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# Performance Apprais

Chapter

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- ▶ Performance appraisal is a systematic and objective evaluating both work related behaviour and potential employees.



## Features of performance appraisal

- ▶ It is a systematic process, essentially involving three steps: set work standards, assess employee's performance to these standards, and offer feedback to the employee so that he or she can eliminate deficiencies and improve performance.
- ▶ The appraisal is carried out periodically according to a plan.
- ▶ It is not a past oriented activity. The intention is not to punish poor performers in a spot. Instead, it shows employees where things have gone wrong, how to set things in order and deliver superior performance using their potential fully.
- ▶ The focus of appraisals is on employee growth and development. It forces managers to be coaches rather than judges.

## Objectives

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- ▶ Compensation decisions
- ▶ Promotion decisions
- ▶ Training and development programmes
- ▶ Feedback to the employee
- ▶ Personal growth and development

## Benefits of performance appraisal

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### **Employer perspective [Administrative uses]**

- ▶ Despite imperfect measurement techniques, individual differences in performance can make a difference to company performance.
- ▶ Documentation of performance appraisal and feedback may be required for legal defence.
- ▶ Appraisal offers a rational basis for constructing a bonus or incentive system.
- ▶ Appraisal dimensions and standards can help to implement strategic goals and clarify performance expectations.

### **Employee perspective [developmental purposes]**

- ▶ Individual feedback helps people to rectify their mistakes and move ahead, focusing more on their unique strengths.
- ▶ Assessment and reorganisation of performance levels can motivate employees to improve their performance.

## The Performance Appraisal Process

### ► **Establish performance standards**

These are benchmarks against which performance is measured.

They should relate to the desired results of each job

They must be clear to both the appraiser and the appraisee.

Good performance goals should speak about

- ❖ What is the task to be accomplished?
- ❖ What will it look like when it is accomplished?
- ❖ When must it be completed?
- ❖ What are the cost considerations?
- ❖ What are the likely payoffs to the employee?

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## ► **Communicate the standards**

- The Appraiser should prepare job descriptions clearly
  - ❖ Help the appraisee set own goals and targets
  - ❖ Analyse results objectively
  - ❖ Offer coaching and guidance
- The Appraisee should be clear about what he is doing and why he is doing it

▶ **Measure actual performance**

- ▶ Use reliable and dependable performance measures
- ▶ These must be easy to use and report on critical behaviours that affect performance
- ▶ These would generally include: personal observation, statistical reports and written reports
- ▶ These may be objective or subjective
- ▶ Objective measures are generally quantitative, and include production, degree of training needed, accidents in a given period, absenteeism, length of service etc. Such measures are used for evaluating lower level jobs
- ▶ Subjective measures are based on opinions of those doing evaluation; they are not verifiable by others; generally used for evaluating middle and higher positions



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- ▶ **Compare actual performance with standards and discuss the appraisal**

Not an easy job

Emotional factors to be taken into account

Affects the self esteem of the appraisee

Criteria likely to be questioned, if the appraisal turns out to be negative

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► **Take corrective action, if necessary**

Put out the fires

Set things in order

Arrive at new goals for achieving superior performance

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## Essential Characteristic of an Effective Appraisal System.

- ▶ Clear Objectives
- ▶ Reliable and Valid
- ▶ Standardisation
- ▶ Training
- ▶ Job Relatedness
- ▶ Mutual Trust
- ▶ Feedback and Participation
- ▶ Help Focus
- ▶ Recognition of Differences

# Methods of Performance Appraisal

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## Past-oriented methods

- ▶ Rating scale
- ▶ Confidential report
- ▶ Essay evaluation
- ▶ Critical incident method
- ▶ Checklists
- ▶ Forced choice method
- ▶ Behaviourally anchored rating scale
- ▶ Ranking

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## Past-oriented Methods Contd.

- ▶ Paired comparison method
- ▶ Forced distribution method
- ▶ Field review technique

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## **Future-oriented Methods**

- ▶ Management by objective
- ▶ 360o Feedback Method
- ▶ Psychological Appraisals
- ▶ Assessment Centre

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- ▶ **Rating scale:** The rating scale consist of several number scales, each representing a job related performance characteristic such as dependability, initiative, output, attitude, attitude, co-operation and the like
  - ▶ **Confidential Report-**
    - Prepared by the employee's immediate supervisor
    - The report highlights the strengths and weaknesses of employee
    - Prepared in Government organizations
    - Does not offer any feedback to the employee

## Essay Evaluation Method

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- The rater is asked to express the strong as well as weak points of employee's behavior

The rater considers the employee's :

- Job knowledge and potential
- Understanding of company's programs, policies, objectives etc.
- Relation with co-workers and supervisors
- Planning, organizing and controlling ability
- Attitude and perception



## Critical Incident Technique

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- ▶ Manager prepares lists of statements of very effective and ineffective behavior of an employee
- ▶ These critical incidents represent the outstanding behavior of the employees
- ▶ The manager periodically records critical incidents of employee's behavior



## Checklist

- ▶ Checklist contains a list of statements on the basis which the rater describes the on job performance employees
- ▶ Example:
- ▶ Is employee regular Y/N
- ▶ Is employee respected by subordinate Y
- ▶ Is employee helpful Y
- ▶ Does he follow instruction Y
- ▶ Does he keep the equipment in order Y



## Behaviorally Anchored Rating Scale

- ▶ BARS represent a range of descriptive statements behavior varying from the least to the most effective
- ▶ In this a rater is expected to indicate which behavior each scale best describes an employee's performance

## Forced Choice Method

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- In the forced choice method the rater is forced to select statements which are readymade
- The rater is asked to indicate which of the phrases is the most descriptive of a particular worker
- Favorable qualities earn plus credit and unfavorable ones earn the reverse



## Paired comparison method

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- ▶ For several traits paired comparisons are made, then rank is assigned to each worker
- ▶ No. of comparisons is calculated by the formula:  $\frac{N(N-1)}{2}$
- ▶ This method is not applicable when the group is large
- ▶

## Ranking method

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- ▶ The evaluator rates the employee from highest to lowest on overall criteria. In this “how” and “why” are not questioned answered

- ▶ Employee Rank

- ▶ A 2

- ▶ B 1

- ▶ C 3

- ▶ D 5

- ▶ E 4

## Field Review Method

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- ▶ The appraiser goes to the field and obtains the information about work performance of the employee by way of questioning the said individual, his peer group and his superiors

## Management by Objectives (MBO)

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- ▶ First step: MBO emphasizes collectively set goals to be tangible, verifiable, and measurable
- ▶ Second step: setting the performance standard for subordinates
- ▶ Third step: the actual level of goal attainment is compared with the goals agreed upon
- ▶ Final step: involves establishing new goals and possible new strategies for goals not previously achieved





## 360o Feedback Method

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- ▶ It is a systematic collection and feedback of performance data on an individual or group, derived from a number of stakeholders
- ▶ Data is gathered and fed back to the individual participant in a clear way designed to promote understanding, acceptance and ultimately behavior change
- ▶ It makes the employee feel much more accountable

## Psychological Appraisals

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- ▶ It focuses on the future potential of an employee
- ▶ past performance or the actual performance is not into consideration
- ▶ Evaluation is based on employee's intellectual, emotional, motivational and other related characteristics

## Assessment Centres

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- ▶ An assessment centre is a central location where managers may come together to have their participation in job-related exercises evaluated by trained observers.

## COMPENSATION ADMINISTRATION

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- ▶ Compensation is what employees receive in exchange for their contribution to the organization. Generally speaking, employees offer their services for three types of rewards:
  - ▶ Base pay
  - ▶ Variable pay
  - ▶ Benefits

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The most important objective of any pay system is fairness or equity, generally expressed in three forms

- ▶ Internal equity: where more difficult jobs are paid more
- ▶ External equity: where jobs are fairly compensated in comparison to similar jobs in labour market
- ▶ Individual equity: where equal pay is ensured for equal work



## **Objectives of compensation planning**

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- ▶ Attract talent
- ▶ Retain talent
- ▶ Ensure equity
- ▶ Reward appropriately (loyalty, commitment, experience, risk taking and other desired behaviours)
- ▶ Control costs
- ▶ Comply with legal rules
- ▶ Ease of operation

## Components of Pay Structure

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- ▶ The two essential components of pay structure are basic wages and dearness allowance. The basic wage is fixed taking the skill needs of the job, experience needed, difficulty of work, training required, responsibilities involved and the hazardous nature of the job. Dearness allowance is paid to employees in order to compensate them for the occasional or regular rise in the price of essential commodities.

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## Components of pay structure in India

- ▶ Under the Workmen's Compensation Act

Wages for leave period, holiday pay, overtime pay, bonus, attendance bonus and good conduct bonus

- ▶ Under the Payment of Wages Act

Retrenchment compensation, payment in lieu of notice, gratuity payable on discharge



## Components of Pay Structure

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- ▶ Bonus
- ▶ Payments made under a profit sharing scheme
- ▶ Value of house accommodation
- ▶ Medical allowances
- ▶ Travelling allowances
- ▶ Any other sum paid to defray special expenses incurred by the worker
- ▶ Contribution to pension, provident fund
- ▶ Any amenity or service excluded from the computation of wages

## Wage And Salary Administration

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- ▶ It is the process of managing a company's compensation (base compensation as well as supplementary) programme. Base compensation, here, refers to monetary payments to employees in the form of wages and salaries. It is a fixed, non-incentive kind of payment calculated on the basis of time spent by an employee on the job. Supplementary compensation signifies incentive payments based on the actual performance of an employee.

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### ❖ Objectives

- ❖ To establish a fair and equitable remuneration
- ❖ To attract competent personnel
- ❖ To retain present employees
- ❖ To control labour cost
- ❖ To improve motivation and morale of employees
- ❖ To project a good image of the company

### ❖ Principles

- ❖ Wage and salary plans be sufficiently flexible
- ❖ Job evaluation being done scientifically
- ❖ Wage and salary plans be always consistent with company plans
- ❖ Wage and salary plans being responsive to changing conditions

## Factors affecting compensation levels

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- ▶ Job needs
- ▶ Ability to pay
- ▶ Cost of living
- ▶ Prevailing wage rates
- ▶ Unions
- ▶ Productivity
- ▶ State regulation
- ▶ Demand and supply of labour

## Wage Policy In India

A wage policy offers certain guidelines for determining a structure. The term wage structure refers to various pay showing ranges of pay within each grade. Three important elements of wage policy in India need to be elaborated here.

- ▶ **Minimum wage:** Wage sufficient to sustain and preserve efficiency of the worker and offer basic amenities of life.
- ▶ **Fair wage:** It is above the minimum wage but below the living wage. It is fixed, taking into account factors such as the productivity of labour, prevailing wage rates, level of national income and its distribution, the employer's capacity to pay.
- ▶ **Living wage:** This is the highest amount of wages proposed by the government, offering basic amenities of life and satisfying the social needs of worker.



## Executive compensation: Private sector Public sector

- ▶ In a well publicised front page news sometime back The Economic Times mentioned about the miserable salary levels of top executives in public sector units in India. For example the State Bank of India's chief is paid 10% of HDFC Bank Managing Director, BHEL's Managing Director getting about Rs.10 to 12 lakhs per year as against ABB's Managing Director getting nearly Rs.40 to 50 lakhs; Indian Oil Corporation's chief getting about Rs.15 lakhs per annum as against Reliance Industries' Managing Director getting a package of over Rs.10 crore per annum. Salary levels in the 'hot' private sector such as BPO, hospitality, biotechnology, IT, Telecommunications, Oil, Automobiles and Insurance are much higher than those offered to executives in public sector for various reasons such as: overstaffing, inefficient processes, pressure to maintain profit margins due to competition, appointment of people without requisite skills at the top level, political interference especially in pricing the products or services, legal constraints etc.



# Managerial Compensation In India

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Executive compensation is built around three factors in India

- ❖ Job complexity
- ❖ Employers' ability to pay
- ❖ Managerial productivity

## How to retain talent?

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- ▶ Improving communication
- ▶ Changing work rules
- ▶ Increasing pay and incentives
- ▶ Ego massaging services
- ▶ Non-poaching agreements
- ▶ Opportunities to upgrade skills and knowledge
- ▶ Offering jobs with stretch, pull and challenge