

A Study on Potential Appraisal: The strategy for taking the Business Ahead

* Infanta Judith Priya J - G Ashok

ABSTRACT

Performance appraisal is a systematic evaluation of the present capabilities of the employees in an organization. This is organized on the principles of goals, Management by Objectives and Balance Score Card philosophies. Performance appraisal has a historical dimension and is primarily concerned with the performance of an employee. However Past performance may not be a good indicator of the suitability of an employee for a higher role. To take the business to the next level, organizations have to lay more emphasis on the Potential Appraisal of the Employees in addition to their Performance, since Potential Appraisals gauge the skill and attitude the employee may possess to occupy higher positions in the organizational hierarchy and undertake higher responsibilities.

The objective of the study is to highlight the importance of Potential appraisal that gives a whole new dimension to the Appraisal System. The study is Descriptive in nature and Convenience sampling process was used for data collection.

The inference of the data analysis indicated that there were discrepancies in successors identified based on performance appraisal. Based on the findings, corrective interventions were suggested. This study implies that Potential Appraisal has a direct impact on business by enhancing competencies and capabilities of the employees, developing leaders and building strong successors to raise the bar of business.

Introduction

Performance appraisal system is one of the core HR focus area which is used to capture details about employee performance. Traditionally, organizations have used various tools for performance appraisal and one of the most famous among them is the Balanced Score card review.

Performance appraisal is a systematic evaluation of the present capabilities of the employees in an organization. This is organized on the principles of goals, Management by Objectives and Balance Score Card philosophies. Performance appraisal has a historical dimension and is primarily concerned with the performance of an employee. However Past performance may not be a good indicator of the suitability of an employee for a higher role. What the performance management system does is to analyze or examine the past performance of the employee. In short it is a kind of a post mortem to know the reasons of shortfall.

Introduction to Balance Score Card

The balanced scorecard (BSC) is a strategic performance management tool for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy.

By focusing not only on financial outcomes but also on the operational, marketing and developmental

inputs to these, the Balanced Scorecard helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long-term interests. This tool is also being used to address business response to climate change and greenhouse gas emissions.

The underlying rationale is that organizations cannot directly influence financial outcomes, as these are "lag" measures, and that the use of financial measures alone to inform the strategic control of the firm is unwise. Organizations should instead also measure those areas where direct management intervention is possible. In so doing, the early versions of the Balanced Scorecard helped organizations achieve a degree of "balance" in selection of performance measures. In practice, early Scorecards achieved this balance by encouraging managers to select measures from three additional categories or perspectives: "Customer," "Internal Business Processes" and "Learning and Growth."

In 1992, Kaplan and David P. Norton began reporting the findings of their initial balanced scorecard experience through a series of journal articles. In 1996, they published a seminal book *The Balanced Scorecard*.

While the phrase "balanced scorecard" was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering

work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the tableau de bord – literally, a “dashboard” of performance measures) in the early part of the 20th century.

The grouping of performance measures in general categories (perspectives) is seen to aid in the gathering and selection of the appropriate performance measures for the enterprise. Four general perspectives have been proposed by the Balanced Scorecard:

- Financial perspective
- Customer perspective
- Internal process perspective
- Innovation and learning perspective

The financial perspective examines if the company's implementation and execution of its strategy are contributing to the bottom-line improvement of the company. It represents the long-term strategic objectives of the organization and thus it incorporates the tangible outcomes of the strategy in traditional financial terms. The three possible stages as described by Kaplan and Norton (1996) are rapid growth, sustain, and harvest. Financial objectives and measures for the growth stage will stem from the development and growth of the organization which will lead to

increased sales volumes, acquisition of new customers, growth in revenues etc. The sustain stage on the other hand will be characterized by measures that evaluate the effectiveness of the organization to manage its operations and costs, by calculating the return on investment, the return on capital employed, etc. Finally, the harvest stage will be based on cash flow analysis with measures such as payback periods and revenue volume. Some of the most common financial measures that are incorporated in the financial perspective are EVA, revenue growth, costs, profit margins, cash flow, net operating income etc.

The customer perspective defines the value proposition that the organization will apply to satisfy customers and thus generate more sales to the most desired (i.e. the most profitable) customer groups. The measures that are selected for the customer perspective should measure both the value that is delivered to the customer (value proposition) which may involve time, quality, performance and service, and cost, and the outcomes that come as a result of this value proposition (e.g., customer satisfaction, market share). The value proposition can be centered on one of the three: operational excellence, customer intimacy or product leadership, while maintaining threshold levels at the other two.

The internal process perspective is concerned with the processes that create and deliver the customer

value proposition. It focuses on all the activities and key processes required in order for the company to excel at providing the value expected by the customers both productively and efficiently. These can include both short-term and long-term objectives as well as incorporating innovative process development in order to stimulate improvement. In order to identify the measures that correspond to the internal process perspective, Kaplan and Norton propose using certain clusters that group similar value creating processes in an organization. The clusters for the internal process perspective are operations management (by improving asset utilization, supply chain management, etc), customer management (by expanding and deepening relations), innovation (by new products and services) and regulatory & social (by establishing good relations with the external stakeholders).

The innovation and learning perspective is the foundation of any strategy and focuses on the intangible assets of an organization, mainly on the internal skills and capabilities that are required to support the value-creating internal processes. The Innovation & Learning Perspective is concerned with the jobs (human capital), the systems (information capital), and the climate (organization capital) of the enterprise. These three factors relate to what Kaplan and Norton claim is the infrastructure that is needed in order to enable ambitious objectives in the other three

perspectives to be achieved. This of course will be in the long term, since an improvement in the learning and growth perspective will require certain expenditures that may decrease short-term financial results, whilst contributing to long-term success.

The very nature of Performance Management systems and the philosophy of the balanced score card have to be overlooked if a stronger base for business has to be built. The shortcoming of the Performance Management System is that it does not capture the latent and hidden abilities and aspirational competencies of the employees. This is precisely where a system to monitor the Potential of Employees would make a big difference in the way businesses operate today.

What is Potential

Potential can be defined as 'a latent but unrealized ability'. There are many people who have the desire and potential to advance through the job they are in, wanting the opportunity to operate at a higher level of competence in the same type of work. The potential is the one that the appraiser should be able to identify and develop because of the knowledge of the job. This requires an in-depth study of the positions which may become vacant, looking carefully at the specific skills that the new position may demand and also taking into consideration the more subjective areas like

'qualities' required. These may be areas where the employee has not had a real opportunity to demonstrate the potential ability and there may be areas with which you, as the appraisers are not familiar. Like the Performance Appraisal, potential appraisal is also done by the employees supervisor who has had the opportunity to observe the employee for some time. Potential appraisal may be done either regularly or as and when required.

Performance is a thing of the past, while potential includes the possible knowledge, skills, and attitudes the employee may possess for better performance.

Potential Assessment

In consonance with the philosophy of human resource development that has replaced the erstwhile personnel management in many organizations,, more emphasis has been laid on the appraisal of the employees' potential in addition to their performance. Many companies, which carry out performance appraisal, also keep records on the potential of their employees for future promotion opportunities. The task of identifying potential for promotion cannot be easy for the appraising manager, since competence of a member of staff to perform well in the current job is not an automatic indicator of potential for promotion. Very often the first class salesman is promoted to become a mediocre sales manager,

the excellent chief engineer is promoted to become a very poor engineering director, and the star football player struggles to be a football manager.

The following are some of the requirements and steps to be followed when introducing a potential appraisal system:

Role Description: A good potential appraisal system would be based on clarity of roles and functions associated with the different roles in an organization. This requires extensive job descriptions to be made available for each job. These job descriptions should spell out the various functions involved in performing the job.

Qualities Required: Besides job descriptions, it is necessary to have a detailed list of qualities required to perform each of these functions. These qualities may be broadly divided into four categories - (1) technical knowledge and skills, (2) managerial capabilities and qualities, (3) behavioral capabilities, and (4) Conceptual capabilities.

Indicators of Qualities: A good potential appraisal system besides listing down the functions and qualities would also have various mechanisms for judging these qualities in a given individual. Some of the mechanisms for judging these qualities are - (a) rating by others, (b) psychological tests, (c)

simulation games and exercises, (d) performance appraisal records.

Organizing the System: Once the functions, the qualities required to perform these functions, indicators of these qualities, and mechanisms for generating these indicators are clear, the organization is in a sound position to establish and operate the potential appraisal system. Such establishment requires clarity in organizational policies and systematization of its efforts.

The parameters for the potential review / assessment considered in this study are as follows:

- Group effectiveness
- Ability to develop subordinates
- Analytical Ability
- Breadth of vision
- Ownership and Accountability
- Team Skills

A brief explanation on the parameters based on which the Potential Assessment is done:

Group Effectiveness

Questions pertaining to group effectiveness measured the employee in the aspects of improving the morale of the team, aligning the team to the organizational objectives, effectively

utilizing the resources to optimize the productivity and in directing and coordinating the team activities.

Ability to develop subordinates

Employees were rated in the aspect of their ability to develop subordinates mental skills, providing guidance to them, giving opportunities for the team members to grow and develop their skills and in mentoring the team members.

Analytical Ability

Employees were also evaluated on their analytical skills based on their capacity to breakdown complex business situations into manageable terms, in analyzing the situations to arrive at patterns for any particular problem or issue, in identifying the strength and weakness of a team to plan activities accordingly.

Breadth of Vision

Employees were also rated with respect to their ability to examine a problem or a business situation in a broader context and in their sensitivity in taking decisions considering all the stakeholders.

Ownership and Accountability

Employees were rated on their ability to go the extra mile and take accountability for their action.

Team Skills

Employees were also rated on their ability to adhere with the team and supporting the team in its function.

A questionnaire was developed based on the above dimensions and was administered to 40 Employees as part of the pilot. 5 Point rating scale was employed for the same with 5 being the highest and 1 being the lowest.

The purposes of a potential review are:

1. To inform employees of their future prospects
2. To enable the organization to draft a management succession programme
3. To update training and recruitment activities
4. To advise employees about the work to be done to enhance their career

Opportunities

Role of Potential Assessment in Career Path:

One of the important objectives of appraisal, particularly potential appraisal is to help employees to move upwards in the organization. People do not like to work on dead end jobs. Hence, a career ladder with clearly defined steps becomes an integral component of human resources

management. Most HRM practitioners favour restructuring of a job to provide reasonably long and orderly career growth. Career path basically refers to opportunities for growth in the organization. Availability of such opportunities has tremendous motivational value. It also helps in designing salary structures, identifying training needs and developing second line in command. Career paths can be of two kinds:

(i) Those where designations changes to a higher level position, job remaining more or less the same. A good example of this is found in teaching institutions, where an assistant professor may grow to become associate professor and a professor, but the nature of job (teaching and research) remains the same. Career path in such situations means a change in status, better salary and benefits and perhaps less load and better working conditions.

(ii) Those where changes in position bring about changes in job along with increased salary, status and better benefits and working conditions. In many engineering organizations, an employee may grow in the same line with increased responsibilities or may move to other projects with different job demands

Role of Potential Assessment in Succession Planning :

Succession planning is an ongoing process that identifies necessary competencies, then works to

assess, develop, and retain a talent pool of employees, in order to ensure a continuity of leadership for all critical positions. Succession planning is a specific strategy, which spells out the particular steps to be followed to achieve the mission, goals, and initiatives identified in workforce planning. It is a plan that managers can follow, implement, and customize to meet the needs of their organization, division, and/or department. The continued existence of an organization over time requires a succession of persons to fill key position. The purpose of succession planning is to identify and develop people to replace current incumbents in key positions. Potential Assessment can be one of the tools that can effectively improve the succession planning process by helping Managers identify the successors based not only on their performance but also on the potential that they possess.

Objectives

The objective of the study is to highlight the importance of Potential appraisal that gives a whole new dimension to the Appraisal System.

Research Methodology:

The study is Descriptive in nature and Convenience sampling process was used for data collection.

The variables that are considered in the study are the IPF (Individual Performance Factor) and the PAF (Potential Assessment Factor).

Ho is defined as follows: The Potential Assessment Factor is not dependent on the Individual Performance Factor (IPF).

H1 is defined as follows: The Potential Assessment factor dependent on the Individual Performance Factor (IPF).

The statistical method used for the hypothesis testing is Carl – Pearsons' Correlation.

The correlation coefficient "r", called the linear correlation coefficient, measures the strength and the direction of a linear relationship between two variables. The value of r is such that $-1 < r < +1$. The + and – signs are used for positive linear correlations and negative linear correlations, respectively.

Positive correlation: If x and y have a strong positive linear correlation, r is close to +1. An r value of exactly +1 indicates a perfect positive fit. Positive values indicate a relationship between x and y, variables such that as values for x increase, values for y also increases.

Negative correlation: If x and y have a strong negative linear correlation, r is close to -1. An r value of exactly -1 indicates a perfect negative fit. Negative values indicate a relationship between x and y such that as values for x increase, values for y decrease.

No correlation: If there is no linear correlation or a weak linear correlation, r is close to 0. A value near zero means that there is a random, nonlinear

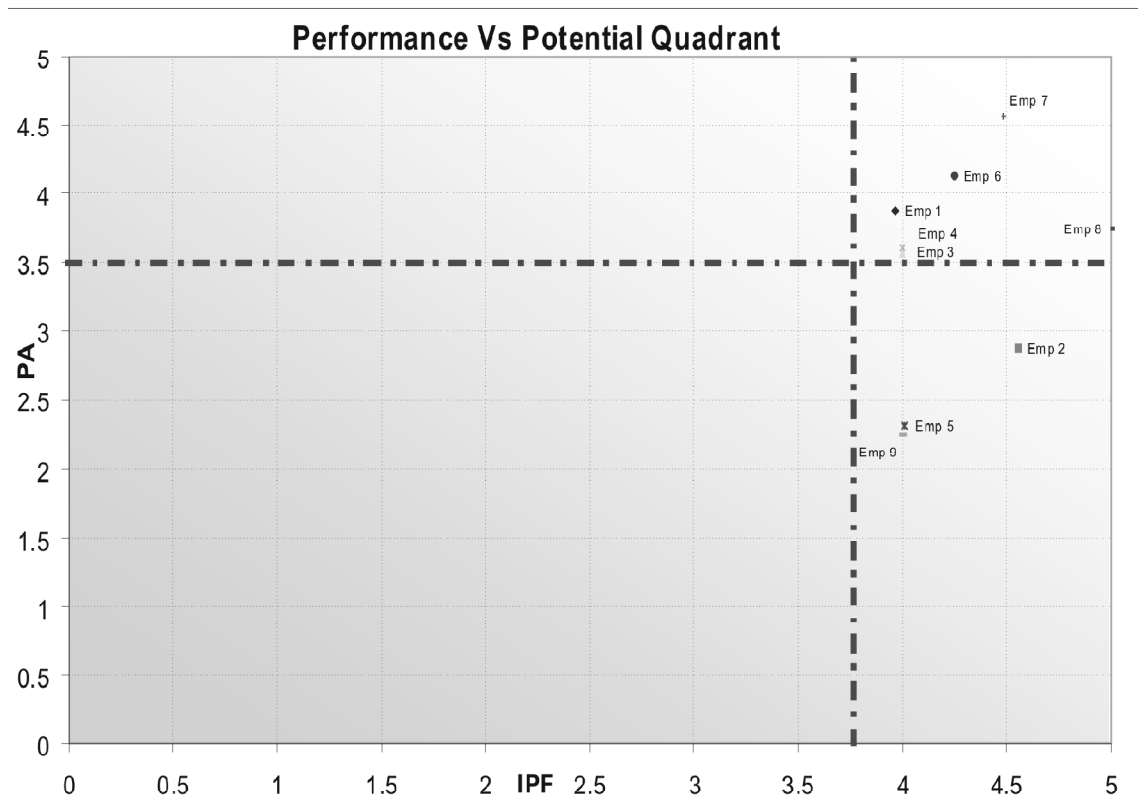
relationship between the two variables. Note that r is a dimensionless quantity; that is, it does not depend on the units employed.

A perfect correlation of ± 1 occurs only when the data points all lie exactly on a straight line. If $r = +1$, the slope of this line is positive. If $r = -1$, the slope of this line is negative. A correlation greater than 0.8 is generally described as strong, whereas a correlation less than 0.5 is generally described as weak.

Findings and Analysis

60% of the successors identified were mapped in the High Performance – High Potential Quadrant. This indicates that the selection for the successors is based both on the Performance and their Potential Capability.

40% of the successors were in the High Performance – Low Potential Quadrant.



Carl Pearsons Coefficient :

The mathematical formula for computing r is:

$$r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

where n is the number of pairs of data.

Number of Samples (n) = 40, $\sum x = 167.726$, $\sum y = 149.484$, $\sum x^2 = 707.687$, $\sum y^2 = 580.806$, $\sum xy = 631.307$,

Substituting the values, we get :

$$r = 0.455, r^2 = 0.207.$$

From the above values of the correlation coefficient, it is observed that the H_0 is accepted, since the value of the correlation coefficient is lesser than 1. Further, the result signifies that the correlation between the Potential Assessment Factor and the Individual Performance Factor is not significant. The determinant value also says that the dependence is up to 20%. This finding gives more proof to the argument that the current practice of succession planning based on Performance is not holistic and Potential Assessment should also be incorporated into the Performance Management Systems.

Suggestions and Scope for Improvements

The inference of the data analysis indicated that organizations have overlooked Potential Appraisal which is a key factor in Talent Management. Based on the findings, corrective interventions suggested were:

- Incorporating Potential Appraisal as a part of Performance Appraisals.
- Role based Potential Assessment Templates for employees.
- Using Potential Appraisal for career progression and succession planning.
- Using Appreciative Inquiry as a part of O D Intervention for change management.
- Further, the Potential Assessment can also be incorporated with the four perspectives of the Balanced Score Card.

Thus, this study implies that Potential Appraisal has a direct impact on business by enhancing competencies and capabilities of the employees, developing leaders and building strong successors to raise the bar of business.

Annexure:

Potential Questionnaire:

Potential Assessment Questionnaire

Name :

Emp Number:

Designation:

Project:

Group effectiveness

Maintaining and improving morale of group and helping its identification with organisational objectives

Outstanding

Very Good

Good

Satisfactory

Unsatisfactory

Optimal utilisation of available manpower resources to meet the objectives

Outstanding

Very Good

Good

Satisfactory

Unsatisfactory

Directing and co-ordinating efforts and effective follow up action to ensure accomplishment of planned objectives

Outstanding

Very Good

Good

Satisfactory

Unsatisfactory

Ability to develop subordinates

Sensitivity to develop subordinate's mental skills; ability to provide professional guidance to produce group results

Outstanding

Very Good

Good

Satisfactory

Unsatisfactory

Giving sufficient opportunities for the team members to grow and learn with in the team.

Outstanding

Very Good

Good

Satisfactory

Unsatisfactory

Facilitating mentorship of team members, recognizing and rewarding good performance and encouraging the team to continuously improve.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Analytical Ability

The capacity to break down, reformulate or transform a complicated situation into manageable terms

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Analyzes the situation and is able to arrive at patterns for any particular problem / issue

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Is able to identify the strengths/weaknesses of the team and plans accordingly the activities

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Breadth of vision

The ability to examine a problem in the context of a much broader framework of reference

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Sensitive to other factors that causes complexities and takes action keeping all the stakeholders in consideration.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Ownership and Accountability

Willingness to take responsibility and be accountable for the same, owns up initiatives and ensures completion of the same.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Team Skills

Mingles well with in the team, has a good rapport with the team members and supports the team in its function / work.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Goes the extra mile to get better results.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Involves the team in planning and allocating tasks, proactively interacts with team members and motivates them to do better.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Potential Capability

Overall rating for managerial capability to head a department based on your assessment related to the above two points

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outstanding	Very Good	Good	Satisfactory	Unsatisfactory

Table for Computation

Name	Rating (IPF)	Rating (PA)
Emp 1	3.9697	3.875
Emp 2	4.5595	2.875
Emp 3	4	3.5625
Emp 4	4	3.636
Emp 5	4.011	2.3125
Emp 6	4.2496	4
Emp 7	4.491	4.656
Emp 8	5	3.75
Emp 9	4	2.25
Emp 10	3.937	3.3125
Emp 11	4.567	4.5625
Emp 12	4.48	4.5
Emp 13	4.285	5
Emp 14	4.135	3.9375
Emp 15	4.313	3.7875
Emp 16	3.473	3.25
Emp 17	4.077	3.285
Emp 18	4	3.4521
Emp 19	4.011	2.3125
Emp 20	4.2496	4.125
Emp 21	4.491	4.5625
Emp 22	4.258	4.85
Emp 23	4.222	3.9375
Emp 24	4.313	3.6875
Emp 25	3.473	3.3105
Emp 26	4	3.5625
Emp 27	4.4	4.5625
Emp 28	5	3.6
Emp 29	4	2.45
Emp 30	3.937	3.3125
Emp 31	4.576	4.5
Emp 32	4.492	4.4
Emp 33	4.258	5
Emp 34	4.196	3.9375
Emp 35	3.473	3.385
Emp 36	4.077	3.3125
Emp 37	4	3.75
Emp 38	4.011	2.3125
Emp 39	4.2496	4.11
Emp 40	4.491	4.5

References

- Davis, Keith, *Human Behaviour at Work*, Tata McGraw-Hill, New Delhi, 1977.
- Richard Henderson, *Performance Appraisal: Theory to Practice*, Reston Publishing Co., 1980.
- Yoder, Dale, *Personnel Management and Industrial Relations*, Prentice Hall of India, New Delhi, 1975.
- Davar, Rustom: "*The Human Side of Management*", (1994) Progressive Corporation.
- Philip, Tom: "*Making Performance Appraisal Work*", 1983, McGraw Hill, U.K. Micheal, V.P.:
- "*Human Resource Management and Human Relations*" (1998), Himalaya Publishing house, New Delhi.
- <http://www.businessballs.com/performanceappraisals.htm>
- <http://www.openlearningworld.com/olw/coursecatalog/innerpages/Performance%20and%20Potential%20Appraisal.htm>