

Chapter 12¹

Evaluating and Rewarding Employees

12.1 Performance Appraisal

12.1.1 Meaning

Performance appraisal is the process of measuring quantitative & qualitatively an employee's past or present performance against the background of his expected role performance and about his future potential of an organization.

12.1.2 Definition

Acc. to Edward flippo performance appraisal is a systematic, periodic & an impartial rating of an employee's excellence in matters pertaining to his present job & his potential for a better job".

Acc. to Wayne Cascio as "the systematic description of employee's job relevant, strength, weakness. Performance appraisal may be conducted once in every 6 months or once in a year. The basic idea of the appraisal is to evaluate the performance of the employee, giving him a feedback. Identify areas where improvement is required so that training can be provided. Give incentives and bonus to encourage employees etc.

12.1.3 Advantages/Importance of Performance Appraisal

1. Feedback to the employee : Performance appraisal is beneficial because it provides feedback to the employee about his performance. It identifies the areas for improvement so that employee can improve itself.

2. Training and development : Due to performance appraisal it is easy to understand what type of training is required for each employee to improve himself accordingly training programs can be arranged.

3. Helps to decide promotion : Performance appraisal provides a report about the employee. Based on this report future promotion are decided, incentives, salary increase is decided.

4. Validation of selection process : Through performance appraisal the HR department can identify whether any changes are required in the selection process of the company normally a sound selection process results in better performance and positive appraisal.

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5. Human resource planning and career development:– Companies can plan for future vacancies at higher levels based on performance appraisal reports. Similarly, career planning can be done for the employee on the performance appraisal report.

12.1.4 Process of Performance Appraisal

1. Setting performance standards :– In this very first step in performance appraisal the HR department decides the standards of performance i.e. they decide what exactly is expected from the employee for each and every job. Sometimes certain marking scheme may be adopted eg. A score 90/100 = excellent performance, a score of 80/100 = good. And so on.

2. Communication standard set to the employee – Standards of performance appraisal decided in 1st step are now conveyed to the employee so that the employee will know what is expected from him and will be able to improve his performance.

3. Measuring performance :– The performance of the employee is now measure by the HR department, different methods can be used to measure performance i.e. traditional and modern method. The method used depends upon the company's convenience.

4. Comparing performance with standard :– The performance of the employee is now judged against the standard. To understand the score achieved by him. Accordingly, we come to know which category of performance the employee falls into i.e. excellent, very good, good, satisfactory etc.

5. Discussing result :– The results obtained by the employee after performance appraisal are informed or conveyed to him by the HR department. A feedback is given to the employee asking him to change certain aspects of his performance and improve them.

6. Collective action :– The employee is given a chance or opportunity to improve himself in the areas specified by the HR department. The HR department constantly receives or keeps a check on the employee's performance and notes down improvements in performance.

7. Implementation and review :– The performance appraisal policy is to be implemented on a regular basis. A review must be done from time to time to check whether any change in policy is required. Necessary changes are made from time to time.

12.1.5 Methods of Performance Appraisal

1. Traditional method

Traditional approach is also known as traits approach. it is based on the evaluation of traits in a person. This system may list ten to fifteen personal characteristics such as ability to get in along with people, competence, judgement, initiative & leadership etc.

1.1 Check list method :-

In this method the senior, the boss is given a list of questions about the junior. These questions are followed by check boxes. The superior has to put a tick mark in any one of the boxes This method can be explained with the following eg. * Y N Does the employee have leadership qualities?

1.2 Confidential report :-

This method is very popular in government departments to appraise IAS officers and other high level officials. In this method the senior or the boss writes a report about the junior giving him details about the performance about the employee. The +ve and – ve traits, responsibilities handled on the job and recommendations for future incentives or promotions. The report is kept highly confidential and access to the report is limited.

1.3 Critical incident method :-

In this method critical or important incidents which have taken place on this job are noted down along with employee's behavior and reaction in all these situations. Both +ve and –ve incidents are mentioned. This is followed by an analysis of the person, his abilities and talent, recommendations for the future incentives and promotions.

1.4 Ranking method :-

In this method ranks are given to employees based on their performance. There are different methods of ranking employees. Simple ranking method Alternate ranking method Paired comparison method

i. Simple ranking method:- Simple ranking method refers to ranks in serial order from the best employee eg. If we have to rank 10 best employees we start with the first best employee and give him the first rank this is followed by the 2nd best and so on until all 10 have been given ranks.

ii. Alternate ranking :- In this method the serial alternates between the best and the worst employee. The best employee is given rank 1 and then we move to the worst employee and give him rank 10 again to 2nd best employee and give him rank 2 and so on.

iii. Paired comparison :- In this method each and every person in the group, department or team is compared with every other person in the team/group/department. The comparison is made on certain criteria and finally ranks are given. This method is superior because it compares each and every person on certain qualities and provides a ranking on that basis.

1.5 Graphic rating scale :-

Graphic rating scale refers to using specific factors to appraise people. The entire appraisal is presented in the form of a chart. The chart contains certain columns which indicate qualities which are being appraised and other columns which specify the rank to be given.

Eg. Employee A Quality of work Quantity of work Intelligence Excellent Very good good satisfactory poor The senior has to put a tick mark for a particular quality along with the ranking. Such charts are prepared for every employee. According to the department in which they work. Sometimes the qualities which are judged may change depending upon the department.

1.6 Narrated essay :-

In this method the senior or the boss is supposed to write a narrative essay describing the qualities of his junior. He may describe the employees strength and weakness, analytical abilities etc. the narrative essay ends with a recommendation for future promotion or for future incentives. Modern methods Modern methods of appraisal are being increasingly used by companies. Now days one of the striving feature that appraisal involves is, the opinion of many people about the employee and in some cases psychological test are used to analyze the ability of employee.

1.7 Paired Comparisons Method:-

In this method every person is compared traits-wise, with other person, one at a time, the number of times one person is compared with other is tallied on a piece o paper. Theses number help in yielding rank order of employees.

Example:- if there are five person to be compared A's performance is first compared with that N to find out who has better performance, then A is compared with C,D & E in turn & performance is recorded.

1.8 Grading System:-

Under this system certain features like analytical ability, co-opeativeness, dependability, job-knowledge etc are selected for evaluation the employees are given grades according to the judgement of the rater. The grades may be such as

A-Outstanding

B-very Good

C-Satisfactory

D-Average

E-Below average etc.

1.9 Forced Distribution method:-

Some raters suffer from a constant error i.e. they rate of employees as only good, average or poor. They thus do not evaluate the employees properly. This system minimizes rater's bias so that all employees are not similarly rated. This system is based on presumption that all employees can be divided into five categories i.e. Outstanding, Above average, Average, Below average & poor.

1.10 Nominations:-

Under the nominations method, appraisers are asked to identify the exceptionally good & exceptionally poor performers, who are then singled out for special treatment.

1.11 Work Sample Tests:-

In this method, employees are given from time to time, work related tests which are then evaluated.

2. Modern method

2.1 Assessment centers :-

Assessment centers (AC) are places where the employee's are assessed on certain qualities talents and skills which they possess. This method is used for selection as well as for appraisal. The people who attend assessment centers are given management games, psychological test, questioners about different management related situations etc. based on their performance in these test an games appraisal is done.

2.2 Management by objective :-

This method was given by Peter Drucker in 1974. It was intended to be a method of group decision making. It can be used for performance appraisal also. In this method all members of the department starting from the lowest level employee to the highest level employee together discuss target goals to be achieved, plan for achieving these goals and work together to achieve them. The seniors in the department get an opportunity to observe their junior- group efforts, communication skills, knowledge levels, interest levels etc. based on this appraisal is done.

2.3 Behavioral anchored rating scale :- (BARS)

In this method the appraisal is done to test the attitude of the employee towards his job. Normally people with +ve approach or attitude view and perform their job differently as compared to people with a -ve approach.

2.4 Human resource audit/accounting :-

In this method the expenditure on the employee is compared with the income received due to the efforts of the employee. A comparison is made to find out the utility of the employee to the organization. The appraisal informs the employee about his contribution to the company and what is expected in future.

2.5 360 Degree Performance appraisal :-

In this method of appraisal an all round approach is adopted. Feedback about the employee is taken from the employee himself, his superiors, his juniors, his colleagues, customers he deals with, financial institutions and other people he deals with etc. Based on all these observations an appraisal is made and feedback is given. This is one of the most popular methods.

12.2 Limitations of Performance Appraisal

1. Halo effect :- In this case the superior appraises the person on certain positive qualities only. The negative traits are not considered. Such an appraisal will not give a true picture about the employee. And in some cases employees who do not deserve promotions may get it.

2. Horn effect :- In this case only the negative qualities of the employee are considered and based on this appraisal is done. This again will not help the organization because such appraisal may not present a true picture about the employee.

3. Central tendency :- In this case the superior gives an appraisal by giving central values. This prevents a really talented employee from getting promotions he deserves and some employees who do not deserve anything may get promotion.

4. Leniency and strictness – Some bosses are lenient in grading their employees while some are very strict. Employee who really deserves promotions may lose the opportunity due to strict bosses while those who may not deserve may get benefits due to lenient boss.

5. Spill over effect :- In this case the employee is judged +vely or -vely by the boss depending upon the past performance. Therefore although the employee may have improved performance, he may still not get the benefit. 6. Fear of losing subordinates and spoiling relations :- Many bosses do not wish to spoil their relations with their subordinates. Therefore when they appraise the employee they may end up giving higher grades which are not required. This is an injustice to really deserving employees.

7. Goodwill and techniques to be used :- Sometimes a very strict appraisal may affect the goodwill between senior and junior. Similarly when different departments in the same company use different methods of appraisal it becomes very difficult to compare employees. 8. Paper work and personal bias :- Appraisal involves a lot of paper work. Due to this the work load of HR department increases. Personal bias and prejudice result in bosses favoring certain people and not favoring others.

12.3 Compensation Management

Meaning:- Compensation Management is the act of providing monetary value to an employee for the work they do by means of a company process or policy. Some types of compensation include salary, bonuses & benefit packages.

Acc. to D.S. Beach "the establishment & implementation of sound policies & practices of employee compensation. It includes such areas as job evaluation, surveys of wage & salaries, analysis of relevant organizational problems, development & maintenance of wage structure, establishing rules for administering wages, wage payment incentives, profit sharing, wage changes & adjustments, supplementary payments, control of compensation costs & other related items.