

Unit - IV

Performance Evaluation

An employee performance evaluation, also known as a “performance review,” is a process used by organizations to give employees feedback on their job performance and formally document that performance. Although companies determine their own evaluation cycles, most conduct employee performance evaluations once per year.

Some companies also conduct evaluations when employees reach the end of their initial probationary period. Those who perform well on that evaluation are typically removed from probationary employment status.

Performance evaluations vary significantly in structure and format across industries and companies. They might include rating scales, self-assessment checklists, formal observations or performance tasks.

A periodic assessment of an employee’s performance is typically known as employee performance evaluation. Different crucial decisions like bonuses, pay raises, promotions, etc. are taken based on the performance evaluation of the employees in a company or organization. Based on the outcomes of the evaluation, employees can get much-needed feedback from the higher-ups

Employee performance evaluation is not important only from an HR perspective, it’s really important from the perspective of employees too. Everyone wants to get appreciated and recognized for their efforts and hard work. Employees of a company can be recognized easily in the form of performance evaluations. A company assesses the performance of its employees through performance evaluations and provides them with recognition for their contributions to the company’s success and growth.

The personality and performance of an employee get evaluated based on different organizational standards during employee performance evaluations. The standards can be many things, like the quality of work, work efficiency, teamwork, versatility, cooperation, etc. Based on the performance rating, an employee gets recognized and rewarded by the company after evaluation.

Importance of employee performance evaluation:

Getting a Clear Picture of an Employee's Works

The participation of an employee in the company's vision can be determined by analyzing their performance. Performance evaluation is essential for understanding if an employee is ready for bigger and more important responsibilities

Screening the Top Performers

The higher-ups of a company can use employee performance evaluation to easily figure out the top performers in the workplace. There might be employees in the company who are going above and beyond to bring in great results.

Setting New Goals

Employee performance evaluations can help to set new goals for the company. You will be able to determine the important metrics of the business.

Finding out Training Needs

Through performance evaluation, we will be able to know why some of our employees are struggling to perform, and lagging behind targets. It can be due to their lack of training, or the bad quality of their training. Employee evaluation can reveal the training needs of an individual.

Giving Clarity to Employees

Employee Performance Evaluation provides clarity to employees about the wants and expectations of the higher-ups. They get to know that their performances are getting evaluated and valued. This is why it's important to keep performing well for both their sake and the company.

Keeping the Rewards Fair

Rewarding employees for their good performance is a great way of motivating them and boosting their morale. Employee performance evaluations make it easy to choose the deserving candidates for the rewards. An unbiased rewarding system can be implemented with the help of these evaluations.

Positive Reinforcement

Employee Performance Evaluations can help easily know about the good work and efforts of the top performers. We will be able to provide positive reinforcements for carrying out tasks properly. Positive reinforcements are crucial for boosting workplace morale and the good performance of the employees.

Determining Weak Links

We will be able to find out what's wrong in the workplace, which part of our workforce isn't being able to bring in the desired results, and which employees aren't performing well enough through employee performance evaluations.

Methods of Performance Evaluation

Each method of performance appraisal has its strengths and weaknesses may be suitable for one organisation and non-suitable for another one. As such, there is no single appraisal method accepted and used by all organisations to measure their employees' performance.

All the methods of appraisal devised so far have been classified differently by different authors. A more widely used classification of appraisal methods into two categories, viz., traditional methods and modern methods, is given by **Strauss** and **Sayles**". While traditional methods lay emphasis on the rating of the individual's personality traits, such as initiative, dependability, drive creativity, integrity, intelligence, leadership potential, etc.; the modern methods, on the other hand, place more emphasis on the evaluation of work results, i.e., job achievements than the personal traits! Modern methods tend to be more objective and worthwhile.

Traditional methods of performance appraisal

Traditional methods of performance appraisal are used to evaluate an employee's performance and potential. These methods include written reviews, oral appraisals, 360-degree appraisals, and ranking systems

Graphic rating scale

Graphic rating scale is one of the oldest and most common methods of performance appraisal. It is a traditional approach that relies on a numerical or graphic scale for rating employees' performance, usually on a range from excellent to poor.

This system requires the supervisor to fill out a form that lists all of the job duties and skills for which the employee is being evaluated. For each duty or skill, there is usually a particular range within which supervisors mark how well they think the employee performed that task or skill.

The range may vary from job to job, but normally it will go from outstanding to unsatisfactory, with multiple points in between such as excellent and poor.

Checklist

A checklist is one of the simplest, most straightforward traditional methods of performance appraisal. Essentially, it involves setting specific criteria (clearly defined job requirements) that an employee must meet in order to demonstrate job performance. A supervisor or manager rates the employee's performance by checking off if they have met each requirement noted on the checklist.

Checklist-style appraisals are quick and easy for supervisors to complete and can quickly provide information about an employee's performance in a quantifiable way.

Forced choice

Force choice is a traditional method of performance appraisal that focuses on ranking employees in relation to each other. This is done by allowing the manager to rank all their subordinates and choose which of them are performing optimally and which are underperforming.

The ratings used in force choice usually consist of specific adjectives such as "excellent", "above average", "average" and "below average". The rankings may also be accompanied by numerical values or be based on a subjective evaluation from the manager.

Essay method

The essay method of performance appraisal is a traditional and widely used form of evaluation. It involves writing out reflective and self-critical assessments of individual performance over a specific period of time. This type of appraisal is not quantitative, but relies instead on the employee's subjective appraisal of his or her own accomplishments and areas needing improvement.

The essay method requires supervisors to meet with employees for at least one hour to allow for open dialogue about strengths, weaknesses, successes, obstacles and opportunities for improvement in job performance.

Ranking method

The ranking method is the oldest and simplest method of performance appraisal. It involves managers and supervisors ranking employees within their class or department against each other on how well they are performing. This is done by assigning a numerical value (grade) to each employee, e.g. 1 for best, 2 for second-best and so on. The numerical values are then grouped together according to an employee's performance, e.g., 1-3 as excellent, 4-6 as good, 7-9 as average, 10-12 as poor, 12+ as unacceptable etc.. The resulting ranking list is then typically used for salary reviews or promotions & dismissals decisions.

Critical incident method

This method is commonly employed to identify and record specific occurrences that demonstrate employee behavior – both positive and negative – within their job role. Following the collection of diary notes or records over an extended period, the critical incident technique allows these observations to be arranged into a systematic approach to performance appraisal.

Performance appraisals based on this method involve categorizing events into ‘positive critical incidents’ (actions demonstrating high levels of performance) and ‘negative critical incidents’ (actions that did not meet the expectations of the job role).

Modern Methods of Performance Appraisal

Management by objectives (MBO)

The management by objectives method is an approach that focuses on improving an organization’s performance across the board by articulating clear objectives for the business. The entire team, both management and employees, sets those objectives.

In this approach, an employee and manager work together to identify and plan goals for the employee to reach, usually within a specific time frame. The manager and employee then meet regularly to discuss the employee’s progress and make any adjustments necessary toward the goals and objectives.

360 degree feedback

The 360 degree feedback method is designed to get feedback from all the key players an employee impacts in their day-to-day activities — managers and supervisors, peers, subordinates, and even clients and customers. The employee also completes a self-evaluation.

This method is highly regarded because multiple people are involved in evaluating the employee’s performance.

Organizations typically collect this feedback via an online questionnaire or form. It is fast and easy to gather feedback, and it simplifies the evaluation process.

Behaviorally anchored rating scale (BARS)

According to HR software company TalentLyft, BARS is “a measuring system which rates employees or trainees according to their performance and specific behavioral patterns.”

This is considered one of the most effective modern methods of performance appraisal because it relies on both quantitative and qualitative forms of measurement.

In this approach, the employer compares each employee's performance with specific behavioral examples that are anchored to numerical ratings.

Psychological appraisal

This approach to performance appraisal attempts to evaluate how an employee might perform in the future rather than assessing how they have performed in the past.

A qualified psychologist conducts in-depth interviews, psychological tests, and private conversations to assess an employee. The psychologist analyzes components such as interpersonal skills, cognitive abilities, intellectual traits, leadership skills, personality traits, emotional percentage, and other factors.

Assessment center

In the assessment center method, an organization tests its employees on both job capabilities and social interaction skills. Written tests help evaluate ability, while situational exercises and role-playing scenarios assist with determining an employee's likelihood of success in carrying out responsibilities that are part of their day-to-day role.

Performance appraisals are critical to the success of any organization. The performance appraisal method you choose will depend on your goals and the structure of your business, the right one can help you improve performance and provide growth opportunities across your organization.

Latest trends in performance management

Traditional methods of performance management, such as annual reviews, ratings, and rankings, are often seen as outdated, ineffective, and demoralizing. That's why many employers are looking for new ways to measure and improve employee performance, using the latest trends and tools in the field.

Continuous feedback

One of the key trends in performance management is the shift from periodic to continuous feedback. Continuous feedback means providing timely, specific, and constructive feedback to employees on a regular basis, rather than waiting for formal reviews or appraisals.

OKRs and SMART goals

Another trend in performance management is the use of OKRs and SMART goals to define and track employee performance. OKRs stand for Objectives and Key Results, and

they are a framework for setting ambitious, measurable, and aligned goals at different levels of the organization. SMART goals are Specific, Measurable, Achievable, Relevant, and Time-bound, and they are a way to make sure that goals are clear, realistic, and meaningful.

Coaching and mentoring

A third trend in performance management is the emphasis on coaching and mentoring as a way to develop and retain employees. Coaching and mentoring are forms of learning and development that involve a more experienced or skilled person guiding, advising, and supporting a less experienced or skilled person.

Employee self-assessment

A fourth trend in performance management is the inclusion of employee self-assessment as a part of the evaluation process. Employee self-assessment means that employees are asked to reflect on their own performance, achievements, challenges, and areas for improvement, and to share their insights with their managers or reviewers.

Gamification and recognition

A fifth trend in performance management is the use of gamification and recognition to motivate and reward employees. Gamification means applying game elements, such as points, badges, levels, and leaderboards, to non-game contexts, such as work tasks, goals, and behaviors. Recognition means acknowledging and appreciating employees for their contributions, achievements, and efforts.

Data-driven decisions

A sixth trend in performance management is the reliance on data-driven decisions to optimize and improve employee performance. Data-driven decisions mean using data, analytics, and evidence to inform and support your performance management actions and strategies. Data-driven decisions can help you measure and evaluate employee performance more accurately, objectively, and consistently, as well as identify patterns, trends, and gaps in your performance management system.

Career development

Career development is essential for implementation of career plan. While career plan sets career path for an employee, career development ensures that the employee is well developed before he moves up the next higher ladder in the hierarchy.

Career development refers to a set of programs designed to match an individual's needs, abilities, and career goals with current and future opportunities in the

organization. Since career development focuses on future opportunities, it has essentially a long-term orientation.

Career Development – Objective and Importance

The main objective of career development is to ensure that people with appropriate qualifications and experiences are available when needed.

- Obtaining relevant information about individual employees' interests and preferences;
- Matching individuals' career interests and aptitudes to job requirements;
- Providing career path information to employees to enable them to make their career plans;
- Providing financial inducements and facilities to employees for acquisition of new skills and capabilities;
- Developing a suitable T&D programme both within the organisation and outside to help employees improve their career.

Importance of Career Development:

- The need to identify and forecast human resource needs
- Social and demographic trends
- The changing nature of work
- Changing types of jobs
- Multicultural work force
- Worker productivity
- Technological changes and decreasing advancement opportunities
- Organizational philosophies and practices

Career counseling

Career counseling is a process whereby an employee is guided by a manager in performance-related behavior. The employee is unable to perform the job satisfactorily. His work behavior is inconsistent with the work environment and organizational culture. It is manifested in fighting, stealing, unexcused lateness and absence.

Career counselling involves guiding of employee by a manager to overcome performance problems. The problem is desire-created based on unwillingness.

Career counselling involves the following steps:

Identification of the performance problem:

The reason for poor performance should be identified. Specific job behavior should be objectively documented in terms of date, time, and what happened. The manager should have good listening skills to uncover the reason for performance problem..

Make sure the employee owns up the problem:

The employee should own the identified problem. He should take responsibility for the behavior-related problems. There is no chance of correction until the employee accepts the problem.

Offer assistance to help the employee:

The manager should offer assistance to solve the problem. He should work with employee to find ways to correct the problem. The assistance can be manager-based or organization-based.

Develop action plan:

An action plan should be developed to correct the performance problem. Expectations from employee are clearly specified. Resource commitment by organization to assist the employee are also specified.

Control progress:

The employee's progress in correcting the performance problem is monitored. Feedback is given to the employee. Good behavior is reinforced.

Benefits of career counseling:

Advice appropriate career path

Career counselling is beneficial to people in spite of their position and the industry they work in. These sessions advise a recent graduate on career paths worth pursuing. A part of a career counsellor job involves helping you switch careers.

Provide tips for salary negotiation

Salary negotiation is an important skill in the hiring process, but some people who are not familiar might find it challenging. While an employer might not offer the exact

compensation you want, they can help you get a satisfactory compensation that matches the expectations.

Assist with interview coaching

As interviews are an essential aspect of the hiring process, a career counsellor might provide an interesting professional story that helps hiring managers understand who you are and why you are the best fit for the job role.

Determine strengths and weaknesses

A counseling session with a professional can help to understand the strengths and weaknesses. These professionals use aptitude and career assessments to evaluate true potential.

Provide educational and job search support

Career counselling often works as a source of support when candidates experience difficulty finding jobs and choosing the right career path.

Offers job change counselling sessions

Advice from a professional can help candidates identify and assess their options. These professionals help candidates excel at helping clients, navigating new industries and setting professional goals.

Compensation

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed.

The literal meaning of compensation is to counter-balance. In the case of human resource management, compensation is referred to as money and other benefits received by an employee for providing services to his employer.

Money and benefits received may be in different forms-base compensation in money form and various benefits, which may be associated with employee's service to the employer like provident fund, gratuity, insurance scheme and any other payment.

Compensation management:

It is the process of determining total compensation for an employee, including both pay and benefits. Amounts paid directly to an employee, such as hourly pay or a salary, are known as direct compensation. Other benefits paid on the employee's behalf, such as retirement contributions or medical premiums, are known as indirect compensation.

Compensation is used to:

- Recruit and retain qualified employees.
- Increase or maintain morale/satisfaction.
- Reward and encourage peak performance.
- Achieve internal and external equity.
- Reduce turnover and encourage company loyalty.
- modify (through negotiations) practices of unions

Here's a list of some of the most common types of compensation

- Base pay (hourly or salary wages)
- Commissions
- Overtime pay, shift differentials, and longevity pay
- Bonus
- Profit-Sharing distributions
- Merit Pay or recognition
- Incentive plan or achievement award
- Tip income
- Benefits including Dental, insurance, medical, vacation, leaves, retirement, etc.
- Stock options
- Travel/Meal/Housing Allowance
- Child care and tuition assistance
- Gym memberships and free lunches
- Employee assistance programs that provide counseling, legal advice, and other services.
- Health and wellness benefits
- Other non-cash benefits

Components of Compensation:

Wage and Salary:

Wage is referred to as remuneration to workers particularly, hourly-rated payment. Salary refers to as remuneration paid to white-collar employees including managerial personnel..

Incentives:

Incentives are the additional payment to employees besides the payment of wages and salaries. Often these are linked with productivity, either in terms of higher production or cost saving or both. These incentives may be given on individual basis or group basis.

Fringe Benefits:

Fringe benefits include such benefits which are provided to the employees either having long-term impact like provident fund, gratuity, pension; or occurrence of certain events like medical benefits, accident relief, health and life insurance; or facilitation in performance of job like uniforms, canteens, recreation, etc.

Perquisites:

These are normally provided to managerial personnel either to facilitate their job performance or to retain them in the organisation. Such perquisites include company car, club membership, free residential accommodation, paid holiday trips, stock options, etc.

Principles of compensation

Aligning Compensation with Company Strategy:

One of the key principles of compensation management is aligning pay with the company goals.

Reward key roles:

Find positions that directly impact goals and allocate pay accordingly. This aspect of the pay principle signals their value and helps with retention.

Benchmark competitively:

Analyze competitor pay to create fair pay ranges based on role, experience, and performance. These principles of compensation management allow competition for top talent.

Share the wealth:

Consider programs with a pay principle such as profit sharing or employee stock ownership. This gives employees a stake in the company's success.

Review and revise:

Check programs regularly as part of the principles of compensation management. This is to ensure they still align with evolving business needs. Adjust as needed to continue motivating the behaviors and outcomes that matter most to your strategy.

Ensuring Internal and External Equity:

Principles of compensation management must also ensure fair and equitable pay for all employees.

Legal Compliance:

Following all applicable laws and guidelines is a critical part of the principles of compensation management. Avoid potential lawsuits by ensuring pay structures comply with certain laws.

Retention and Turnover Considerations:

The principles of compensation management include competitive pay. This aspect of pay principle is critical for employee retention and reducing unwanted turnover. When employees receive fair pay for their work, they are more satisfied and engaged.

Factors influencing compensation

Compensation is one of HR's most important responsibilities. It connects their role directly to the company's finances and the organization's performance. Compensation is also one of the biggest areas of dispute between employees and employers, and for a good reason. Both have much to gain or lose when it comes to compensation.

Worker Productivity & Value to The Organization:

The main reason that different jobs have different pay rates is that certain workers are more necessary than others to achieve the organization's goals. Productivity refers to how much additional value employees provide to the organization by doing their job. A more productive individual in a more productive role will have an overall higher pay rate.

Employer's Ability to Pay

One unseen factor determining pay rates is how much an employer can actually pay! An employer can only spend what they can afford. If an employer cannot pay the employee what they can get elsewhere, the employee will work elsewhere.

Labor Union Requirements

Labor union representatives negotiate on behalf of their members to agree to a fair rate of pay. Employers that hire members of unions may be required to pay the rate set by the union. These rates may depend on many factors, such as seniority and location.

Prevailing Wage Rates

Prevailing wage refers to the going rate of labor for a given profession in a given geographical area.

Cost of Living (COL)

Every location has a different cost of living. If a worker cannot sustain themselves working a job, they are likely not to work that job. Some areas have higher average wages simply because their living costs are so high.

Labor Supply and Labor Demand

Due to the COVID-19 pandemic and the shift toward work-from-home, many workers left jobs in specific industries for other jobs that paid better and offered better benefits. As a result, jobs in those industries have had to increase their compensation.

Government Controls

Several different pieces of legislation can affect how much a company must pay its employees. The most relevant for many companies is the minimum wage, however, some laws require additional pay for various reasons. This varies widely by state.

Globalization

Globalization and the Internet have made it possible for companies to get work done in other countries where the cost of living and labor costs are much lower. Regardless of one's stance on the issue, globalization impacts compensation in many ways. First, it causes jobs that can easily be outsourced to be compensated at a lower rate locally. Second, it changes local labor demands, as some labor cannot be outsourced.

Current trends in compensation management

Pay for skills and competencies

One of the major shifts in compensation management is the move from paying for jobs and titles to paying for skills and competencies. This means rewarding employees based on the value they create and the capabilities they demonstrate, rather than on their seniority or position.

Variable and flexible pay

Another trend in compensation management is the use of variable and flexible pay, which are forms of pay that vary according to performance, results, or other criteria.

Total rewards and recognition

A third trend in compensation management is the adoption of a total rewards and recognition perspective, which considers all the aspects of the employee value proposition, not just pay and benefits.

Data-driven and transparent compensation

A fourth trend in compensation management is the use of data-driven and transparent compensation, which involves using data and analytics to inform and explain compensation decisions and practices.

Social and environmental responsibility

A fifth trend in compensation management is the integration of social and environmental responsibility into compensation design and delivery. This means aligning compensation practices with corporate social responsibility (CSR) goals and values, and rewarding employees for their positive impact on society and the environment.

Methods of compensation payments

Compensation refers to any payment given by an employer to an employee during their period of employment. In return, the employee will provide their time, labor, and skills. This compensation can be in the form of a salary, wage, benefits, bonuses, paid leave, pension funds, and stock options, and more. Compensation is also sometimes referred to as remuneration. There are two main types of compensation:

1. Direct compensation (financial)

2. Indirect compensation (financial & non-financial)

Direct compensation

Direct compensation is a financial (or monetary) form of compensation. Here are the four main types of direct compensation:

Hourly

Hourly wages are often provided to unskilled, semi-skilled, temporary, part-time, or contract workers in exchange for their time and labor.

Salary

Annual salaries are typically provided to most full-time employees or skilled employees and those who fill management positions.

Commission

Commission is a common form of compensation provided to employees in sales roles. It will usually be based on a predetermined quota or target.

Bonuses

Companies often offer bonuses to employees based on year-end business results or the individual meeting their set goals. Sometimes, the decision is at the manager's discretion.

Merit pay

It is often given to an employee who meets their targets or performs well in their role.

Indirect compensation

Indirect compensation is still a financial form of compensation since it has a financial value. However, employees do not directly receive it in cash form. That's why certain types of indirect compensation are viewed as monetary, while others are deemed non-monetary.

Equity package

Equity as part of a compensation package essentially means the employee is offered equity (ownership) in the company, either through shares of stock or the option to buy such shares.

Stock options

This form of compensation entitles employees to purchase a set number of shares at a fixed price after a certain period. This is different from an equity package because the employee will not have any ownership in the company.

Benefits

Typical employee benefits usually include health insurance, life insurance, retirement plans, disability insurance, legal insurance, and pet insurance.

Non-monetary compensation

Non-monetary compensation includes benefits like:

- paid or non-paid time off
- flexi-time
- learning and development opportunities
- parental leave
- childcare
- company cars
- phones or laptops,
- and meals.

Total compensation

An employee's total compensation consists of a compensation package made up of all the applicable types of compensation listed above. The total compensation can often include different rewards and benefits at different job levels.