

Design and Development of a Methodology for Responsive Performance Appraisal Systems

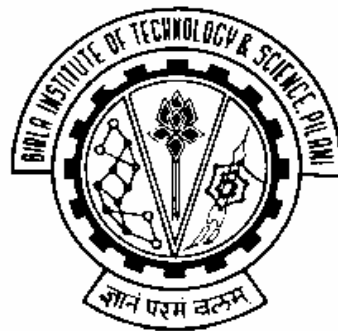
THESIS

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Abstract

Performance appraisal is the managerial activity concerned with determining the productive contribution of the employee to the organization. This information is used by organizations for several purposes, including compensation decisions, promotions, identifying training requirements, providing feedback to the employee and so on. Due to the increasingly competitive economy and high rates of employee turnover in almost all organizations, it has become increasingly important to have appropriate and effective reward and compensation systems and consequently better performance appraisal systems.

A number of solutions have been suggested, covering both techniques and approaches to solve the problems posed by poor performance appraisal systems. However, these approaches themselves have either fallen out of favour with current practitioners or are yet to prove their long term efficacy.

The purpose of this study was to design and develop a methodology to generate responsive performance appraisal systems suitable for organizations in India. The first step towards this objective was to ascertain the current practices of organizations in India, since in order to prescribe better systems and practices, it was first necessary to be aware of the existing practices. This was carried out by obtaining the forms used by various organizations to give a sufficiently broad indication of the types of performance appraisal systems currently in use. In addition, to elicit additional details a survey was also conducted using a structured questionnaire to obtain organizational views and requirements.

Based on the literature, an analysis was made of the advances in the field to arrive at a comparison of the different approaches. Various aspects of appraisal were studied in detail to identify what might be the characteristics of a good appraisal system, both in terms of what it should have as well as what it should not have.

It was concluded that a good performance appraisal system would have well-defined

forms, proper documentation, comprehensive and unambiguous processes, provide for training in the appraisal process as required, and have mechanisms to ensure consistency and reduce bias. It would also be required to have a suitable linkage to rewards.

A methodology for developing and implementing performance appraisal systems using a participative approach was elucidated. The requirements of a performance appraisal system were stated, design decisions identified and solutions suggested. A complete methodology to develop, test, implement and test the outputs was suggested. Most of the design decisions were made either on the basis of judgement or empirical research. However, it was suggested that the selection of the evaluation criteria was best generated through discussion with a representative sample of the individuals covered by the system, covering all departments and hierarchical levels. The evaluation process also permitted the ratings to be converted into a single numerical score, thus permitting comparison across the whole organization. It was shown that a system developed in such a manner would have the benefits of a standard form, but the attributes and weightages would be unique to the organization. Both the nature of work and level of employee would be reflected in the weightage matrix. All the requirements of procedural justice were also considered. It was submitted that performance appraisal systems developed by such a methodology would meet the requirements identified earlier.

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List of Abbreviations

ACAS	Advisory, Conciliation and Arbitration Service
ACR	Annual Confidential Report
AFL CIO	American Federation of Labor and Congress of Industrial Organizations
BARS	Behaviourally Anchored Rating Scale
CEBTS	Consortium of European Baptist Schools
CEO	Chief Executive Officer
EIU	Eastern Illinois University
GAO	Government Accounting Office
GPR	General Practitioner's Report
HG	Hierarchical Grouping
HR	Human Resources (sometimes used in place of HRD: see below)
HRD	Human Resource Department
HRM	Human Resource Management
IT	Information Technology
JV	Joint Venture

KPI	Key Performance Indicator
KRA	Key Result Area
MBA	Management by Action
MBO	Management by Objectives
MNC	Multinational Corporation
NBER	National Bureau of Economic Research
NHS	National Health Service
OLS	Ordinary Least Squares
PSE	Public Sector Enterprise
PSU	Public Sector Unit
TQM	Total Quality Management
TQMPA	Total Quality Management Performance Appraisal
US	United States (sometimes used in place of USA: see below)
USA	United States of America
WLS	Weighted Least Squares

Chapter 1: Introduction

1.1 Background to the Study

Performance appraisal is the managerial activity concerned with determining the productive contribution of the employee to the organization. Once ascertained this information can be used variously for determining compensation decisions, promotions, identifying training requirements, providing feedback to the employee and so on. Organisations are increasingly recognizing the growing need for better appraisal and performance management. In India too, after the economic reforms of the early nineteen nineties, the intervening period, has been one of significant upheaval for the Indian economy, in which a vast number of changes have taken place in all fields of organizational activity. With the entry of a large number of multinational corporations, the emergence of the service sector, particularly the Information Technology (IT) related industries, and the consequent high rates of turnover in all organizations it has become increasingly important to have appropriate and effective reward and compensation systems. The major part of such a system must necessarily rely on an effective performance appraisal process.

Modern performance appraisal techniques were initially developed by the armed forces and later adopted by commercial organisations. Wiese and Buckley (1998) trace the development of performance appraisal from possible Biblical origins to the appraisals used in China by the Han dynasty (dating back to the third century BC) and the Wei dynasty (in the third century AD). They state that formal performance appraisal is believed to have started in the U.S.A. in 1813 when a general made a written evaluation of each of his men to the War Department. The practice of merit ratings was thereafter adopted in the Federal Civil Service of the United States in the late 1800s. Thereafter, they postulate that till the early twentieth century, the practice of formal performance appraisal was confined largely to the military and government organizations, and that most private organizations used only informal measures to assess performance. However, they also note that some form of performance appraisal in industry probably existed from the early 1800s with the introduction of

"silent monitors" by Robert Owen in the cotton mills of Scotland. After the First World War, adoption of performance appraisal techniques became widespread.

The recognition of the importance of effective performance appraisal and its contribution to enhanced organizational functioning has grown over the years, especially in the last fifty years or so. Currently, the requirement of performance appraisals in organizations is taken for granted and its rationale has been succinctly summarized by Subramaniam (1975, Doctoral section para.3), "the productivity of any organisation is directly correlated to the effectiveness of the employee performance appraisal system, subject to the effectiveness of the support systems". Bacal (2003, pg. 6) quotes a study carried out in 1994 by Hewitt & Associates which concluded that, "companies with effective performance management systems outperformed those without, on measures like employee productivity, cash flow, stock price and value and profitability".

This recognition of the importance of performance appraisal has resulted in significant research – both empirical and theoretical. Empirically, most studies have centred around a single organization, and concerned themselves with the appraisal systems in place, employee perception and the like. Relatively fewer studies encompassing a number of organizations have been carried out. The theoretical studies start out from the basic positions of a Management by Objectives (MBO) or a Total Quality Management (TQM) perspective and thereafter state the requirements of a performance appraisal system required to meet the objectives of the above frameworks. Various suggestions have been made so that the performance appraisal system conforms to the organisational philosophy without either losing its effectiveness or becoming a dissonant factor. The performance appraisal process in particular has been the focus of much researcher and practitioner attention and numerous innovations have been introduced over time to make it more effective.

The process of performance appraisal itself generally requires the appraiser to evaluate performance in some structured manner, usually a set of forms. The number of forms and the design of the forms are themselves a contentious issue. However, if appraisers are primarily concerned with the form, the result is almost totally useless (Bacal, 2003). Research has also been conducted to investigate managerial

competencies and performance appraisal. The key question is whether a suitable set of managerial competencies can be determined, based on which appraisals can be carried out (Abraham, Karns, Shaw, and Mena, 2001). Parker-Gore (1996) using the case study method researches how managerial competencies are defined and used and notes the advantages to the company in terms of organizational development and improved performance.

Performance appraisal research has not been restricted to commercial organizations. Fidler (1995) studies the statutory system of staff appraisal used by schools in England and discusses various problematic issues related to the same. Simmons (2002) discusses performance management in the context of universities and colleges which are prime examples of knowledge-based organisations. The results of the study include the appropriateness of criteria and the need to involve the staff in the design of the system. Public funded organizations have not been neglected either. Edmonstone (1996) studies the performance appraisal and management systems at the National Health Service, and notes the need to integrate various programmes and objectives.

Other aspects covered in the study include the purposes of appraisal and the importance of context. The ineffectiveness of performance appraisals has been another major area of research focus. Longenecker (1997) points out that it is important to ascertain the reasons why appraisals are often ineffective. If organizations believe in developing their managers, and the basis for managerial development is the performance appraisal, then it is necessary that the results of system should be valid and reliable.

Among the most famous critics of performance appraisal are Edward Deming and Douglas McGregor. McGregor (1962) with its celebrated comment that ‘managers don’t like “playing God”’ is one of the most quoted statements related to the appraisal process. McGregor argues that managers are reluctant to appraise and even more reluctant to conduct appraisal interviews, because among other things, they lack the skill and doubt the validity of the appraisal instrument. Deming (2003) considers performance appraisal one of the diseases that afflicts modern management and argues that individual should not be held responsible for performance due to factors

which are out of their control. Following his criticisms, numerous researchers have attempted to develop a TQM performance appraisal system. Aldakhilallah and Parente (2002) espouse the use of the TQM framework to solve the problems of performance appraisal by redesigning the system in accordance with the principles and philosophy of TQM. Halachmi (1996) discusses TQM, performance appraisal and need for training, the cost of performance appraisal, and the conflict between TQM and the civil services environment.

One reaction to the problems encountered in traditional performance appraisal systems was the development of multi rate systems such as peer appraisal and 360 degree feedback. Fedor et. al. (1999) (as cited in McCarthy & Garavan, 2001) argue that flatter organization structures result in larger spans and more self management or self managing teams and that therefore it is simply not possible for supervisors to be able to judge the performance of their subordinates as accurately as they used to be able to i.e., in theory at least, since how well they actually did in the past is open to question. The point is that now they cannot be expected to be accurate judges of performance. Furthermore, in light of the new workplace realities favouring teams, organizations are coming to recognize that successful teams require effective interaction between interdependent team members. Peer feedback is therefore one possible element that can be used to improve the internal working of teams. It is also recognized that peer review can, by itself, improve the quality of appraisal; for example, Othman (1994, pg. 12) records that in order to improve objectivity and transparency, new procedures proposed for performance evaluation in the UN include the following: “self-appraisal, peer review, supervisor review, review by subordinates for certain supervisory competencies, and/or review by a performance review board or committee”. Druskat and Wolff (1999) (as cited in McCarthy & Garavan, 2001) argue that peer appraisal is particularly important in the case of self-managed work groups, since it may be the only feedback available on occasion. Numerous studies (McCarthy & Garavan, 2001 cite Bettenhausen & Fedor, 1997; Fedor et. al. 1999; Kane & Lawler, 1978; Murphy & Cleveland, 1991; and Wexley & Klimoski, 1984) report that discussion of the benefits of peer feedback often occurs when there is an analysis of the problems associated with traditional top-down appraisal in a teamwork environment. The general line of argument is that peers or co-workers can directly observe an individual’s performance (unlike supervisors) and that therefore they are

better judges of the person's performance. In other words, peer review is cited as a solution to the problems faced by traditional appraisal when trying to assess individuals working in teams. However, there are conflicting findings about the benefits. Kane and Lawler (1978) (as cited in McCarthy & Garavan, 2001) conclude that the peer appraisal research findings are generally encouraging with respect to reliability, validity and freedom from biases of each of the assessment methods. Other researchers however, tend to be more critical. As Cardy and Dobbins (1994) (as cited in McCarthy & Garavan, 2001) point out, peer ratings provide individuals with an opportunity to enhance their own standing in the group/team by suitably altering their evaluations of others. Thus, they note, the problem of self-serving bias is especially prevalent in the context of peer appraisal.

A number of Indian researchers have also made contributions to the field of performance appraisal. A brief review follows.

Prakash (1966) studies the Annual Confidential Report (ACR) forms used by the civil service and makes a number of suggestions for its improvement. Rudrabasavaraj (1969) studies various aspects of the personnel administration of 32 organizations including 12 from the cooperative sector, 14 from the private sector and 6 from the public sector. (This appears to be one of the first broad picture Indian studies covering a large number of organizations.) Bolar (1970) touches upon various ethical aspects appraisal in the context of the organizational responsibilities. Dwivedi (1970) reports the results of a study conducted on 52 managers using a 13-item questionnaire on managerial traits developed by Heller and Porter. Narain (1970) stresses the need for a uniform nomenclature and discusses the rationale of the reviewing officer, communication of adverse remarks, promotions, politics, and the problems of inherited systems. Banerji (1971) notes the use of some sort of formal appraisal reports based on personality traits and states that performance appraisal has become a tool used by management to discipline employees. Rudrabasavaraj (1971) discusses the advantages of training, the limitations of appraisal and the ethical practices that should be followed. Subramaniam and Ghosh (1972) document the development of a performance appraisal system, as carried out in one organization. Sethi (1974) questions whether the implicit assumptions of MBO are realistic and proposes Management by Action (MBA) which includes the point that work output should be

the basis for determining performance. Subramaniam (1975) studies the implications of appraisal on productivity.

Vaghul (1975a) documents a proposed employee appraisal system for banks and Vaghul (1975b) suggests a promotion system for banks. Bhatia (1976) discusses assessment of potential, mostly based on personality traits. He mentions 13 factors identified by Frank Heller of the ILO, the same ones as referred to by Dwiwedi (1970) above. Niazi (1976) is concerned with the anxieties created by appraisal and their influence, and suggests some solutions for the same. Rao (1976) develops an appraisal format for the marketing function. Rudrabasavaraj (1977) studies performance appraisal as part of employee development in 12 private sector organizations. Bolar (1978) reports the results of two surveys, carried out in 1968 and 1976 covering 82 companies and 49 companies respectively, gathering information on areas such as: purposes of appraisal, criteria, tools of evaluation, periodicity and feedback. She also deals with some requirements of system implementation. Chouksey (1978) reports a case study of successful upward appraisal. Anonymous feedback was discussed openly by the boss, who destroyed all the feedback sheets in the presence of all after the discussion. The positive response of the boss to negative feedback led to increase of output quantitatively and qualitatively and subordinates seemed to develop greater regard for the boss. Dayal (1978) suggests that cultural factors should also be considered when designing performance appraisal systems. Dey (1978) carries out a critical analysis of performance appraisal approaches and techniques in the context of the civil services with respect to purpose, the confidential report (especially the comments), the relevance of performance appraisal in a seniority system, open reporting system, subjectivity, and alternative systems (self, peer, and bottom-up appraisals).

Mazumdar (1978) describes the requirements and advantages of appraisal systems and the role of the organization politics, and comments about the outdated systems followed and what is required from appraisers and appraisees. Niazi (1979) observes that performance appraisal is sometimes not linked to rewards, because organizations consider a number of other factors and this is sometimes not clearly specified. Bhatia (1981) briefly comments on trends in purposes, towards openness, objectivity, from trait to performance and appraisal versus analysis and criticizes excessively complex

systems. The role of the organizational environment is also mentioned. Misra (1981) analyses issues in performance appraisal with respect to policing and problems of the statistics used. (This article focuses on the police force and is not with reference to individuals.) Singh, Maggu, and Warriar (1981) report the results of a survey of 580 respondents from six units to identify the most important problems with performance appraisal and suggest some solutions. Ghosh and Rastogi (1982) advocate the use of computer analysis of answers to a behavioural questionnaire to analyze the traits of both superior and subordinate and claim it can be used for training. Varma (1987) advocates result oriented performance appraisal and makes suggestions about the form, personality factors and a few comments on appraisal interviews. Basu (1988) reports the result of a survey of performance appraisal practices in 60 large and medium-size business organizations and attempts to develop theory and guidelines for a more satisfactory appraisal system.

Srinivasan (1995a, 1995b, 1995c and 1997) reports a series of case studies within one organization dealing with improper appraisal practices. He notes that Chief Executive Officers (CEOs) are generally not required to write many performance appraisals but are often the final authority and have to approve reviews carried out by others. He also points out that it is not possible to carry out a fair performance appraisal without direct knowledge of the individual's performance, as well as knowledge of the detailed aspects of the system. Other areas covered include the problems of assessing creativity and 360 degree feedback. Chatterjee (1996) mentions the importance of communication and training in implementation of the appraisal system. Rao and Pareek (1996) present a number of case studies on different aspects of appraisal in various organizations. Jagadeesh (1998) suggests a method of integrating performance appraisal with TQM principles for an engineering institute. Mufeed (1998) studies the factors which result in satisfaction or dissatisfaction towards the performance appraisal system, using a questionnaire based survey of 55 managers and 150 workers in HMT managers stratified on pay scales and workers based on departments. Agarwal (2001) reports on some important issues to be considered in designing performance appraisal systems based on a survey of 89 managers in a north Indian firm.

Rao, Rao, and Yadav (2001) study the appraisal systems as part of HRD practices of twelve companies in terms of the structure and systems used. Sharma (2002) elaborates on the use of 360-degree feedback and assessment centres for development. Sayeed and Bhide (2003) study performance appraisal system implementation and note the importance of management commitment. Khandwalla (2004) examines the relation of competencies to managerial roles. Rao (2004) elaborates on the performance appraisal process, focussing on development. Rajadhyaksha (2005) attempts to determine the importance of technical competencies. Manikutty (2005) reflects on the importance of training managers to become mentors. Madhok (2006 pg. 64 –65) quotes a survey of 57 CEOs and HR professionals carried out in May 2006, which finds that the most important challenges for business, are perceived to be ... “creating a high performing culture” ... [and] ... “talent retention”. Rainaye (2006) studies the performance appraisal process from the perspectives of bank employees covering participative planning and analysis, performance review, counselling, self-appraisal, objectivity and use of appraisal data. Gupta and Agarwal (2006) study the effect of the appraisal system on employees’ views of its effectiveness and organizational commitment. Dhiman and Singh (2007) summarize various findings on politics in performance appraisal and suggest the conditions which can mitigate the effects of the same.

As can be seen from the above, a number of divergent approaches have been proposed to solve the problems posed by poor performance appraisal systems. However, the frameworks on which these approaches themselves are based, (such as MBO), have themselves fallen out of favour with current practitioners. In case of others like TQM, the long-term efficacy of the solutions proposed is yet to be determined. The upshot of all this is lucidly summed up by Mufeed (1998) who observes that research indicates that organizations often suffer from poorly designed appraisal systems and processes. Furthermore, as noted by Agarwal (2001, pg. 14), “research studies indicate that there are no uniformly accepted norms or methods used by different organizations for designing performance appraisal systems”.

1.2 Objectives of the Research

The research work has been organized under four heads namely:

1. To study various performance appraisal systems used by organizations in India
2. To determine the requirements of performance appraisal
3. To evaluate the extent to which performance appraisal systems used in India are able to address these requirements
4. To study existing approaches and frameworks and develop a responsive methodology to generate performance appraisal systems

1.3 Research Methodology

In order to prescribe better systems and practices, clearly, it is first necessary to be aware of the current practices. Apart from some of the researchers mentioned above, few such studies appear to have been carried out in India and even fewer in recent years. The objective is to obtain a broad picture of the current perceptions and practices, by obtaining the forms along with other documentation used by organizations. Primary data will be collected from various organizations to give a sufficiently broad indication of the types of performance appraisal systems currently in use in India. Data will be collected on the performance appraisal systems and procedures followed by organizations in India by obtaining, wherever possible, the performance appraisal forms presently used by the organisations. In addition, to elicit any additional details required, a survey of the respondents will be carried out through personal interviews or otherwise using a structured questionnaire.

A number of theoretical studies have been conducted from different perspectives regarding the desired attributes of a performance appraisal system. Various frameworks, approaches, methodologies and models have been developed to elaborate on the requirements of a performance appraisal system. An analysis will be made of the advances in the field to arrive at a comparison of the different approaches.

Various aspects of appraisal will be studied in detail. The characteristics of a good appraisal system will be identified both in terms of what it should have as well as what it should not have. This study will be based on the literature and also, if required, the same may be supplemented with organizational feedback,

The forms and documents obtained will be analysed in accordance with the criteria developed in the second objective to determine the extent to which current practices are able to meet the requirements of the same. The data will be analysed in terms of tools of evaluation, periodicity, use of qualitative and quantitative methods, qualities of the appraiser and other aspects to be decided at the time of designing the study. Based on this, the effectiveness of the actual systems used by organizations would be studied.

It may be appropriate, at this stage, to point out that the conditions in India, particularly the business environment and practices, are very different from those in the western countries, particularly the United States of America (USA) where much of the research in this field has been done. This could be due to reasons of culture, social mores or legal constraints. Nevertheless, for example, the job of a worker in the USA is clearly defined and if there is no requirement for that job any longer, then the workforce is laid off, which is not the case in India. Here, particularly with respect to white collar, supervisory and managerial employees, a single individual could perform a wide variety of jobs, depending on the requirements of the organization. The reliance on written job descriptions and goals/objectives is therefore, just not that important. Work is often carried out based on oral instructions from the employee's superiors. The system for the Indian conditions must take into account all these complexities. It is therefore necessary to develop a methodology to generate more robust systems which can be tailored to suit the requirements of individual organizations while retaining the essential core. It is proposed to design and develop a methodology to generate quantitative performance appraisal systems. It is expected that the systems so generated would be robust, responsive, reliable and valid, and particularly applicable to the Indian scenario.

It may be pertinent to mention here that for the empirical studies about organizational practices and views there are two distinct sources of information, namely, appraisal

forms and filled questionnaires. Therefore the specific methodology and approach adopted for each study will be dealt with independently and in detail in the respective chapter in which that particular study is covered.

1.4 Scope of Study

The ultimate purpose of the study is to design and develop a methodology to generate responsive performance appraisal systems suitable for organizations in India. Towards this objective, it will be necessary to ascertain the current practices of organizations in India. The definition is not with reference to ownership but with respect to operations. Organizations that operate in India and have establishments here are therefore included, irrespective of the nationality of the majority owners. However, it will be attempted to ensure that different industries, sectors, sizes, and regions are covered in the survey.

1.5 Organization of Thesis

The remainder of the thesis is organized into five chapters as described below.

Chapter 2 consists of the literature survey on various aspects of performance appraisal, including the definition, benefits and pitfalls, appraisal techniques and approaches, biases, qualities of an appraiser, and appraisal of potential.

Chapter 3 covers organizational practices based on the analysis of forms. The various points discussed include the appraisal techniques and approaches, frequency of appraisal, criteria, appraisal for training and development, potential appraisal and appraiser details.

Chapter 4 presents the results of the survey of organizational views on matters such as common apprehensions about appraisal, desirable improvements to the system, bias and its removal, the ideal number of forms, training of appraisers, appraisal of potential and the performance review discussion

Chapter 5 deals with the development of the methodology for performance appraisal

system design. It details the methodology for system design and development in terms of approach to development, system requirements, development of system, in particular the selection of attributes and computation of final scores and grades, and validation, testing, and maintaining integrity of system. It also covers how the process of implementation of the performance appraisal system should be carried out and the specification for computerization of system. A scheme for relating the appraisal to rewards is also suggested.

Chapter 6 includes summaries of the empirical findings of the analysis of forms and organizational survey and an overview of the salient features of methodology. The limitations of the study and scope for further research are also mentioned.

Chapter 2: Background of Study and Literature Survey

2.1 Performance Appraisal: Definition and Discussion

There are numerous definitions of the term “performance appraisal” and other allied terms, since various authors define the terms in accordance with the management philosophy or approach espoused by them. Hence, there are differences in emphasis. Researchers also differ regarding the purpose of appraisal. However, these do not change the fundamental aspects of the process itself and in almost all the definitions, there are still a number of underlying dimensions which are common to the definitions. For example, Hansen (2005) defines performance appraisal as, ... [the process by which one arrives at] ... “any personnel decision that affects the status of employee regarding their retention, termination, promotion, transfer, salary increase or decrease, or admission into a training program.” Grote (2002, pg. 1) states that, “Performance Appraisal is a formal management system that provides for the evaluation of the quality of an individual’s performance in an organization. ... The procedure typically requires the supervisor to fill out a standardized assessment form that evaluates the individual on several different dimensions and then discusses the results of the evaluation with the employee.” Hawthorne Works, Western Electric Company [Hawthorne Works] (1962, pg. 21) notes, “A rating is a record of opinion about an employee.” But consequently, (pg. 23 – 24) the additional point is made that, “...employee ratings ... may be thought of as a control mechanism ... at the time of ... promotions, lay-offs, pay increases, rehiring...” Bacal (2003 pg. 21 – 34) defines performance management as ... [an] ... “Ongoing communication process between employee and supervisor for the purpose of improving job performance and contributions.”

On reviewing these definitions, it can be noted that the following elements are present in common, namely: “formal recorded process”, “evaluation of individual performance”, and (in some), “basis of personnel decisions”. Several researchers (Kirkpartick, 2006; Murphy & Margulies, 2004; and Scott, 2001) have stated the main purposes that performance appraisal serves, namely: it provides the basis for

compensation administration, it identifies candidates eligible for new responsibilities (appraisal of potential) and it identifies training and development requirements in order to improve performance. In addition, it can be used to pinpoint specific behaviour or job performance that should be discontinued or reinforced, i.e. provide feedback (Murphy & Margulies, 2004). Other researchers and practitioners such as Rao (2004) and Deming (2003) hold different views on what kinds of personnel decisions should be taken on the basis of the appraisal, maintaining that the legitimate use of appraisal should be employee feedback and development rather than rewards.

When performance appraisals are used for personnel decisions, organizations evolve a system whereby the outcome of the appraisal process is used to determine what those decisions should be. However, as Bacal (2003) and Rao (2004) note, the measurements of performance appraisal are usually on some sort of nominal or ordinal scale. As such, despite their apparently quantitative nature, they are not absolute measures unlike those used for physical quantities like height or weight or volume, or for that matter, sales or production or profit figures. (Although with all the accounting scandals in recent years, perhaps these are not particularly absolute either!). They represent attempts to measure qualitative data and therefore should be recognized as such. Unfortunately the numerical appearance of such measures often gives rise to the mistaken assumption that they are objective absolute quantifications, and that it is fully possible and sensible to carry out all types of arithmetic operations with them.

It is also important to note the implications of the above. In the light of organizations' and researchers' search for objectivity in appraisal, it would appear though that one of implications of the discussion in the previous paragraph appears to have been lost to those involved in the appraisal process. The point, as Hawthorne Works (1962) states, is that employee ratings are important precisely because of the fundamental underlying acknowledgement that important personnel decisions are strongly dependent on qualitative factors which remain ill defined. (Otherwise presumably there would be no need for ratings – as organizations would have the luxury of using only objective measurable information.) They go on to point out that despite the fuzzy ambiguous implications of “qualitative” measures, this approach works because, in general, knowledgeable and competent appraisers are able to agree in their

evaluations of the aforementioned qualitative factors.

Finally, it should be noted that the term “performance appraisal” has been replaced by other alternatives most commonly, the term “performance management”. Armstrong and Baron (2004, pg. 42, 43) cite Fletcher (1993a [sic b?]) as stating, “... perhaps the term appraisal has in some ways outlived its usefulness”. They mention that the first recorded use of new term “Performance Management” is in Beer and Ruh (1976) with “... emphasis on both development and evaluation, integration of the results achieved with the means by which they have been achieved, separation of development review from salary review.” The definition of Bacal (2003) cited above also uses the term performance management. It is not this researcher’s argument that the two terms are identical; nevertheless, as used in the literature, performance management is either just a new term for performance appraisal, (sometimes used to imply or emphasize a different focus) or those activities which were previously termed performance appraisal, form a very large subset of performance management. (In this case, appraisal has been extended by the addition of some activities, (such as emphasis on performance feedback) or some activities have been made more explicit (definitions of performance or goal setting).) In any event, the term performance management (or performance review or any other) is used in this thesis as used by the authors cited. Otherwise the term appraisal (or equivalent terms such as evaluation or assessment) will be used for consistency.

2.2 Appraisal Techniques

Over the past century or so, a number of techniques have been developed to assess employee performance. Armstrong and Baron (2004) state that one of the earliest recorded (modern) instances of performance appraisal was a merit rating scheme introduced by W. D. Scott, (who was influenced by F W Taylor), prior to the first world war, for workers in industry. This was modified and used by US Army. It was then introduced into the British Army. Further improvements led to the development of the graphic rating scale, which in some form is still in use today. The next series of innovations appeared in the mid 1950s with the publication of the critical incident technique by Flanagan in 1954 (cited in Armstrong & Baron, 2004; Grote, 2002; and Whisler & Harper, 1962), the development of the theory of management by objectives

(MBO) by Drucker (1955) and the criticism of performance appraisal by McGregor in 1957. As a result of the suggestions and criticisms advanced, a number of techniques were evolved in order to cope with the difficulties observed in practice. These techniques have been extensively documented in a number of sources (notably Oberg, 1972; and Whisler & Harper, 1962). A brief description of each of the techniques follows. The presentation is based primarily on that of Oberg (1972).

1. Written Essay or Narrative:

The rater is asked to write a brief essay covering an individual's strengths, weaknesses, potential, and so on. As Oberg (1972) notes, essay appraisals (recommendation letters) are fairly common in employee selection. Furthermore, an honest appraisal from someone who had the opportunity to know the person well could give a clear picture of the situation. Unfortunately essays are difficult to compare due to their unstructured and open-ended nature. Bacal (2003) notes that essays are versatile instruments and can be used for appraisal at all levels of hierarchy; furthermore, essays are specific and do not give the false impression of objectivity.

2. Rating Scales (also termed as Graphic Rating Scales):

Appraisers are required to rate appraisees on various specified criteria. There are a fixed number of classes into which an employee may be placed. The classes are specified using verbal terms such as below average, average, above average, outstanding or a numerical scale with generally 0 to 3, 4, 5, 6 or 7 points, with each numerical value corresponding to some verbal equivalent as specified above. This technique is more consistent and reliable than the essay technique. Hansen (2005) reports that the number of characteristics used for rating can vary widely. Originally the criteria were trait based i.e. the employee was rated on a number of traits such as initiative, honesty, reliability, etc. Later innovations in this area have resulted in criteria which are based on behaviour, competences and performance. One advancement on this technique has been the development of Behaviourally Anchored Rating Scales (BARS). Patterson (1987) credits Smith and Kendall with the development of BARS. In BARS, rather than a verbal or numeric indicator, a short description of the specific behaviour associated with each level of rating is provided. This makes it easier for the appraiser to assess the appraisee and also promotes

consistency in ratings.

Rating systems have been criticized as being too vague in terms of the characteristics assessed (e.g. initiative, cooperativeness, reliability, and even personality). Discussing these with an employee can be difficult and unsuited for providing feedback. They also make it easier for appraisers to quickly get through the task without needing to apply their minds (Bacal, 2003). On the other hand, Oberg (1972) believes that a graphic scale used in conjunction with a few essay questions is often sufficient. Bacal (2003) too acknowledges that a well-designed rating system which also incorporates appraiser comments can be useful provided that a greater weightage is placed on the comments.

3. Field Review:

As described by Oberg (1972), this is a review process technique whereby a member of the human resource management meets with a group of raters from the same unit and discusses the rating awarded by them, focusing particularly on areas of disagreement with the aim of reducing bias and inconsistency. The consensus ratings awarded by the group through this method tends to be more accurate and valid. However, the process is extremely time consuming. It would appear that this technique has fallen out of favour, as several later sources, (mentioned at the beginning of this section) make no mention of this technique.

4. Forced-Choice Rating:

This process is similar to that adopted by various psychological (metric) tests wherein a person is presented with a number of sets of statements and asked to choose the most applicable one in each set. Most often the scoring or basis of analysis is not disclosed in order not to bias the results. In case of employee appraisals, the appraiser is required to choose from each set, the statement that best fits or describes the appraisee. The justification given for the procedure is that it reduces rater bias. However, as Oberg (1972) points out, there are difficulties in implementation. In particular, raters are inclined to conclude that they are untrustworthy. Also, it is possible to beat the system, by substituting one employee's characteristics for another (i.e. to give a higher rating, select those statements that describe the best employee). Finally, the forced choice technique is of little use for feedback purposes.

5. Critical Incident Technique:

This method as followed in the Delco-Remy division of General Motors is described by Flanagan and Burns (1962). The supervisor is required to maintain a record of important events, positive as well as negative as they occur during work for each employee. The appraiser is now in the possession of hard factual data on which the evaluation of the employee can be done and defended and discussed with the employee. The emphasis is on performance or behaviour and not on some vague nebulous personality traits. However, as several researchers (Bacal, 2003; Gomez-Mejia, Balkin & Cardy, 1998; and Oberg, 1972) point out in spite of all of the above, there are a number of problems associated with this technique too. First is that supervisors are required to note down the incidents while they are still fresh in the mind. This would indicate that the logs be maintained on a daily or at worst weekly basis with the attendant increase in workload and paper work. Secondly, keeping a record allows managers to postpone the hard task of giving the subordinates timely feedback especially in cases where the feedback is negative. Clearly, it neither serves any purpose nor is it fair to employees to inform them about their mistakes or shortcomings several months later. Finally, the supervisor decides which incidents are “critical”. Therefore, they may seem unfair to the employee or alternatively lay the supervisor open to charges of bias or “keeping a black book” (Armstrong & Baron, 2004; and Oberg, 1972) where only negative incidents are recorded. However, the critical incident technique is still used, not as a direct rating procedure, but to develop the differentiating competencies or behaviours that are used in BARS or in any other appraisal procedure where behaviours rather than outcomes are assessed. (Armstrong & Baron, 2004; and Cardy, 2004)

6. Management by Objectives:

This approach is based on the theory of MBO propounded by Drucker (1955) and advocates the use of objectives as performance standards. Employees were expected to participate in the process and help to set their own goals. The advantages included the focus on measurable performance based on the organizational objectives rather than traits, and participation of the managers in the goal setting process rather than merely being informed of the performance expected of them. Improvement in communication between superior and subordinate was another perceived benefit. If,

however, there is a disagreement between the two, the objectives finally decided upon, needless to mention, would be those set by the organization. This was an inherent flaw in the process. MBO also required a significant investment in terms of time if it was to be implemented in its true spirit of employee participation and acceptance of responsibility for performance. The other point is that MBO was advocated as a means for managing units and not individuals. Sherwin (1976 pg. 159) argues that, "Performance appraisals ... cannot logically be based on the results of the MBO objectives ...[because]... the results of a multiperson objective cannot properly be used to measure a single person's performance. ... Instead, they should be based upon two other things: (1) Results of objectives that are within an employee's own scope. (2) The effectiveness of the employee in making his contribution to the multiperson objectives of the organization."

7. Work-Standards Approach:

Many employees especially those at the lower levels were not comfortable with the MBO approach and the responsibility they were expected to bear for their own performance. Therefore, one solution is for organizations to set the goals often in the form of work standards. The process of determining what would be a fair amount of work is usually carried out by the industrial engineering department using time and motion studies in accordance with the principles of Taylor and the Gilbreths. Clearly this approach is only possible at the lowest rungs of the hierarchy. In addition, there is the problem of comparability between different jobs, each of which has a separate work standard.

8. Ranking Methods:

These are relative performance measures based on the comparison of one person's performance with another's. They are useful under certain circumstances, such as when employees rated by different supervisors in different units need to be compared. Several ranking techniques exist by which the interpersonal comparison is made. They include alternation ranking, paired comparison ranking, (Oberg, 1972) and person to person rating (Asopa & Beye, 1997 cite Monga, 1983). In some case it is sufficient to distinguish between groups of employees such as those in the top tenth and the like. In this case the method is termed group order ranking. Oberg (1972) concludes that ranking when done by multiple raters would result in valid merit

rankings. A strongly contrary position is taken by Bacal (2003) who declares that rankings may work under certain limited circumstances where employees are not required to work together. He points out that ranking can lead to dysfunctional behaviours such as sabotaging co-workers (since all that matter is the relative performance). Also, in such circumstances, organizational objectives which may be measured in absolute terms (such as sales) may not be met. The use of peer comparison ranking and the use of the term “average” are also attacked by Thompson and Dalton (1970) who say that it reduces appraisal to a zero sum game. Ranking results are not useful for feedback and performance improvement. Finally, it may be difficult to rank employees who differ only slightly in performance.

9. Forced Distribution or Forced Ranking:

As elaborated by Hansen, D. (2005) and Murphy and Margulies (2004) appraisers are required to carry out the evaluation and classify employees in some fixed number of categories. The proportion or percentage of employees to be placed in each category is also specified. The distribution is usually based on the bell curve of the normal (Gaussian) distribution. For example, one possible distribution could be 50 % in ‘C’, 20% each in ‘D’ and ‘B’ and 5% each in ‘A’ and ‘E’. Forced ranking suffers from the same problems as other ranking systems. In addition, it has been attacked on the grounds of the applicability of the normal distribution. This is because the normal distribution is applicable for large populations and therefore may not be applicable to departments with small numbers of members. Furthermore, if employees have been selected properly, the normal distribution should not be applicable, since all employees should be capable of satisfactory performance. Finally, as Murphy and Margulies (2004) point out, someone has to be ranked at the bottom, and just because an employee is ranked at the bottom, it does not prove that the employee performance is unsatisfactory. (This last point being applicable to ranking systems in general.) However, the forced ranking system is favoured by some researchers and practitioners. Grote (2007) believes that the system has an important benefit. He reasons that using a predetermined distribution forces managers to think about where individuals should be placed, as everyone cannot be rated above average. However, he does caution that actions should be tailored to individuals and not categories.

10. Checklist or Weighted Checklist Method:

The supervisor is provided a list of descriptive statements and is required to tick off those that are applicable to the employee. The scoring is done based on the statements ticked off. One simple method is to simply add the number of statements ticked. Others require that the statements be weighted according to importance, and often the weights are not disclosed to the appraiser (Asopa & Beye, 1997; and Hansen, 2005). This method appears to incorporate elements of the graphic rating scale with the forced choice method.

11 Global Ratings:

As discussed in (Patterson, 1987; and Wiese & Buckley, 1998), along with the essay technique, this was one of the earliest rating methods. It required the appraiser to rate the appraisee and provide a single rating of overall performance. There was apparently no detail provided about any aspect of performance. It appears to have fallen out of favour, and is generally not mentioned as a technique by modern researchers. The graphic rating scale did much the same thing but in more detail.

Schweiger and Summers (1994) suggest that organizations may (and do) use a combination of the techniques in particular MBO combined with some form of rating scale. This would have the advantage of covering different time frames and also reviewing different aspects of performance namely, results as well as behaviours or competences.

2.3 Qualities of an Appraiser

While a good system is important its success is ultimately decided by the people who implement it. In a performance appraisal system, the participants are broadly divided into the appraisers and the appraisees. What makes it more interesting is that except perhaps at the very bottom, all employees wear both hats at different times. However, the balance of power all said and done lies with the appraiser. Hence it is with the appraiser that the system is more concerned. What makes a good appraiser? What are the qualities or skills or competencies that mark out a good appraiser from a merely average or bad one? Frank and Breslow P.C. (2000), states, “The effectiveness of any appraisal system depends on the cooperation and ability of the immediate supervisor.”

In a different context Kruschke (2005) notes, “As important as appraisals are, they are only as good as the appraiser conducting them.”

The qualities or skills listed and discussed are not entirely independent of each other. Communication can affect the entire process including feedback and perceived fairness. Likewise, if the process is not perceived as fair, the entire exercise becomes a waste of time.

1. Ability to appraise

A good appraiser should be observant, able to relate behaviour to the standards, able to distinguish between special and common causes, have the knowledge to identify what went wrong and how to improve and the ability to set appropriate goals. One of the earlier surveys in this field was conducted by Taft (1955) who summarized the findings of various studies that tried to correlate good judgement with factors such as age, sex, family background and sibling rank, intelligence and perception, training in psychology, aesthetic ability and sensitivity, emotional stability and character integration, self insight, social relations and found, “... the following characteristics are fairly consistently found to be positively correlated with the ability to judge the personality characteristics of others: a) age (children), b) high intelligence and academic ability (with analytic judgements especially), c) specialisation in the physical sciences d) aesthetic and dramatic interests, e) insight into one’s status with respect to one’s peers on specific traits, f) good emotional adjustment and integration (analytic tests only) and g) social skill (only with tests of ability to predict .. behaviour)”. He continues to say that the ability to judge others depended on three broad factors, namely, knowledge of the appropriate norms, judging ability and motivation. But the most important factor was motivation. ... “if the judge is motivated to make accurate judgements about his subject and if he feels himself free to be objective, then he has a good chance of achieving his aim, provided of course he has the requisite ability and can use the appropriate judgemental norms” (Taft, 1955, pg. 47 – 48). Based on a survey of 149 managers who had an average of 8.5 years of performance rating experience and 6.6 direct reports, from 22 organizations, Fink and Longenecker (1998) identify key competencies of appraisers including: knowledge of organization’s rating forms and procedures, ability to clarify and communicate job duties and performance expectations, decision-making skills/sound judgment,

observational/work sampling skills, and knowledge of legal/compliance issues. Reid and Phipps (2004) state that good appraisers should be able to understand the work environment and the possible problems and issues. They should be able to distinguish between levels of performance and identify if learning has occurred since the previous appraisal. They should be able to guide appraisees if required. They should be aware of their own values beliefs and attitudes and make suitable allowances for the same. Pope (2007) adds that they should know where to obtain the information about employee performance and competence and how to identify the causes for excellent or poor performance. Frank and Breslow P.C. (2000) comment that supervisors must know how to set appropriate goals. Finally, they should be objective (Consortium of European Baptist Schools [CEBTS], 2007; and Working in Partnership Programme, National Health Service [WiPP], 2006).

2. Perceived fairness

It is not sufficient for an appraiser to be a good appraiser. It is perhaps even more important that the appraisees perceive the appraiser to be a fair appraiser – even-handed and non-judgmental. Reid and Phipps (2004) state the appraiser should be open and transparent and maintain confidentiality. Chapman (2006), CEBTS (2007) and “Conducting” (1999) all note that appraisers should recognize achievements as well as problems. “Conducting” (1999) and WiPP (2006) suggest that the appraiser should avoid accusatory statements and restrict critical comments to factual statements with specific examples. “How” (2003) quotes Gillen (n. d.) as saying, “More than a good appraisal, people want a fair appraisal; they want confidence in their appraiser.” Pope (2007) notes that managers may also need to be skilled in moderating the reviews made by their subordinates.

3. Communication and conflict management skills

A number of communication skills are required of appraisers and Fink and Longenecker (1998) identify written/verbal communication skills as one of the key competencies of an appraiser. However, the skill apparently most valued is the ability to listen, (CEBTS 2007; “Conducting”, 1999; “How”, 2003; McCorgray, 2006; Reid & Phipps, 2004; and WiPP, 2006a). Next in importance is the ability to give feedback gracefully (CEBTS, 2007; Frank and Breslow P.C., 2000; Pope, 2007; Reid & Phipps, 2004; and WiPP, 2006a). Other important skills include the ability to manage

resistance and conflict (Fink & Longenecker, 1998; Pope 2007; and Reid & Phipps, 2004), the ability to ask good questions and to make the appraisee talk (CEBTS, 2007; “Conducting”, 1999; and McCorgray, 2006), and the ability to keep the discussion on the subject (CEBTS, 2007; and “How”, 2003). Reid and Phipps (2004) underscore the importance of communication skills to establish rapport and Frank and Breslow P.C. (2000) are concerned with the clear communication of goals.

4. Supportive environment

Several sources place a number of requirements on the appraiser in this regard. Fink and Longenecker (1998) note the importance of coaching skills, delegation/empowerment skills, and employee development/career counselling skills. Reid and Phipps (2004) state that the appraiser is required to create a climate of education and development. CEBTS (2007) suggests that the appraisee should be put at ease and made to feel comfortable. WiPP (2006) requires that appraisers behave in a friendly manner. On a more fundamental level CEBTS (2007) calls on appraisers to “have an understanding of, and interest in, the person and the work in which they are involved and encourage mutual respect” and “How” (2003) points out that good appraisers enjoy developing people. Good appraisers also have a positive attitude toward performance management which they consider as part of their job, and not some annual ritual.

5. Integrity

Appraisers need to have integrity. They should be honest and conscientious, regular in reviewing and in general, stick to standards. Frank and Breslow P.C. (2000) observe that supervisors must learn to give regular, honest and critical feedback as and when it is required without delaying before matters become serious. “How” (2003) notes that appraisers need to prepare for appraisals, otherwise they can go wrong. WiPP (2006) requires that appraisers uphold the standards. Frank and Breslow P.C. (2000) emphasize the importance of honesty in evaluation. Honest evaluations are useful and necessary because they give the employee the true picture. Marginal performers are clearly informed well in advance of any adverse action that they must improve, giving them sufficient time to improve, if they can. Legal problems are avoided or at least reduced, and good performers are identified and rewarded.

2.4 Appraisal of Potential

Modern organizations assess not only current performance but also determine suitability for future assignments, generally promotion to a higher level, but also lateral transfers and the like. Oberg (1972) observes that, “in any placement decision and even more so in promotion decisions, some prediction of future performance is necessary.” Such attempts to predict future performance are termed as potential appraisal. Rao (2004) defines the purpose of potential appraisal as identifying competent people to promote, especially when new tasks have to be performed. Pack (1990, pg. 7) states, “[the] purpose in appraising potential is to identify opportunities within the organization and to assess the capability of individuals to qualify for them.” Advisory, Conciliation and Arbitration Service [ACAS] (2001) states that it is necessary to assess potential so that employees can be put to work at what they do best, to identify those who can be promoted and also those who may be suitable for promotion with further training.

However, the tools used for the appraisal of performance are in general not quite so suited for the appraisal of potential. As Oberg (1972) comments, past performance is widely used as a predictor of the future. But when the person has never tackled similar jobs in the past or, when an organization is forced to select a person from a group of people, none of whom has any previous experience of the job or similar work, this method fails. Appraisal of performance is necessarily focused on the past while appraisal of potential is focused on the future. Therefore, a different type of assessment may be required to evaluate potential. It is also necessary, as Bolar (1978) remarks, that appraisal of performance is clearly distinguished from appraisal of potential not merely in the appraisal system, but also in the mind of the employee. The reason for this is that very often past performance is one of the indicators examined when considering an individual for promotion. However, it is not the only factor and nor should it be. This leads to doubts in the mind of the employees as to the purpose of the appraisal and therefore its fairness or lack thereof. As noted by Tiffin and McCormick (1958), in the context of the use of merit ratings for promotion, it is necessary for the system to make a clear distinction between the performance in the current job and the individual’s potential for performance in a higher level job. One way to do so would be to have one rating to measure the performance in the current

job and a separate one to assess suitability for promotion. Another problem is stated by Richards (1959) who records the well known adage that the best workers do not necessarily make the best supervisors or managers. In fact it is often observed to the contrary and the organization loses a good worker and gains a poor manager. The same is true of promotions from one level of management to another. Richards (pg. 553) quotes McMurray (1954) on the topic:

It is important to distinguish the qualities needed by the top executives from those typical of successful middle-management executives generally. The magnitude of the difference between the two levels of leadership is not always appreciated by students; hence the assumption that the transition from one level to the other is easy and that success in the upper echelons of middle management automatically qualifies the incumbent for promotion ... It is primarily because there is so little general awareness of the real difference between the unique constellation of special qualities required for the success as an entrepreneur-manager and the more pedestrian and vocational qualifications of middle management – that so many errors are made in choosing chief executives.

Even within the ranks of middle management itself, no clear appreciation exists of the differences between the requirements of staff and line positions ... Hence it is possible for an individual to make an outstanding record as a staff man without possessing any administrative talents whatsoever. In spite of this, promotions are not infrequently made from staff to line activities and even to top management solely on the basis of the candidate's technical competence supplemented of course by the customary attributes of the faithful employee. ...

Richards (pg. 553) also comments:

... an individual who is told he has the potential for a higher level job has some expectations of receiving it. But is he also told there are 50 other people in the company with the same potential? Telling an individual he has the potential is like picking the winner of a race before all the entries are known...

All this would indicate that the potential appraisal has to be handled if possible even more carefully than the performance appraisal.

Bhatia (1976) lists performance, curriculum vitae (academic achievements and personal inventory), character and personality as possible methods to assess potential. Narain (1970) suggests that for certain types and levels of jobs, by holding examinations, meritorious persons who lack seniority can be considered. ACAS (2001) lists three ways in which employees' potential can be measured: reports and observation of past performance, self-assessment and assessment centres.

In spite of the criticisms, past performance as recorded by employees' immediate managers and supplemented by observations from more senior managers is one of the common ways of identifying potential. Another alternative suggested is to use some sort of multi-rater system which can be combined with the information provided by past performance to assess the individual's potential. Rao (2004) and Garavan, Morley and Flynn (1997) suggest that 360-degree systems and McCarthy and Garavan (2001) suggest that peer review systems can be used for career planning and potential appraisal.

Self-assessment by employees of their potential can be useful although it is also likely to be highly subjective. During the performance review, managers can also attempt to find out what kinds of work employees are interested in. (This might be a more fruitful approach, since it is highly unlikely that most employees would say that they did not want to be promoted!) Thereafter, where practicable this should be followed by plans to realize this potential through training, or suitable assignments.

Rao (2004, pg. 299) defines the assessment centre as "a comprehensive standardized procedure in which multiple assessment techniques such as situational exercises and job simulation ... are used to evaluate individual employees". The assessment centre makes use of a range of tools such as psychometric tests, various types of interviews, leaderless group discussions, in-basket exercises, games and simulation exercises, role plays and presentations. Oberg (1972, A look at methods: point 9) describes the process thus: "Typically, individuals from different departments are brought together

to spend two or three days working on individual and group assignments similar to the ones they will be handling if they are promoted. The pooled judgment of observers ... leads to an order-of-merit ranking for each participant.” This approach has the advantage of “equalizing opportunity, improving morale, and enlarging the pool of possible promotion candidates”. Byham, (1970 pg. 150 – 151) states, “This assessment procedure simulates, “live” the basic situations with which a man would be faced if he was moved up and develops information about how well he will cope at the higher level before the decision to promote him is actually made.” He notes the advantages of the controlled conditions and claims that the method is most valid one. The drawback of this technique is that while assessment centres seem to be fairly good predictors of future performance, they are expensive and time consuming (ACAS, 2001).

In addition to the above approaches, Hartle (1997) suggests that a competency-based framework might be useful. He declares that one of the benefits of a competency-based framework is that it can be used to predict possible future success or failure. By analyzing the individual’s demonstrated competencies and comparing them to the competencies required by the job it might be possible to prescribe remedial actions to rectify the same. Even earlier diagnosis might reveal that the individual was not a good fit for the new job (promotion, lateral transfer, rotation or the like) and needed to develop certain competencies.

Finally, Pack (1990) has an innovative approach that combines elements of the approaches mentioned above. He notes that taken in its entirety, past performance is a good judge of future potential, in the sense that people can be expected to grow and develop in future as they have done in the past (unless some significant change is introduced in the system). “If they have been eager to take on new challenges, if they have initiated changes and improvements and if they have responded eagerly to opportunities to learn, you can expect the same to hold true in the future.” (Pack, 1990, pg. 7) He also observes that people who have an accurate knowledge of their own strengths and weaknesses and know what they must do to achieve their objectives, are more likely to achieve their potential. Furthermore, he suggests that potential appraisal should be done for specific career paths and not in general. This approach requires determining future manpower requirements, personal objectives,

and specifications for job positions combined with developmental activities to close the gap between what people want and what they are capable of. While this may appear complex, it is an integrated system and if implemented correctly should provide great benefits.

2.5 Sources of Bias and their Treatment

There are various kinds of rater errors. Many arise from NOT following the system – not giving regular feedback, not allowing employee participation, playing it by the ear instead of keeping formal records, or trying to game the system. In this section, however, the focus is on errors that raters make in spite of attempting to follow the system, or errors which they are not consciously aware of. The definition of bias for the discussion that follows broadly encompasses all rater errors specifically attributable to the mental processes of the appraiser whether subconscious or otherwise, which lead to improper appraisal. Errors or improper appraisals occur when the performance appraisal does not accurately reflect the performance of the employee.

Biases are defined by Cook (1995) as follows: “factors that “should not” influence raters but do, or factors that influence ratings in ways about which raters are unaware”.

There is some disagreement in the literature about the importance of bias. Rudner (1992) and Roberts (1998) note the existence of rater errors and biases that affect performance appraisal as do Edwards and Williams (1998). Soltani, van der Meer, Williams and Lai (2006) quote Poon (2004) as finding that perceptions of bias reduce job satisfaction and Tziner (1999) states that, “For the past two decades the literature on performance appraisal has been dominated by studies of the cognitive processes of rating, rater training and of rating scales ...”. Grote (2002) on the other hand quotes Landy and Farr (n. d.) as finding that bias is not a significant factor influencing performance appraisal. Other authors, such as Hartle (1997), Bacal (2003) and Williams (2003) do not mention bias as a factor. However, Armstrong and Baron (2004) quote Leventhal (1980) as postulating that all efforts should be made to eliminate bias and Bolar (1978, pg. 61) asserts that “... the appraisal system is

incomplete without built in features for evolving commonly understood standards and for analysis and moderation of variations and biases.”

2.5.1 Types of Biases/Rater Errors

A number of sources discuss the more prominent biases or errors including Rudner (1992), Asopa and Beye (1997), Ghanekar (1997), Roberts (1998), Peiperl (1999), Frank and Breslow P. C. (2000), Mathis and Jackson (2000), Wright (2000), McCarthy and Garavan (2001), Shore and Tashchian (2002), Aldakhilallah and Parente (2002), Eastern Illinois University [EIU] (2003), Rao (2004), Kirkpatrick (2006), Brown University (2005) and Ingham (2007). The list that follows is based on all of these and the initial sequence is based on that of EIU (2003).

1. Halo/Horn: allowing positive or negative perceptions of performance on one criterion to influence ratings on other unrelated criteria positively or negatively respectively. Rating a person similarly across all criteria without discrimination, based on perception of performance on one criterion or even some other perceptions unrelated to performance. Similarly, Ingham (2007) mentions champion bias.
2. Leniency/Severity: giving some or all employees ratings that are higher or lower than their performance merits. (In case of self-assessments this is sometimes called Modesty bias.)
3. Central Tendency: giving everyone similar average ratings irrespective of actual performance. It could also mean rating the same employee average in all behaviours or job elements. (This is also known as uniformity bias or scale shrinkage.)
4. Contrast Effect: assessing employee performance against that of other employees (or of the appraiser) instead of against the standards of performance.
5. Primacy/Recency: evaluating employees based on first or last impressions.
6. Escalation of Commitment: rating employees according to their past record of good or bad performance rather than as per the performance in the period under

consideration. (Ghanekar (1997) refers to this as Spillover error.)

7. Self-fulfilling Prophecy: appraisers give relatively favourable reviews to employees hired by them and relatively unfavourable reviews to employees appointed by others despite similar levels of performance. (This is also called the Pygmalian effect.)

8. Bias: ratings are influenced by adverse (usually) preconceived opinions formed without enough basis. Generally used in a negative sense. i.e. ratings are worse than one would expect. (Also usually referred to as prejudices.)

9. Stereotyping: beliefs about a group which affects the ratings awarded to employees who are members of the group (guilt by association).

10. Glass Ceiling Effect: this may not show up directly on the ratings but in the consequent actions. Appraisers may believe that a person has reached the highest level of performance possible for him and that he does not have the ability to progress further. So called because no further promotions are awarded, but there is no visible reason or evidence.

11. Dramatic Incident: assessment that is based on one particularly good or bad incident without considering the performance in the rest of the period under consideration. (Brown University, 2005; Frank and Breslow P. C., 2000; and Kirkpatrick, 2006)

12. Ratings that are influenced by the length of service or grade of the employee. (Brown University, 2005; and Frank and Breslow P. C., 2000)

13. Rating Sympathetically: deliberately rating poor performers higher than they deserve in order to “motivate” them. (Brown University, 2005; Cook, 1995; and Frank and Breslow P. C., 2000)

14. Sunflower Management: appraisal is influenced by what the raters perceive senior management’s opinion. (Ingham, 2007)

15. Assimilation: persons who are perceived to be like the appraiser are rated higher. (Aldakhilallah and Parente, 2002; Ghanekar, (1997); Kirkpatrick, 2006; and Rao, 2004). (This is also called Similarity or Compatibility effect)

16. Differential Effects: persons who are perceived to be as the appraisers themselves want to be are rated higher. (Rao, 2004)

17. Appraisers carry out the appraisal of their subordinates based on their expectations and perceptions about how they (the appraisers) are going to be evaluated. (Rao, 2004)

18. Special Circumstances: sometimes due to events outside of work an employee's performance suffers. Ratings are awarded by the rater considering what the employee's performance would have been rather than what it actually was. (Frank and Breslow P. C., 2000)

19. Constant Error: the rater consistently misestimates performance on a particular criterion or set of criteria (Ghanekar, 1997).

20. Proximity: items appearing near to each other on the form are rated similarly. (Ghanekar, 1997).

21. Relative Job Values: Rudrabasavaraj (1971) notes that appraisers sometimes rate the job and not merely the performance of the employee. Therefore, if a job is perceived to be better or more difficult, the employee doing that job is rated higher than an employee doing some other 'easier' job.

2.5.2 Sources of Biases

Patterson (1987) notes that evaluating human performance is judgemental and therefore subjective and individual, and prone to prejudice and bias errors.

Wright (2000) quotes Hyman et. al. (1954) with reference to, "expectational bias (the ... [appraiser] hears what he or she expects to hear) ...[and] ideological bias (the ...

[appraiser] hears what she or he wishes to hear) as the cause for most concern.” Or, in other words, we search for evidence that supports our beliefs. EIU (2003) advances a similar theory to explain Escalation of Commitment and Pygmalian biases.

Numerous researchers, (McCarthy & Garavan, 2001 cite London & Beatty, 1993; and Shore & Tashchian, 2002 cite Harris & Schaubroeck, 1988; and Thornton, 1980), find that in self-assessment, raters give themselves higher scores. Garavan et. al. (1997) cite Van Velsor and Wall (1992) as finding evidence of both over-rating (more common) and under-rating (less common). Walsh and Fisher (2005) refer to research by Miller and Ross (1975) that finds that employees indulge in self-serving bias as a defensive reaction. McCarthy and Garavan (2001) cite Farh and Werbel (1986) and Thornton (1980) as reporting that if self-appraisals are to be used for administrative purposes, then employees rate themselves higher than they do if the self appraisals are to be used for non-administrative purposes.

Rudner (1992) suggests that when raters don't have enough information to make a proper judgement, they may compensate by giving higher or lower scores.

Spector (1962) observes that the ratee's behaviour may influence ratings. Rudner (1992) refers to research by Nisbett and Wilson (1977) who come to the same conclusion.

Rudner (1992) notes that prior experiences can influence the perceptions of individual raters. London and Beatty (1993), Wax (1999), and Shore and Tashchian (2002) (all as cited in Garavan et. al., 1997) report similar findings.

Hamermesh and Biddle (1994), Biddle and Hamermesh (1995) and Hamermesh and Parker (2003) find that for a number of professions, beauty is not merely correlated with but causes difference in earnings. Burnett and Motowidlo (1998) (as cited in Wright, 2000) find that visual cues and nonverbal cues such as physical attractiveness and gaze seem to affect ratings.

Wise (1975) uses a stratified sample of about 1300 college graduates employed in a corporation and studies the factors affecting promotion. He finds that the rate of

promotion is positively related to the college attended, academic performance (grade point average) in college, imaginative thinking, initiative, and leadership ability and negatively to risk aversion (desire for job security). The role of education is not clear—masters degree holders may be promoted more frequently than bachelor degree holders, but this does not necessarily result in salary differences. Socio economic background is not found to be important.

Gibbons and Kleiner (1994) list several possible biasing factors including style of dress, attributions, prior expectation, gender, degree of acquaintance, race, communication competences past dissension manager/subordinate performance attributions and grievance activity. The authors examine the effect of style of dress, attributions, prior expectation and grievance activity and conclude that all factors have an effect on ratings even if not in the expected manner. (For instance, the dress of the rater is apparently important but not that of the ratee!)

Tziner (1999) states that, “rating behavior is affected by raters' attitudes and beliefs about the performance appraisal process itself and the consequences that might result from high or low ratings. These may include the level of trust and confidence in the performance appraisal process, the rater's willingness to give positive or negative feedback, and the rater's beliefs regarding the purpose of rating as well as more general beliefs and attitudes concerning the organizational context, such as, rater commitment to the organization and the perceived organizational climate.”

DeNisi et. al., (1983) (as cited in Peiperl, 1999) quote a study that found that in peer review processes, those individuals who received negative evaluations, in turn evaluated their peers more negatively in future.

Tziner and Murphy (1999) cite a study by Bernardin and Orban (1985) which notes that raters may be influenced by their perceptions of others' bias, their levels of confidence in the appraisal system, and perception of risks associated with distorting ratings.

Colella and Varma (1999) find that disabled employees are rated fairly, but that expectations of future performance are lower than they might have been otherwise,

and this affects future development. Rotundo (2002) cited in Rasch (2004) reports that ratings by supervisors varied depending on whether they focused on task performance or counterproductive activities or both.

Cook (1995) discusses research on various sources of biases including age, ethnicity, gender, physical appearance, and attitudes and values, all of which appear to influence ratings to some extent.

Roberts (1998), Walsh and Fisher (2005) and Ingham (2007) comment on attributional errors which refers to the failure to correctly credit the cause of performance or non performance to external or internal factors. In other words, employees favour themselves by wrongly attributing failures to external causes and success to themselves, but reverse the causality where others are concerned.

Bartlett (1932) (as cited in Wright, 2000) observes that the longer the delay before recording information, the less likely it is to be accurate.

2.5.3 Possible Treatment

Gomez-Mejia et. al. (1998) state that it is extremely difficult to identify the presence of rating errors, though statistical techniques may be able to give some indications. Wax (1999) is pessimistic about the possibility of controlling unconscious bias and believes that it is not possible to do so. Roberts (1998) is of the view that reducing rater error is extremely difficult

Peiperl (1999) strikes a cautionary note by pointing out that attempts to deal with biases have not been very successful. Murphy and Cleveland (1991) (as cited in Peiperl) conclude that attempts to train raters to avoid rater errors have the effect of introducing a new bias 'avoid rater error' into the system. Peiperl also notes that the use of BARS and other anti-bias techniques does not seem to be statistically supported.

Ramamoorthy and Carroll (1998) suggest that if the scoring key is disguised from the participants possibly response bias could be reduced. This is similar to the forced

choice method elaborated by Oberg (1972), who also suggests the use of techniques such as field reviews, and forced rankings. (Details of these have been provided above in section 2.2)

Asopa and Beye (1997) suggest that the format adopted may be of some help, if it is transparent and equitable and involved multiple appraisers. Singh et. al. (1981) suggest that bias can be reduced if performance data is easily obtainable, by openness, and by ratee participation in goal setting.

EIU (2003) suggest that some sort of record should be maintained by the appraiser, (similar to critical incident technique). Gomez-Mejia et. al. (1998) quote Bernardin and Walter (1977) in support of the same point. However they note that the mere practice of keeping a diary does not ensure that bias will be eliminated, because, bias can influence supervisors to selectively record incidents. Rudrabasavaraj (1971) recommends that the appraiser should maintain a regular record of appraisee performance, which can be reviewed and checked by committee.

Numerous researchers (Boice and Kleiner, 1997; Ford, 2004; Ghanekar, 1997; Gomez-Mejia et. al., 1998; Rao, 2004; Roberts, 1998; Rudner, 1992; and Singh et. al., 1981) advocate the use of training to reduce bias. Rudner advocates that the training should cover the measures that appraisers will be using, the sequence of operations that they must perform, and how data should be interpreted.

Rao (2004) suggests the use of Multi rater systems as a supplement to the regular system.

Boice and Kleiner (1997) point out that multiple rater systems can be computerized and statistical analysis can be used to identify bias. However, Garavan et. al. (1997) note that in order to benefit from 360 degree systems, employees need training in order to minimize bias.

Pack (1990) recommends the use of self appraisal and discussions to reduce bias. Shore and Tashchian (2002) suggest that employees should provide their managers with a written description of their performance rather than a rating in order to

eliminate the biases associated with self appraisal. On the other hand, Ghanekar (1997) recommends that the self-appraisal should be independently submitted directly to the review committee along with the appraisal report, who can then compare both.

Rao (2004) recommends that raters should be involved in the construction of the rating system.

Rao (2004) also suggests the use of statistical analysis to control errors. Houston, Raymond and Svec (1991) investigate the use of some statistical techniques like ordinary least squares (OLS), weighted least squares (WLS), and imputation of the missing data and find them useful in correcting for relative rater bias effects. However, they note that these techniques are of limited application in other situations. R. L. Cardy (private communication, September 9, 2007) states that, “The statistical approach to elimination of rater error has largely fallen into disfavor. The basic reason is that you can remove rater error variance, but that also removes true variance.” Perhaps, as Roberts (1998) and Rao (2004) suggest, statistical techniques can be used to seek out trends in the performance ratings, which will then have to be examined and studied in detail by trained personnel to discover the underlying causes.

Finally, Roberts (1998) recommends that organizations should hold raters accountable for how well they perform their part in the rating process. This would probably require organizations to recognize the time and resource commitments required by appraisers and introduce appropriate incentives.

2.6 Approaches to Performance Appraisal

Performance appraisal has been studied by various researchers and different classifications have been developed by them to distinguish between the different approaches to appraisal. Some researchers have focused on “what is being measured?” with a sub classification related to this theme being “what type of measure is being used?” Other researchers have concerned themselves with “who is doing the measuring?” (i.e. who is carrying out the appraisal), which in turn is related to the question “what is the purpose of the appraisal?”

Considering the first stream of thought, Aldakhilallah and Parente (2002, pg. 41) cite Dailey (1988) and Landy and Farr (1983) and refer to the classification of appraisal systems as “result oriented, behavioral and person-centered methods”. Asopa and Beye (1997) likewise use the terms “trait approach” and “achievement-based appraisal” and Cardy (2004 pg. 13) uses the terms “outcomes” and “behaviours”. Patterson (1987) uses the term “effectiveness-based systems” and Hartle (1997) advocates competency based systems. The different terms used by these various researchers are comparable as follows: result oriented, achievement-based, outcomes and effectiveness-based systems are all focused on measurable results achieved or outputs i.e. the ends. Performance appraisal carried out on the basis of MBO or work standards belong to this approach. Behavioural approaches focus on the specific behaviours of the individual or how the job is being performed i.e. the means. The critical incident technique and behaviourally anchored rating scales are examples of the behavioural approach. Person based methods focus on the personality of the person in terms of knowledge skills or abilities. Into this category fall trait based systems. Depending on how competency is defined and measured, it could be classified either under the behavioural or person centred approach.

The results focused systems are concerned with whether the job has been done or not. Employees are rewarded for meeting or exceeding performance targets. The behavioural method is concerned with employee behaviour. The focus is on whether an employee is doing things in the right way or not and not on the amount of output. The person-centred method is concerned with measures of personal characteristics such as knowledge, skills and ability. Employees are rated higher based on whether they possess the characteristics that are deemed to be superior. A high rating may be given to an individual for possessing formal qualifications or being certified as competent regardless of actual performance, or contribution to group efforts

As Cardy (2004) notes, early appraisal systems or merit rating systems were based largely on personality traits. However, this approach had a number of deficiencies, such as the number and type of traits, the importance of the traits, lack of common understanding of the meaning of the traits (ambiguity), and lack of useful feedback. As a result of these problems, the trait rating system came to be replaced by the behavioural approaches, which were more specific and relied on evidence of specific

behaviours. The purely trait based system has ceased to be used as an appraisal approach in modern organizations. However, the competency-based approach is still used by organizations, (and favoured by some researchers such as Hartle, 1997) either for performance evaluation or for potential evaluation where possibly it can offer some insights.

In the debate between outcomes and behaviours, Cardy (2004) notes that it depends among other things, on which view point we are considering. For employees, their work is a set of activities that they carry out i.e. behaviours. (This is quite understandable when it is considered that in modern organizations, any one employee is likely to contribute in only a very specific area of the organization. Performance as output does not occur because many employees do not think of their jobs in terms of their contribution to organizational performance.) On the other hand for appraisers, performance is generally perceived in terms of outcomes. Activities that do not result in measurable results are not included in their consideration. From the point of measurement, output is easier to measure and can be related to organizational performance. However, from the point of feedback, (which may be required to improve performance, as measured by output), behaviours can give a better idea of how to do so. Which approach should be followed would therefore depend on the relative importance given to development as opposed to appraisal. Whether it will be practical and acceptable to have two different appraisal systems running simultaneously for the same type of work in the same organization for different employees is extremely questionable.

In addition, as Deming (2003, pg. 309 – 310) notes, there are two types of reason for deviations from performance, “common causes and special causes...Common causes [refer to] ...variations and faults from the system itself” while “special causes ... [are] ... specific to some group of workers, or to a particular production worker, or to a specific machine, or to a specific local condition.” Later researchers, such as Bacal, (2003) term these as system and employee variables respectively. In other words merely measuring performance does not tell us the cause of the performance. In fact in case of deviations, Deming (2003, pg. 315) claims that, “94% belong to the system (responsibility of management) and 6% [to the employee]” So in case of all performance, good and bad, very little of the exceptional performance can be credited

to the employee. Hence, according to Deming and other practitioners of the TQM approach, measuring results is not a valid approach. This point is also raised by Levinson (1970, pg. 126 - 127) who notes that ... “most job descriptions ... do not adequately take into account the increasing interdependence of managerial work in organizations ... The more a man’s effectiveness depends on what other people do, the less he himself can be held responsible for the outcome of his efforts”. Patton (1960) opines that appraising based on purely quantitative preset goals does not leave any scope for the appraiser to take into account the difficulty of the feat or for any other shortcoming in the goal setting or inconsistencies between functions or divisions. To rectify this he suggests the use of an MBO type of approach with both quantitative goals and qualitative goals.

Hartle (1997) advocates the use of a competency based framework particularly in situations where employees have little control over results and assessment of performance must be made on whether employees followed the due processes and did their jobs as per the standards prescribed or to the best of their abilities. (Note that in Hartle’s view the focus is on “behaviours” not on innate talent or abilities.) However the major criticism to this approach is that behaviour is a necessary but not sufficient component of performance. “Behaviour is what the employee does. Performance is about the value of what the employee does”. (Bacal, 2003, pg. 41) There is a difference between action and output, effort and results.

According to Allen (1998) and Aldakhilallah and Parente (2002), whichever of the three approaches is preferred, the appraisal process can be either comparative or absolute. If process is absolute, performance is measured with respect to some standards which are generally known in advance and which generally remain unaltered during the period under consideration. If the process is comparative, the employee’s performance is evaluated in comparison to other co-workers’ performance (i.e. some type of ranking process applies).

With respect to “who carries out the appraisal” and the objectives of appraisal Asopa and Beye (1997) mention the self-appraisal approach and the group approach. Levy, Cawley and Foti (1998) distinguish between the traditional top-down approach and participative approaches based on multiple feedback sources and self-appraisals.

Murphy and Margulies (2004) compare traditional centralized performance appraisal with more collaborative techniques, in which omnibus classification they include management-by-objectives, 360° appraisals and peer review, which they believe are also more development oriented and promote communication between superior and subordinate. They note that it is important to determine the objectives to be achieved by the performance appraisal system. Walsh and Fisher (2005) advocate the adoption of an action inquiry approach for appraisals in order to foster development of individuals and also the organization. Garavan et. al. (1997) present the case for 360 degree feedback, which stresses the developmental aspects. Likewise Boyd (2005) implies that the advantage of the 360-degree performance appraisal system is that a whole range of views from the group is available.

In addition to the two streams for classification of appraisal approaches discussed above, Asopa and Beye (1997) mention the intuitive approach which is based on perceptions. Presumably this refers to informal systems of appraisal as compared to the formal systems discussed here.

Finally, Aldakhilallah and Parente (2002) try to make the case that the TQM performance appraisal (TQMPA) is different and imply that since it is based on the TQM philosophy it will not suffer from the same flaws as the traditional approaches. However, the TQM performance appraisal process as elaborated by them is not much different from the traditional performance appraisal! The only difference is that it has a feedback focus for improving performance rather than for making personnel decisions.

2.7 Benefits of appraisals

If there are so many problems with appraisal systems, the logical question that arises is why organizations continue to persist with them. The truth is that well functioning appraisal systems can confer a number of benefits on organizations that may otherwise be difficult to achieve.

1. Improved Organizational Performance

Feedback is an important contribution to improving performance. If either an

organization or an individual does not know how well they are doing, the question of improvement becomes infructuous. Grote (2002, pg. 19–20) emphatically states, "... performance management process[es are] ... a genuine source of competitive advantage". Hartle (1997) quotes a study of the Institute of Personnel Management which concludes that having a performance management systems can improve organizational performance even without performance being linked to rewards. Grote (2000) extols the contribution of performance appraisal towards the successful execution of organizational strategy. Katsanis, Laurin, and Pitta (1996) note that if employees' contributions are properly aligned with organizational objectives, then performance appraisal is a suitable tool to ensure organizational performance. Nickols (2003), a critic of performance appraisal, states that certain benefits are claimed by proponents, one of which is that annual or more frequent performance feedback and discussions can lead to increased productivity. Walsh and Fisher (2005) observe that appraisal discussions can provide employees with information on what they are doing right or not, as well what they can do better, which can help improve their performance. ACAS (2005) mentions that appraisals can help identify employee strengths and weaknesses. Thereafter, the organization can decide how best to make use of their talents and offset their weaknesses. Appraisal may also uncover problems faced by employees which may be hampering employees' efforts.

2. Employee Development

Mackintosh (2002) quotes managers (interviewed by him) as saying that honest appraisals would help employees to grow and increase their skills. Creamer and Winston, (2002) note that as a result of appraisals, employees' awareness of their strengths and weaknesses increases. Scott (2001) affirms that appraisals help organizations to develop individuals. Nickols (2003) notes that proponents of appraisal claim that appraisal and reviews can identify training and development needs. ACAS (2005) observes that the appraisee especially can benefit by being identified for training. It should be noted that large number of researchers such as, Aldakhilallah and Parente (2002), Bacal (2003), Deming (2003), Armstrong and Baron (2004) and Rao (2004) consider the legitimate aim of performance appraisal to be development and not rewards and compensation administration.

3. Better Superior-Subordinate Communication

Pack (1990) opines that the major benefit of effective performance appraisal is that it facilitates honest two-way communication between superior and subordinate. ACAS (2005) observes that an appraisal system can require that appraisers and appraisees meet regularly, as a matter of routine. Walsh and Fisher (2005) note that the feedback is not only from top to bottom but also the other way about. The superior can also receive suggestions which may be of benefit and help them enhance their skills and performance. This mutual exchange of information would also lead to better relationships between the manager and the employee. Creamer and Winston (2002) comment that communication is enhanced because the regular discussions about performance are not carried out under the shadow of financial or compensation issues unlike the annual review, where with the best of intentions, economic considerations are at the back of the mind of the appraisee if not the appraiser. ACAS (2005) states that in addition, they can improve communications by giving employees an opportunity to talk about their ideas and expectations and to be told how they are progressing.

4. HR Planning and especially Succession Planning

ACAS (2005) states that appraisals result in the generation of data in the form of employee strengths and weaknesses and competencies and skills that can be used in manpower planning and succession planning. (As part of the performance appraisal, the potential appraisal is in fact concerned entirely with determining the suitability of employees for new roles.) This point is reiterated by Cohen (n. d.) (as cited in Greengard, 2005) who reports that several areas of HR activities are benefited including succession, hiring and training plans. Nickols (2003) notes that one of the outcomes is that employees are involved in the discussion of their career progression. By identifying mismatches between individual aptitudes and their job requirements, appraisals can also be used as a control mechanism to verify the efficacy of hiring procedures (Scott, 2001).

5. Satisfaction and Motivation

Katsanis et. al. (1996) state that appraisals lead to perceptions of better performance which in turn result in raised levels of self worth and job satisfaction. Effective appraisals which focus on both positive and negative aspects recognize good

performance and also point out areas where improvement is required. Employees also get to participate in goal setting and this provides employees with some say in the course their jobs can take. The motivational benefits of participation are also noted by Creamer and Winston (2002). Scott (2001) declares that appraisals can motivate both good and poor performers. Nickols (2003) states that proponents claim that appraisals result in a fair distribution of rewards and also that feedback and discussions can lead to increased employee motivation. Walsh and Fisher (2005) observe that when it is explained to employees how improved performance and development may lead to additional benefits, they are motivated to improve. ACAS (2005) remarks that frequent discussions may also be a motivating factor. In addition, by improving superior-subordinate relationships, it can also result in better quality of working life. Finally, an interesting argument relating to feedback and motivation is made by Lee and Shin (2000), who study the effect of expectations about supervisors' ratings on motivation. They define what they call "expectation inflation (X)" as "the difference between the appraisal result expected by the ratee (E) and the actual appraisal made by his supervisor (F) ... that is $X = E - F$ " (Lee & Shin , pg. 18). In the absence of feedback, if expectation inflation positive, it can affect employee attitudes positively; otherwise it can hurt attitudes. Therefore, the possible beneficial effect of expectation inflation should be balanced against the detrimental effect of not offering feedback. However, in the interests of fairness, even if it has a detrimental effect, the employee should be given a clear picture of their performance. This analysis appears to ignore two points: improvement is possible only if employees realize that their performance is unsatisfactory; and the bad news is only being deferred, because at some point of time the employee must be told that performance has not been up to the mark.

6. Legal Benefits

Nickols (2003) submits that formal appraisal can provide documentary evidence in defence of the organization in case of employee lawsuits. Gomez-Mejia et. al. (1998, pg. 218) while acknowledging the effect of regulations note that, "in practice ... courts ... simply want to determine if discrimination occurred". It is upto the employer to maintain sufficient records to disprove the same. Brickley, Smith and Zimmerman (2007, pg. 466–467) observe that courts tend to favour companies with clear and complete documentation of the appraisal and appraisal process and those which can show consistency in the outcomes of the evaluations. They also note that

there are income tax benefits available to executives whose companies can certify that the pay over \$ 1 million is “performance based”.

Most of these benefits are also claimed by other researchers such as Armstrong and Baron (2004) and Hartle (1997) who lists over thirty potential benefits of performance management to businesses, HRM departments and individuals. Likewise researchers who advocate the use of self appraisal (McCarthy & Garavan, 2001; and Shore & Tashchian, 2002), upward appraisal (McCarthy & Garavan, 2001; and Redman & Mathews, 1995), peer review (McCarthy and Garavan, 2001), and 360-degree feedback (Garavan et. al. 1997; Grote, 2004; McCarthy and Garavan, 2001) generally list some or all of the following benefits: improved performance, development, greater perceived fairness, communication, working relationships, motivation, participation, and better quality of feedback. The two points of interest are that the researchers of self-appraisal claim that it improves perceived fairness and all the others (peer review, upward appraisal and 360 degree systems) claim that the quality of feedback is improved. However, these are benefits that accrue from the use of these specific techniques or approaches.

2.8 Pitfalls in Appraisal Systems

Even if the system works things can go wrong. Rees and Porter (2003) observe that studies show that there are significant practical problems associated with running performance appraisal systems. Various problems that have been observed with traditional appraisal systems are discussed below.

1. Validity of the system

Ryan (1962) raises a number of criticisms about appraisal systems. The first is that appraisal processes need to be validated. Often claims are made for a process without sufficient evidence. The same problem is there with respect to the weights that are assigned to different criteria used in the process. Aptitude tests are validated, but not appraisal ratings which are mostly based on collective opinion. A possible solution to the question of validity is that a new system can be tested against previous years' data. Comparisons can be made with the ratings given by the appraisers and adjustments can be made.

2. Value of a single overall rating

When the rating is reduced to a single number then a high score on one characteristic can offset a low score on another. This means that the criteria can be substituted for each other, which is not usually possible (Ryan, 1962). While the point is certainly valid, it can perhaps be overcome by specifying some minimum pass scores required for some essential criteria.

3. Reliability of the process

Finally, the reliability of the process is also uncertain (Ryan, 1962). In other words, if the same appraiser appraises the same employees, the correlation between different appraisals is not very high. With proper training, records and review, problems of reliability and consistency should be defused.

4. Supervisor unable to assess

Oberg (1972) and Bacal (1998) believe that in order to keep the system functional, a lot of time and effort has to be put in by appraisers, i.e. by almost all employees, (excluding the very lowest levels). Appraisers may not be in a position to know the performance of appraisees (especially when there are a large number of them). If the problem is that there are too many subordinates, then there is little any system can do about it. (Also, the job such people do are necessarily of low value and at that level the impact of appraisal is very little) This would appear to be a structural problem and the solution may not lie with the performance appraisal system. A similar argument is advanced by Deming (2003). Deming is one of the noted critics of performance appraisal. (The extent of his opposition is evident from the fact that out of a total of 29 pages in the chapter on Diseases and Obstacles, approximately as many as 21 pages are devoted to point 3: Evaluation of performance, merit rating, or annual review, alone.) Deming advances several objections, the first of which is that, "Merit rating rewards people that do well in the system. It does not reward attempts to improve the system" (Deming, 2003, pg. 102). Things that are easy to count are counted. This allows managers to avoid having to deal with criteria that are meaningful but difficult to measure. Levinson (1970) points out that as measurement and quantification gain in importance, the finer, qualitative aspects tend to get ignored. Likewise, Bacal (1998) also notes that if given the authority, managers may choose to evaluate

relatively trivial outcomes that can be measured rather than important outcomes that cannot be measured easily. The more important problem according to Deming is that, “Fair rating is impossible [because] ... apparent differences between people arise almost always from action of the system that they work in, not from the people themselves” (Deming, 2003 pg. 109–110). This point is also recorded by Creamer and Winston (2002) and Bacal (2003): contributions depend on both individual variables and system variables. Edwards and Williams (1998) find that supervisors tend to rate employees based on their own perceptions and knowledge of the job. If these turn out to be wrong, this can lead to the situation described by Deming.

5. Difficulties relating to feedback

Oberg (1972) and Reider (1973) observe that human beings react badly to negative feedback. Ghanekar (1997) notes that negative feedback should be properly communicated. Robb (2007) states that managers do not know how to conduct the appraisal interview and are not trained to do so either. Giving negative feedback that is positively received is a skill that appraisers often lack. Rees and Porter (2003) note that positive feedback is appreciated and desired by employees, but negative feedback may be necessary but is generally not welcomed, especially where employees believe that they are more competent than their appraisers. A related problem is that sometimes, appraisers forget that two-way communication should be there and they should try and help their subordinates to improve. Moses et. al. (1993) (as cited in Garavan et. al., 1997) note the problem of giving feedback in 360 degree systems which is compounded by the fact that the final result is dependent on how the analysis is done. Also, in such systems, there are problems with both evaluating the feedback and obtaining and evaluating the appraisees’ responses (Rees and Porter, 2003). While appraisers can and should be trained in giving feedback, it may not be possible to completely avoid drawing attention to poor performance, especially in order to have some evidence if the employee goes to court. Singh et. al. (1981) and Ghanekar (1997) recommend that feedback should be given regularly. This would mitigate the problem of negative feedback at year end to some extent.

6. Effect on work relationships

Oberg (1972) comments that appraisals reinforce the hierarchy and affect the development of better superior-subordinate relationships.

7. Fear

Niazi (1976) notes that anxieties affect both the appraisee and the appraiser. Robb (2007) observes that appraisals are potentially threatening events for employees whose jobs, pay, promotions, reputations and self-esteem are likely to be affected. In a well functioning system, this problem should automatically be minimized, because if there are regular and frequent performance reviews with feedback, then this should not be a serious problem for most employees, except the really poor performing ones.

8. Employees unaware of benefits; not involved

Robb (2007) states that most employees are not aware of the benefits of appraisal and therefore are not interested in taking part. Reider (1973) complains that there is excessive paperwork and insufficient participative goal setting. A similar point is made by The HRD Group (2005) who say that sometimes the linkage between performance and reward is not clear to employees. Contrarily, if a “development” appraisal is used for deciding rewards, employees are likely to suspect the truth. A related problem according to Robb (2007) is that employees are not involved when appraisal systems are introduced or changed. They do not understand the reason for the change and sometimes even some aspects of the system. This leads to false negative impressions and beliefs about the system. McCarthy and Garavan (2001) note that one of the major problems with 360-degree systems is poor communication about the purpose of the system. Psychological Associates (1999) suggest that this ‘resistance to change’ can be overcome by educating employees, explaining that improvements can always be made, describing how the system works, emphasizing the benefits, asking people what they find good about the system and asking for feedback after the first run.

9. Lack of time

Robb (2007) notes that it may happen that, appraisers are not given enough time to carry out the assessment. Creamer and Winston (2002) remark that the same problem can also apply to appraisees who may be given insufficient time to prepare. The system may not be able to solve the problem of appraisers putting off unpleasant appraisals; it can and should provide a proper schedule well in advance to avoid this type of situation. Also, appraisers may be given enough time but some of them

routinely get down to appraising only at the eleventh hour.

10. Lack of top management support

Robb (2007) comments that sometimes the biggest boss (senior-most manager) is not seen to be involved or supporting the process (especially in case of change). Other symptoms are that the senior managers do not complete the appraisals of their subordinates on time and no action is taken against those who are tardy or who never complete the appraisals of their subordinates at all. Or as Ghanekar (1997) puts it another way, there is no reward for supervisors doing a good job. So supervisors also play it safe. Likewise, Reider (1973) and Archer North and Associates (2006) state that lack of support from the top levels of management is often cited as a major problem.

11. Too many conflicting objectives

Reider (1973) and Rees and Porter (2003) point out that appraisal systems can have too many objectives which may be incompatible. For example, if salary administration and development are both objectives, then appraisees may not agree that they need training because it can imply that they are lacking in some aspect and therefore that would affect their pay. Murphy and Margulies (2004) note that many companies expect too many objectives to be achieved by the performance appraisal system and no system can manage to achieve all of them. Psychological Associates (1999) observe however, that using two different systems for salary administration and development result in each painting a partial view and in each case some information tends to be lost from sight and therefore analysis of causes of performance and the like is not possible. Likewise promotion decisions need information about both aspects.

12. Unqualified raters

Pimpa (2005) asserts that sometimes appraisers do not understand the criteria. This is not a problem that should arise in a well functioning system. However, it arises in systems that use upward appraisal because raters (such as subordinates) may not be qualified to assess some aspects of the appraisee's job (Moses et. al., 1993 cited in Garavan et. al., 1997).

13. Statement of opinion

Hawthorne Works (1962) and Rudrabasavaraj (1971) caution that rating should be viewed as approximate, since they are the result of judgments which are imperfect and ratings should be only one of the factors considered in personnel decisions. Other factors may include any special skills or the employees experience or the like. Bacal (1998) notes that employee ratings are subjective.

14. Inconsistency

Ghanekar (1997) notes that differences may exist among raters in perceptions and standards. Rudrabasavaraj (1971) notes differences in appraisal skills and that different departments may rate differently, so that the same rating may mean different things in different departments. Gomez-Mejia et. al. (1998) point out that a major problem is ensuring comparability in ratings across raters. The question is whether supervisors have a similar understanding of the criteria and standards. Roberts (1998) and Gomez-Mejia et. al. (1998) strongly support the use of frame of reference (FOR) training which helps supervisors develop a common frame of reference for evaluation. However, they note that FOR training is expensive and time consuming. Rudrabasavaraj suggests the use of several raters.

15. Multinational operations

Janssens (1994) (as cited in Shen, 2004) reports on the appraisal process in multinational corporations (MNCs). Conflict arises between the need to be sensitive to local conditions and the need for internal consistency in the organization and the evaluation of international managers may differ according to the standards that are applied: local, home or worldwide.

17. Multi-rater systems

In addition to the above, 360 degree feedback can have problems of its own. Moses et. al. (1993) (as cited in Garavan et. al., 1997) list a number of problems including that it is more complicated (also noted by Rees and Porter, 2003), there are too many forms and it is time consuming. If possible, individuals may choose favourably inclined raters to game the system. Campbell (1994) (as cited in Garavan et. al., 1997) calculates that it is ten times as expensive. Edwards and Ewen (1996) (as cited in Boyd, 2005) note the effect of non-response errors. Bacal (2007) believes that multi-

rater systems are worse than traditional rating systems because the raters contradict each other. The amount of data is increased but subjectivity is not decreased.

16. Neglecting psychological requirements of job and employee

Levinson (1970 and 1976) argues that organizations ignore the emotional requirements of individuals as well as the psychological requirements of the job. (This position was taken in the context of MBO, but it is generally applicable to the appraisal process.) Only those areas covered in the job description or goals are considered and the aspects of the job which are of interest to the employee are often not considered. Likewise, the employee's personal objectives and interest are not taken into account. The suggestions he advances to mitigate the situation include, appraisal of appraisers, and review of a manager's performance in helping and developing subordinates. While there can be little argument about the accuracy of the observation, the counter argument, as Levinson himself admits to some extent, is that organizations pay individuals for their productive contributions, not to be happy.

2.9 Organizational Politics

Earlier, (in section 2.5), inadvertent errors raters were covered. Conscious actions to deliberate influence or manipulate the appraisal process, or out rightly distort or fabricate ratings, which were not covered there, are the subject of this section.

2.9.1 Definition

Bolar (1970) observes that the problem is created when individuals appear to be getting rewarded based on achievements that are not related to their official duties, and this has a negative effect on the rest of the organization. Narain (1970) notes the trend towards unworthy persons intentionally making calculated efforts to secure undeserved promotions or recognition for themselves generally by foul means. He also observes a matching tendency among decision makers to reward such attempts, leading to lowering standards, inefficiency and frustration. Altman, Vanlenzi and Hodgetts (1985) (as cited in Tziner, 1999) describe organizational politics as actions carried out in the organizational context that are intended to safeguard or increase the benefits of specific parties, [presumably at the cost of some one else]. Tziner (1999)

concludes performance appraisal is influenced by political concerns.

Cook (1995) states that organizations appear to believe that managers wish to make accurate performance ratings, and are unable to do so only due to unconscious biases which can be cured by training or using the right type of form. However, he continues, the research indicates that ratings are deliberately fudged, even though this is not always apparent. He notes that when objective measures of performance are compared with the subjective performance ratings, there is little correlation between the two, clearly indicating that the subjective ratings are based on criteria other than performance, and this leads to the question as to whether those who get the promotions and incentives, are really deserving.

Nickols (2003) remarks that the appraisal appears to have as its primary input the perceptions of the appraiser. Interested parties can therefore attempt to influence the manager's perceptions in order to devise a result favourable to themselves. These interested parties include the appraisee, or other individuals or their managers who might be competing for a larger share of the fixed basket of rewards and promotions.

2.9.2 Rater Motivations and Behaviours

Longnecker and Ludwig (1990) explain that managers recognize that they are not being completely exact or truthful in their appraisals, but feel that they sometimes need to manipulate the ratings. Often these actions are not driven by self-interest, but with the intention of improving individual, unit, and organizational performance. Longenecker et. al. (1987) (as cited in Tziner, 1999) report that managers believe, that in some situations, it would be in the best interest of themselves and their organizations to fabricate inaccurate performance ratings. Oberg (1972) notes that personal values can take the place of organizational standards, in which case, an appraiser may not lack standards, but the standards used may be inappropriate or faulty. The reasons why raters manipulate the ratings are discussed in more detail below.

Cook (1995) elaborates that most work groups consist of an in-group, who have the supervisor's ear and get assigned the more stimulating work and better ratings, and an

out-group, who are allotted the boring jobs and worse ratings. This point is also made by Tziner (1999) who cites Mohrman and Lawler (1983) and Prince and Mohrman (1989) as mentioning that appraisers are most likely to alter the ratings of appraisees who are closely associated with them at work or socially.

Personal likes or dislikes or being in a good or bad mood can and apparently influence appraisal results (Cook, 1995). EIU (2003) notes that the leniency or severity effect is usually seen in the case of employees who are particularly liked or disliked by the appraiser.

Fear of the negative consequences of a poor evaluation is another cause. Tziner (1999) comments that sometimes, raters believe that they do not have the information, resources or skills required to rate accurately leading to overstated ratings. (Similar points are made by Longenecker & Ludwig, 1990; Cleveland & Murphy, 1992 (as cited in Tziner & Murphy, 1999); Cook, 1995; and Robb, 2007.) Longenecker et. al. (1987) (as cited in Tziner, 1999) also include reasons such as maintaining a positive work environment and helping ratees avoid the negative consequences of a poor rating. In the same vein, Archer North and Associates (2006) mention that appraisers may believe that if they rate their subordinates poorly it will be inferred that they (the appraisers) are bad managers. In particular, multi-rater systems due to their structure, do suffer from the threat of retaliation and inherent inbuilt role conflicts and conflicts of interest. (Moses et. al., 1993 (as cited in Garavan et. al., 1997); and Rees & Porter, 2003)

Appraisers also distort ratings for the opposite reason: reaping positive benefits from inflated ratings. Cook (1995) comments that appraisers overstate ratings to maximize merit increases and to avoid revealing poor performance in their unit. Cleveland and Murphy (1992) cited in Tziner and Murphy (1999) argue that raters use appraisal to achieve goals such as creating a positive image of their units which also implies that they are good managers and gains them access to information or material resources. Similar reasons are given by Longenecker et. al. (1987) and Longenecker and Giora (1988), both as cited in Tziner, 1999.

Longenecker and Ludwig (1990) and Cook (1995) note that appraisers may not want to

put a poor rating in the written record which may later bear negatively on a subordinate's career.

Cook (1995) also suggests that managers embellish appraisals to get rid of people by promoting them "up and out".

Longenecker et. al. (1987) (as cited in Tziner, 1999) note that supervisors believe that the rating is just another means to motivate and reward subordinates and therefore accuracy is unimportant. This is similar to Cook (1995) who records that managers deliberately reduce ratings to warn and pressurize ratees to improve their performance.

Banerji (1971) notes that the performance appraisal has become a tool in the hands of management used to discipline employees, by giving the power to deny increments. Cook (1995) observes that deflated ratings are used to reinforce the hierarchy, to show an uncooperative subordinate who the boss is, to convey to people that they are not wanted and pressurize them to leave, and to create a record of poor performance in order to justify dismissal. On the other hand, Oberg (1972) notes that ratings may be reduced in order to prevent useful people from leaving by being promoted out.

Cardy and Dobbins(1994) (as cited in McCarthy and Garavan, 2001) note that peer ratings can offer individuals a chance to affect the evaluations of others in order to improve their own position in the group. Other studies, (McCarthy & Garavan, 2001, cite Fox & Dinur, 1988; Holzbach, 1978; and Klimoski & London 1974) appear to indicate that self-ratings are much more inflated than ratings from any other source. .

Tziner (1999) examines five factors: Self-Efficacy as Rater, Perceived Organizational Climate, Quality of Interpersonal Relationships between Rater and Ratees (as perceived by the rater), Value Commitment—(affective or attitudinal commitment to organization), and Continuance Commitment—(instrumental commitment to organization) and their relation to the use (practice) of political considerations. (Continuance Commitment: commitment to the organization is based on the benefits obtainable. This can lead to either overstating or understating results as the dictates of self interest may appear to warrant.) He finds that Organizational Climate, Self-

Efficacy as Rater and Continuance Commitment appear to be statistically significant.

2.9.3 Ratee Motivations and Behaviours

Nickols (2003) points out that the formal performance appraisal system is a control system. “It gives the supervising manager control over the carrots and sticks in what is essentially a carrot-and-stick management system.” Employees who work in real world imperfect organizations are likely to be acutely aware of how the power of their superiors is derived and are therefore likely to engage in actions which result in favourable appraisals. The range of political activities that employees engage in is dealt with in detail by Cook (1995) and the following section is largely sequenced along the same lines.

Impression management: Cook (1995) states that many organizations give great importance to relatively minor matters that appear impressive, but have little connection to performance. He cites Padfield (1972) who describes how in the 1890s the Royal Navy used to promote officers with the most highly polished ships, which resulted in some of them avoiding gunnery practice because it might have spoiled their paintwork.

Ingratiation: Wayne and Ferris (1990) (as cited in Cook, 1995) identify three types of ingratiating behaviour: Job-focused, Supervisor-focused, and Self-focused. The aspect of Supervisor-focused ingratiation is also dealt with in Mazumdar (1978) who mentions in particular flattering the boss or his wife

Undeserved reputation: Cook (1995) observes that a good reputation can be earned by good work, but also in other ways some of which are listed below.

It's who you know, not what you know: The employee's time may often be as usefully spent creating a network of allies and contacts as in doing any actual work.

The non-working day: Research conducted by Campbell, Dunnette, Lawler and Weick (1970) (as cited in Cook, 1995) indicates that managers spend a large part of their time engaged in tasks that cannot be linked to the accomplishment objectives.

Polishing the image: deliberately building a reputation by controlling information.

Cover your back: A good reputation can be built by not taking risks, avoiding controversies, complaints and bad publicity. This aspect is also noted by Narain (1970, pg. 2) who comments, “There is much more emphasis on the satisfaction of the rules than on the achievement of the end-results. Even bonafide mistakes or minor errors of judgement receive disproportionate attention, while much bigger and positive achievements go unnoticed”.

Attributability: When it is difficult to relate cause and effect as can happen due to complexity or long time scales, it is easier for individuals to wrongly claim credit and avoid blame. Likewise, rapid turnover of personnel also makes it difficult to know who is responsible for what.

Who sets the standards: If success is subjectively defined by an organization or its employees (rather than by external measures such as sales), greater scope exists for creating undeserved reputations.

Empire-building: Sometimes success is measured by the size of one’s department or budget. Managing to increase either leads to an increase in status.

Reorganizations: These are another situation in which external measures cannot be applied. Responsibility for successes and failures can also be obscured.

Making your mark: In many organizations a number of “mark making” rituals exist which announce that a person has made it. These may include items such as passing an act in parliament or any other symbolic act.

Feedback-seeking: Larson (1989) (as cited in Archer North and Associates, 2006) describes a game played by poor performers. An employee regularly seeks feedback from his or her supervisor at inappropriate moments. Caught off guard, the supervisor may nevertheless offer some encouraging words. However, at the time of appraisal, the employee will recall these and claim that he was led to believe that his work was

satisfactory The aim of the feedback-seekers is to make the supervisor accept responsibility for their own poor performance and get their appraisal result revised upwards, and they are sometimes successful. The reality, of course, is that the supervisor is not responsible but has been entrapped.

Gomez-Mejia et. al. (1998) quote from various researchers (Ferris & Judge, 1991; Ferris, Judge, Rowland & Fitzgibbons, 1993; Longnecker, Sims & Gioia, 1987; and Murphy & Cleveland, 1991) to summarize the ways in which organizational politics affect appraisal, by comparing the rational approach with the political approach. They state that the rational approach is concerned with fairness and accuracy and meaningful measurement; appraisers assess performance accurately, without interference from appraisees. Performance and measures are clearly defined; each factor is evaluated independently and the resulting scores are then used to compute the overall rating. On the other hand, the political goal is utility (i.e. maximization of benefits or minimization of costs or both). All participants in the process are viewed as interested; appraisees actively try to affect their evaluations through persuasion, flattery, excuses, or similar behaviours. Appraisal isn't about fairness, but a source and means of exercising power. Ambiguity of performance or measure is preferred so that it is possible to interpret results as might be convenient. The overall rating is first decided and then validated by making appropriate factor ratings.

2.9.4 Solutions

Gomez-Mejia et. al. (1998) note that honest appraisal is necessary for feedback, development and HR decisions. Longnecker and Ludwig (1990) assert that the manager/subordinate relationship is based on trust and any short-term benefits derived from manipulating ratings can lead to subordinates losing confidence in the manager. Cook (1995) notes that selection methods are often validated against performance ratings. If the quality of the performance appraisal is poor, selection procedures validated against them will also become ineffective.

Specific antidotes are offered for particular problems. Tziner (1999) suggests that if raters who perceive themselves as insufficiently skilled for this task, it could be rectified by providing suitable training to them. Likewise, in case of Continuance

Commitment, organizations can adopt a policy to punish poor rating performance and this policy and its implementation should be well publicized to make known to such raters the consequences of their actions. Archer North and Associates (2006) note that in feedback-seeking, alerting supervisors to the game is usually sufficient to stop it. Supervisors should simply ask such feedback seekers to meet them later to discuss the same. And referring to cover the back problems, Narain (1970, pg. 2) advocates that, “[The] system of appraisal should lay greater emphasis on the achievement of the end-results and objective rather than on the stereotyped following of the beaten track, of course, subject to the maintenance of proper standards of propriety, honesty and integrity.”

In a more general sense, Longnecker and Ludwig (1990) assert that it may be necessary to remind managers that manipulation of ratings violates the integrity of the system and that such activities [and presumably the persons performing them] will be treated as questionable. They also point out that the proper functioning of the process does not depend only on the appraisal procedure itself but also on the person doing the actual rating. It is not sufficient to worry only about the procedural aspects of the appraisal process.

Various researchers have dealt with the issue of ethics in appraisal including Bolar (1970), Kellog (n. d.) (as cited in Rudrabasavaraj, 1971), Longnecker and Ludwig (1990), Dhiman and Singh (2007). The following discussion is largely based on their work.

Longnecker and Ludwig (1990) suggest that both organizations and managers have some rights and some responsibilities. The organization has the right to demand accurate and honest appraisals, and the manager has the right to demand some freedom and leeway in carrying out the appraisals. Dhiman and Singh (2007) review the literature on politics in performance appraisal, about perceptions of politics in appraisals and propose that this can be reduced if organizations take appropriate measures.

Longnecker (1989) (as cited in Longnecker & Ludwig, 1990) and Dhiman and Singh (2007) recommend that appraisers should be trained to conduct accurate and fair

appraisals. More specifically, Kellog (n. d.) cited in Rudrabasavaraj (1971) advises managers not to carry out an appraisal until they know its purpose. She also adds that they should appraise honestly with due consideration of all the facts, on the basis of representative, sufficient and relevant information.

Bernardin and Beatty (1984) (as cited in Longnecker & Ludwig, 1990) advocate that the performance appraisal process must be reviewed to guarantee the accuracy of the data generated and the overall integrity of the process. Dhiman and Singh (2007) state that there should be a neutral authority to ensure that assessors follow proper appraisal procedures. Bolar (1970) suggests that each appraiser should in turn be evaluated with reference to his evaluation and development of his subordinates.

Longnecker and Ludwig (1990) remark that managers who believe that organizational outcomes warrant intentional inaccuracy should subject their views to scrutiny by their supervisors or by the Human Resource department.

Dhiman and Singh (2007) conclude that political activities are perceived to be curtailed if there is less ambiguity in the process and system. Bolar (1970) states that the employee should be informed of the performance required of him, and the benchmarks for evaluation, by his immediate superior. Longnecker and Ludwig (1990) state that managers must work out clear standards to judge subordinate performance and convey the same to the subordinate in advance of the actual performance appraisal period.

Bolar (1970) notes that it is difficult for an evaluator to make and communicate a negative rating. However, this communication can be made easier and more relevant if there was an earlier discussion of work expectations, and if it is focused on employee development.

Longnecker and Ludwig (1990) and Dhiman and Singh (2007) both note the importance of regular feedback.

Kellog (n. d.) cited in Rudrabasavaraj (1971) cautions that appraisers should clarify that the appraisal is only their interpretation of the facts. They also should not write

one thing and say another. Likewise, Bolar (1970) comments that the performance discussion should match with the appraisal.

Bolar (1970, pg. 37) asserts that, “The ultimate responsibility for evaluation rests with the evaluator(s); it does not rest with any system however perfect a support it may provide.” She also prescribes that the appraisal system should grant any appraisee the right to a hearing in case of any perceived unfair practices. Another insight provided by her is that it is difficult to make too many fine distinctions in the mid range performance (between the very good and the very bad). Therefore, unless such distinctions are useful for some important organizational purpose, it is better to avoid trying to make them.

Finally, Leventhal (1980) (as cited in Lee & Shin, 2000) lists six characteristics that are required to ensure procedural justice, namely: consistency, bias suppression, accuracy, correctability (there is some process by which appraisal can be modified) representativeness (the concerns of all involved are included or considered) and ethicality (consistent with prevailing moral values).

2.10 Performance Appraisal Systems

The means by which the performance appraisal is generated (including compliance, recording and processing) is generally referred to as the performance appraisal system. A management system is the complete set of components: processes, procedures, documents, records, etc, required to ensure that an organization can or does fulfil a defined task. The appraisal process, on the other hand, describes how the appraisal is carried out.

2.10.1 Forms, Contents and Processes

Bacal, R. (2003) notes that the process of appraisal generally calls for an appraiser to gauge performance usually in some sort of a form. In practice, since the appraisal form is the most visible and tangible part of the process, it is very often perceived to be the system. Even some experienced practitioners, perhaps due to the nature of their organizational experiences, tend to associate the forms with the system. Vaghul

(1975a, pg. 525) describes the existing system thus, “The Appraisal system in a typical bank at present consists of an Annual Confidential Report submitted on every official of the bank by a Reporting Authority who is generally his next immediate superior.”

Subramaniam and Ghosh (1972) record the contents of an appraisal system for the materials function as consisting of the following factors: job knowledge (40%), communication ability (20%), superior subordinate relationship (15%), effective turnover 16% [sic (15%?)], and punctuality/quality of work 10%. Rao (1976) develops a job specific appraisal format for the marketing function based on marketing functions.

This brings up the question of the extent to which the form can be generalized across function. Bacal, R. (2003) comments that if there is one standard form common to all jobs and hence non-specific and therefore it may not provide sufficient or specific information as to how performance can be improved. Given that appraisers are likely to do just enough to satisfy requirements, it is possible that no useful result will ensue. In order to get around this some human relations departments mandate the use of different forms for different types of jobs. However, use of different forms brings a different set of problems relating to comparability across functions and departments. Likewise, The HRD Group (2005) questions whether one appraisal form can be appropriate for all levels, functions, and departments in an organization.

Varma (1987) advocates the use of a three part form. The first part would include the functions, KRAs and targets. The second part would record the assessment with reference to the achievement of the targets and also assess personality factors, and the third would cover both training and development aspects as well as potential and succession planning.

Vaghul (1975A) suggests a form in two parts; the first part dealing with KRAs pertaining to specific assignments and the second dealing with some aspects of performance. Both parts would be first filled in by the appraisee and then by the appraiser and at the end the appraiser alone would suggest areas for counselling and training.

A more elaborate approach is that of the United States Department of Agriculture Research, Education, and Economics (1992) which lists under its ARS Performance Appraisal System 418.3, some 13 items including references, abbreviations, the form, the appraisal process, a list of actions which are based on the satisfactory or unsatisfactory appraisal, appeal process and records. While this clearly is a more comprehensive approach, it still appears to regard the entire process in the manner of a mechanical system.

Fink and Longenecker (1998) note that in order to have a chance of being effective, performance appraisal systems must have two essential elements. The first is a theoretically sound appraisal process, including clear procedures and a suitable instrument (form). The other is an appraiser who must have both the ability and the motivation to conduct the performance review. Boice and Kleiner (1997) note other requirements, such as top management support, training requirements, frequent reviews, accurate record keeping, measurement and legal requirements. Mufeed (1998) lists that the following vital aspects: information validity, participation, feedback system, grievance redressal mechanism, implementation, goal setting, reward and support system, developmental value, superior subordinate relations, character of communication, clarity of performance objectives and performance standards.

Subramaniam and Ghosh (1972) discuss implementation of the new system, by noting that the system needs to be explained to all the employees as well as the consequences of the same. They also note the presence of a review mechanism. Chatterjee (1996) notes that for successful implementation of the appraisal system, the organization should inform all employees about the objectives and priorities of the system and also train the appraisers in filling up the appraisal form and conducting performance reviews and giving feedback. Mufeed (1998, pg. 89) recommends, "... management should involve appraisers and appraisees in the performance planning and review processes." Sayeed and Bhide (2003) report the results of a study covering 211 respondents (84 appraisers and 127 appraisees) belonging to two divisions of a company and emphasize the importance of management commitment for successful implementation of performance appraisal systems.

Sloan and Johnson (1968) pose a list of questions to be answered by managers about the performance appraisal system starting from assumptions about employee motivation and behaviour, purpose, whether the current system serves the purpose, whether it could be done more efficiently, what alternative appraisal methods might be useable, consistency with style of management, relation between performance and contribution to organization, and whether current personnel are qualified to use and understand the system, and suggest that the answers could be used to improve the system. Narain (1970) discusses various points of appraisal systems including the necessity to use terms which are uniformly applicable so that they hold the same meaning to all persons. He also notes that the reviewing officer should be familiar with the habits and inclinations of the reporting officer and should therefore be competent to suitably moderate the appraisal made by the reporting officer and discusses the communication of adverse remarks.

Dayal (1978) suggests that cultural factors also need to be considered when designing performance appraisal systems. (It should be clarified that Dayal appears to be referring to socio-cultural factors, such as the individual as a member of the family unit, and not to organizational culture.) Niazi (1976) dwells on the effect of anxieties created by appraisal and their effect on appraisers and appraisees. He also suggests various solutions including ensuring that each appraiser has to appraise only as many employees, as it is possible for him to know well enough to appraise. The other suggestion is to develop commonly understood standards and ensure standardization and uniformity by means of standard guidelines, and a common review authority to moderate appraisals for variations. He argues that it is not possible to theoretically construct a single perfect universally applicable system and then simply apply it to any organization that requires one. This is because organizations are all different from each other in various ways, (for example, the roles of different positions may be defined differently and understood to differing degrees) and such factors are very important considerations in the design of the system. In conclusion he states (pg. 19) that:

... if those who appraise and are appraised, are involved in the process ... and then allowed to evolve solutions, they are capable of developing systems that

... meet the specific situation. Such solutions are likely to be more practical as they would be based on real felt problems and in accordance with the overall organizational climate. Otherwise the system based on the latest researches [sic] will not succeed as the underlying submerged anxieties, fear etc., would remain submerged but play their part in actual practice.

Bolar (1978) reports that some organizations are trying to develop systems through group appraisals at the senior management level and in some even department heads are involved in the process.

It should also be recognized that the introduction or modification of a performance appraisal system is a question of managing change and consequently resistance to change. Kotter and Schlesinger (1979) list six ways of dealing with resistance: (1) Education and communication (2) Participation and involvement (3) Facilitation and support (training) (4) Negotiation and agreement (incentives) (5) Manipulation and co-optation (only endorsement, not participation) (6) Explicit and implicit coercion. As can be observed, the options are not all mutually exclusive and more than one can be used simultaneously; in particular, the first three options can be pursued concurrently by a company making changes to its appraisal system and hopefully, the last three can be avoided entirely.

2.10.2 Link to rewards / Motivation

One of the basic purposes of performance appraisal is to identify good performers and reward them. Various researchers have made suggestions as to how this might be done. Herzberg (1968 pp 53) states, "The only way to motivate the employee is to give him challenging work in which he can assume responsibility". Smythe (1968) records the results of a 1967 survey of 444 manufacturing companies in 20 industries employing 16,263 salesmen and concludes that wherever possible incentive plans should be applied on an individual basis and that in order to be successful, the plan should be simple and straightforward. Porter and Lawler (1968) specify that for rewards to motivate better performance, three conditions should be satisfied: The rewards given should be those desired, better performance should be rewarded rather than worse performance, and employees should perceive and believe that good

performance results in rewards. (The rewards offered should be a mix of both extrinsic and intrinsic rewards.)

Nickols (2003) notes that there are constraints imposed by organizational factors. A good appraisal leads to a larger increment or merit bonus. Budgetary constraints limit the amount that can be paid and the quantum of bonus is usually determined by some formula. Therefore, either, not everyone can receive the maximum rating, because the pool is not large enough, or the amount paid has to be rescaled accordingly.

The Hay Group (2005) lists several factors that lead to people believing that pay and performance are unrelated. These include: rewards are too small to be recognizable, (too much influence of overall salary budget, wage inflation and corrections for internal equity, i.e. badly designed compensation systems); overlapping objectives leading to a confusion of merit pay and incentive pay i.e., organizations pay employees multiple times for achieving the same outcome (again this implies badly designed systems: it should be clear what pay flows from what performance - individual, group, team, division, organization); good performers are not clearly identified; good performers are not rewarded more than bad performers; the wrong outcomes are rewarded.

Eccles (1991) argues against the use of formulas to link performance and incentives. He observes that formulas give the impression of objectivity and allow managers to avoid making unpleasant decisions. However, if the formula is simple it may ignore some important factors. If it is complex, it becomes confusing and people may try to manipulate it. And in either event, the important factors are likely to keep changing. Therefore, the solution proposed is to let managers decide the rewards and explain them to their subordinates. (While this is an original idea, when the appraisal process is beset with all kinds of errors, it is not clear why this process should be any better. If managers cannot or do not appraise properly, why should they be any better at distributing rewards?)

Finally, Niazi (1979) explains that performance appraisal often does not appear to be linked to rewards, because, organizations also consider a number of other factors such as seniority, experience, education and performance at the interview. He proposes that

in order to avoid demotivation, employees should be clearly informed about the exact purpose and weightage given to the performance appraisal system.

2.11 Issues to be considered

An effective performance appraisal system therefore requires the following elements: clear and well-defined forms, proper documentation, comprehensive and unambiguous processes, a common understanding of why it is there and how it works, appreciation of the spirit of the process, and recognition of appraisers and appraisees as human beings with psychological needs.

In addition, the methodology proposed to be suggested for developing appraisal systems must also address the issues such as the following, the need for which has already been discussed earlier in this chapter.

2.11.1. Any person evaluated on a certain criteria will always have a place on a scale with a given range. Logically therefore it is possible that 'n' number of persons evaluated on a certain criterion will be placed at 'n' different points. When the appraisal is carried out on several criteria, this number of combinations would increase multiplicatively. Since any organization cannot afford to differentiate qualities of individuals so minutely, for reasons of convenience and practicability grading becomes necessary; each grade being bound by 2 extreme values. Therefore, there need to be a fixed number of classes into which an employee may be placed.

2.11.2. In order to ensure common understanding among all appraisers it is considered necessary to describe each criterion as lucidly as would make the exercise fair and consistent. Hence a short description of the specific behaviour associated with each level of rating may need provided.

2.11.3. It may be difficult for an appraiser to remember all significant events concerning the appraiser, that might have occurred in the course of the year. A record of important events, positive as well as negative as they occur during work for each employee should be maintained.

2.11.4. Bias is a factor, the mere suspicion of which is sufficient to vitiate the process. It is essential that this is tackled. Appropriate steps may need to be included in the systems so that response bias will somehow be reduced.

2.11.5. The format needs to be transparent and equitable so as to ensure confidence in the system.

2.11.6. Implementation of a new system can lead to a great deal of resistance to the change. In order that the system be acceptable to those affected, suitable steps need to be taken.

2.11.7. Performance ratings need to be examined in order to identify any trends which can then be studied to discover the underlying causes.

2.11.8. The appraisal system i.e. the criteria used and the weights that are assigned to different criteria need to be suitably validated.

2.11.9. Problems of reliability and consistency need to be defused.

2.11.10. Managers may not know how to conduct the appraisal interview or how to give negative feedback and this may need some remedial action.

2.11.11. It needs to be determined whether one appraisal form can be appropriate for all levels, functions, and departments in an organization.

2.11.12. Sometimes appraisers may not understand the criteria. Suitable steps may be required to rectify this.

2.11.13. Training of appraisers can be expensive and time consuming. Therefore a method needs to be devised to contain such costs.

2.11.14. It may be necessary to devise some mechanism to ensure a common understanding of the system.

2.11.15. It needs to be ensured that all elements of procedural justice: consistency, bias suppression, accuracy, correctability, representativeness, ethicality are provided for.

2.11.16. A suitable mechanism to link rewards to appraisal needs to be developed.

Chapter 5: Development of Methodology for System Design

5.1 Introduction

In general, it is reasonable to assume that the number of intrinsically motivated employees in any organization, especially a commercial organization, is likely to be small. There may also be some employees who are neither motivated nor demotivated. Bad appraisals would result in more employees joining the ranks of the demotivated. This can be explained as follows: Employee expectations increase when a system is introduced. Then, when the employees feel disappointed, it leads to demotivation. This, of course, may be the necessary consequence in a small number of cases irrespective of the system, because people like systems that are favourable to them. On the other hand, if the system is fair, whether the employees are happy with the results or not, they will understand why such results were obtained and this understanding may lead to acceptance and some idea of how performance may be improved in future.

The design and development of the performance appraisal system, including its implementation is of importance in order to avoid the problems mentioned above which would have a regressive effect. The remainder of this chapter is concerned with outlining a methodology which any organization can use to develop an appraisal system and avoid the pitfalls mentioned above.

5.2 Methodology for System Design and Development

A system can be described in terms of its constituent parts or more generally defined as a means to achieve certain ends. It requires certain inputs, processes the same and produces certain outputs. An organization's performance appraisal system requires as inputs, the opinions of the participants in a standard format, which should be processed (collated, verified, rendered complete (if required), and analyzed). The outputs are in the form of performance ratings, possibly linked to consequences (rewards or punishments), indications of training and development requirements, and the results of the potential appraisal.

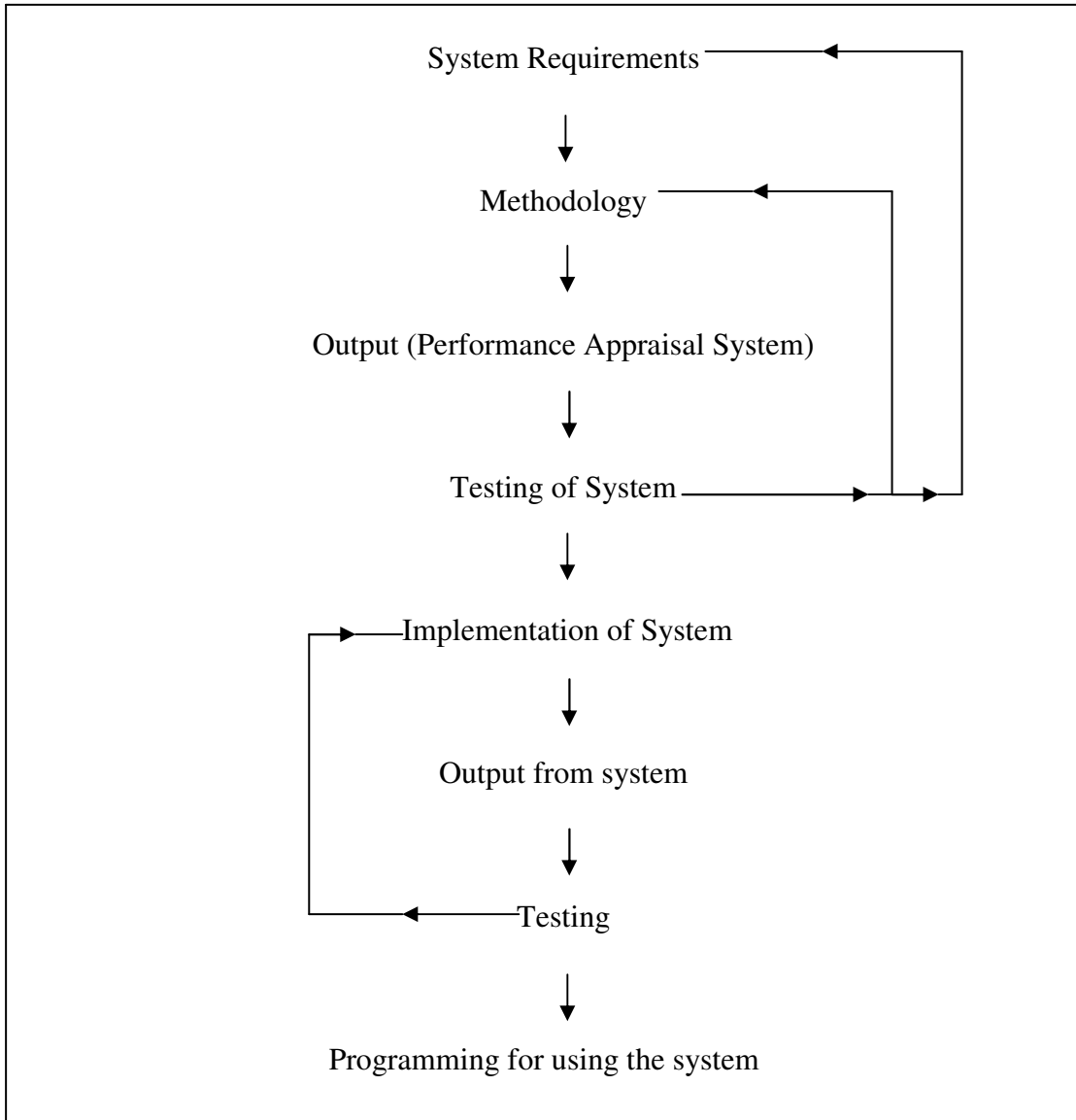


Figure 5.1: Flow Chart of Methodology to Develop System

The methodology to develop a performance appraisal system should take the requirements of the system as an input and then as the output, generate a system that meets the requirements. The system generated should be complete, with all procedural aspects, the criteria (attributes) and weightages. It should be feasible to implement, should broadly satisfy everybody (users and those affected) and be valid and reliable. The system so generated should then be tested to see whether it meets requirements. If it does, then the next step, which is implementation, can be proceeded with. If it does not, then that feedback should be used as another input and used by the methodology to develop another system. In extreme cases, the requirements themselves may require

to be modified. Once a system that meets the requirements is generated, then implementation can be taken up. At that stage further testing will need to be done to ensure the validity and reliability of the system in terms of the outputs required of the system. If the development process (methodology) is sound, the system will meet the requirements to a great extent. However, the final system may require some fine-tuning so that the performance of the system itself is aligned according to the expectations and perceptions of the organization. Ultimately, a computerized programme for using the system can be developed. This process is illustrated as a flow chart in Figure 5.1.

5.2.1 Validation, Testing, and Maintaining Integrity of System

The system generated should be thoroughly tested for validity and reliability before implementation in order to identify and correct any flaws that may have crept into the process. This can be done by using the previous years' data if available, or by testing using a trial run. If an existing system is already present, both systems can be used concurrently. Of course, this requires additional expense and effort, which in some cases, may be significant. There are other concerns also; if run concurrently, can someone work out how to beat the system? What happens if the criteria of the two systems are different? Can there be some type of check for consistency? For example, with the individual form, different items could be cross-linked. It can be checked if the department/division's performance appraisal add up i.e. if everyone is good, then the department/division's performance should also presumably be good. Conversely, if a person's performance is good and that person's subordinates' performances are all also good, can that person receive a bad rating? Other measures that can be considered include the following (these are also to prevent persons from trying to beat the system): some dummy variables may be included in the form. (This has overtones of deceptions and therefore, it may be necessary to reflect upon whether there should be any such thing.) A related point is whether the form will need revision after the initial implementation, for fine-tuning later on? Can the same criteria be duplicated and only one considered (randomly) in a given year, (or the average or highest or lowest of the two scores)? Is there any way in which the rating can be verified against some measure of performance measured continuously at periodic intervals? It is unlikely that any organization will need to use all these measures, quite possibly any

one method used at random intervals to ensure validity and integrity may be sufficient. It may be noted that testing is carried out at two stages. The first is to check if a system has been developed which prima facie meets the requirements. The second stage of testing is to validate whether the system outputs are as may be expected.

5.2.2 Approach to Development

An appraisal system may be developed uniquely for an organization or it may have been developed elsewhere and then been transplanted into the organization. If a new system is to be developed, there are two approaches to the process of performance appraisal system development.

1. System created and imposed: In this approach, a system is developed by an external expert or team within the organization and is then implemented. Sometimes, it is attempted to 'sell' the system to the employees after it is developed by informing them about the system attributes and benefits.
2. System generated by discussion: The alternative to the first approach is to take the employees into confidence from the inception and actively seek their inputs in developing the system.

What approach then, should an organization follow for developing an appraisal system? Of the two possible approaches, there may be some circumstances under which a system which is created and imposed may be a preferable alternative, depending on the time frame, size and nature of business, organizational culture, number and type of employees, or if no system currently exists. (As an example of an organization that may prefer this approach, consider the likely process in the armed forces: the organizational culture of reinforcing authority is likely to run counter to a participative approach.) However, in case of most other organizations, that prefer to foster culture based at least to some extent on mutual goodwill between employees, an externally developed system, irrespective of how good or bad that system may be, (despite the amount of selling that may be done), is likely to make people suspicious and think that the system is not fair. Implementation is likely to be less difficult when

the people who are going to be affected are allowed to participate in system development. System design, therefore, should take into confidence a sample of employees representing various departments and levels.

5.2.3 System Requirements

The specification of system requirements has different facets. One is in terms of the required characteristics of the system. The other is with respect of the specific requirements. There are, therefore, two lists of requirements for system development.

The first set of requirements largely deals with aspects related to ‘what’ the system should be like, and would include the following:

1. People should accept the system; or at least the vast majority of the employees should, so that it can be implemented. For this reason, it is advisable to involve people and consider their inputs.
2. The system should be free of bias. As discussed at length earlier, bias is at different levels. Conscious bias has to be controlled. This may be achievable through increasing awareness by training. Unconscious bias is not deliberate and needs to be controlled by other means, such as moderation.
3. The system should be tamper proof. No one should be able to fudge the system.
4. The system should be reliable, responsive, valid, applicable to all levels proposed to be covered, immutable, comprehensive and applicable over all conditions of the organization irrespective of product, business objectives etc.
5. The objectives of the system must be specified in terms of the outputs required. In this case, a performance appraisal system must provide the results of the evaluation of performance in a form suitable for administrative purposes. In addition, to the extent possible, it should also identify requirements for training and development. Finally, either as a part of the same system or separately, potential should be appraised.

The specific system requirements include various items, which may also be termed as system design decisions and are discussed in some detail below. Because of the nature of these aspects, which deal with 'how' the system should be or do, they are inputs to the methodology, and are also directly reflected in the output. Therefore, they are discussed keeping this dual character in mind and consequently, for almost all the aspects, (save perhaps one,) the perceived best solution is also suggested. It should also be noted that these aspects overlap with each other and therefore, decisions about one aspect may impact another.

1. The specific type of appraisal process a company might want to incorporate or follow, i.e., the approach to appraisal a company should follow.

In general, organizations require that individuals perform so some method of measuring output or achievement of results must be present. In addition, it may be useful to assess how the results are achieved. In other words, both ends and means are important though for different reasons. Purely assessing means (performance behaviours) gives no indication of task performance, and ultimately, it is task performance for which the individual is appointed and paid. However, in case performance is lacking, that by itself may not indicate what is wrong, while if the other aspects of performance (behaviours) are evaluated, diagnosis and correction or even improvement becomes considerably easier. However, this leads to another point, namely, what are the standards of performance? This is a particularly tricky point and is also related to the methodology the organization chooses to adopt. Many organizations use a combination of some sort of MBO systems (KRAs) and performance factors. However, KRAs are also difficult to define for certain functions. Additionally, for top management, KRAs are only possible in terms of organisational performance. There is increased dependency between functional areas. Very often organisational performance may be the result of external factors and/or previous decisions. So, what is the organization measuring or paying for? Then there is the question of how to measure performance or by what yard stick. Target setting is not an exact science. Often targets are based on a budget or corporate objective, which is itself based on historical performance, on some competitor's performance, or on average industry performance with some modifications. Is sales volume measured in quantity or revenue? If price goes up due to external factors, should the employee get

the benefit? What happens if the price falls? What about factors affecting quantity? How to isolate the performance of the individual from organisational or systemic factors - statistical fluctuations and dependencies? How much does a boss contribute to a subordinate's performance and vice-versa? All these questions do not appear to have clear answers and therefore, using KRAs appears to be at least a little suspect, particularly in the Indian work environment.

Furthermore, MBO, read in its original context, was advocated as a system of managing organizations or business units and not individuals. While there can be little argument that individual achievements must contribute towards organizational objectives, generally individuals perform a number of tasks, not all of which can be directly tied to objectives. The smooth functioning of a unit requires many intangible inputs. Therefore, a system which is primarily based on KRAs cannot be universally applicable. Any job has some requirement of normal routine work, which may not be amenable to use of KRAs.

There can be no argument as stated earlier that employees are hired and remunerated for the output they contribute, so, in any case, work output or achievement is a very important part of the appraisal process, but it cannot be the only part. This aspect of how to measure work output can be better left to the mutual agreement of the appraiser and appraisee as to achievements, target, deadlines, etc. The choice of the other criteria (attributes) is likewise of considerable importance and discussed separately.

2. The selection of attributes which should be used: their number, range, and weightage. (Note, different attributes can have different scales: some may be dichotomous and require for response a yes or no (or satisfactory or not). Others may require a three or four or perhaps a six point scale.) There is an advantage in using an even number of points as there is no clear 'middle path'. Appraisers will have to apply themselves to decide what the grade should be. There is a check on the central tendency. A four point scale could, for example, be constructed as follows:

A: Outstanding; consistently high performer

B: Meets job requirements much more than can be expected

C: Meets job requirements as expected

D: Seldom meets job requirements; requires constant supervision

At the time of system design it would be necessary to generate a comprehensive list of all such applicable factors and decide how to incorporate the same. The most fundamental and important part of the appraisal system is the rating of appraisees on each of the criteria. The identification of attributes is a key part of the system development and is dealt with separately in the next section. For the sake of common understanding of exactly the same meaning across the company these attributes and the meaning of the grades have to be clearly defined. Furthermore, if one of the desired outputs is identification of training and development needs, then, in addition to the performance appraisal attributes, it would be necessary to identify (in a separate section perhaps) the major strengths and weaknesses of the employee and also to mention the recommended areas for training.

3. The set of individuals involved in the process: who carries out the appraisal? The answer to this question of course, depends on the purpose of the appraisal. A purely administrative performance appraisal would need to be carried out differently from one intended purely for development and neither might prove useful for a potential appraisal. In general, performance appraisals intended for administrative purposes must have the appraisal carried out by the immediate superior and if required, this can be supplemented by other officers. An employee will be appraised by the officer to whom he reports either administratively or functionally. Whatever be the case, it must be indicated. It may so happen that both relations exist. Wherever the situation is such, both administrative and functional superiors should be required to assess independently of each other and the final rating should be a suitable weighted average of the ratings. The appraisal will be reviewed in all cases by the reviewing officer, who is the individual to whom the reporting officer administratively reports. It would be expected, that in most cases, little or no change should occur as a result of this. In case of significant change, a suitable mechanism must be incorporated to investigate and arrive at a conclusion about the final ratings. Preferably, this should be handled by a committee of senior management including HR. Furthermore the question also arises about self-appraisals. It would appear to be advisable that appraisees be given the opportunity to express their own views on the matter. Essentially, the self-

appraisal should report the employee's contributions to the company during the year under review and perhaps, also make a mention of the constraints, if any, under which he had to perform. However, while this will be one of the inputs into the process, and also part of the record, it should not be used to directly calculate the final rating and therefore should be a clearly distinct section. Appraisers should disclose the actual ratings (on the attributes) to the appraisees after these have been seen and signed by the reviewing officer. The final score will be calculated later by the appropriate processing section of HR. If the appraisees wish to write any comments on the ratings awarded, they should be given the opportunity to do so. Appraisers must then write their final comments before forwarding the form to HRD for processing. The final score (a single numerical value reflecting the overall rating) will be entered by the HRD after processing the form.

4. Frequency of appraisal: How often is the appraisal done? (Or equivalently when is the appraisal done?) There is no one specific number and the answer is variable, depending on the status of the employee. Normally, for all full time employees, appraisal should be carried out at the end of each financial year. In case of trainees, it may require to be carried out more frequently; specifically performance may be required to be appraised at the end of probation, whenever it falls. Likewise, potential appraisal should be done after joining at sometime before the end of probation. Both are required, in case of any doubts about the candidate's suitability after the probation. It may be noted that selection is after all, basically some sort of crude potential appraisal. More generally, new employees (not necessarily entry level only) may be treated differently from continuing employees. Some minimum period in a new post (for example, three months) may be required before appraisal is conducted for the process to have any value. In addition, there may, in exceptional circumstances, be the need for more frequent appraisal or appraisals carried out as per some other schedule also. (This would include events such as on completion of a project or special assignment.) The appraisal period relates to the duration in the financial year under review in which the employee has been reporting to the appraiser. The duration of reporting relationship must be mentioned in terms of completed months of association during the year under review. Situations such as multiple appraisers for the same period may occur in case of transfers, either of appraisee or appraiser or two different bosses (functional and administrative) and the like. If such a

situation should arise, and there are several appraisals for one appraisee, then a weighted average will be calculated with the weights based on the length of service under each appraiser. In case of appraisal by both administrative and functional head, the appraisal of the administrative head ought to carry a greater weight.

5. The kind of evidence required to support the ratings: Is evidence required for every statement made? Is it necessary at all to support the ratings given with evidence? If so, when is such evidence required: for all cases, or for specific attributes or based on some other criteria? In general the principle of reporting by exception can be extended to this situation. Performance which is satisfactory will not require justification. This would correspond to a C rating in the four-point scale mentioned above. A 'C' therefore will need no comment. However, assigning a rating of A, B or D against any attribute will require the appraiser to provide suitable documentary evidence or support the decision with the help of specific instances. Even more specifically, each B or D marking will require specific justification, but each A rating will require far more justification (either several specific examples or some very rare and outstanding achievement) to justify that it is indeed rare.

6. Evaluation of the form: This of course depends on the technique. Narrative only, for example, does not easily lend itself to conversion to a single numerical value for each form. This raises the question about what can be quantified. The point is that if something cannot be at present quantitatively measured, it should not come to necessarily mean that it cannot be quantified at all, but just that at present, there may be no way to measure it quantitatively. This is a contentious point and a clarification should be made. It must be conceded that appraisals are largely judgements or opinions. However, if a number of qualified, disinterested observers consistently come to the same qualitative conclusion, then that conclusion can be taken to be valid and reliable. All that is being additionally proposed is that by means of a suitable rating scale, the qualitative judgement is converted to a quantitative form for the sake of making comparison easier, which is essential for administrative decisions. It is therefore necessary to have a type of form where specific attributes are evaluated or graded on some type of rating scale and each attribute is assigned some specific weightage. An overall weighted average rating can then be computed. In addition, the rating must be supported by comments (narrative) as specified earlier.

In general, performance as per expectations should be evaluated as a 'C' as discussed above. In very few cases, one or more attributes might be rated as B. Ratings D or A are even less likely, almost bordering on none. If an attribute does not seem applicable in the case of a certain appraisee, the appraiser may, as felt appropriate, leave the rating blank and strike out the row.

Once the form has been evaluated, there has to be some provision by which the findings (scores) can be modified. (If there is to be a review or appeals process, then, this provision must exist, but with sufficient safeguards.) Clearly, modifications must be permitted but only at predefined levels as formally authorized to do so and on the recorded recommendations of the committees set up for these purposes.

7. Disclosure of grading to the employee: What should be disclosed to the employee? Clearly, any of several answers are possible, from the ratings of the attributes to the final grade. As mentioned above, appraisers should disclose the actual ratings (on the attributes) to the appraisees. The final grade, will at that point of time be left blank, since it will be calculated later by the appropriate processing section of HR. In this way, appraisees, get a good idea about their performance, but neither the appraisees nor the appraisers know the final score, which is used for decision making, thus reducing the prospects of individuals trying to manipulate results.

8. Validation and moderation; steps to remove bias; checks and balances: How is consistency ensured across the organization? The evaluations of different departments and different bosses of differing leniency need to be rationalised (moderated). The basis of moderation will depend on the acceptable percentage variation between departments, etc, finally allowed. It must be noted that it is possible that a particular department's performance may actually be exceptional, and that the average performance of all individuals in that department is significantly different from (better than) the organizational average. In the urge to moderate, truly exceptional performances should not get invalidated. If the difference is considerable, then normalizing across departments can be carried out. Other checks may be at different levels. For example during the evaluation, skipping a grade compared with the previous appraisal is not expected. In any year an individual may move up or down

only one grade, or it must be strongly supported. Likewise, the requirement for evidence supporting each A/B/D rating acts as another check. Then there are contraindications, if any, among the criteria. If one of the criteria is interpersonal relations and teamwork, it can serve as such, since in any job where there is significant interaction involved, this is an essential requirement. In case of multiple appraisers during a year, each appraiser acts as a check on the others. Ultimately, during processing, the moderation committee of senior executives from different departments will examine the pattern of grading of each department, and in case of wide fluctuations, this will be discussed and comments sought from the appraiser.

There should also separately be an appeals process, after the final grades are disclosed, which all employees should be clearly aware of. The appeals process may be single stage or multistage. It may be preferable for the process to be multistage, with some screening for vexatious appeals. However, any employee who so feels should have the right to appeal up to the final authority, which may be the CEO or Managing Director. Of course, in case there appears to be any abuse of the process, it will reflect adversely on the employee. It may also be an adverse comment on the appraiser, in case it comes to light that the matter has not been properly handled or clearly explained by the appraiser to the appraisee. Finally, there is the question of who has the final say, i.e. who is the final authority? Of course, all companies have a CEO by some name, but it may simply not be practical for the CEO to get involved in the process for everyone. In most cases, a standing committee of senior management may serve the purpose. While HRD must have a representative on the committee, the other members may be selected by rotation.

Finally, there may be deliberate attempts to manipulate the system. It may not be possible at first sight to differentiate between this and unconscious bias. However, a persistently bad appraiser may require further investigation. Continuous monitoring and testing will be required to appraise the appraiser/appraisals and identify biases. Periodically, the previous 3 or 5 years appraisals should be analysed for any trends. If the appraiser is found to have appraised with a bias, it should be reflected in his own appraisal, which should be suitably downgraded.

9. Types of records to be maintained: One aspect of this is related to the final rating and decisions and is mentioned in the discussion on the structure of the form above. In addition, there may be the need for other records to be maintained specifically by appraisers or appraisees regarding their performance during the year so that there is some sound basis for appraisal. Records must also be maintained regarding the consequences of appraisal. This question bears not only on the fairness and internal integrity of the system but there may be some legal requirements as well. All these aspects should be duly considered in deciding the number and form of the records.

10. Design of form and contents of the form: Clearly this is dependent on the answers to the points discussed above. However, the form itself would still require to be designed based on the following four aspects:

A. Nature of data: The data generated can be classified under the following heads:

Static Data: this refers to general detail such as name, birth date, employee number and the like which do not change from year to year.

Dynamic data: this includes all performance related data including the date of the current assignment and the like which may change from time to time. This part would depend in part on the answers to the previous questions. The items would include all aspects that are considered necessary to assess or record. However, care must be taken to avoid the inclusion of extraneous items that might bias the appraiser.

B. Format/Arrangement/Sequence: This refers to the actual arrangement of items on the form. This is important because, some aspects may require to be disclosed to the employee and some may not. Furthermore, the sequence should be so done that there is no indication of the relative importance (weightages) of the criteria . There should be a logical flow. Sections, which are independent of each other, should be clearly separated.

C. The record of the final results of the appraisal after analysis, review, moderation and the like. How are these to be recorded? Should it be done on the form itself or somewhere else? Normally, it would be better if all these aspects were together. However, it is generally not expected that too many such changes would be

necessitated. Therefore, even though these may be recorded on the form, making explicit provision for the same on the form may not be required.

D. The record of the outcomes or decisions based on the appraisal such as training, increments, promotions and the like. Similar to the point above, these details should be recorded either on the form or elsewhere. However, these decisions are likely for every appraisal and if they are to be recorded on the form, explicit provision must be made for them.

11. Additional information: Can extra sheets be added? This is a procedural aspect which is included for the sake of uniformity. Having to assess a number of different appraisals with differing amounts of detail will make consistency difficult. In all cases it is preferable if a reasonable amount of space is provided on the form itself for all the requirements and all involved should ensure that the details are contained in the space so provided. Since justifications may be required for some ratings, space should be provided on the form itself for the details required. Adding extra sheets should not be permitted.

12. The appraisal interview or performance review discussion: There should be one after every appraisal (i.e. In most cases this would mean the annual appraisal). More frequent performance review discussions may also be desirable, so that feedback is provided to the employee at regular intervals and not merely at year-end. These however, may not be as structured as the annual appraisal. The annual appraisal interview, however, is a formal requirement. The discussions should be kept confidential and only the appraiser, appraisee and a person from the appropriate section of HR should be involved. Some record should be maintained of the event to confirm that the event has actually taken place. During the interview, after reviewing past performance, the focus should be on the future and how the performance of the appraisee may be improved. In this context, the identification of work related problems faced by the employee and how these might be overcome would form an important part of the discussion. In view of the sensitive nature of the performance review and discussion of feedback, it is necessary that a representative from HRD should be present.

13. Training of appraiser: All appraisers need to be trained or at least oriented in the system. The timing of this training or orientation should be shortly before the appraisal process. If by some chance, the organization allows some aspect of participative goal setting for the following year, this also would be done around the same time of the annual appraisal, so training can be scheduled to cover both. If possible, there can be a common training schedule for each department, so that there is no scope for different opinions about what should or should not be done. It is believed that all management staff will be both appraisees as well as appraisers. In case the system is also to include employees who are not appraisers but only appraisees, they should also undergo some training or orientation, either at the common training programme or separately.

14. Glossary of terms: As noted earlier, the words (particularly the attributes and the ratings) must carry the same meanings to everyone concerned throughout the organization to achieve consistency. There must be a glossary or some guidelines preferably attached to the form, so that they are available at hand during appraisal.

15. Relating performance to rewards: How is the result of the appraisal linked to the reward system? Is there a clear link at all? How is this related with the compensation scheme? It should be made clear to the employees, what is the relative importance of the rating and what is the importance given to seniority or other factors. This will help in making the system more transparent. However, if the major basis of these decisions is something other than merit, perhaps, the organization should reconsider the decision to have a quantifiable performance appraisal system. The system should indicate what is the relationship with compensation, training and developmental needs, scope for career progression, lateral movements, etc.

5.2.4 Development of System: Selection of Attributes and Computation of Final Scores and Grades

In the development of the system, the most important aspect therefore is selection of attributes: number, range, and weightages. Judgement, analysis, experimental findings or the balance of probabilities can be used for taking decisions about other aspects of the system, but every organization being unique, the set of criteria and the weightage

matrix will also be unique to it. As discussed above, almost all the other aspects have been covered and specific suggestions have been advanced to deal with almost all the other aspects. However, the selection of attributes remains. This can be done as described below.

The employees shall be informed of the initiative to generate a new system and be invited to participate. It may be useful if some external entity or person (neutral observer and facilitator) oversees the process, so that employees are at least partly reassured about the seriousness and have confidence in the process. The facilitator will then hold a series of discussions with employees in groups of seven to ten or thereabout. Discussions can be held with several groups, such that when all the groups are considered together, every department and every level in the hierarchy (for whom the system is applicable) has been represented. Likewise, if there is more than one location where the company has its facilities, some employees from every location should get the opportunity to participate. All participants for such discussions must be selected through stratified random sampling. Several sets of discussions should be held and it is necessary to ensure, that while the composition of the discussion groups may vary, the same individuals selected in the initial discussion groups are involved at the different stages described below. In other words, there will be some outcome from each discussion and the next discussion will build upon it. It is possible that some individuals involved in the first round may not be there in subsequent rounds, but completely new individuals should not be involved in the middle, when the process is already under way.

At each stage, certain aspects of the system can be discussed and the views of the participants sought. These views will need to be coded (the code structure will identify the following elements: location, department, grade, serial number). The initial discussions should focus on problems faced in appraising and on the attributes that should be used for appraisal. A large number of attributes are likely to be generated. At the time of system design it would be necessary to generate a comprehensive list of all such applicable factors. The list would include both managerial skills and behavioural skills. Knowledge and output should be looked at together. There will also be subtle differences in some attributes as to the meaning, for example, the content associated with the term job knowledge will differ not merely

with departments, but would imply depth at lower levels and width at higher levels. Through discussion these may be reduced to about 15 or 20 across the groups so that the process becomes focussed. There should be good reason to either retain or remove particular criteria and a record should be maintained for all such decisions. For example, some criteria can be merged under a single head; in case of others in the process of the discussion, they may simply be perceived as not being important and so on. It cannot be overemphasized that the discussions must lay bare the meaning of each attribute and what it means in behavioural terms in practice and at least by the end of the discussion, before the participants fill in their views, consensus must be reached in the on the meaning and importance of each. If this is not done, the entire process is likely to become infructuous.

The next stage is to determine the weightages for each attribute for the job each person is doing. This could be done either by a ranking method or alternatively by asking each member to assign weightages so that they add up to a fixed number. This number would be roughly in the range of ten times the number of attributes being considered. (Too small a number will not allow discrimination and one that is too large will only likely confuse the participants.) The two methods can be used at different times with the ranking done initially and the distribution of weightages later on, since this step should be repeated with the sequence changed and at a different meeting.

The next step would require each group member to indicate how important each attribute is for their own department and others departments. (The perceptions of importance can be determined by a ranking process: '1' as highest and ticking the number) This exercise can be repeated for each individual at a different meeting, either in the same group or as a part of a different group with the sequence of attributes being changed.

The process may then be refined once again. First, considering the highest rated attributes and assigning weightages to them. Then in the next time, the focus may be on the top ten attributes with some of the least important ones, so chosen that they can be logically merged together. This would have the effect of clarifying what each attribute is about as well as reducing the total number of attributes. The weightages of

the final combined attributes would be the sum of the individual attributes combined. The process may again be repeated with the sequence of attributes being altered. At each meeting to the extent possible, a different subset of the participants should be involved. The final group can be a mixture of individuals from the earlier groups.

Finally, in order to arrive at the department wise weightage of attributes a weighted average can be calculated based on the principle that the opinions of employees belonging to a particular department get more weightage with regard to their own department. Others get a lesser weightage. This process can be carried out for all the departments. (For examples, the average of the perceptions of the own department employees may get a weightage 90% and average perceptions of all other department a weightage 10%.) The final group may be composed of members of the previous groups. A similar process can be carried out to determine the importance of each attribute with respect to hierarchical levels but without reference to departments.

This process may seem slightly complex, but it does have the advantage of eliminating errors or at least greatly reducing any that may creep in due to any reason. The responses of all the participants are obtained independently of each other and confirmed over time. It is also possible to further refine the process even within departments by considering the level of the individuals involved and accordingly assigning appropriate weights to the responses.

Finally, the product of the department wise weightage and the level wise importance should be calculated for each position for the entire set of attributes. The sum of the weightages should be computed and for convenience this may then be set to a round number say 1000 and weightages reassigned to each attribute accordingly. This would form the final weightage matrix for that position. Therefore if there are 'n' number of departments and 'm' number of levels in the hierarchy, 'm x n' weightage matrices would be generated.

The next step is to categorize all the attributes in the final list. The attributes should be divided into two groups based on relative importance with one group consisting of the more important criteria and other the less important ones. The more important ones will be allowed a maximum score of four and the less important ones a maximum

score of three. In other words, an A grade would be possible only on some attributes, and the maximum possible on the others would be a B; also in some cases, perhaps there may be possible only two grades. By multiplying the weightages into the maximum possible scores and summing them, the maximum possible score will be determined. The base value of the grades or ratings of A, B, C and D may be fixed as four, three, two and one respectively.

Again, out of the more important attributes, the absolutely most important (MMI) should be selected and the sum of their weightages determined. Let this be denoted by X. Likewise, let the sum of the weightages of the remaining more important (MI) = Y. Then, the overall ratings can be calculated as follows:

$$A = > \text{Max} - Y \text{ to Max} *$$

$$B+ => \text{Max} - Y - X \text{ to Max} - Y - 1$$

$$B = > \text{Max} - Y - 2X \text{ to Max} - Y - X - 1$$

$$C = > 1000 + X + 1 \text{ to Max} - Y - 2X - 1$$

$$D = > 1000 \text{ to } 1000 + X$$

* In other words, in order to obtain an A, it is necessary to obtain the maximum grade (and hence scores) on the MMI and up to one grade less on some of the others either the MI or the less important ones.

Note: though the appraisers are using only four grades, for administrative purposes, these can be then reclassified in five or more grades as required. In general however, the fewer the number of grades, the better the system is likely to work. In this case, the B grade is split into B and B+ with the intention of identifying the potential future 'A's. No other administrative decision should be based on this.

The absolute minimum score possible is 1000. If an employee was rated all 'D's, (a D means a value of 1 point) the overall score (obtained by multiplying the weightage of each criterion into the rating value for that criterion), would be 1000. The maximum possible will be somewhere between 3000 and 4000 depending on the exact number of the attribute (and weightages) for which 'A's are possible. These values will be different for each grade and department. The preliminary results obtained can then be moderated by taking into account the actual ranges of scores. The final weightage matrix must be kept confidential in order to avoid encouraging individuals to play the

system. Note, also, that all the people involved and by extension in the organization will know exactly how the system works, to the extent of which attributes are more important, but they will not know the exact weightages and no indication should be given, even in the design of the form about this matter.

Once the system has been developed thus far, it will be necessary to test the validity of the output with either previous appraisals or preferably directly with the perceptions of the appraisers. The output will give results such as employee S is better than T, or employee U is similar to V, and these should be checked. It is expected that the results will be broadly consistent with the perceptions of the appraisers. Otherwise, it will be necessary to check whether perhaps the weightages for the attributes need to be adjusted. (As mentioned above, minor adjustments can be made without going through the process again, but will have to be validated with a fresh set of employees.) If major changes are required, then the only conclusion that can be drawn is that the basic information elicited from the participants was incorrect due to whatsoever reason. It may be worthwhile to carry out a level wise analysis of responses. Most likely there will be a significant difference in the weightages of the attributes as assigned by individuals at different levels and this difference will have to be investigated. In fact if the initial discussions are carried out properly, this problem should not occur at all! It is therefore essential to ensure that there are thorough discussions at all stages so that this situation does not arise.

Even though four grades are suggested here, it may be possible to have any reasonable number from a minimum of two to a maximum of six or seven based on the criteria. In any case, beyond this it is unlikely that appraisers will be able to make consistent distinctions and therefore, in general, the simpler the system and the fewer the distinctions, the more robust it is likely to be. Furthermore, the range is not the same for all the attributes; that is to say the range will change with attributes.

While there is no bar on the number of people in each grade, it can be expected that about the number of 'A's will be about 1 – 2 %, 'B+'s about 3 – 5 %, 'B's about 8 – 10%, 'C's about 80 – 85% and 'D's about 2 – 3 %. ('B+'s are those who have the ability to be 'A's but are slightly lacking and need training and support to become 'A's.) The distribution is slightly skewed since recruitment is based on taking good

people. (If the number of 'A's is greater than the number of 'D's, this is normal for both stable companies which want to retain people and growing organisations which need people. Expanding organizations have more opportunities and more promotions. In sinking organisations, the number of 'D's will exceed the number of 'A's.

Finally, after review and moderation are completed, the final scores of all the employees should be ranked irrespective of level or department. Then clusters are identified and final grades awarded. There is no absolute score for 'A' or 'B+'. However, the maximum difference between two consecutive scores can be say 5% for 'A'. It might be preferable if this aspect can also be computerized or at least when the clusters are identified, if the employee identifications are removed for the exercise. Those who get 'A's should be interviewed by a committee of divisional heads or their representatives and HRD. Consequent on these final grades, administrative decisions on rewards or other actions may be taken.

5.2.5 Addressing issues raised in earlier chapters

The system arrived at by this process will have the following features. The numbers in parentheses refer to the specific chapter-wise issues addressed.

1. An employee may be placed into one of a fixed number of classes, each of which is also specified using verbal terms such as poor, outstanding, etc. (2.11.1)
2. A short description of the specific behaviour associated with each criterion is provided. (2.11.2 & 4.4.1)
3. The supervisor is required to maintain a record of important events, positive as well as negative as they occur during work for each employee and keep the employee and HR informed on a regular basis. (2.11.3, 3.5.2, 3.5.3, 4.4.1, 4.4.2, 4.4.3, 4.4.4 & 4.4.8)
4. The scoring key is not known to the participants, thus rendering efforts to game the system more difficult. (2.11.4)

5. The format adopted is transparent and equitable and developed considering the views of a representative sample of all those affected, including both appraisers and appraisees. (2.11.5 & 2.11.6)
6. Trends in the performance ratings will be investigated and studied in detail by trained personnel to discover the underlying causes. (2.11.7)
7. The appraisal processes and the weights that are assigned to different criteria are tested and modifications incorporated accordingly. (2.11.8)
8. Proper training is provided, so that appraisers clearly understand the criteria and processes. (2.11.12 & 4.4.10)
9. With proper records and review, problems of reliability and consistency should be alleviated. (2.11.9)
10. Managers are trained to conduct the appraisal interview and in addition an HR person will be present to facilitate the process of giving feedback. (2.11.10, 4.4.4, 4.4.10 & 4.4.11)
11. The system is standard but attributes and weightages are unique to the organization (i.e. it is developed separately for each organization.) (2.11.11 & 3.5.8)
12. It is quantitative and results in a single numerical score for each employee. Hence, it is possible to determine relative performance within the department as well as across departments that is to say throughout the organization. (2.11.9 & 4.4.3)
13. The nature of work and level of employee are both specifically considered and this is reflected in the weightage matrix. (2.11.11)
14. It is scientifically developed and the results obtained are amenable to moderation by application of judgement. (2.11.9, 3.5.5, & 4.4.7)
15. The system is the same throughout the organization, and is likely to be perceived as

such, though the applicable attributes and weightages may change. This may not be immediately evident, but some attributes may not be required for some roles and will carry a weightage of zero in that matrix. There will be no change in the form as such. (4.4.8)

16. There is the advantage from the point of view of implementation, processing and records, as there is a single form for appraisal for all employees. (2.11.11 & 4.4.9)

17. Due to the process used to develop the criteria, participants will understand the details of the process. They will also better appreciate the spirit in which it is to be carried out. (2.11.14)

18. All requirements of procedural justice are taken into account. (2.11.15)

19. Extensive training may be expensive and time consuming, but this would be the case only for the first time round. Thereafter an annual refresher may prove to be sufficient. (2.11.13 & 2.11.14)

20. The measurement of work output is left to be decided by mutual consent of appraiser and appraisee. (3.5.1 & 4.4.5)

21. In addition to work output, performance factors are also assessed, which will permit analysis and diagnosis of poor performance so that it can be improved, and help in identifying training and development needs. (3.5.1 & 3.5.6)

22. Appraisal is carried out by the direct superior Self appraisal is also one component. Multiple reporting relationships have also been taken into account. (3.5.3, 3.5.4 & 4.4.6)

23. There is a clear, non-discretionary linkage of rewards to appraisal results. (2.11.16)

24. As might be expected, even though the distribution of final scores is skewed and truncated (as compared to the normal distribution), the ranges (for the grades) are

bigger in the middle and smaller at the extremes. (2.11.16)

5.2.6 Validation

The objective of this research was to develop a method which can be used by any organization for its employees placed at any level or department.

The methodology developed allows organizations to take inputs from its employees placed at different levels and different departments and use these to develop an appraisal system suitable for themselves.

Clearly, the suggested methodology is self-validating, for it is uniquely developed by each organization, keeping in perspective its own nature and size of operations, organizational structure and the quality of its people. (Only if and when these change, will the system need to change.)

The system so developed by an organization, it can be propounded, will not be suitable to any other organization unless it matches on all counts i.e. nature and size of operations, organizational structure and the quality of its people. The hypothesis as stated here may require validation, but since the objective of the present research is to develop a methodology and not the end product, i.e. a specific system per se, it stands to reason that the methodology suggested here does not require further validation.

By repeated iterations, flaws in the methodology if any can be almost completely eliminated.

5.2.7 Specification for Computerization of System

When the set of attributes has been tested, the final form can be designed taking into account all the points mentioned in the requirements. Based on the form, a computer program or computerised system may be developed for processing. The computer system may be developed, installed and tested as per the following details.

Inputs to the programme: These would be: year, location, division, department,

appraisee employee code, grade, duration of reporting relationship, attribute wise rating, employee codes of appraiser and reviewer

Processes: The main processes would include: data entry, computing and combining and storing scores and printing as required. After each level of moderation, scores would require to be computed and stored again. Each time the score is modified, it should be stored separately and NOT overwritten. This is so that it will be possible to study the employee wise raw scores before and after moderation. There should be a provision for printing of outputs as required from time to time. Complete confidentiality should be maintained at all stages.

Outputs from the programme: Intermediate outputs will include printouts of initial scores for verification and after moderation. There can be several final outputs as listed below.

1. Division wise, department wise final employee grades
2. Final grade wise list of employees by division and department
3. Employee wise training needs
4. Training need wise list of employees

The first and third outputs are for the purpose of communicating the same to the employees. The second is for administration of rewards or other consequences. The fourth is for HRD to plan how the training could be arranged.

5.3 Implementation of the Performance Appraisal System: The Process

The process the company can follow, as a sequential list of activities during implementation after the performance appraisal system has been developed, is given below. For the purpose of this exercise, the process is assumed to be the annual appraisal. In case of any other, either there will be no changes at all or there may be a few changes, mostly in the scope of the activities rather than any major changes in the set or sequence of activities.

A. Forms are printed and reproduced.

B. Appraisers are trained or oriented.

C. Forms are filled as per the procedure.

D. Forms are collated for data entry. Forms need to be reviewed before data entry to check whether they are fully filled in or not.

E. Data entry and print out for subsequent verification, if required. When a row is struck out, computer (data entry operator) should consider it as 'C'.

F. The first output will be checked for glaring errors like distribution of employees across grades.

G. Moderation across grades and across the company: The preliminary check can be carried out using department average and organisational average. The need for moderation can get reflected by significant variations, which may be addressed by the second level heads in the concerned department.

H. The changes should be entered and the programme run again.

I. The second output is subject to review by the organizational review committee (which can be a standing committee of senior management), which may call erring department or division heads individually and takes decisions about moderation. Ultimately, before finalization, all department heads may be called in again, but this time together rather than individually.

J. The changes may be entered again and the third and final output can be taken. Based on the final rankings, this may then be related to the proposed rewards and consequences.

K. Performance review discussion in the presence of HR representative, including informing employees about the results of the appraisals in terms of rewards, consequences and training.

5.4 Relating Appraisal to Rewards

Appraisees' perceptions of fairness are based on their perceptions of the relative performance of other employees in conjunction with the distribution of rewards. For this reason, it may be preferable to largely (but not completely) curtail discretion in favour of a clear and mostly rule bound policy of linking rewards to performance. For example, while 'C' graded employees may get the standard increment, no more, no less, employees in 'B' grade may be entitled to an additional special increment. 'B+' ones could be entitled to special increment plus incentive or extra responsibility or rotational assignment and 'A's would be eligible for a definite promotion within a year. However, this would need to be supported by the potential appraisal for a role change. 'D' grades would result in a caution; a second time (consecutively) would rate a warning; a third successive time would result in dismissal. The actual money quantum would have to be decided by board and would require to take into account both recurring and non-recurring payments.

5.5 System Benefits

1. The system is designed by appraisers and appraisees which greatly enhances its acceptability.
2. At each stage in the selection of criteria and weightages there are several iterations which serve to validate the process.
3. Greater weightage is given to the views of people when they talk about their own department or level without ignoring the views of other employees. Therefore this system is applicable to all departments and levels.
4. Only those going to be evaluated are included in the process, thus ensuring equity.
5. Both the functional superior and the administrative boss are involved.
6. The format is short and simple and easy to comprehend. It does not encourage an appraiser to fill it perfunctorily.

7. People have confidence in the system.

8. In this process, organizational culture aspects are also implicitly included since that will be reflected in the choice of attributes and weightages.

9. Computerization will simultaneously allow flexibilities in computing and generating the results as required, while avoiding errors in computation.

In addition a whole range of benefits has already been discussed under section 5.2.5.

5.6 Limitations of the system

This system is applicable to all levels save at the topmost level, where, it may be advisable to have a peer group evaluation in addition to the Managing Director's evaluation. The reason why peer review is suggested here, while being steadfastly avoided elsewhere, is that at this level relationships matter more. People must have been competent to have reached that level. But at this level there should be more collaboration and not competition. Interpersonal relations are more important than technical competence. Peer group support will be required if the employee is promoted. Even though some bias may be there, it should not be removed at least in the initial stages. Therefore, the CEO and one level (or at most 2 levels) below should be appraised separately.

Potential appraisal is not explicitly covered in this exercise. However, potential appraisal is necessary for developing and tracking a career progression plan. A separate appraisal is required for potential. The question arises, as to how to identify the employees for whom potential appraisal will be carried out. There is no easy answer to this problem. It is a common refrain that great salesmen often make terrible sales managers, but little is said about whether great (or even good) sales managers were, once upon a time, good or great salesmen. This aspect is not clear. Therefore, using some simple thumb rule such as evaluating only exceptional performers for potential is not likely to work out. However, since the process is computerized, for all competent employees, perhaps, the exercise can be carried out confidentially.

Chapter 6: Summary and Conclusions

6.1 Summary of Empirical Findings

The empirical findings from the two studies have each been separately presented in the sub-sections that follow.

6.1.1 Conclusions from the analysis of appraisal forms

Work achievement including output was used by over 90 percent of the organizations as a basis for evaluating performance. However, almost a similar number used performance competencies as criteria. Just one organization had a 360-degree system. It was not possible to conclude whether any organization had a TQM based system. Most often organisations conducted the performance appraisal annually. However, this was supplemented by semi-annual or even more frequently assessments in some organizations. In addition, a few of them also carried out appraisals when particular milestones were reached. In all cases, appraisals appeared to be carried out by the direct superior. Over half of organizations also followed the practice of self appraisal and about three fourths had instituted some review process.

It appeared that in practice, development was not considered to be an important aspect of the appraisal process. Almost one third did not have any provision in the form concerning training or development. Over half of the organizations in the sample carried out some sort of potential appraisal. The most important criteria used by organizations to assess performance appeared to be teamwork, work quality, people management and development, communication, motivation and personal initiative, responsibility and innovation.

6.1.2 Conclusions from the questionnaire survey

The major problem in performance appraisal, with over 90 percent of the respondents citing it, was perceived to be subjectivity. The other major apprehension which was

cited by over half the respondents was appraiser bias. Among the most frequently cited changes which respondents wished to make were, making the system more objective and improving the feedback process. Among the suggestions to reduce bias, measurable performance parameters were suggested by over half the respondents. Other recommendations to deal with this problem included using multiple sources of feedback including self, peer and 360-degree systems, a review mechanism, and transparency in the system. The difficulty of completely eliminating perceived bias was noted by two respondents. There was no agreement about the ideal number of forms and respondents suggested various numbers from one to four as well or even more. Respondents in general agreed about the importance and benefits of training of appraisers, appraisal of potential and performance review discussion; some cautionary notes about these were also sounded.

6.2 Overview of Methodology

A participative approach is more likely to result in a system that can be implemented with few complaints. There are several stages in arriving at the final system. These include identifying system requirements, making the design decisions, developing the system, testing the system, implementing the system, and testing the outputs of the system. Most of the design decisions can be made either on the basis of judgement or empirical research. However, the selection of the evaluation criteria is best generated through discussion with a representative sample of the individuals covered by the system, covering all departments and hierarchical levels. The evaluation process should permit the ratings to be converted into a single numerical score, thus permitting comparison across the whole organization. A system developed in such a manner would have the benefits of being of a standard form, but the attributes and weightages would be unique to the organization. Both the nature of work and level of employee would be reflected in the weightage matrix. There is a clear process and logic and therefore the results obtained can be moderated. Organizational culture aspects are also implicitly considered, since the choice of attributes and weightages are generated by the employees. The same system is used throughout the organization and from the point of view of implementation, processing and records only a single form is required.

6.3 Limitations of the Study

This study suffers from the following limitations.

1. The broad canvas approach renders the empirical findings as exploratory and descriptive rather than establishing hypotheses.
2. The methodology does not cover the topmost management though a separate procedure has been suggested for them.
3. As may always happen, the questions in the survey in some cases may have been interpreted differently by different respondents making comparisons difficult.

6.4 Scope for Further Research

Some suggestions for further research are given below.

1. On the empirical side, larger studies, with sufficient numbers of different types of organizations can be carried out so that the relationship between the type of organization and the appraisal system can be studied.
2. In depth studies on each of the aspects of appraisal such as validity of bias removal techniques can be carried out.
3. Studies of the appraisal process, focussing on only one type of organization, can be carried out so that more robust results can be generated.
4. Studies comparing the set of attributes generated by discussion as compared to that arrived by expert panel or by formal process used for psychometric testing can also be conducted.
5. Field testing can be carried out in different organizations and documented for further research.

6. Another area which can be researched further is how well generally applicable attributes are applicable to different organizations.

7. The influence of organizational culture on the type of system developed by different types of organizations can also be studied.

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Appendix I: Performance Appraisal Questionnaire

1. What are the most common apprehensions regarding Performance Appraisal Systems? (Please state at least three areas of concern.)

2. If one major change to the system could be brought in, what should that be?

3. Appraiser bias is perceived to be an important factor that vitiates the performance of appraisal systems. What steps could be incorporated in the process to eliminate it?

4. Is it necessary to use different forms for clerical staff, junior management and senior management etc? (i.e. how many different forms might be required?)

5. Please let me have your views on:

a). Training of Appraisers:

b). Appraisal of Potential:

c). Performance Review Discussion:

Name:
Designation:

Organisation Name:
Seal/Stamp:

Appendix II: List of Organizations Contacted

Alfa Laval (I) Ltd,
Mumbai - Pune Road,
Dapodi
Pune ,
Maharashtra 411012

Andrew Yule Ltd.,
Yule House,
8, Dr Rajendra Prasad Sarani
Kolkata 700001

Apollo Hospitals Enterprises Ltd,
19, Bishop Gardens,
Raja Annamalaipuram,
Chennai 600028

Chief of Army Staff,
Army Headquarters (South Block),
New Delhi – 110011.

Balmer Lawrie Investment Ltd
21, Netaji Subhas Road
Kolkata 700001

Bharat Earth Movers Ltd.,
BEML Soudha,
23/1, 4th Main,
PB No.2769, Sampangirama Nagar,
Bangalore 560027

Bharat Bijlee,
Electric Mansion, 6th Floor,
Appasaheb Marathe Marg,
Prabhadevi
Mumbai 400025

Bharti Airtel Ltd.,
Qutab Ambience,
H-5/12, Mehrauli Road,
New Delhi 110030

Commercial Taxes Department
L-Block, Floor - 6, Room No-609
AP Secretariat, Hyderabad-500001
Department of Consumer Affairs,
11A, Mirza Ghalib Street
Kolkata - 700 087

Container Corporation of India Ltd.,
CONCOR Bhawan,
C-3, Mathura Road,
Opposite Apollo Hospital,
New Delhi 110076

Crisil Ltd.,
Crisil House,
121-122, Andheri-Kurla Road,
Andheri East,
Mumbai 400093

East India Hotels, (EIH Ltd.),
4, Mangoe lane,
Kolkata 700001

EID Parry,
Dare House,
NSC Bose Road,
Parry's Corner,
Chennai 600001

Engineers India Ltd.,
Engineers India Bhawan,
1, Bhikaji Cama Place,
RK Puram,
New Delhi 110066

Gammon India Ltd.,
Gammon House,
Veer Savarkar Marg,
Prabhadevi,
Mumbai 400025

Grasim Industries Ltd.,
Birlagram,
Nagda,
Madhya Pradesh 456331

GCMMF Ltd.,
Amul Dairy Road,
P B No.10,
Anand 388 001

HDFC Ltd.,
Ramon House,
H T Parekh Marg,
169, Backbay Reclamation,
Mumbai 400020

Hindustan Lever Ltd.,
Hindustan Lever House
165/166, Backbay Reclamation
Mumbai 400020

HMT Ltd.,
HMT Bhavan,
59, Bellary Road,
Bangalore 560032

Home (Police) Department
Govt. Secretariat,
Thiruvananthapuram 1.

Department of Higher Education
Union Ministry of Human Resource
Development
Government of India
Shastri Bhawan,
New Delhi-110001

Indian Oil Corporation Ltd.,
Indian Oil Bhavan,
G-9 Ali Yavar Jung Marg,
Bandra (E)
Mumbai 400051

Information & Broadcasting
R. No. 655, A Wing,
Shastri Bhawan,
New Delhi 110 001,

Infosys Ltd.,
Electronics City,
Hosur Road,
Bangalore 560100

LIC of India Ltd.,
Yogakschema,
Jeevan Bima Marg,
P.O. Box - 19953,
Mumbai 400 021,

Mid Day Multimedia Ltd.,
Peninsula Centre,
Dr. S. S. Rao Road,
Parel,
Mumbai 400012

Nalco Ltd,
Nalco Bhawan,
Plot No P/1,
Nayapalli,
Bhubaneswar 751013

PNB Gilts Ltd.,
4th Floor, PNB Building,
5, Sansad Marg,
New Delhi 110001

Ministry of Railways,
236, Rail Bhavan,
Rafi Marg,
New Delhi 110001.

Rallis India Ltd.,
7th Floor, Apeejay House,
3, Dinshaw Vachha Road,
Churchgate,
Mumbai 400020

Reserve Bank of India,
Central Office,
Mumbai 400001.

Reliance Industries Ltd.,
3rd Floor, Maker Chambers IV,
222, Nariman Point,
Mumbai 400021

Steel Authority of India Ltd.,
Ispat Bhawan,
Lodi Road,
New Delhi 110003

Shreyas Shipping & Logistics Ltd,
1110/1111, Embassy Centre,
11th Floor, Nariman Point,
Mumbai 400021

Directorate of Small Savings,
Government of Rajasthan,
Jaipur

State Bank of India Ltd.,
New Administrative Building,
Madame Cama Road,
Mumbai 400021

State Trading Corporation Ltd.,
Jawahar Vyapar Bhavan,
Tolstoy Marg,
New Delhi 110001

Sterling Holiday Resorts Ltd.,
Taurus Towers,
No. 25, I Main Road,
United India Colony,
Kodambakkam
Chennai 600024

Sundram Fasteners Ltd.,
98 A, Radhakrishnan Salai,
7th Floor,
Mylapore
Chennai 600004

TCS Ltd.,
Bombay House,
24, Homi Mody Street,
Fort,
Mumbai 400001

Timex Watches Ltd.,
117, Ground Floor,
World Trade Centre,
Babar Road,
New Delhi 110001

Zicom Electronic Security Systems
Ltd.,
Landmark, A-Wing, 6th Floor,
Andheri Kurla Road,
Andheri(E)
Mumbai 400093

Biocon Ltd.,
20th K. M. Hosur Road,
Electronic City,
Bangalore 560100

Women and Child Development
Department,
Government of Chhattisgarh,
Raipur

CSIR,
Anusandhan Bhawan,
2 Rafi Marg,
New Delhi 110001

Bharat Dynamics Ltd,
Ministry of Defence,
Kanchanbagh,
Hyderabad 500058

Centre for Artificial Intelligence and
Robotics (CAIR)
DRDO Complex,
C.V. Raman Nagar,
Bangalore 560 093

Directorate of Standardisation,
Department of Defence Production,
Ministry of Defence,
H Block, DHQ PO,
New Delhi - 110011

Goa Shipyard Ltd.,
Vasco -Da -Gama,
Goa 403802
Directorate General of Quality
Assurance,
Room No.234,
South Block,
New Delhi 110011.

Ordnance Factory Board,
Ayudh Bhawan,
10-A, S. K. Bose Road,
Kolkata 700001

Hindustan Shipyard Limited,
Gandhigram (PO),
Visakhapatnam - 530 005

Garden Reach Shipbuilders &
Engineers Ltd (GRSE),
43/46, Garden Reach Road,
Kolkata 700024

Bharat Electronics Ltd.,
Nagavara,
Outer Ring Road,
Bangalore 560 045

Cochin Shipyard Ltd.,
Cochin 682 015

Mazagon Dock Ltd,
Dockyard Road,
Mazagon,
Mumbai 400 010

The Naval Materials Research
Laboratory (NMRL)
Shil Badlapur Road,
Ambernath 421506

Hindustan Aeronautics Ltd.,
HAL Corporate Office,
15/1, Cubbon Road,
Bangalore 560 001

Mishra Dhatu Nigam Limited
Superalloy Plant,
PO Kanchanbagh,
Hyderabad 500058

Opto Circuits India Ltd
Plot No 83 Electronics City
Hosur Road
Bangalore 560100

Arasu Rubber Corporation Ltd.,
Post Box No:75, Vadasery,
Nagercoil 629 001

Orissa Hydro Power Corporation Ltd.
Bhoinagar,
Janpath,
Bhubaneswar 751 022

Bharat Refractories Limited
Administrative Bldg.
Indira Gandhi Marg, Sector – IV.
Bokaro Steel City – 827004.

Central Mine Planning & Design
Institute Limited
Gondwana Place
Kanke Road
Ranchi - 834 008

Water and Power Consultancy
Services (India) Limited
Kailash”, 5th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001.

RITES Ltd.
New Delhi House,
27, Barakhamba Road,
New Delhi-110001

List of Publications

1. Sudarsan, A. (2008). Performance Appraisal: A Survey of Organizational Practices in India. *Indira Management Review*, 2(2), 17 – 33.
2. Sudarsan, A. (*). Performance Appraisal Criteria: A Survey of Indian Organizations. *International Journal of Indian Culture and Business Management*.
(* Accepted for publication.)

Brief Biography of Self and Supervisor

Biography of the Candidate

Arvind Sudarsan was awarded MMS & M.Sc. (Hons.) Chemistry degrees from BITS, Pilani, in 1993 under the dual degree scheme of the Institute. He worked in Century Rayon for two years thereafter before joining the management faculty at BITS in 1995. While on the faculty of the management group he pursued his higher degree in management which he completed in 1997.

He has been a visiting faculty at numerous reputed management institutions including Loyola Institute of Business Administration (LIBA) Chennai, Maharishi Institute of Management, Chennai, Indian Institute of Planning and Management (IIPM) Chennai, and AEC Business School, Chennai.

In March 2005, he rejoined as a faculty member in Management Group, BITS, Pilani and thereafter he has been involved in pursuing his Ph.D. His research interest apart from performance appraisal includes strategic management and financial markets.

Biography of the Supervisor

Dr. Bhaskar Bose is an eminent consultant in management with nearly 30 years standing. His academic qualifications include a degree in Mechanical Engineering from I.I.T., Kharagpur, a Post-graduate Diploma in Systems Management, from the University of Bombay followed by a Master's Degree in Management, from the Asian Institute of Management, Manila. He has a Doctorate in Philosophy from the Birla Institute of Technology and Science, Pilani.

After a thirteen years stint at Esso Eastern, Inc., he spent close to twenty years with the Development Consultants Group of Companies and nearly eight years with Four Sigma Management Pvt. Ltd. as their Chief Executive. He has executed assignments

for a large number of clients in India and abroad, including the World Bank and the United Nations. At the present time, he is an Advisor to several large groups of companies, educational institutions and social organizations.

Besides being on the Board of several public limited companies, Dr. Bose has been an Advisor to the Government of Western Australia.

Dr. Bhaskar Bose is attached to several Universities and National Institutes as a Visiting Professor. He has taught several subjects and delivered lectures at numerous forums. The Indian National Academy of Engineering nominated him as a Distinguished Professor. He has been deeply involved in the training function at various multinational companies and corporate houses.

He has extensively travelled in many countries. His current interests include reading, writing and teaching.