Abstract—In today’s scenario, human resources are to be considered as a very important asset of the company and the importance of human resources is very well known to the organization. The success of any organization depends on its ability to correctly measure the performance of its members and use that measure to neutrally boost and optimize their performance. In modern business scenarios where job roles have become more diverse it’s not easy to measure the performance of any employee. This is where performance appraisal methods can be really helpful. This paper evaluated twelve past oriented and four future oriented performance appraisal methods and identifies advantages and disadvantages for using each method. It is hoped that this will enable HR managers to select the right method(s) which will not only be helpful for employees but for the whole organization, as Regular performance appraisals help create a corporate culture that promotes personal success, along with collaboration.

Keywords—Business; Future Oriented; Methods of Performance Appraisal; Organization; Past Oriented; Performance Appraisal; Utilization of Performance Appraisal.

Abbreviations—Behaviorally Anchored Rating Scales (BARS); Human Resource (HR); Management By Objectives (MBO); Performance Appraisal (PA).

I. Definition

PERFORMANCE appraisal is a systematic and structured system for measuring and evaluating job related behaviors to discover reasons for performance and identify potential for improvement of an individual.

II. Introduction

Performance management can be defined as a systematic process for improving organizational performance by developing the performance of individuals and teams [Armstrong, 1] Performance appraisal is a developmental tool which is used for all round development of an individual. It is the assessment of performance on an individual in a systematic way [Armstrong, 1]. It helps identify ways to improve one’s job performance thus benefiting organization and society as a whole. Traditionally performance Appraisal (PA) was used more as a routine function to promote or reward employees than as a developmental tool. Again it was more focusing on past performance with little or no orientation towards future activities. But the same concept cannot be seen in today’s cut throat competitive scenario. The performance appraisal can be used as an effective managerial decision tool if its results are providing the accurate information about the performance of employees [Poon, 7].

The major objectives of performance appraisal [Anonymous, 2] are given in Table 1 below.

<table>
<thead>
<tr>
<th>Table 1: Objectives of Performance Appraisal</th>
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<tbody>
<tr>
<td>1. Employee Promotions</td>
</tr>
<tr>
<td>2. Employee Confirmation</td>
</tr>
<tr>
<td>3. Training &amp; Development</td>
</tr>
<tr>
<td>4. Competency Building</td>
</tr>
<tr>
<td>5. Compensation Review</td>
</tr>
<tr>
<td>6. Improve Communication</td>
</tr>
<tr>
<td>7. HR Program Evaluation</td>
</tr>
<tr>
<td>8. Feedback and Grievance Redressal</td>
</tr>
</tbody>
</table>

In modern business scenario, it’s not uncommon to find a single individual doing multi-tasking. This creates complex working patterns which necessitate a systematic approach to measure employee performance. Performance appraisal can help an organization motivate employees, recognize and compensate top performers, reduce employee attrition, set individual goals effectively and protect it legally in case an employee needs to be laid off. According to Bobko & Collela [5] the standards of performance evaluation are very external to the organization and the evaluative purpose for the
employees of the organization is to be considered for the performance appraisal management system. The goals of employees and organization are interrelated to the organization. In the performance appraisal system, there are several aspects of employee reaction and performance of employees [Aryee & Chay, 4] which can hamper the overall system of performance management system.

The need to evaluate performance of various types of employees working in different roles and environments in an organization challenges managers to indentify and use the most effective performance appraisal technique(s).

The goal of this study was to assess most commonly used performance appraisal methods and list out various advantages and disadvantages of those methods. The aim is that this research paper can act as a go-to handbook for managers and help them decide which performance appraisal method(s) they can use in which scenario.

2.1. Performance Appraisal Process
Performance appraisal process broadly constitutes eight steps [Anderson et al., 3] which are showing in Figure 1 below.

![Figure 1: Performance Appraisal Process](image)

III. PERFORMANCE APPRAISAL METHODS

There are various techniques/methods used for conducting performance appraisals, each having their own advantages and shortcomings. Depending upon the needs of an employee or an organization a performance appraisal method needs to be selected.

All performance appraisal methods can be divided into two different categories namely past oriented methods and future oriented methods [Aryee & Chay, 4; Bobko & Colella, 5] as shown in Table 2 below.

<table>
<thead>
<tr>
<th>Past Oriented Methods</th>
<th>Future Oriented Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rating Scales Method</td>
<td>1. Management By Objectives (MBO)</td>
</tr>
<tr>
<td>2. Checklist Method</td>
<td>2. Psychological Appraisals</td>
</tr>
<tr>
<td>3. Forced Choice Method</td>
<td>3. Assessment Centers</td>
</tr>
<tr>
<td>4. Forced Distribution Method</td>
<td>4. 360 Degree Feedback</td>
</tr>
<tr>
<td>5. Critical Incident Method</td>
<td></td>
</tr>
<tr>
<td>6. Behaviorally Anchored Rating Scales (BARS)</td>
<td></td>
</tr>
<tr>
<td>7. Field Review Method</td>
<td></td>
</tr>
<tr>
<td>8. Performance Tests &amp; Observations</td>
<td></td>
</tr>
<tr>
<td>9. Confidential Records</td>
<td></td>
</tr>
<tr>
<td>10. Essay Method</td>
<td></td>
</tr>
<tr>
<td>11. Cost Accounting Method</td>
<td></td>
</tr>
<tr>
<td>12. Comparative Evaluation Method (Ranking and Paired Comparison)</td>
<td></td>
</tr>
</tbody>
</table>

Past Oriented Performance Appraisal Methods

3.1. Rating Scale Method
Rating scales are considered oldest and most popular methods to conduct performance appraisals. This method consists of several numerical scales representing job related performance criterions such as quantity of work, quality of work, dependability, initiative, judgment, attitude, attendance, cooperation etc.

Rating scales can include five elements as Unsatisfactory, Fair, Satisfactory, Good and Outstanding. The total numerical scores are computed to derive final conclusions.

Advantages of Rating Scale Method
1. Less time consuming and cost effective
2. Allow quantitative comparison
3. Ease of use and no need of formal training
4. Offer simple way to communicate strengths and weaknesses
5. Can be used in every type of job

Disadvantages of Rating Scale Method
1. Rater’s biases
2. Data variation due to usage by different raters.

3.2. Checklist Method
In this method, performance appraisal is made based on descriptive statements about effective and ineffective
behavior on jobs by preparing Yes/No type of questions. In checklist method rater only does the reporting or checking and HR department does the actual evaluation for an employee.

**Advantages of Checklist Method**
- Ease of use and no need of formal training
- Can be standardized

**Disadvantages of Checklist Method**
- Rater’s biases
- Costly and time consuming method
- Difficult to assemble, analyze and weigh a number of statements about the employee’s characteristics, contributions and behaviors
- No scope for rater to give relative ratings

### 3.3. **Forced Choice Method**

In this method, a series of statements are arranged in the blocks of two or more. The rater indicates which statement is true or false thus forcing him/her to make a choice while the actual assessment is done by HR department.

**Advantages of Forced Choice Method**
- Absence of biases due to forced choice

**Disadvantages of Forced Choice Method**
- Difficult to form correct statements

### 3.4. **Forced Distribution Method**

In this method employees are clustered around a high point on a rating scale. Here the Rater is compelled to make difficult decisions and identify the most and least talented members of the work group. In this method performance is assumed to conform to normal distribution.

**Advantages of Forced Distribution Method**
- Helps create and sustain a high performance culture in which the workforce continuously improves

**Disadvantages of Forced Distribution Method**
- Increase unhealthy competitiveness
- Discourage collaboration and teamwork
- Prone to errors of central tendency

### 3.5. **Critical Incidents Method**

In this method specific incidents are identified and described where employees did something really well or that needs improving during their performance period. Raters record these incidents as and when they occur.

**Advantages of Critical Incidents Method**
- Evaluations based on actual job behaviors
- Ratings are supported by descriptions
- Feedback is easy
- Reduces recency biases
- Chances of subordinate improvement are high

**Disadvantages of Critical Incidents Method**
- Negative incidents can be prioritized
- Incidents can be forgotten
- Needs very close supervision of the employee

### 3.6. **Behaviorally Anchored Rating Scales (BARS)**

Behavior of an employee plays an important role in organization. If provided with positive feedback individuals can attribute more effective and fewer ineffective behaviors to the workgroup [Martell & Borg, 6]. Behaviorally Anchored Rating Scales (BARS) is a formatted performance appraisal method which is based on making rates on behaviors or sets of indicators to determine the effectiveness or ineffectiveness of working performance. This method is a mix of the rating scale and critical incident techniques to assess performance of the employee.

**Advantages of Behaviorally Anchored Rating Scales (BARS)**
- Reduces rating errors

**Disadvantages of Behaviorally Anchored Rating Scales (BARS)**
- Difficult to develop

### 3.7. **Field Review Method**

In this method the appraisal is done by someone outside employee's own department. The Rater can be from corporate or HR department of the organization.

**Advantages of Field Review Method**
- Useful for managerial level promotions

**Disadvantages of Field Review Method**
- Rater may not be familiar with employee's work environment
- Difficult to observe employee's actual behaviors

### 3.8. **Performance Tests & Observations**

This method is based on the test of knowledge or skills of an employee. These tests can be in written format or an actual presentation of skills.

**Advantages of Performance Tests & Observations**
- Helpful to measure potential of an employee than actual performance

**Disadvantages of Performance Tests & Observations**
- Costs of test development or administration can be high

### 3.9. **Confidential Records**

This method is commonly used by government departments, but it can also be used in any industry as well. Here the appraisal is done in the form of Annual Confidentiality Report (ACR) which may record ratings with respect to attributes like attendance, team work, leadership, self expression, initiative, technical ability, reasoning ability etc. This process is highly secretive and confidential in nature.

**Advantages of Confidential Records**
- Useful when data related to employee performance has to be kept secret and managed by few people

**Disadvantages of Confidential Records**
- Ratings can be manipulated due to the linkage of evaluations to HR actions like promotions etc.
3.10. Essay Method
In this method, Raters are required to figure out the strong and weak points of employee’s behaviors. This method is a non-quantitative technique and is often mixed with the graphic rating scale.

Advantages of Essay Method
1. Useful in filing information gaps which normally occur in a better-structured methods

Disadvantages of Essay Method
1. Highly dependent upon the writing skills of rater
2. Highly dependent on memory power of rater

3.11. Cost Accounting Method
In this method, performance of an employee is evaluated from the monetary returns yields to his or her organization.

Advantages of Cost Accounting Method
1. Help ascertain cost to keep employees and benefit the organization derives from them

Disadvantages of Cost Accounting Method
1. Highly dependent upon cost and benefit analysis
2. Highly dependent on memory power of rater

3.12. Comparative Evaluation Method (Ranking & Paired Comparison)
These are collection of different methods that compare performance of an employee with that of other co-workers. The techniques used are either ranking method and paired comparison method.

3.12.1. Ranking Method
In this method, superior ranks his employee based on merit, from best to worst.

Advantages of Ranking Method
1. Easy to administer and explain

Disadvantages of Ranking Method
1. Highly dependent upon cost and benefit analysis
2. Highly dependent on memory power of rater

3.12.2. Paired Comparison Methods
In this method, each employee is rated with another employee in the form of pairs. The number of comparisons can be calculated with the help of a formula as follows: N x (N-1) / 2

Advantages of Paired Comparison Methods
1. Useful where priorities are not clear
2. Useful where objective data is unavailable

Disadvantages of Paired Comparison Methods
1. Difficult to compare two employees due to different jobs or departments

IV. FUTURE ORIENTED PERFORMANCE APPRAISAL METHODS

4.1. Management By Objectives (MBO)
In this method, managers or employers set a list of objectives and make assessments on their performance on a regular basis, and finally make rewards based on the results achieved.

This method focuses more on the results achieved (goals) but not to the way how employees can fulfill them.

Advantages of Management By Objectives (MBO)
1. More useful for managerial positions
2. Since emphasis is on the future, the appraisals are more constructive

Disadvantages of Management By Objectives (MBO)
1. Not applicable to all jobs

4.2. Psychological Appraisals
This method is used to assess employee’s potential for future performance rather than the past one. It is done using in-depth interviews, psychological tests, and discussion with managers. This method focuses on employee's emotional, intellectual, and motivational and other personal characteristics affecting his/her performance.

Advantages of Psychological Appraisals
1. Useful for identifying employees who may have considerable potential

Disadvantages of Psychological Appraisals
1. Time consuming and costly
2. Highly dependent upon the skills of psychologists

4.3. Assessment Centers
In this method, managers gather to participate in job related exercises which are evaluated by trained observers. It is more focused on observation of behaviors across a series of select exercises or work samples. The key attributes assessed in this method are persuasive ability, communicating ability, assertiveness, planning and organizational ability, resistance to stress, self confidence etc.

Advantages of Assessment Centers
1. Useful for forecasting future performance
2. High reliability, content validity and predictive ability compared to other methods
3. Useful for defining the criteria for selection and promotion

Disadvantages of Assessment Centers
1. Costly process

4.4. 360 Degree Feedback
In this method, performance data on an employee is derived from a number of stakeholders like immediate supervisors, team members, customers, peers and self.

Advantages of 360 Degree Feedback
1. Offers a more comprehensive view towards the performance of employees
2. Useful to measure inter-personal, customer satisfaction and team building skills
3. Useful for self-development of an employee

Disadvantages of 360 Degree Feedback
1. Time consuming and complex to administer
2. Needs training in order to receive balanced and objective feedback from all raters.
V. CONCLUSION

It’s not easy to pick which performance appraisal method to choose for any organization as it involves factors like time, money and most importantly skills of raters. As we have seen already, each method has its own pros and cons. In modern business scenarios where employees are engaged in multi tasking and multi department work organizations should at least select two performance appraisal methods. One past oriented method and once future oriented method to best assess the performance of an employee.

REFERENCES


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