

## Making Appraisal Systems Work

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*Does your Appraisal System Work? Can Appraisal System work as a method of retaining human power and work as a strategy for building culture?*

*Each year, employees and their immediate bosses enter into an elaborate gaming exercise called the annual performance appraisal. Most of it is form filling, and yet every company goes through the ritual. It's time to reappraise appraisal systems. Appraisal systems require constant rejuvenation and renewal. If appraisal systems have to serve developmental purposes without creating any insecurity or defensiveness we need to learn to treat employees with a shade more dignity. Despite widespread attention and resources performance appraisals remain an area with which few managers or employees are satisfied. Is it, that we don't have a good enough system yet or is there an intrinsic problem with performance appraisals, or is it just human nature to dislike or disagree with systems that we already have? This paper aims to make appraisals work for you and addresses issues relating to performance planning, evaluation, feedback and counseling and how to use it as a developmental tool to build culture.*

**“The real voyage of discovery consists not in seeing new landscapes but in having new eyes.” ----Marcel Proust**

**“Major component of the emerging HR agendas is creation of the cultural mindset.”----Wayne Brockbank**

Each year people get into the ritual of form filling and most often they are not happy and wish to quit or present themselves as demotivated and appear cynical about the entire exercise. The question is, when there is so much of cynicism and unhappiness over the whole issue why have it at all? But without it or in its absence it is difficult to get the work done by people. This is one mechanism by which managers get work done by their subordinates and can control them. Thus bosses strive to get better ratings on their own performance by assessing the performance of their subordinates and thus control their behaviour. The subordinates usually complain that their bosses try and assess their behaviour without knowing the constraints under which they work. The author in her experience of conducting research and training in this area has found that satisfaction with current appraisal systems in industry is as low as 46% across all industries. This is due to attributes such as potential and performance are not being taken into account during the appraisal process and much importance is given to mathematical judgments of a person's contribution.

The common statements made by most subordinates are: 'what gets measured gets done' & "The means to an end is as important as end itself" but, how many of us experience this in organization. The component 'how' is important and this can only be improved through communication. If people are most important aspects – as the cliché goes –it is important to improve corporate performance by motivating them to put in their best efforts. This means rewarding and recognizing their contributions in a way that is meaningful to them and ensuring that rewards and recognition together results in higher returns on (human) investment. The best way to achieve both objectives – rewards & ROI – is to have the right metrics in place to measure employee performance. There is some merit in most appraisal systems, but almost all of them appear to be equally flawed. (Majumdar and Tarun Narayan)

To the HR chief in large organization, the right question to ask may not be which system is the best, but which one can be tweaked easily to suit his company's need. What works for one, may not work for the other context. According to Guido M J De Koning consultant with The Gallup Organization, if there is any form of appraisal that needs to be dumped as soon as possible, it is manager's evaluations or the traditional performance review conducted by an employee's boss. Manager's ratings are inherently subjective and this subjectivity only increases when the appraisals are linked to financial incentives such as merit pay raises.

HR consultants operating in the Indian circuit also see the wisdom of keeping annual increment issues separate from appraisals while pay obviously ought to be linked to performance, mixing the two in one session often messes things up. As one consultant told Indian Management "money clouds the open dialogue between a manager and an employee. While manager may focus on performance, employees may focus on how much money this is going to mean for him or her?"

Douglas McGregor says in Harvard Business review classic- 'An uneasy look at Performance Appraisal', states that 'Managers are uncomfortable when they are put in the position of playing god. They do not want to pass judgment on the personal worth of their team members. We all want to be nice guys at the end of the day and take refuge in the extensive from filling exercise'. Each company needs to; first of all, ask itself what it wants from the performance appraisal system.

The next question is: How can one reduce the subjective element of appraisal system? Appraisal is a tool to build culture (openness & transparency). Appraisal systems fail if goals & performance metrics are often not clearly

defined. At LG, the appraisal system has three parameters – performance, attitude and knowledge. At Tata Teleservices Appraisal System and its fairness showed 80% in 2001, 90% in 2003. Linkage between Appraisal and Rewards: 81% and 84%

According to Rogers 1995, "Performance management is a joint process that involves both the supervisor and the employee, who identify common goals, which correlate to the higher goals of the institution. Reward aims to enhance job performance, to retain valuable employees and develop the corporate unit. Intrinsic rewards create a sense of security, lead completion of some process and allow the individual to use a variety of developed skills and abilities. On the other hand, the external purpose of the reward system is to attract a large number of laborers who are skilled and proficient in their respective jobs. This reward includes money, fringe benefits, profit sharing incentive plans, professional and peer organization promotions, supervisor and compensation reward system, should therefore, be considered as an aid to better performance, which may be integrated with the overall business plan and strategy.

However, performance motivation depends on the situation, how it is perceived and the need of people. The connection between performance and rewards must be visible, and a climate of trust and credibility must exist in the organization. The belief that performance will lead to rewards is essentially a prediction about the future. The reward systems in hierarchical organization act as a strong motivation to learn those skills that are perceived to lead to promotion. If the reward system is objective, transparent and communicated properly it can also contribute to the overall culture and climate in the organization. Depending on how reward systems are developed, administered and managed, they may cause the culture of an organization to a large extent. The reward system should be designed to promote the kind of performance needed by an organization.

The system should support the behaviors expected of the employees. Therefore, it must communicate the type of behaviors to be rewarded and the way in which it will be rewarded. The reward system should be strengthened through re-organization of work process and enlarged job responsibilities, communications and participatory system. Employees should also be consulted in the formation of the plan.

In recent years, performance linked reward management system is seen as a holistic approach to a manager's function. It is not only a random collection of activities which are cyclical and sequential, but also important for accomplishment of work & source for high performance and excellence. Varda Pendse, Director, Cerebrus Consultants prefers a performance 'management' system and says appraisals have become common tools to give increments rather than tools to build a culture (of openness, transparency etc.) Also appraisals do not capture the extent of coaching and support that the manager has given to the employee. Another flaw in most systems is that giving feedback on employee performance becomes a one-time event. Giving feedback should be a continuous process in companies and should not be relegated only to the year end. As said previously appraisal systems also fail as goals and performance metrics are often not clearly defined. If goals are not aligned to all the departments and functions of an organization, this will result in lack of ownership of crucial goals across departments. Companies in such situations would not have information on its people for assigning more challenging tasks and new businesses. The next set of questions pertain to what are the common sets of weaknesses on which employees have to be trained? How to improve the performance of under performers? Most employees in companies want performance driven culture but are not willing to accept lower pay for lower performance.

### **Purpose of Performance Appraisal**

Most people feel that appraisal is only a means to give increments and not a tool for development or culture building or a means to help individual build his career path in the organization. But performance appraisal has many facets. It is an exercise in observation and judgment, it is a feedback process, and it is an organizational intervention. As a measurement process it is an intense emotional process. Not surprisingly, it is seen as effective in less than 10% of the organizations that use it. In view of such widespread dissatisfaction, why do appraisals continue to be used? What purposes do they serve? Appraisals serves a twofold purpose: (1) to improve employees' work performance by helping them realize and use their full potential in carrying out their firms' missions and (2) to provide information to employees and managers for use in making work related decisions. More specifically, appraisals serve the following purposes:

- Appraisals provide legal and formal organizational justification for employment decisions to promote outstanding performers
- Appraisals are used as criteria to test validation i.e., to test that performance influence appraisal results.
- Appraisals provide feedback to individual for career development.
- Appraisals help in identifying training needs and also establishes objectives for training programs.
- Appraisals help diagnose organizational problems by identifying training needs and by identifying effective and ineffective performers.

## Performance Management System

The operation may have succeeded, but the patient died.- By anonymous

Most performance management systems are significantly flawed and don't deliver the results executives seek. When analyzing the various management practices-both effective and non-effective- start by looking at three distinct components of any performance management system. The first component captures, quantify, measure or evaluate an employee's performance? Second how is that performance rewarded? Is there a link between performance and rewards? Finally what is company's employee development approach? How are employees being developed and supported to deliver superior performance? All these have impact on the culture of the organization. Performance management is about creating a system that provides employees with organizational direction and priorities, makes them aware of their current performance levels, supports them through training and coaching and rewards those who demonstrate high performance. It is like a compass; one that indicates a person's actual direction as well as person's desired direction. It requires willingness and a commitment to focus on improving performance at the level of the individual or team every day.

The broad process of performance management requires the following:

- **Direction:** Clarity of vision, strategy and objectives. This provides focus and channels efforts in the right direction.
- **Awareness:** is to improve performance. Feedback to include appreciation and suggestions for improvement. Feedback should motivate the employee to perform better.
- **Support:** Employees need support to work on their improvement areas. Organizations should provide training, coaching to improve their performance
- **Rewards:** Positive reinforcement is given through rewards and recognition for employees.

Today, there are two philosophies regarding how to appraise employee performance. One is the 'get tough' approach pursued by firms like IBM, GE and Ford under Jacques Nasser. Employers here view it as an integral part of the firm's performance management efforts: They use the appraisal process as one way to improve the firm's performance. This approach is typified by Andrall Pearson, CEO of Tricon Global Restaurants, who"... recommends sorting your population into four groups, ranging from poor to superior, and then asking for a specific plan for the people in each group. Always focus first on the bottom group; rooting out the poorest performers will foster a climate of continual improvement. If everyone in the bottom quartile is replaced, the third quartile becomes the new bottom group and the focus of subsequent improvement efforts. In fact, former General Electric CEO Jack Welch noted an important caution against implementing a forced distribution into any company: "I wouldn't want to inject a vitality curve [i.e., a forced distribution] cold turkey into an organization without a performance culture already in place. Differentiation is hard stuff. Our curve works because we spent over a decade with candour and openness at every level".

## Performance Reviews

The performance review meeting is the basis for assessing the three key elements of performance ('the three Cs') namely; contribution, competence and continuous development. It gives managers with their teams and the individual members of their staff the opportunity to pause after the hurly-burly of everyday life and reflect on the key issue of personal development and performance improvement. It is a means of ensuring the two-way communication on issues concerning work can take place, and it provides the basis for future work and development plans. In reality in most organizations the managers are giving reviews based on their performance which is already over but they are trying to buy the employee loyalty for the next year, the logic being what gets reinforced or acknowledged gets done. The Adam's equity theory holds very true in Indian context. We are also not very comfortable in giving negative feedback because we feel that if we cannot say anything good at least let's not say anything negative. We are also not comfortable giving feedback to a colleague who is senior to us.

## Objectives of PA

- **Motivation:** To encourage people to improve their performance and develop their skills.
- **Development:** To provide a basis for developing and broadening attributes and competencies relevant both to the current role and any future role the employee may have the potential to carry out.
- **Communication:** To serve as a two-way channel for communication about roles, objectives, relationships, work problems and aspirations.

### **Performance counseling**

Performance counseling can be defined as the help provided by a manager to his subordinates in analyzing their performance and related job behaviors in order to increase their job effectiveness. Performance counseling focuses on the entire performance (tasks and behaviors) during a particular period rather than on a specific problem. The counselor has an additional task of motivating the counselee to participate effectively in the counseling process. He should generate a climate of acceptance, mutuality, trust and openness during counseling. It should be done at least once in a year as integral part of the appraisal system but it could be carried out more frequently by managers.

What constitutes counseling? There are three main processes involved in counseling – Communication, influencing, and helping.

1. Communication: Involves both receiving messages (listening) giving messages and giving feedback. Counselors do all three things.
2. Counseling also involves influencing the counselee in several ways.
3. This influence enables the person to exercise more autonomy, positive reinforcement so that desirable behaviour is further strengthened.

In JK Corporation Ltd. The Lakshmi Cement division, performance counseling is done annually for every employee to ensure improvement in performance. During the mid-year review developmental counseling is done for every appraisee. Strengths and weaknesses identified have to be supported with examples during the last one year. Thus appraiser cannot just list it without giving any thought. Interpersonal feedback is an important input for increasing self-awareness. It helps in reducing the blind area of a person, helping him to become more aware about his strengths and weaknesses. If properly used, it results in higher mutuality between two persons. Feedback will be effective if the person who gives the feedback ( counsellor ) makes sure that it is:

1. Descriptive and not evaluative, focused on the behaviour of the person and not on the person himself
2. Data based and specific and not impressionistic
3. Reinforces positive new behaviour
4. Suggestive and not prescriptive
5. Continuous
6. Mostly personal, giving data from one's own experience
7. Need-based and solicited
8. Intended to help
9. Focused on modifiable behaviour
10. Satisfies needs of both the feedback given and one who receives feedback.
11. Checked and verified
12. Well timed; and
13. Contributes to mutuality and building up relationship

There are some organizations which also go for performance audit to check the efficiency, effectiveness and compliance of the entire Performance management system. If the dissatisfaction level is less than 70 percent then necessary changes are brought about.

### **Conclusion**

While Performance management has become more and more sophisticated in recent decades, every system has its own limitations. There is no perfect system that can be adopted without modifications in any company. There is some merit in most appraisal systems but which one can be used easily to suit your organization is most important. Always benchmark the best practice but take the best fit. If used properly it can work as a powerful tool for building culture and help reduce attrition to a large extent.

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