



CAIIB

Module-B Unit-5

Human Resources Management



CAIIB HRM Module B Unit 5- Performance Management

Performance Management System

- **Performance Management** is the systematic process by which the organisation involves its employees, as individuals and members of a group, in improving organisational effectiveness in the accomplishment of its mission and goals. It is the process of identifying, evaluating and developing the work performance of employees so that the company's goals and objectives are more effectively achieved.
- **Performance Management System (PMS)** is a formal, structured system of measuring, evaluating job related behaviours and outcomes to discover reasons of performance and how to perform effectively in future so that employee, organisation and society all benefit.
- Management of Performance is a major managerial activity and leads to a number of other HR initiatives starting with rewards, training and development and shows the way for a company's accelerated growth.

Performance Management Cycle

The Performance Management process generally includes, Goal Setting, Planning, Monitoring, Developing, Reviewing, Analysing & Rewarding.

Performance Management Cycle is based on the plan-do-review-revise cycle.

- **Plan:** – Understanding current performance, prioritizing what needs to be done, identifying actions that need to be taken and planning for the improvement
- **Do:-** Ensuring that the proper systems and processes are in place to support improvement, take action and manage risk – and helping people achieve better performance
- **Review:** – Understanding the impact of your actions, reviewing performance, speaking to users and stakeholders about their experience of performance and getting a better picture of changing circumstances.
- **Revise:** – Using the lessons learned from review to change your plans or what you do so that future action is more efficient, effective and appropriate.

Some Salient Points Associated with Performance Management

- **Development of individual goals** – In the context of Performance Management process, the role of Key Result/Responsibility Areas (KRAs) is very important. KRAs refer to general areas of outcomes or outputs for which the department's role is responsible based on the KRAs set as well as the organisational goals, and as per the goal setting method followed in the organisation.
- **Alignment of goals across the organisation** – the sum total of the individual goals must add up to achievement of the corporate goal.
- **Manager assessment of performance** – typically, appraisal is done by the immediate manager, based on a self-assessment by the appraisee.
- **Employee self-assessment of performance** – an important feature, giving an opportunity for the employee to state his accomplishments.

- **Peer or 360° assessment of performance** – a more sophisticated and comprehensive assessment, taking into account a number of views from a cross section of boss, subordinate and peers.
- **Competency assessment** – (often called assessment of “potential”)
- **Coaching and development** – related planning for future career positions.

These seven processes form and enhance the relationship between managers and employees.

Performance Appraisal System

Various Steps Involved in Performance Appraisal Process

- **Establishing Performance Standards:** At the time of designing a job and formulating a job description, performance standards are usually developed for each position. These standards should be clear and not vague, and objective enough to be understood and measured.
- **Communicate Performance expectations to concerned employee:** The next step is to communicate these standards to the concerned employee.
- **Measure Actual Performance:** The third step is to determine what actual performance is. For this purpose, it is necessary to acquire information as to how to measure and what to measure.

Four sources of information are frequently used to measure actual performance:

- ✓ Personal observation,
 - ✓ Statistical reports,
 - ✓ Oral reports and
 - ✓ Written reports
- **Compare actual performance with standards:** The employee is appraised and judged of his potential for growth and advancement. Attempts should be made to note deviations between standard performance and actual performance
 - **Discuss the Appraisal with the Employee:** The outcome of the appraisal is discussed periodically with the concerned employee. The positive outcomes, weak spots and difficulties are noted down and discussed so that performance of the concerned individual is improved.
 - **Initiate corrective Action:** This is the final step in the performance appraisal process. After Identifying the weak spots and having discussed with the concerned employee, the superior has to initiate corrective action. Such corrective action may include – coaching and counseling, Training and mentoring, etc.

Techniques/Methods of Performance Appraisals

Broadly, all methods of appraisals can be divided into two different categories.

- ✓ Past-Oriented Methods
- ✓ Future-Oriented Methods

Past-Oriented Methods

Rating Scales:

- Rating scales consists of several numerical scales representing job related performance criterions such as dependability, initiative, output, attendance, attitude, etc. Each scale ranges from excellent to poor. The total numerical scores are computed and final conclusions are derived.
- **Advantages** – Adaptability, easy to use, low cost, every type of job can be evaluated, large number of employees covered, no formal training required.
- **Disadvantages** – Rater's biases.

Trait Analysis:

- Under this method, checklist of statements of traits of employee in the form of Yes or No based questions is prepared.
- Here the rater only does the reporting or checking and HR department does the actual evaluation.
- **Advantages** – economy, ease of administration, limited training required, standardization.
- **Disadvantages** – Raters biases, use of improper weights by HR, does not allow rater to give relative ratings.

Forced Choice Method:

- The series of statements arranged in the blocks of two or more are given and the rater indicates which statement is true or false. The rater is forced to make a choice. HR department does actual assessment.
- **Advantages** – Absence of personal biases because of forced choice.
- **Disadvantages** – Statements may be wrongly framed.

Forced Distribution Method:

- Here employees are clustered around a high point on a rating scale. Rater is compelled to distribute the employees on all points on the scale.
- It is assumed that the performance is conformed to normal distribution. Assumption of normal distribution, unrealistic, errors of central tendency may occur.

Critical Incidents Method:

- The approach is focused on certain critical behaviours of employees that makes all the difference in the performance. Supervisors as and when they occur record such incidents.
- **Advantages** – Evaluations are based on actual job behaviours, ratings are supported by descriptions, feedback is easy, reduces recent biases, chances of subordinate improvement are high.
- **Disadvantages** – Negative incidents can be prioritized, forgetting the positive ones, overly close supervision.

Confidential Records:

- Mostly used by government departments, and in older organisations where the concept of self-assessment is not encouraged. Here the report is given in the form of Annual Confidential Report (ACR)
- It may record ratings with respect to following items; attendance, self-expression, team work, leadership, initiative, technical ability, reasoning ability, originality and resourcefulness, etc. The system is highly secretive and confidential. Feedback to the assessee is given only in case of an adverse entry. Rather negative in impact as the ratings are highly subjective and can be manipulated to suit an occasion.

Pen portrait:

- The assessor pictures in writing about the assessee, regarding his qualities and performance as well as his potential. Armies use this method in evaluating cadets.

Future-Oriented Methods

Management by Objectives:

A concept popular till recently and introduced by the management Guru, **Peter Drucker**, where performance is rated against the achievement of objectives stated by the management. MBO process goes as under.

- Establish goals and desired outcomes for each subordinate in a conference between the management and the concerned subordinate.
- Set performance standards.
- Assess performance achieved against goals set for the employee through frequent performance review meetings between the manager and the subordinate.
- Identify reasons for shortfall and give feed-back for improvement.
- Establish new goals and new strategies for the coming year.

Benefits of MBO method of appraisal:

- MBO helps and increases employee motivation
- Managers are more likely to compete with themselves than with other managers
- MBO reduces role conflict and ambiguity
- MBO provides more objective appraisal criteria
- MBO forces and aids in planning
- MBO identifies problems better and early
- MBO helps the individual manager to develop personal leadership especially the skills of listening, planning, counseling, motivating and evaluating.

Assessment Centre Approach Method:

- Under this method, many evaluators join together to judge employee performance in several situations with the use of a variety of criteria. It is used mostly to help select employees for the first level (the lowest) supervisory positions.

- Assessments are made to determine employee potential for the purposes of promotion. The assessment is generally done with the help of a couple of employees and involves a paper-and-pencil test, interviews and situational exercises.

Some of the other features of this system are:

- The use of situational exercises such as an in-basket exercise, management games, role-playing, critical incident and leaderless group discussion, etc.
- Evaluators are drawn from experienced managers with proven ability at different levels of management
- They evaluate all employees, both individually and collectively and each candidate is given one of the four categories: more than acceptable, less than acceptable and unacceptable
- A summary report is prepared by the members and a feedback on a face-to-face basis is administered to all the candidates who ask for it.

Behaviourally Anchored Rating Scales (BARS)

This is a modern appraisal technique which supports the claim that it provides better, more equitable appraisals as compared to other techniques. The procedure for BARS is usually five stepped as under:

- **Generate Critical Incidents:** Persons with knowledge of the job to be appraised (job holders/ supervisors) are asked to describe specific illustrations (critical incidents) of effective and ineffective performance behaviour.
- **Develop Performance Dimensions:** The people then divide the incidents into smaller set (say 5 or 10) of performance dimensions. Each cluster is then defined clearly.
- **Reallocate Incidents:** These critical incidents are then reallocated to any group of people who also know the job. They are given the cluster's definitions and asked to redesign each incident to the dimension it best describes. Typically, a critical incident is retained if some percentage (generally 50 to 70%) of this group assigns it to the same cluster as the previous group did.
- **Scale of Incidents:** This second group is generally asked to rate on a given scale, the behaviour described in the incident as to how effectively or ineffectively it represents performance on the appropriate dimension.
- **Develop Final Instrument:** A subset of incidents (usually 6 or 7 per cluster) are used as 'Behaviour anchors' for the performance dimensions.

Use of Performance Appraisals

In the organisations, generally, Performance Appraisals are used as vital input for the following HR processes:

- Promotions
- Confirmations
- Training and Development
- Compensation reviews
- Competency building

Goals of Performance Appraisal

<i>General Goals</i>	<i>Specific Goals</i>
Developmental Use	Individual needs Performance feedback Transfers and Placements Strengths and Development needs Salary
Administrative Decisions/Uses	Promotion Retention/Termination Recognition Lay offs Poor Performers identification
Organisational Maintenance	HR Planning Training Needs Analysis Organisational Goal achievement HR Systems Evaluation Reinforcement of organisational priorities
Documentation	HR Records and individual dossier Validation Research Legal Requirements

360-Degree Appraisal

- 360-degree appraisal was first developed by General Electric (GE), USA in 1992. Today it is used by all major organisations. In India, it is used by Crompton Greaves, Wipro, Infosys, Reliance Industries, etc.
- An appraisal made by top management, immediate superior, peers, subordinates, self and customers is **called 360 Degree Appraisal**. Here, the performance of the employee or manager is evaluated by six parties, including himself. So, employee gets a feedback of their performance from everyone around him.
- This method is very reliable because evaluation is done by many different parties. These parties are in the best position to evaluate the employee or manager because they are continuously interacting and working with him. However, on the negative side, receiving feedback from multiple sources can be intimidating, threatening as it is likely that multiple raters, not trained in the system may be less adept at providing balanced and objective feedback.

Competency Mapping

- A well established practice to ensure the right fit, is to map the competency of the person against the competency profile **defined for a given position**.

- A Competency is an underlying characteristic of a person which enables him/her to deliver superior performance in a given job, role or a situation. It is a set of skills, related knowledge and attributes that allow an individual to successfully perform a task or an activity within a specific function or job.
- **'Core competence' is a unique skill or technology that creates distinct value to their capabilities.** fixed. The organisation can make maximum utilization of the given resources and relate them to new opportunities thrown by the environment.
- Core competencies help an organisation to distinguish its products from its rivals as well as to reduce its costs than its competitors and thereby attain a competitive advantage. These give way to innovations. They ensure delivery of quality products and services to the clients.

Some examples of organisational competencies and how they get described and derived.

- **Analytical Thinking:** The ability to break problems into component parts and consider or organize parts in a systematic way; the process of looking for underlying causes or thinking through the consequence of different courses of action.
- **Key Behavioral Indicators**
 - ✓ Independently researches for information and solutions to issues.
 - ✓ Ability to know what needs to be done or find out (research) and take steps to get it done. Ask questions when not sure of what the problem is or to gain more information.
 - ✓ Able to identify the underlying or main problem.
 - ✓ Shows willingness to experiment with new things.
 - ✓ Develops a list of decision making guidelines to help arrive at logical solutions.
- **Managerial Competencies:** Competencies which are considered essential for employees with managerial or supervisory responsibility in any functional area including directors and senior posts, e.g., decision making, leveraging relationships.
- **Generic Competencies:** Competencies which are considered essential for all employees regardless of their function or level – communication, initiative, listening, etc.
- **Technical/Functional Competencies :** Specific competencies which are considered essential to perform any job in the organization within a defined technical or functional area of work. E.g.: finance, environmental management, etc.

Competency Mapping is the process of identifying (key) competencies for a particular position (role or task) in an organisation and then using the result for various HR processes including job-evaluation, recruitment, training and development, performance management and succession planning.

Competency Mapping Process

- Competency mapping is a process through which one assesses and determines one's strengths as an individual worker in the context of an organisation.

Steps in Competency Model Building

- Background information about the organisation.
- Decide on the occupation/job position(s) that require competency model(s).
- Discuss the application of the competency model.
- Select a data collection method and plan the approach.
- Organize the collected.
- Identify main themes or patterns, build the model – defining specific behaviour indicators and review the model.

Role of 'Assessment Centers' Method in 'Competency Mapping'

- This technique was first developed in USA and UK in 1943. An assessment center is a central location where managers may come together to have their participation in job related exercises evaluated by trained observers. It is more focused on observation of behaviours across a series of select exercises or work samples.
- Assesses are made to participate in in-basket exercises, work groups, computer simulations, role playing and other similar activities which require specific attributes for successful performance in actual job. The characteristics assessed in assessment center can be assertiveness, persuasive ability, communication, planning and organisational ability, self-confidence, resistance to stress, energy level, decision making, sensitivity to feelings, administrative ability, creativity and mental alertness, etc.
- **Advantages** – well-conducted assessment center can achieve better forecasts of future performance and progress. Also reliability, content validity and predictive ability are said to be high in assessment centers.
- **Disadvantages** – Costly and time consuming, ratings strongly influenced by assessee's inter-personal skills.

Key Result Areas (KRA)

Key Result Areas are set of activities derived out of short term objectives. KRAs refer to general areas of outcomes or outputs for which the department's role is responsible.

The Performance Plan is constructed by the manager and employee together, focusing on priority-setting for **the performance management cycle and, working co-operatively through a four-step process:**

- ✓ **Agreeing upon Key Results Areas**
- ✓ **Agreeing upon Performance Objectives**
- ✓ **Agreeing upon Key Performance Indicators and their associated Performance Targets**

✓ Agreeing upon Action Plans

Identifying KRAs helps individuals to:

- ✓ Clarify their roles
- ✓ Align their roles to the organisation's business or strategic plan
- ✓ Focus on results rather than activities
- ✓ Communicate their role's purposes to others
- ✓ Set goals and objectives
- ✓ Prioritize their activities, and therefore, improve their time/work management
- ✓ Make value-added decisions

KRAs deal with results and not with day to day activities and hence more quantitative the KRAs the easier they are to track. So, KRAs help individuals align their day to day activities to overall organisational/project goals in terms of results delivered.

Key Performance Indicators (KPIs)

- In order to measure if the KRAs are achieved, some Key Performance Indicators (KPI) are developed.
- A KPI is a specific, agreed measure of achievement within a KRA, which go on to make up the goals and objectives measured under the performance appraisal process.
- Key characteristics of KPIs are that they are objective, independent and standardized measures of performance, not ratings or judgments of performance. They may be QUANTITATIVE or QUALITATIVE. The measure is activity based rather than outcome based, as these KPIs will often be more suitable to routine repetitive functions.

KPIs are usually Specific, Measurable, Attainable, Realistic and Time-bound (SMART), which help to determine if and how much the KRAs are met. KPIs should be:

- ✓ Quantifiable
- ✓ Quality oriented
- ✓ Time specific
- ✓ Cost effective

Continuous Performance Management

- Continuous Performance Management in a human resource (HR) management context is defined as performance management processes that take place throughout the year on an ongoing basis.
- It is a continual, holistic process, as opposed to those based on a traditional, one-off annual appraisal. As feedback occurs more often, it becomes natural for both the manager and the employee to develop a healthy, trusting and authentic workplace relationship.
- These processes include near-term objectives and goal setting, regular one-to-ones (or "check-ins") and real-time feedback.

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