance at the workplace and his personality. The report would cover an individual's strengths, weaknesses, future potential, and any other special qualities.

The report is generally prepared towards the end of the year by an employee's immediate supervisor. Sometimes, the report is ratified by another senior officer to have more objectivity in the classification. This report is kept confidential and is used for looking into the desirability of the employee for promotion or initiating disciplinary action.

The following factors are observed in an employee:

- The level of job knowledge and potential.
- Their relations with co-workers and supervisors.
- Personality traits and attitudes.
- The level of understanding about a company's programs, policies and objectives.

The technique gives a substantial amount of specific information about the employee and can be of great value for managers. It works on the assumption that an honest and informed statement from someone who knows a person well is as valid as other more complicated methods.

Disadvantages of confidentiality report:

- The technique reflects the mind-set of the supervisor as well.
- This can introduce a substantial degree of bias in the system, as the supervisor is likely to have his/her own likes and dislikes.

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- Further, the appraiser may be unable to express himself/herself appropriately in some instances.
- Besides, the method is focused on evaluating rather than developing the employee. The employee does not get to know his/her weaknesses and the opportunities available for overcoming them.
- Also, since the appraisals vary substantially in length and touch on different aspects of a person's performance, it would be very difficult to compare the ratings that are given to different employees. Hence, to enable better comparison, more formal methods need to be used.

2.9.2 Straight Ranking Method

This is a technique that attempts to judge the overall performance of the each and every employee, without dividing and going into various parameters of performance. The employees are ranked from the highest to the lowest based on their overall performance in the job. This permits comparison of all employees, regardless of the type of work done. Hence, an excellent employee gets rewarded while a poor performer is given counselling on how to improve his/her performance.

Drawback of straight ranking method:

- The drawback of this method is that it is very difficult to compare persons when they differ in qualities and attitudes.
- As this method is based on Ordinal Ranking, it only gives information on the ranks of the individuals and not the degree of actual difference between the employees.
- This method is suitable only when there are a limited number of employees in an organization.

2.9.3 Paired Comparisons Method

The paired comparisons method is an improvement over the straight ranking method. In this method, out of the group, any arbitrary pair of employees is taken for the purpose of comparison. The better employee of the two is then compared again with another employee. The process is repeated until all the employees have been compared. The method gives a more reliable rating than a simple straight ranking.

2.9.4 Critical Incident Method

The critical incident method observes the behavior of an employee. The behavior is observed to record the critical incidents which make a significant contribution to the activity taking place. The critical incident may be positive or negative.

Instances of positive critical incidents are:

- An employee religiously doing his work, even when other workers are going on strike.

- Showing presence of mind in a critical accident. Performing a difficult task that is outside the duties
- Examples of negative critical incidents are:
- Employee takes extended lunch breaks and subsequently comes late to work.
- An employee refusing to abide by instructions that were clearly given

The supervisor maintains a record of these exceptionally positive or negative incidents that taking place with the employee. Efforts are also made to collect the details of these incidents from other employees. The rating is done by the supervisor on the basis of these actual events that have taken place.

The method has various advantages:

- The method is more objective since the ratings are done on the basis of actual events.
- The discussions that emerge from the critical rating method are more fruitful. The discussions would not focus on traits that can have various subjective interpretations but on the actual behaviour of the employee. For example, the discussion may touch on a negative critical incident such as not co-operating with fellow workers and causing losses to the factory instead of a general spirit of indiscipline.
- Moreover, the keeping of a log means that evaluation is done by covering events over a period of time, instead of being influenced by events taking place recently.

However, the technique does have drawbacks:

- Negative incidents tend to get more attention than positive ones, generating a bias in the ratings.
- The decision over an event being critical is highly subjective and depends on the supervisor.
- Employees may feel uncomfortable for continuously being under observation.
- If the records are not properly maintained, some important events may be forgotten.

2.9.5 Forced Distribution Method

This is an evaluation method that ranks the employees against the performance done by others. This method is based on the assumption that a business develops when the best and worst performers are identified. The best performers should be developed and retained, while the worst performers are coached, rehabilitated or terminated. The poor performers must be dealt with, since they act as a burden upon the good performers.

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Types of ranking systems:

The managers distribute ratings for employees into a pre-specified performance distribution ranking system. Some of them are enumerated below:

- Bell curve: Based on normal distribution
- Quartiles: Ranks employees into four equal quartiles for the purpose of evaluation
- Totem Pole: Places one individual at one extreme and the other at the lower extreme and the rest are ranked in between them based on relative performance

Essentials of forced distribution method:

- The criterion on which the judgment is made must be defined.
- The raters can make their judgments based on the 'overall performance' or on each performance dimension.
- Those with high scores are considered better employees.
- The rater is kept unaware of the scoring weights for each statement, which prevents him/her making biased decisions. Thus, the rater only gives the descriptions while the personnel department applies the appropriate weights and does the scoring.

Some experts consider this method as to be unfair for the following reasons:

- This method makes the employees compete with each other, which ultimately destroys the spirit of teamwork. It causes mistrust and low morale among the employees.
- The method is based on the assumption that every organization has a large number of employees, which justifies the use of the normal distribution curve. It is also not necessary that every time there would a large number of average employees, who are flanked by the excellent as well as poor performers. The inappropriate use of this method has led to various costly lawsuits for the organizations.
- Some raters do not favor this method since they are not informed about the weights which can also lead to inaccurate appraisal.
- Lastly, the system is more applicable for use in middle to lower management levels where the jobs are similar.

Advocators of forced distribution method:

- However, the method has its fair share of supporters, who feel that it is a good device to reduce complacency in an organization.
- Some organizations believe that it leads to better reward, retention and coaching practices in an organization.

Example

TCS followed the bell curved based performance appraisal method which used forced distribution method for categorizing employees and dividing them into top, average and poor performers. But since it is looking at building more digital, collaborative tools to ensure the continuous feedback process, it has discontinued the use of the same.

Source: ICFAI Research Center

2.9.6 Graphic Rating Scale

The Graphic rating scale consists of a list of dimensions, each having a multi-point rating scale or options to indicate the performance level of an employee. Following is the way that graphic rating scale is administered:

- The dimensions are given on a form and the rater is supposed to tick off the appropriate level of performance.
- These options can be numbers such as 1, 3 or 5 to represent a scale or descriptive statements like outstanding, good, average, below standard and poor.
- Studies have shown that scales with five to nine points give the best results.
- The graphic rating scale usually has dimensions that look at the quantity of work being done, quality of work being done and the extent of adaptability of the employee.
- Depending on the job requirements, there can be specific performance items which are also assessed: for instance, the hospitality industry would rate employees based on their dressing sense and mannerisms. The supervisor considers these dimensions and rates each subordinate based on a score that best describes his/her capabilities. The score on each dimension is consolidated to get a final value.

This method has its advantages:

- It is easy to construct and thus requires less time to develop.
- This also makes it popular with practitioners. It also allows for a greater amount of qualitative judgment.

However the method does pose difficulties at times:

- Each rater would tend to use and interpret the scale in their own way.
- Sometimes it might consider vague traits like constructive attitude and cooperativeness. This makes it difficult to give an accurate rating or have a meaningful discussion about these subjective traits with the employee.

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- Supervisors may avoid giving negative ratings, since they can demotivate an employee. However by doing so, they defeat the very purpose of employee ratings.

2.9.7 Check list Method

A checklist describes the characteristics and performance of the employees on the job. The rater indicates with a tick mark whether the behavior of an employee is positive or negative with regard to each statement. The performance of the employee is then rated on the basis of numbers of positive checks. There are three types of checklists:

- Simple Checklist:** In its simplest form, the checklist is a set of descriptive statements about the employee that are provided to the supervisor. They have to be answered yes or no. Thus, in case the supervisor feels that the employee possess the required trait, he checks the item; if not, he leaves it blank. The limitation of this approach is that experienced supervisors would be able to differentiate between positive or negative questions and answer in a way that they deem fit. Moreover, placing too many questions on the list would make the process lengthy.
- Weighted Checklist:** This method is a variant of the simple checklist method, where weights are provided in order to get over the manipulation by raters which can take place as in a simple checklist.

In this method, a number of specialists come together and frame a large number of descriptive statements about effective and ineffective behaviour that can take place on the particular job.

The statements are then placed into appropriate groups. The specialists then deliberate among each other if the statements are indeed descriptive and should be included in the checklist. A statement is placed in the checklist only when substantial agreement is reached among the specialists.

The supervisor gets the form – but without the score, that are retained by the specialists or the HR department. The raters would tick the on the appropriate statements, as he / she would do in the case of the simple checklist. The supervisor completes the checklist and sends it to the HR department for evaluation.

This method avoids the scope for personal prejudice by assigning weights to different statements based on consultation with specialists and not sharing the weights with the supervisor.

However, this method is both costly and time consuming.

- c. **Forced Choice Checklist:** This is another technique that attempts to minimize rater bias, especially in case raters give consistently high or low ratings. The forced choice checklist consists of a number of statements for each trait.

Suppose five statements are given for each trait - two that are most descriptive, two that are least descriptive and one statement which is neutral. The rater is asked to rate which of the statements is the most descriptive and which is the least descriptive of the particular worker. The statements are designed by experts in such a way that the rater cannot judge which statement is actually applicable to the most effective or least effective employee. This method has greater objectivity than most other methods.

But it is very expensive as it requires specialists to frame the questions. Secondly, the raters may feel that they are rating in the absence of the knowledge of the basis on which the questionnaire was made. Third, it becomes difficult for the supervisor to discuss ratings with subordinates since the items are scored by the personnel department.

2.9.8 Group Appraisal

In the group appraisal method, employees are rated by an appraisal group consisting of their supervisor and three or four other persons who have some knowledge of their performance. The supervisor explains to the group the nature of the subordinate's duties. The group then discusses the standards of performance for that job, the actual performance of the employee, and the causes of their particular level of performance. It then offers suggestions for future improvements, if required.

The traditional approach to performance appraisal has two serious flaws:

- Typically, organizational performance appraisal is primarily concerned with the past rather than being forward looking through the use of setting objectives or goals.
- Performance appraisal is usually tied to the employees' salary review. Dealing with salary generally overwhelms and blocks creative, meaningful, or comprehensive consideration of performance goals.

Check Your Progress – 4

6. Which of the following methods asks the evaluator to write a paragraph or more on various areas about an individual's performance at the workplace and his personality?
- a. Checklist method
 - b. Confidential report
 - c. Group Appraisal
 - d. Weighted checklist
 - e. Paired comparison

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7. Which of these methods assumes that an accurate and informed statement from someone who knows a person well is as valid as other more complicated methods?
 - a. Straight ranking method
 - b. Paired comparison method
 - c. Confidential report
 - d. Forced distribution method
 - e. Checklist method
8. Which of these is an attempt to judge the overall performance of the each and every employee, without dividing and going into various parameters of performance?
 - a. Straight ranking method
 - b. Paired comparison method
 - c. Forced distribution method
 - d. Confidential report
 - e. Group appraisal
9. Which of these methods is supposed to give a more reliable rating than a simple straight ranking?
 - a. Forced comparison method
 - b. Straight ranking
 - c. Confidential report
 - d. The paired comparison method
 - e. Forced distribution method

2.10 The Modern Methods of Performance Appraisal

The modern developmental approach to performance appraisal focuses on the employee as an individual who makes a valuable contribution to an organization. The modern approach gives greater stress to employee motivation, development, and human resources planning. The developmental approach of appraisal gives special emphasis on the following issues:

- Providing an opportunity to employees to indicate the nature and depth of their ambition.
- Giving emphasis on employee development so that the organization is able to continually grow on the back of better human resources in the increasingly competitive times. Providing a structure for communication between employees and management.
- Encouraging employees in their drive to excel.

2.10.1 HR Accounting

The knowledge, motivation, skills and attitudes of the employees are becoming of increasing importance for the organization's competitive ability. Indeed, the new knowledge economy is distinguished by the intangible value of its assets – that lie in the heads of its employees. Thus employees are not seen as an item of expenditure but as an asset in the balance sheet.

Several models have been devised to capture this intangible component of value. One of these models is the Lev and Schwartz model which holds that the human capital embodied in a person is the present value of the earning made by a person until he retires.

- To arrive at the value of the human resources for the entire organization, the model classifies the employees of the concerned organization into various homogenous groups.
- The next step is to calculate the earnings stream of each group. This earning stream is then discounted at a predetermined rate to get net present value. In this way, the net present value of each group is arrived at and added up to give the value of the future earnings of the firm.

However, it should be noted that though the Lev and Schwartz model continues to be widely used, there is a lack of consensus among academics about a satisfactory method to be applied to value Human Capital

Assessment Centers

An Assessment Centre can be seen as bundle of testing techniques that allow a candidate to demonstrate, under standardized conditions, the skills and abilities that are most essential for success in a given job. Assessment centres are characterized by the presence of the following factors:

- Presence of a number of candidates for the purpose of evaluation.
- Doing job evaluation to understand the competencies required for a successful job.
- Classifying behaviours into relevant categories to facilitate analysis. Evaluating multiple competencies in a particular candidate.
- Use of multiple observers to enhance objectivity.
- Use of multiple exercises - such as case analysis, role play etc.
- Simulations that cover a range of areas from a crisis to a situation requiring creativity.
- Giving stress on ensuring that the simulation is the closest to real working conditions.

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- Making accurate observations and recording them. Assessment centers are used for a variety of purposes, from recruiting and hiring to determining training needs for an organization. Most assessment centers rely on trained assessors, situational exercises and assessment methods to evaluate participants. The assessment center aims at using a variety of exercises that simulate the activities on the job. It is based on the premise that if one wishes to predict future job performance, then the best way to do this would be to get the individual to carry out a set of tasks which are an accurate sample of those required on the job. Assessment centers use a variety of exercises to examine the competencies present in candidates. We discuss some of these below:
- An In-tray test deals with prioritizing documents, giving replies to letters, and delegation. It is an attempt to measure the time management as well as business prowess of the candidate.
- Problem-solving tasks may include building a structure with limited materials. It looks for analytical ability, creativity and resourcefulness.
- Giving presentations brings out assimilation of information, presentation skills and the ability to work under pressure.
- Case study interview makes candidates read a large set of information and then answer questions relating to the subject matter. It brings out the analytical skills, prioritization of information, and time-management skills.
- Competency-based interview goes back into the history of a person and touches on various tasks and scenarios. It is meant to test business acumen, communication, personal attributes and teamwork.

Advantages of Assessment Center:

- The basic use of assessment centers is to determine if the new recruits or existing employees in an organization have the potential for being inducted into an organization or being given promotions.
- The personal characteristics of the individual are assessed and feedback is given in the form of a selection or rejection decision.
- Assessment centers offer the advantage of being customizable to the needs of an organization. By simulating the actual working conditions, they are one of the most valid tools to measure performance.
- Lastly, when they are well designed, they also appeal to the participants.

However, there are limitations to the use of assessment centers:

- First, they are very expensive to operate.
- Second, they might demotivate those employees who do not get selected.

- To avoid demotivating employees, development centers should be advised not to use prior information about employees while making decisions about them.
- Moreover, the employees should participate in the process instead of being a mere passive recipient.

2.10.3 360-Degree Feedback

360-degree feedback is essentially a procedure that gives feedback from multiple stakeholders (subordinates, peers, and supervisors) about the on-the-job performance of an employee or a group. The mechanism works on the assumption that greater objectivity can be achieved through involving more people in the feedback mechanism. By involving more people, the risk of individual bias impacting the assessment gets reduced.

- Ratings are given that reflect various performance dimensions. These ratings can be given by superiors, peers, and team members.
- Thus, anyone who comes into direct contact with the employee and is able to provide valuable insight into employee performance is considered for the purpose of the appraisal.
- However, the rater should be competent enough to give an unbiased assessment.
- Sometimes self-assessment is done for comparing validity of feedback from other sources.
- The assessments are consolidated and the feedback is directly given to the superior or to the individual concerned. A review session follows and counselling if required is given to the employee.

To enable a 360-degree feedback, the following steps should be ensured:

- Deciding on the objectives of the business
- Selecting the person being subject to feedback and his appraisers
- Decide upon the areas of work and behavior that are to be considered.
- Select the appropriate methods of data collection and analysis
- Conduct a pilot study
- Examine the results of the study

However, this method has its limitations:

- First, it can become difficult to get a clear picture of the feedback received from various sources. This is especially true of the feedback got from less experienced raters who may be influenced by personal bias.
- Second, it is a very time consuming affair as it involves the process of selecting the rater, designing the appropriate questionnaire and analysis of data.

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360-Degree Feedback Online

The traditional approach of collecting feedback using paper based questionnaires is still in vogue in many organizations. However, the advantage of relying on 360-degree feedback online in recent years has gained momentum as it can simply reduce the time and effort required in collecting data.

- The employers now are making use of interactive, online systems for 360-degree appraisal, which can benefit as follows:
- Choice of selection of competencies by recipients on which to receive feedback can be maintained.
- Confidentiality is maintained through passwords.
- Maintenance of Accuracy of data through online system settings thus improving the quality of feedback.
- Availability of Reports online would thus facilitate comparison with previous feedback.
- Reduced time on administration.
- Demographic information can be stored as summary reports.

Another variant of the 360-degree feedback is the 540-degree feedback where more stake holders give the feedback along with superiors, peers and team members. This means that various other parties like customers, clients and suppliers would also give their feedback.

Example

Acknowledging the fact that one of the hardest parts of implementing 360-degree feedback is figuring out how to collect it, Google follows an approach of collecting 360-degree feedback at any point in the year, rather than waiting for a single day and instead of asking respondents to complete long survey or rate the employee in multiple areas, specific meaningful questions are asked.

Source: ICFAI Research Center

2.10.4 Management by Objectives (MBO)

Management by Objectives is tool to align individual employee behavior towards the organizational goals.

The steps to be followed in MBO are:

1. Set organizational goals: The senior management of the organization establishes the organization-wise plan for the next year and sets goals.
2. Set departmental goals: In this phase, departmental heads and their superiors jointly set goals for their departments.

3. Discuss departmental goals: Departmental heads discuss the department's goals with all the subordinates in the department and ask them to develop their own individual goals. In other words, every employee will have to state how he/she can contribute to the department attaining its goals.
4. Define expected results (setting individual goals): During this phase, department heads and their subordinates set short-term performance targets.
5. Performance Reviews: Measure the Results. Department heads compare the performance of each employee with expected results.
6. Provide Feedback: Department heads hold periodic performance review meetings with subordinates to discuss and evaluate the latter's progress in achieving expected results.

As the process of MBO moves forward, the employees and supervisors work together to identify and overcome potential obstacles and challenges. Meetings are conducted to review the progress made by the employee and to incorporate any changes in the organizational circumstances. Note that in the evaluation phase, an employee's success in meeting goals is evaluated against the agreed-on performance standards. The final evaluation at the end gives a measure of the employees overall effectiveness.

Advantages of MBO

MBO approach is considerably superior to the traditional approach of performance appraisal

The advantages of MBO are enumerated below:

- The MBO approach has done away with the judgmental role of the superiors in the appraisal of their subordinates.
- It leads to greater satisfaction, greater agreement and lesser tension and hostility between the workers and the management.
- It emphasizes training and development of individuals.
- It is a problem-solving approach.
- This approach also has a built-in device of self-appraisal by the subordinates because they know their goals and the standards by which their performance will be measured.

However, there are limitations to the MBO approach:

- The MBO program requires considerable time, energy, and expenditure. It is difficult to administer because continuous interaction between superiors and subordinates is required. If the span of supervision is quite large, it will not be possible for the superior to have a discussion with each and every subordinate to set mutually agreed upon goals. The method does not specify the behaviors required to achieve the task. This means that the employees sometimes would need step-by-step guidance.

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- Since the standards vary from employee to employee, there is no common basis for comparison.
- There is resistance from their use by managers since they involve substantial documentation. The joint setting of objectives makes managers feel that they have lost authority. Moreover, the emphasis on achieving goals creates stress for both the manager as well as the employee.
- This method can be used only when goal setting is possible by the subordinates. Blue-collar workers are often unable to set their own goals.
- This approach mainly emphasizes counseling and training and development. But in practice, it is not possible to forego the critical aspect of performance appraisal.
- This approach is appropriate for the appraisal of executives and supervisory personnel who can understand it better.
- Setting objectives with the subordinates sometimes turns into a tug of war, with the management pushing for higher quotas and the subordinates pushing for lower ones.
- Since the goals have to be measured by year-end, the MBO method has a short term focus.
- The achievement of results remains under the influence of various external factors on which the employee has no control
- MBO can be self-defeating if it fails to take into consideration the deeper emotions of the employees. The rating of every employee on the basis of specific targets may make it difficult to compare the ratings.

2.10.5 Behaviorally Anchored Rating Scales (BARS)

This is a scale that requires appraisers to rate employees on different performance dimensions. The typical BARS scale has nearly eight performance dimensions, each of which has a multi-point scale.

There are various stages in devising BARS:

- **Creating Critical Incidents:** Job analysis is done to generate a list of critical incidents by experts.
- **Developing Performance Dimensions:** These people then cluster the incidents into a smaller set of performance dimensions. Each cluster (dimension) such as 'conscientiousness' is thus defined.
- **Renovating Incidents:** Another group of people who also know the job then renovate the original critical incidents. They are given the cluster's definitions and the critical incidents and are asked to reassign each incident to the cluster they think it fits best.

- **Measure the Incidents:** The second group is generally asked to rate the behavior described in the incident in terms of how effectively or ineffectively it represents performance on the appropriate dimension.
- **Develop Final Mechanism:** A subset of incidents is used as behavioral anchors for each dimension.

Advantages of BARS:

- Though BARS is similar to a graphic rating scale, it is conceptually a far superior device. Instead of a scale having vague comments such as ‘good’ and ‘excellent’, the BARS scale contains specific behavioral examples of good or poor performance. This makes the system give far more accurate ratings.
- Moreover, BARS is very useful in detecting and monitoring behavior. The employees know which types of behavior are expected of them. The appraisers have an opportunity to give behaviorally-based feedback.
- An employee who knows the job and its requirements better than anyone else can also develop BARS. The result would be a good and accurate measurement of performance on the job.
- BARS evaluations seem to be relatively consistent and reliable in that different raters’ appraisals of the same person tend to be similar. The technique is not biased by the experience and evaluation of the rater.

Drawbacks of BARS:

- There is no empirical evidence of the superiority of BARS. This raises questions about the use of this method, given the huge amount of time, effort and resources required to devise this method.
- Behaviors used are more activity-oriented than result-oriented.
- Several appraisal forms are required to accommodate different types of jobs in an organization.

Activity 2.2

Montfort Steel

You are the Human Resources Manager at Montfort Steel, a steel manufacturing company. Your firm specializes in taking over sick steel plants, turning them around and getting profits. One of the steel plants that the firm wants to purchase is in Venezuela. This plant has state-of-the art equipment and controls, and is only five years old. It has all the raw material and transport linkages that make it a candidate for success.

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However, the problem is labour trouble: the existing management of the plant was heavily influenced by the success of the Forced Distribution Method at G.E. During the first year, 200 workers were laid off since they comprised the 'bottom ten percent of the workforce' according to the management. The management was not prepared for the consequences: there was a violent flash strike in which one supervisor was brutally lynched for being biased and conniving with the management in laying off workers.

The CEO of the firm wants to know if you have an action plan in place to tackle the situation at this plant. What would be your remarks to him?

Answer:

Check Your Progress – 5

10. Which of these methods is an attempt to capture the intangible component of human value?
- Human Resources accounting
 - Behaviorally Anchored Rating Scales
 - Management by Objectives
 - Assessment Center
 - Management by Objectives
-

2.11 Summary

- A principal component in the performance management system is the appraisal. The appraisal has essentially been a top-down approach that which lays stress on giving ratings to the employees.
- Performance appraisal can be conceived as the formal assessment and rating of individuals by their managers after a specified period of time. It judges an employee's performance on various parameters: productivity, time taken to do the job, the number of units made, the quality of the units made as well as the costs. It enables the employers to secure the required information for making correct and objective decisions about employees.

- Objectives describe what has to be done in order to achieve the desired aims. Hence, after deciding on the aim, the firm determines the various objectives it would want to accomplish. Setting objectives becomes operationally important for an organization since it determines the areas in which the performance should be achieved, along with the desired level of expectation and pace of performance.
- The mnemonic “SMART” is generally used to give emphasis on the more important criteria while setting the objectives. These important criteria are S= setting specific goals; M = being able to measure; A = comprising achievable tasks; R = relevant goals that fit with organizational objectives and T = to be completed within a time frame.
- The major difference between performance management and performance appraisal is that the former is more broad-based, forward-looking, and development-oriented. It involves consultative planning and joint setting of objectives between the managers and the employees. To ensure the process of continual employee development, interim reviews keep on occurring throughout the entire year, before the final review takes place. This ensures that the employees and managers work in partnership. On the other hand, performance appraisal is simply a backward looking process in which the focus is largely on how the employee could perform on given criteria.
- The appraisal process starts with developing a clear understanding on the Key Performance Areas (KPA) on which the employees are expected to deliver performance. Usually, before going through the appraisal it is highly desirable that the employee judges his own performance through a self-appraisal in order to create a proper-perspective on the evaluation that will follow from his or her seniors. The actual analysis of performance follows. After this, there is a discussion on the performance of the employee and his or her development needs are considered. The last step is the overall assessment that comprehensively looks into what the employee has been able to achieve in the set time-frame.
- There are various issues of concern that pertain to the appraisal process. Perhaps one of the most common complaints from the HR department, is that conducting the appraisal process is a complex task that requires substantial time and effort. Then, the employees usually raise concerns about the objectivity of the entire process.
- Potential appraisal examines the potential of an employee to take up greater responsibilities in the future.
- The traditional methods of appraisal comprise confidential report, Straight ranking method, Paired comparison method, Critical incident method, Forced distribution method, Graphic rating scale, Checklist method and

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Group appraisal. We discuss some of these methods here. The Confidential report is in the form of a paragraph on one or more areas of an individual's performance. The Paired comparison method selects an arbitrary pair of employees and compares the better employees with others. The Graphic rating scales gives a list of dimensions, each having a multi-point rating scale to indicate the performance level of an employee.

- Among the Modern methods of appraisal are HR accounting, Assessment center, 360-degree appraisal, Management by objectives and Behaviorally anchored rating scales. We discuss some of these methods here. HR accounting is usually based on the Lev and Schwartz model that works on the assumption that the human capital embodied in a person in the present value of the earning made by a person until he retires. An Assessment Centre is bundles of testing techniques that allow a candidate to demonstrate, under standardized conditions, the skills and abilities that are most essential for success in a given job. 360-degree feedback is essentially a procedure that gives feedback from multiple stake-holders (subordinates, peers, and supervisors) about the on -the-job performance of an employee or group. Management by Objectives is a device to steer each employee's behaviour towards the organization's mission.
- Behaviorally anchored rating scale requires appraisers to rate an employee according to different performance dimensions.

2.12 Glossary

Performance appraisal: Performance appraisal can be conceived as the formal assessment and rating of individuals by their managers after a specified period of time.

Halo effect: This is the tendency to evaluate an employee positively based solely on his/her performance or trait in a particular area. For instance, an employee who always seems busy in formal documentation might get rated positively if the process of documentation is something that the evaluator himself/herself likes.

Horn effect: This is the opposite of the halo error, where the low rating of a person on one quality leads to low ratings in other areas as well. For instance, an employee who has a habit of shouting at his/her subordinates may get a low rating in other areas as well.

Averaging: Some appraisers end up giving mediocre reports to their employees. This problem occurs if the appraisers are not concerned about the employees or if they are not entirely knowledgeable or experienced in their field of work

Similarity error: The raters can give a higher rating than deserved in case the subordinate has characteristics similar to their own. The appraisers may evaluate the employees based on their own characteristics. For instance, in case the

appraiser is soft and tolerant by nature, then he/she will endeavour to identify a similar trait in the employees. Employees who have a similar characteristic may be graded higher while those who are quite different could end up getting a lower rating.

Recency error: The appraiser emphasizes the recent behavior of the employees while ignoring their past behavior in assessing and evaluating performance.

Stereo-typing: This is the perception that the rater has of the subordinate, based on the group to which he/she belongs. A person can be stereo-typed on the basis of his sex, age, and physical appearance.

Potential appraisal: Potential appraisal assesses if the individual possesses the critical attributes required to handle higher level jobs in the future.

Confidential report: This technique asks the rater to write a paragraph or more on various areas about an individual's performance at the workplace and personality.

Straight ranking method: This is a technique that attempts to judge the overall performance of the each and every employee, without dividing and going into various parameters of performance.

Paired comparisons method: In this method, out of the group, any arbitrary pair of employees is taken for the purpose of comparison. The better employee of the two is then compared again with another employee. The process is repeated until all the employees have been compared.

Critical incident method: The critical incident method observes the behavior of an employee. The behavior is observed to record the critical incidents which make a significant contribution to the activity taking place. The critical incident may be positive or negative.

Forced distribution method: This is an evaluation method that ranks the employees against the performance done by others. This method is based on the assumption that a business develops when the best and worst performers are identified. The best performers should be developed and retained, while the worst performers should be coached, rehabilitated or terminated.

Graphic rating scales: The Graphic rating scale consists of a list of dimensions, each having a multi-point rating scale or options to indicate the performance level of an employee. The dimensions are given on a form and the rater is supposed to tick off the appropriate level of performance.

Checklist method: A checklist describes the characteristics and performance of employees on the job. The rater puts a check mark to indicate whether the behavior of an employee is positive or negative with regard to each statement. The performance of the employee is then rated on the basis of the numbers of positive checks.

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Group appraisal: In the group appraisal method, employees are rated by an appraisal group consisting of their supervisor and three or four other persons who have some knowledge of their performance. The supervisor explains to the group the nature of the subordinate's duties.

HR accounting: The knowledge, motivation, skills and attitudes of the employees are becoming of increasing importance for organizations' competitive ability. Indeed, the new knowledge economy is distinguished by the intangible value of its assets – that lie in the heads of its employees. Thus employees are not seen as an item of expenditure but as an asset in the balance sheet. HR accounting is usually based on the Lev and Schwartz model which works on the assumption that the human capital embodied in a person in the present value of the earning made by a person until he retires.

Assessment centers: An Assessment Center can be seen as bundle of testing techniques that allow a candidate to demonstrate under standardized conditions, the skills and abilities that are most essential for success in a given job.

360-degree feedback: 360-degree feedback is essentially a procedure that gives feedback from multiple stake-holders (subordinates, peers, and supervisors) about the on -the-job performance of an employee or group. The mechanism works on the assumption that greater objectivity can be achieved through involving more people in the feedback mechanism. By involving more people, the risk of individual bias impacting the assessment is reduced.

Management by objectives: Management by objectives is a device to steer each employee's behavior towards the organization's mission. It is increasingly being used in place of traditional appraisal. It includes various steps such as goal setting, planning and evaluation. The goal setting procedure begins at the very top of the organization when the organizational mission statement and goals are set. This then trickles down the hierarchy to the individual employee.

Behaviorally anchored rating scales: This is a scale that requires appraisers to rate employees to different performance dimensions. The typical BARS scale has nearly eight performance dimensions, each of which has a multi-point scale.

2.13 Self-Assessment Test

1. How do you define and conceptualize performance appraisal?
2. Explain the main objectives of a performance appraisal.
3. Are there any differences between performance appraisal and performance management? Explain.
4. Explain the various components of the appraisal process in detail.
5. Does the process of performance appraisal suffer from any limitations? If yes, list out the limitations and explain each of them.

6. What is the critical incident method? How would you use this method? Describe in detail.
7. What is the checklist method? Describe the various types of checklists.
8. Describe in detail the concept of the Human Resources Accounting methods?
9. What is Management by Objectives (MBO)? What are the advantages of using MBO?
10. What are assessment centers? How are they used in performance appraisal?

2.14 Suggested Readings/Reference Material

1. John Shields, Jim Rooney, Michelle Brown, Sarah Kaine; Managing Employee Performance and Reward: Systems, Practices and Prospects, 3rd Edition, Cambridge University Press, 2020
2. Susan L. Verhulst, David A. DeCenzo, Rama Shankar Yadav; Human Resource Management, 13th Edition, Wiley, 2021
3. Durai Pillai, Total Reward Strategy: Retain Your Best Talent, 1st Edition, Notion Press, 2020
4. Stephen J Perkins, Sarah Jones, Reward Management: Alternatives, Consequences and Contexts, 4th Edition, Kogan Page, 2020
5. Kevin R. Murphy, Jeanette N. Cleveland, Madision E. Hanscom, Performance Appraisal and Management, Sage Publications, 2020

2.15 Answers to Check Your Progress Questions

1. (a) Doing what the management wants

In the appraisal process, the employees usually have to ensure that they do and shape up to the needs of the management of the organization.

2. (b) Objectivity

The appraisal gives emphasis on objective rating while carrying out the process of appraisal.

3. (c) Performance discussion

Performance discussion can be seen as the fourth step in the performance appraisal process.

4. (b) Wide variation in ratings

There would be a wide variation in ratings: The value system of the evaluator ends up influencing the performance evaluation. For instance, an evaluator who is lenient might end up giving a high rating to all the employees while a strict evaluator may award low ratings to everyone.

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5. (b) Stereo typing error

A stereotype is a generalization that people make about a member of a particular group. This generalization is made on the basis of a mental image that exists about the members of the group to which a person belongs.

6. (b) Confidential report

The confidential report asks the evaluator to write a paragraph or more on various areas about an individual's performance at the workplace and his personality.

7. (c) Confidential report

The confidential report method assumes that an accurate and informed statement from someone who knows a person well is as valid as other more complicated methods

8. (a) Straight ranking method

The straight ranking method is a technique that attempts to judge the overall performance of the each and every employee, without dividing and going into various parameters of performance. The employees are ranked from the highest to the lowest based on their overall performance in the job.

9. (d) Paired comparison method

The paired comparisons method is an improvement over the straight ranking method. In this method, out of the group, any arbitrary pair of employees is taken for the purpose of comparison. The better employee of the two is then compared again with another employee. The process is repeated until all the employees have been compared.

10. (a) Human resources Accounting

The Human Resources accounting method is an attempt to incorporate the intangible value of its assets – that lie in the heads of its employees. Thus employees are not seen as an item of expenditure but as an asset in the balance sheet.

Unit 3

360° Feedback

Structure

- 3.1. Introduction
- 3.2. Objectives
- 3.3. Understanding 360-Degree Feedback
- 3.4. 360-Degree Performance Appraisal: Appraisers
- 3.5. A Typical 360-Degree Feedback Process
- 3.6. Limitations of 360-Degree Feedback Surveys
- 3.7. Impact of 360-Degree (Organizational & Individual)
- 3.8. Summary
- 3.9. Glossary
- 3.10. Self-Assessment Test
- 3.11. Suggested Readings/Reference Material
- 3.12. Answers to Check Your Progress Questions

“We all need people who will provide us with feedback. That’s how we improve.”

- Bill Gates

3.1 Introduction

As has been advocated by Bill Gates, feedback ensures open communication in the organization. Collecting feedback from all the stakeholders who affect or get affected by the organization is essential to ensure effectiveness of the performance management system in the organization. In the previous unit, we have discussed the concept of performance appraisal, the process and methods used in performance appraisal.

Out of the numerous techniques available for providing inputs for assessment of employee performance, 360-degree feedback is the most effective one. With more and more organizations following flat structures, multi-rater assessments have been considered to be a business necessity as it provides comprehensive feedback on different areas (e.g. skills) from peers as they possess everyday knowledge and context that the direct supervisor may not have access to. Multi-rater assessment interventions have now become essential for organizational settings to replace the traditional supervisor-subordinate evaluation. The focus of this unit would be on understanding 360-degree feedback, the process and limitations of 360-degree feedback.

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3.2 Objectives

After studying this unit, you will be able to:

- Describe merits and demerits of the 360-degree feedback system
- Enlist the various assessors with their appraisal dimensions
- Appraise the process of 360-degree feedback
- Enumerate the prerequisites for 360-degree feedback to accomplish organizational needs

3.3 Understanding 360-Degree Feedback

360-degree *feedback* is also called multi-rater assessment, multi-source assessment or multi-source feedback.

In 360-degree feedback, an employee is appraised by his superiors, peers, subordinates and others related to his job. The 360-degree appraisal, hence, is a multi-rater assessment and feedback system (MAFS) that collects information from different people who are in direct contact with knowledge of an employee's performance.

Benefits of 360-degree feedback:

- It provides equal opportunity to evaluate the efforts of the top manager or managers (their skills, talents, behavioral traits, values, ethical standards, temperaments loyalties) in running a company effectively.
- It focuses on the intrinsic qualities of the manager as well as his capacity to lead.
- It also gives feedback to all assesses on their styles and helps in better understanding of their strengths and weaknesses.

3.3.1 Purpose of 360-degree Feedback System

The goal of any 360-degree feedback system is to provide targeted feedback on critical success factors that will be included as part of a coaching, training or development program. If the program is successful, it is expected that talent will be more effective in practicing and demonstrating specific technical, leadership, task/project management, or communication competencies and behaviors.

Rationale of 360-degree feedback is enumerated as follows:

- 360-degree feedback can be powerful organizational intervention as it increases awareness of leader behavior, work unit results and customer expectations and also effectiveness.
- It understands the complexity of management and the importance of inputs from various sources. Managers should not access behaviors that cannot be observed as all behaviors may not be fully visible to the manager.

- 360-degree feedback calls for attention to certain important performance dimensions.
- Increases employee participation in leadership development and work unit.

360-feedback systems are usually used in one of the following two ways:

1. As a developmental tool: It helps the employees in understanding their strengths and weaknesses and motivates them to become more effective.

The feedback process gives an opportunity to provide effective feedback to peer that they may not provide comfortably. A feedback gives recipients information about other's perceptions of them and thereby gives an opportunity to adjust their behaviors and develop skills for the excellence in their jobs.

2. As a performance appraisal tool: It helps to measure employee performance. The process of understanding and evaluating true performance has been the elusive target of human resources and compensation professionals. Understanding performance levels affects compensation, goal setting, training and development, succession, administrative action and appraisal.

3.3.2 Migration from Development to Performance

Although 360-degree feedback can be useful for both developmental and administrative purposes, most companies start with an exclusive focus on development. If an organization starts with only developmental feedback and does not link it with compensation and promotion, then employees will become accustomed to the process and will not value the input they get from various parties.

3.3.3 360-Degree: Feedback Dimensions

360-degree feedback targets at providing clear information for professional development in a manner that motivates individuals. Major assessment dimensions include:

- Communication and competencies including planning,
- Feedback on other's perception of an employee
- Skills including recalling, listening, and goal-setting
- Teamwork, behavioral, and leadership effectiveness
- Manners and capabilities
- Specific behavioral change leading to enhanced effectiveness
- Talents, behavioral traits, values, ethical standards, temperaments, loyalty, customer focus, etc.

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3.3.4 360-Degree Feedback: Benefits

The 360-degree feedback process significantly:

- Helps in aligning individual's goals with overall business objectives by bringing in positive behavioural change. Individuals get a broader perspective of how others perceive them.
- Helps in identifying cross-organizational developmental needs by comparing aggregated scores in different competencies with the competencies that are needed by a successful organization.
- Helps where the organization is implementing major change, such as a merger, acquisition, or strategic re-alignment.
- Supports team-building by emphasizing on the importance of feedback from co-workers
- Improves the bonding between the employees and the organization and lessens bias and prejudices as the feedback is collected from many persons which encourages credibility of the performance appraisal system.
- Emphasizes on removing seniority and hierarchical-based systems by developing a workplace where everybody can contribute to the greater whole in a meaningful way.
- Enables managers and supervisors to assume the role of a coach, to look beyond short-term goals and focus on long-term employee development. This is possible due to the detailed information gathered from multiple perspectives.
- Increases the responsibilities of the employees towards their customers by focusing on customer service
- Helps people to feel motivated by the feedback from others about their skills etc.
- Gains from the self-awareness of the top managers. It reveals strengths and weaknesses of their managing styles, forces inflexible managers to initiate changes in their style
- Reduces the gap between self-assessment and the peer assessment, leading to empowerment.
- Highlights the facts about the organizational culture.
- Encourages Total Quality Management activities as it emphasizes on internal and external customers and teams.

Refer to Table 3.1 for understanding the purpose and benefits of 360-degree feedback system.

Table 3.1 Purpose of 360-Degree Feedback System

Developmental	Administrative
<ul style="list-style-type: none"> • Provide feedback on performance • Identify individual strengths/weaknesses • Recognize performance • Helping goal identification • Evaluate achievement of goals • Identify individual training needs • Ascertain training needs of organization • To reinforce authority structure • Open employee discussions • Effective communication • Provide leadership platform 	<ul style="list-style-type: none"> • Documentation of HR decision • Fixing promotion of candidates • Transfers, planning and assignments • Identify poor performers • Decisions related to retention or termination, layoffs • Validation of selection criteria • Legal applications • Evaluation of training progress • Manpower planning • Compensation decisions

3.3.5 360-Degree Feedback: Disadvantages

The main drawbacks of this approach are as follows:

- Time consuming, and requires complex administration in combining all responses.
- Long feedback exchange can cause dissatisfaction and tension amongst staff.
- It requires extensive training and development efforts for efficient performance.
- It requires smooth and careful dealing as the appraisee may feel that the respondents have grouped against him. This can create an environment of conspiracy if the information is not honestly managed and communicated openly.
- 360-degree feedback can be misused to humiliate people. Response from colleagues tends to be biased.
- Linking rewards to findings can prove to be unfair.
- Due to multiple raters there may be many conflicting opinions on the individual being appraised
- The results could be uneven.

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3.3.6 Pre-requisites of 360-Degree Feedback

A careful design and support activities such as communication, skill building and follow-up can make 360-degree feedback effective. The prerequisites for effective 360-degree feedback are:

- There needs to be an active support of the top management in giving and receiving feedback and encourages others to do the same.
- It has to be ensured that there is high commitment at all organizational levels to the process based on awareness of what is involved and the benefits that can accrue to the employee, manager and the organization.
- It is necessary to have a strong determination amongst all concerned to use the feedback data as the basis of development.
- The feedback dimensions that needs to be considered are significant aspect of work behavior and those that can be related to actual events experienced by the recipients.
- The process should be preceded by comprehensive and well delivered communication and training and should not be threatening.
- There needs to be clarity on the feedback instrument.

3.3.7 Techniques of 360-degree Feedback

360-degree feedback system combines more information than a typical performance appraisal and hence is more complex from administration point of view. To overcome this, organizations have been using automated tools for collecting, compiling and aggregating the feedback information.

Example

Exceed Inc, designer and manufacturer of sporting goods, makes use of PerformancePro that provides managers and employees with the ability to develop performance plans, goals, and objectives and then track progress overtime. The planning process includes an online “wizard” that helps users establish SMART goals (Specific, Measurable, Achievable, Result Oriented, and Time Bound) and then allows employees to submit revised goals and action steps for approval.

For more details, check out <https://www.hrperformancesolutions.net> (accessed on 8/4/2022)

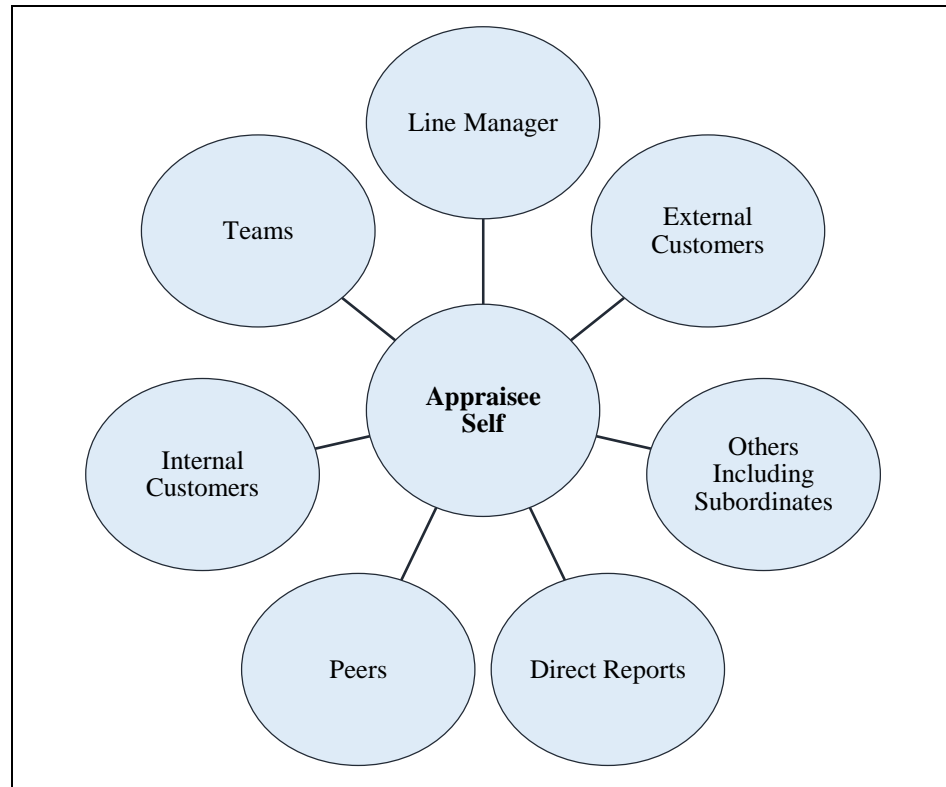
Activity 3.1

Explain SMART.

Answer:

3.4 360-Degree Performance Appraisal: Appraisers

Figure 3.1: 360-Degree Performance Appraisal: Appraisers



Source: ICFAI Research Center

Traditionally, performance appraisal was a feedback process between employees and supervisors. However, with increasing complexities in business, there is a need for focus on teamwork, development of employee, and improving customer services. Figure 3.1 depicts the various types of appraisers.

Direct Contacts

The *circle* shows the feedback from appraisers including supervisors, peers, subordinates, customers (internal and external), and employee himself.

A 360-degree leader development feedback instrument seeks input from a circle of observers: subordinates, boss, peers, and self. The leader also completes a self-rating from an inward perspective. All the raters provide feedback about various aspects of the leader's leadership and management competencies.

Let us discuss the role of each appraiser:

3.4.1 Self-Appraisal

Self-appraisal is the process of employees evaluating themselves. The self-appraisal system requires an employee to complete the appraisal form provided to him before the performance interview.

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Benefits of self- appraisal:

- Self-appraisal allows an employee to reflect on their accomplishments and mistakes in the past.
- Similarly it helps in knowing the strengths and weaknesses of the employees and the challenges that they are facing at work.
- A reflection on one's performance might serve as a starting point for planning future goals and objectives

Criticism of self-appraisal:

Self-appraisal is criticized on the ground that self-raters may evaluate themselves more leniently in comparison to their managers'/superiors' assessment. Thus self-appraisals should be used for developmental purposes instead of administrative decisions.

3.4.2 Subordinate's Appraisal

Subordinate appraisal provide managers feedback based on their subordinates view about them. Subordinates evaluate their managers perfectly because they are in constant touch with them. Performance dimensions evaluated here are leadership skills, verbal communication, delegation of authority, coordination within team efforts, and interests in subordinates.

The subordinate ratings provide important data (managerial and supervisory behaviours) related to performance of managers. However, subordinates feel reluctant, and even hesitate in implementation of feedback of these rating criteria.

3.4.3 Peer Appraisal

Due to downsizing, reduced hierarchies, increased use of teams and group accountability, colleagues are considered as the most relevant evaluators of each other's performance. A peer rating is useful when the employee's expertise is known or the performance and results are observable.

Advantages of peer appraisal:

- Peer appraisal provides information in which the rating given by them differs from the ratings given by a superior to some extent, as he observes different dimensions of performance.
- It is easy for a peer to identify the leadership and inter-personal skills, strengths and weaknesses of their peers than any other person.
- Peer appraisals furnish almost accurate and valid information as they work with their fellow employees regularly and observe their actual performance.

Though peer appraisals are considered most accurate methods of judging employee behavior, they are not used frequently and should not be used for administrative decisions like salary fixation or bonuses calculations. A peer appraisal requires safe and confidential handling of the review forms to avoid inter-personal rivalries or hatred and hostility among fellow employees.

3.4.4 Manager's (i.e. superior's) Appraisal

Appraisal by superior is the traditional source of employee feedback. This evaluation includes the ratings of individuals by supervisors on elements of an employee's performance plan and to some degree valuation of programs and teams by senior managers. Managers normally do not completely observe the performance of their employees while at work and thus they rely on the performance records made available to them for the evaluation of performance of employees. This may lead to inaccurate results if reliable and valid information is not provided to them.

3.4.5 Customers Appraisal

Organizations use internal and external customer appraisal as a source of performance appraisal information for their employees. Internal customers are helpful in providing critically useful feedback about the value additions made by an employee or team to developmental and administrative purposes. Customer rating (internal and external) increases the customer satisfaction as the feedback is mainly related to service providing efforts and attitude.

3.4.6 Team Appraisal

Team appraisal is an extension of peer appraisal. Peers having equal standing with one another may not work together closely but in case of a team setting the individual contribution to work cannot be separated out. Organizations like Boeing and Texas Instruments had been using team appraisals for the performance evaluation of the team as a whole. A team appraisal encourages collective efforts. Usually, the system uses team incentives or group variable pay.

Example

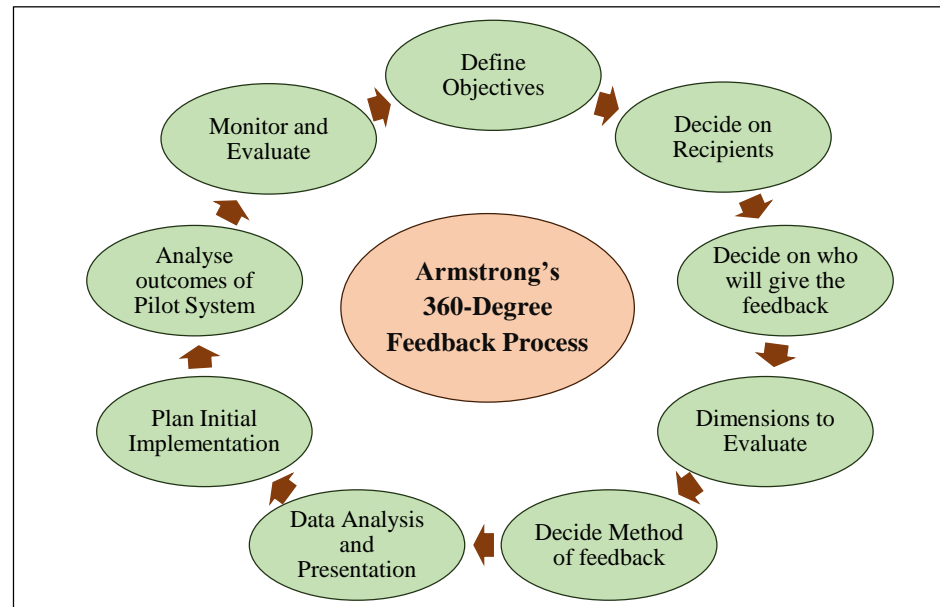
Google makes use of an automated tool, Trello which powers a productive team. From meetings and projects to events and goal-setting, Trello's intuitive features give any team the ability to quickly set up and customize workflows. This aids in team appraisal and provides accurate results.

For more details, check out <https://trello.com> (accessed on 8/4/2022)

3.5 A Typical 360-Degree Feedback Process

Figure 3.2 presents a typical 360-degree feedback process as given by Armstrong.

Figure 3.2: Armstrong's 360-Degree Feedback Process



Source: ICFAI Research Center

1. **Define Objectives:** Deciding in advance what the feedback will be used for, what is expected to be achieved for the appraiser, appraisee and the organization itself is necessary; else it will hurt the relationship, climate and even performance.
2. **Decide on Recipients:** No one should be left out in this nor should the selection be random. Where the small group constitutes as a pilot, even this should be widely publicized to obviate grievance or rumour.
3. **Decide on who will give the Feedback:** The organization should determine the stake-holders' categories, the employee supervisor, her/his direct reports, members of her/his task team, internal and external stake-holders etc., and the number of persons in each category. Within the categories, the number to give feedback is determined and the manager is asked to nominate those individuals who would give the feedback.
4. **Decide on the Dimensions (Performance, Behaviours or Competencies) on which the feedback will be gathered:** Usually these dimensions are uniform across the organization. As such these dimensions might take the place of certain organizational values, desired behaviours, general competencies rather than concrete areas of performance. In any case, these must fit into the organization's culture, values and its nature.

5. **Decide the Methods of Gathering Feedback:** This involves use of a Questionnaire or some other instrument designed in house, bought, hired or adapted to achieve the requisite fit with an organization's needs. At this stage it may also be decided whether the feedback provided will be offered to the recipient anonymously or otherwise.
6. **Decide Data Analysis and Presentation:** This will depend on the method chosen for gathering the feedback. However, it should aim to keep it simple. The system may specify whether HR staff or some other facilitators might help the recipients in handling the feedback received.
7. **Plan Initial Implementation:** It is desirable to pilot the project in a manageable format, with high probability of success. The pilot study must be launched with effective planning and preparation, like awareness generation, explaining the process, developing role to be played and requisite skills, highlighting the benefits and removing fears.
8. **Analyze Outcomes of Pilot Scheme:** Pilot schemes are learning processes. The experience of participants in pilot phase is a valuable source of learning, which must be suitably captured, dissected, and changes made that are necessary to the feedback process and also to other activities included in the implementation plan.
9. **Plan and Gradually Implement the Full program**
10. **Monitor and Evaluate:** Initial implementation requires particularly close watch and where needed debugging of the process needs to be done. Even thereafter, rigorous monitoring will be needed. Feedback can generally cause anxiety and stress even among people with high esteem. Dysfunctional anxiety and stress can impair development or improved performance and thereby defeat rather than help the purpose. Dealing with such anxiety and stress may be a special component of 360-degree feedback and monitoring evaluation.

Exhibit 3.1 illustrates the 360-Degree feedback process at Google.

Exhibit 3.1: 360-Degree Feedback Process at Google

Google's annual performance review cycle is run concurrently with the company's 360-degree feedback collection process. On the review side, Google employees are asked to review each other, and their direct reports.

Dimensions on which 360-degree feedback is gathered at Google:

- The 360-degree feedback at Google comprises Googleyness: The employee's adherence to Google's values. This is the main component of the "how" axis.

Contd....

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- Problem-solving: Analytical skills applied to work situations (problem-solving).
- Execution (high-quality work with little guidance): Delivering great work without the need for a lot of hand-holding from managers and peers (autonomy).
- Thought leadership: How much an employee is seen as a reference for a given niche of expertise? As Google grows in size, these niches may tend to become smaller and smaller, but still, Google wants employees that are go-to resources for specific themes, training colleagues on tech-talks, training customers, and producing high-quality content.
- Leadership (or emerging leadership): Albeit many young Googlers have little or no exposure to managing complex teams, everybody is required, nonetheless, to show emerging leadership skills, such as taking the lead of problems and projects, being pro-active, and owning results personally.
- Presence: Presence is the employee's ability to make himself heard in an increasingly large organization, and intimately related to emerging leadership.

Source: <https://about.google/> (accessed on 8/4/2022)

Activity 3.2

Visit any company near your residence or an organization you worked for, and find out the performance appraisal done for its employees. Write a brief note.

Answer:

Check Your Progress - 1

1. Once the dimensions on which the feedback would be collected is decided, which of the following is the immediate next step in 360-degree feedback process?
 - a. Define Objectives
 - b. Decide on Recipients
 - c. Decide the Methods of Gathering Feedback
 - d. Analyze Outcomes of Pilot Scheme
 - e. Monitor and Evaluate

2. Which of the following type of appraisal involves appraisal by co-workers?
 - a. Self-appraisal
 - b. Peer appraisal
 - c. Customer appraisal
 - d. Superior appraisal
 - e. Subordinate appraisal
3. 360-degree feedback is sometimes called the wheel of feedback because ratings are collected from everyone involved with the employee.

True/False

4. 360-degree feedback enhances the quality of decisions which of the following decisions?
 - a. HR
 - b. Product
 - c. Sales
 - d. Top management
 - e. Employee

3.6 Limitations of 360-Degree Feedback Survey

360-degree feedback system has various limitations which need to be properly addressed. The same are enumerated below:

- It does not measures employee performance objectively
- The basic requirements of the employee manning the job are not categorically determined
- It is difficult to evaluate technical or job-related skills

Example

To overcome the weakness of 360-feedback, Stanley Black & Decker, American manufacturer of industrial tools and household hardware, deploys Reviewsnap tool that provides an array of job-specific templates to level-up your feedback. The tool gathers data from surveys and generates insightful analytics based on the same. This is one of the few 360-feedback software that literally makes notes and reviews employee data around particular areas like time management, technical skill, etc. to help improve the overall performance. You can also customize your survey forms using the drag and drop fields.

For more details, check out: <https://www.reviewsnap.com/> (accessed on 8/4/2022)

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Impact of 360-degree feedback survey on employees and organization

Employees feel positive improvement in their work life (Refer Table 3.1).

Table 3.1: Impact of 360⁰ Feedback on Individuals

Positive Impact	Negative Impact
<ul style="list-style-type: none">• Increased self-consciousness• Improved interaction and networking skills• Develops more tolerance to difficult situation.• Develops habit of appreciating and acknowledging others contribution• Improved communication skills and understanding of colleagues• Improved communication with senior management• Improvement in dealing with external customer• Development of the habit of feedback taking and giving on activities of concern• Openness to new ideas for improvement• Improved relations with people especially subordinates• Develops empathy and listening attitude• Spends more time and effort for mentoring juniors• Improved Empowerment and Delegation• Improved Group cohesion• Improved leadership in cross-functional initiatives: proactive grievance handling and better understanding of customer issues.• Improved knowledge sharing• Develops strategic thinking and systematic approach to problem solving• Improves employee satisfaction with the work environment	<ul style="list-style-type: none">• Implementation at superiors' level becomes difficult• Less accountability• Not meeting the deadlines for appraisal• Reluctance to accept failures as well as judging others• Absence of accountability at organizational level.• Lack of openness amongst colleagues/peers, subordinates on feedback.• Tendency of creating politics and plotting one against other.

Impact on organizations (Refer Table 3.2)

Table 3.2: Impact of 360° Feedback on Organization

Positive Impact	Negative Impact
<ul style="list-style-type: none"> Improved consciousness at the senior management level Improved networking between different levels Improved communication and discipline Improved motivation & Team work Increased consciousness amongst managers Enhanced innovation and people driven culture Increased consciousness towards 360-degree feedback and effort to work Development of professional management styles Improved performance and proactive approach Improvement in knowledge sharing Improved manager and peer handling. Improved behavior towards the organization's objectives, 	<ul style="list-style-type: none"> Gang up or grouping of people showing superiority High attrition in the project undertaken Short-term changes are visible Tendency to be suspicious of peers Tendency of using feedback for compensation purposes. Subordinates may fear reprisal and lack of confidentiality

Check Your Progress - 2

5. Which of the following refers to 360-degree feedback?
 - a. A system where a senior manager rates all line managers simultaneously
 - b. A system where the line manager rates subordinates simultaneously
 - c. A system where feedback is obtained from peers, subordinates and supervisors
 - d. A system where every employee rates another employee chosen at random
 - e. A system to evaluate the productivity of subordinates

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6. Which of the following statements about 360-degree feedback is false?
 - a. 360-degree feedback has origins in the 1970s US army
 - b. Feedback may comprise both open and closed questions
 - c. 360-degree feedback may be linked to pay awards
 - d. The data generated is normally highly accurate, valid and meaningful
 - e. 360-degree feedback is also called multi-rater appraisal
 7. Which of the following refers to upward appraisal?
 - a. Employees rate the performance of their manager
 - b. Employees rate the performance of their peers
 - c. Senior managers rate the performance of line managers
 - d. Line managers rate the performance of employees
 - e. Senior management rate the performance of employees
 8. Which of the following is the other term for 360-degree feedback?
 - a. Multi-source assessment
 - b. Feedback loop
 - c. Upward feedback
 - d. Circle feedback
 - e. Wheel feedback
 9. Which of the following parameters is required for the point-based rating system to be effective?
 - a. Close management control
 - b. Comprehensive, reliable and consistent information
 - c. Objectivity in assessments
 - d. 360° assessment
 - e. Training to the assessee before assessment
 10. Which performance appraisal technique involves input from one's boss, peers, and subordinates?
 - a. Ranking/comparisons
 - b. An inverted appraisal
 - c. A 360-degree review
 - d. Goal setting
 - e. A sunset review
-

3.7 Summary

- The organizational culture and mission must be considered, and the purpose of feedback will differ with each source. For example, subordinate's assessment of a supervisor's performance can provide valuable developmental guidance, peer feedback can be the heart of excellence in teamwork, and customer service feedback focuses on the quality of the team's or agency's results.
- The objectives of performance appraisal and the particular aspects of performance that are to be assessed must be established before determining which sources are appropriate. Multi-rater assessments, once properly implemented, can provide powerful feedback that can lead to behavioural changes and performance improvement.
- As people take charge of their own development, multilayer assessments can help them create individualized development plans based on their specific needs. However, using multiple-rater tools in making selection, promotion, performance appraisal, or compensation decisions is not suggested.
- 360-degree feedback system provides equal opportunity to evaluate the efforts of the top manager or managers in running a company effectively. It focuses on the intrinsic qualities of the manager as well as his capacity to lead. It also gives feedback to all assesses on their styles.

3.8 Glossary

360-Degree Feedback is a system or process in which employees receive an accurate, confidential, anonymous feedback of their performance by getting inputs from the people who work around them. This typically includes the employee's manager, peers, and direct contacts at work.

External customers are outside the organization and include the general public like vendors / suppliers.

Internal customers are the users of products or services supplied by another employee or group within the agency or organization.

Peers: Peers are persons who are employed at a similar organizational level and who rate the leader from a horizontal perspective.

Subordinates: The subordinates are those who rate the leader behaviour in an upward direction.

Superior: The boss is the employee's supervisor, who rates the employee in a downward direction.

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3.9 Self-Assessment Test

1. 360-degree feedback is not merely for appraisal but is for accomplishment and improvement of performance? Discuss.
2. Discuss the role of assessors in 360-degree feedback system.
3. Describe in detail the process of performance appraisal.
4. What might cause problems with the smooth management of 360-degree feedback system? Think of a few issues.

3.10 Suggested Readings/Reference Material

1. John Shields, Jim Rooney, Michelle Brown, Sarah Kaine; Managing Employee Performance and Reward: Systems, Practices and Prospects, 3rd Edition, Cambridge University Press, 2020
2. Susan L. Verhulst, David A. DeCenzo, Rama Shankar Yadav; Human Resource Management, 13th Edition, Wiley, 2021
3. Durai Pillai, Total Reward Strategy: Retain Your Best Talent, 1st Edition, Notion Press, 2020
4. Stephen J Perkins, Sarah Jones, Reward Management: Alternatives, Consequences and Contexts, 4th Edition, Kogan Page, 2020
5. Kevin R. Murphy, Jeanette N. Cleveland, Madison E. Hanscom, Performance Appraisal and Management, Sage Publications, 2020

3.11 Answers to Check Your Progress Questions

1. (c) Decide the Methods of Gathering Feedback

This involves use of a Questionnaire or some other instrument designed in house, bought, hired or adapted to achieve the requisite fit with an organization's needs. At this stage it may also be decided whether the feedback provided will be offered to the recipient anonymously or otherwise.

2. (b) Peer appraisal

Colleagues appraising each other's performance is known as peer appraisal.

3. False

It is also called Multi rater or Multi Assesses Feedback.

4. (a) HR

360-degree appraisal enhances HR decisions.

- 5. (c) A system where feedback is obtained from peers, subordinates and supervisors**

360-degree feedback is taken from all the people connected to the appraisee.

- 6. (d) The data generated is normally highly accurate, valid and meaningful**

The above statement is not true with respect to 360-degree feedback.

- 7. (a) Employees rate the performance of their manager**

Upward appraisal refers to employees rating the performance of their managers.

- 8. (a) Multi-source assessment**

360-degree feedback is also called as multi source assessment.

- 9. (b) Comprehensive, reliable and consistent information**

Points-based rating system requires information to be comprehensive, reliable and consistent.

- 10. (c) 360-degree review**

360-degree review takes inputs from one's boss, peers, and subordinates.

Performance Management and Reward Systems

Course Structure

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