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Penumadu venkata Raveendra

Padmalini Singh
RV Institute of Management

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PERFORMANCE APPRAISAL BIASES AND BEHAVIORAL BIASES IN DECISION MAKING: AN EMPIRICAL STUDY

Dr. P.V.Raveendra
Professor & HOD, Department of Management studies,
M .S.Ramaiah Institute of Technology, Bangalore

Dr. Rizwana. M
Associate Professor, Department of Management studies,
M .S.Ramaiah Institute of Technology, Bangalore

Dr. Padmalini Singh
Assistant Professor, Department of Management studies,
M .S.Ramaiah Institute of Technology, Bangalore

Santhosh Kumar S
Assistant Professor, Department of Management studies,
M .S.Ramaiah Institute of Technology, Bangalore

G. Vijaya kumar
Assistant Professor, Department of Management studies,
M .S.Ramaiah Institute of Technology, Bangalore

ABSTRACT

The decisions taken by the HR manager is very crucial for organizations' competitiveness and growth. Decision making is crucial because the decisions taken by the individual may dictate the path of others. Since our childhood ,we are not encouraged to take our own decisions as the parents think that it would be absolute risk to give children a complete leeway in their decision making and hence there is no encouragement for decision making from childhood and Decision-making over time is an important aspect of adaptive social functioning (Garoon & Moore, 2004) and decision not only influence the organization in which they are taken but also the entire humanity and decision-making is very significant function and not an iota of the administrative functions can be performed without it.. Further , biased behavior place a predominant role than all others when it comes to workplace issues and Such a behavior is mostly an upshot of unconscious bias where people tend to make influenced decisions instead of making rational and logical ones (Sharma, 2015). It *may be performance appraisal decision or investment decision, there is an ample scope for decisions being biased. In this context the present study is an attempt to understand the relationship between Performance appraisal biases and behavioral biases in Decision Making. The main objectives of the study includes the investors' biases in the investment decisions, Human resource manager's biases in performance appraisal decision .The study also made an attempt to compare and contrast these biases in these two decisions. The study is based on secondary data. The authors have made an attempt to use the currently available literature to study the performance appraisal biases in performance appraisal decision and investor's biases in investment decision. After reviewing the various papers, the authors have compared the different biases in the performance appraisal decision and investment decision. From the study it was found that the biases in both the decision making are common but with different nomenclature. From the study it was observed that halo error in performance appraisal decision is similar to herding in the investment decision. Recency effect in performance appraisal decision is similar to anchoring in the investment decision. Leniency error in performance appraisal decision is similar to heuristics in the investment decision. Contrast in performance appraisal decision is similar to framing in the investment decision. Central tendency in performance appraisal decision is similar to herding in the investment decision. Discrimination between insider and outsider in performance appraisal decision is similar to herding in the investment decision. It was concluded that with proper training on these biases, majority of these biases can be minimized if not avoided.*

Keywords: Performance appraisal, Investment decision, Behavioural Finance, Decision Making biases.

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1. INTRODUCTION

Today's position is because of yesterday's decision and tomorrow's position depends upon the today's decision. The success or failure of an individual or organization depends on the decision they made in the past or present. These decisions are always influenced by the behavioral element of the decision maker. The decision maker might be Human Resource Manager in a company or individual investors who are involved in the investment decision making. Study of behavioral elements is more complex than study of physical items. As there exist lot of variances in individual behavior and all individuals cannot exhibit the same behavior, there are chances of more individual biases in their respective decision making.

2. NEED FOR THE STUDY

Employee retention may help in enhancing customer retention and Employee retention is possible through employee satisfaction. One of the important components of employee satisfaction is fair performance appraisal without any bias. Performance appraisal is a vital subject in human resource management (HRM) and is an imperative task of managers and supervisors. But the scope for biases is common in performance appraisal decision. Bias in performance appraisal is very challenging as it brings in lot of difficulty to make appropriate decisions in relevance to Human resources. A behaviourial element plays a major important role in any decision making either in performance appraisal decision or investment decision. In this context the identified research questions are: i) What are the behavioral biases in performance appraisal decision? ii) What are the biases in investment decision and iii) What are the similarities of these biases in both the decision?

3. OBJECTIVES OF THE STUDY

- To study the Human Resource Manager biases in performance appraisal decision
- To study the investors biases in the investment decisions
- To compare and contrast the biases in performance appraisal decision and investment decisions.

4. METHODOLOGY

The research is based on secondary data. The authors have made an attempt to use the currently available literature to study the performance appraisal biases in performance appraisal decision and investor's biases in investment decision.

5. REVIEW OF LITERATURE

The Several studies conducted by individual researchers and institutions in different aspects of biases in performance appraisal decisions and investment decisions are presented below.

5.1. Halo Error

It is human tendency to rate subordinate uniformly high or low in different traits if he/she is extra-ordinary high or low in one of the particular traits. In simple terms, halo effect is the result of judging one person on the basis of any one of the traits. Normally managers rate all the employees as good performers if they are obedient and submissive. In this situation, the trait obedience dominates all the other traits and obedient employees are rated as good performers and vice versa. This type of judgmental bias is very common and difficult to correct. If an employee is rated on the basis of one of the negative traits, for example late comers are judged as poor performers such bias is known as horn error. (Javidmehr & Ebrahimpour, 2015)

Likewise, Investment decisions also similar bias of halo error. (Kapse & Keswani, 2010) Opined that investors depend on too much on single source of information or single person's advice for their investment decisions. This happens particularly when the market is moving up or down and investors donot spend much time to analyze about their investment decisions rather they take a decision based on single source of information. Such bias is also known as herding.

5.2. Recency Effect

In Recency effect the appraiser or the rater consider the most recent incidents either effective or Ineffective of employee's behavior to have too much bearing on evaluation of performance (Javidmehr & Ebrahimpour, 2015). Many organizations conduct performance appraisal annually other than Software companies. Whenever the performance appraisal time approaches, the appraiser search for the data that reflects value of performance of the appraisee. Rather than considering the performance of the employees throughout the year, it is unfortunate to note that recent events or behavior of the employees also have strong influence on the appraisal ratings. Such biases can be minimized if appraisal process is on regular basis and key/ critical events are recorded on regular basis. Of course it is not unnatural some of the employees show good performance whenever the appraisal time is nearby (Gürbüz & Dikmenli , 2007).

Similarly, in the investment decision such bias is not exceptional (Johnsson, 2002) pointed out that a person generally try to avoid to use railways after a serious railway accident, because he/she tends to overestimate the occurrence probability of an accident because the recent accident had stored in his mind which will influence the travelling decision. Such type of bias is as hindsight bias which is cognitive in nature. Investors give lot of importance to the recent happenings for the investment decisions and give less importance to the long term trends. This phenomenon is called as anchoring.

Decision making involves quantitative assessments of each alternative and is also influenced by suggestions. Anchors are the reference points or prices of stock which are fixed in the mindset of the investors and have influence on the investor's decision making. When the new information is given, the investor adjusts or neglects this information and stick to the anchor or reference prices. (Uzar & Akkaya, 2013)

5.3. The Leniency error

A leniency effect is a type of rating error, where ratings are skewed so that the average rating given is significantly more than the intermediate point of the rating scale (DeNisi n.d). No manager wants to dent the working relations with subordinates by giving poor or negative rating even though the performance is not up to the expectation. Due to such bias, majority of the employees are rated higher than their actual. Such raters are entitled as 'loose raters" because they put all the subordinates into one positive group as they do not want to adversely affect the career of the employees. This error is observed by the psychologists when the subordinators are rated for the administrative purpose like pay revisions and promotions (Gürbüz & Dikmenli , 2007). Thus appraisers look for easy way of apprising by giving well to every employee.

The sam**e** type of bias is also observed in investment decision making but with a diminutive change. Instead of investing in all the investment alternatives, the investors try to use short cut method or easy method of analyzing the information before investing (Halaba & Coşkun, 2016). identified that the Investor's decision making is biased particularly when investors look for shortcuts for making difficult decision in complex setting. In this heuristics, difficult questions will be replaced by easier one which might lead from the decision maker from the essence of the actual problem. In the absence of relevant data, decision maker use the available data which might mislead the decision maker from the actual problem

5.4. Contrast

This type bias happens when a manager is required to rate the performance of a big group of subordinates. In such case, instead of comparing the performance of the employees with company standards, the manager compares one employee's performance to other employee's which leads to bias. In such process there is a possibility some employees will occupy last position in the ranking list, even though their performance exceeds the company standard. In addition to that, individual who are rated first are rated higher than those were evaluated last i.e. an order effect. The impact of this effect is more if there is a large time gap between two evaluations (Javidmehr & Ebrahimpour, 2015).

On the same ground, every investment decision should have target risk and return. Each investment alternative is having a certain amount of risk and return. While taking the investment decision each alternative should be considered as separate entity. This holds good for portfolio also. Finance theory also suggests that all the investments as a single portfolio so that risk of each investment offsets the risks of others within the portfolio. But the investor while analyzing the portfolio, instead of considering the selected portfolio, focuses overwhelmingly on the behavior of individual securities. In framing bias the investor by evaluating investment and performance at aggregate level, with a wide frame; investors tend to exhibit a great tendency to accept short-term losses and their effects (Byrne & P Utkus,2013). Investor considers all his wealth assets like house, gold, land which are not part of his portfolio. In simple terms he will consider the group elements of his wealth instead of considering the elements of portfolio.

Human errors in judgment, distortion in decision making, and irrationality are due to cognitive bias of the decision maker. Such biases prevail in investment decision making which make negative returns in the investment (Murata and Nakamura).

5.5. Central Tendency

Appraiser's tendency to rate all the employees as average are known as central tendency. Lack of sufficient knowledge about the subordinates and propensity to play safe are the main reasons behind this phenomenon. This occurs more commonly when the managers are not interested in praising or condemning anybody and thus he take central position and rate all the employees as average (Olabode, I. T., Adebayo, Abayomi, & Adegoroye, 2013).

There is a natural tendency of an individual to follow group behaviour. Thus individual decisions are influenced considerably by the group. The reason that has been studied suggests that social behaviour seeks for group acceptance and is confident about the group decisions. That is why many investors go behind one stock and burn their fingers (Subash, 2004).

5.6. Discrimination between Insider and Outsider

(Javidmehr & Ebrahimpour, 2015) opined that it is human tendency by a manager to differentiate between members of inside group and members of outside group. Outsider group members are treated as strangers and unimportant tasks are assigned to them. Thus there is no scope for the performance by the outsider group members. In addition to that the inside group members are assigned with higher ranks in performance appraisal.

Such type of bias occurs due to mental blocks developed as outsiders and insiders in the mind of an appraiser. This type of bias is observed through a bias called mental accounting in the investment decision.

5.7. Mental Accounting

For handling risk elements in investment decisions, investors develop separate buckets or accounts for each investments varying in risks and returns. For example, marriage expense account is separate from retirement money or educational expenses accounts is separate from managing household expenses accounts. Rather than wealth creation, these accouts are managed in terms of risk and returns (Byrne & P Utkus, 2013).

6. DISCUSSION

From the above literature the authors have made an attempt to identify the common bias which exists in performance appraisal and investment decisions. The below table confirms that halo error in performance appraisal decision is similar to herding in the investment decision consequently, recency effect in performance appraisal decision is similar to anchoring in the investment decision. Similarly, the reviews have also stress that leniency error in performance appraisal decision is similar to heuristics in the investment decision; also contrast in performance appraisal decision is similar to framing in the investment decision. There exists a commonality between the central tendency in performance appraisal and herding in the investment decision. The familiar bias in discrimination between insider and outsider in performance appraisal and herding in the investment decision has also been identified.

MAPPING OF PERFORMANCE APPRAISAL BIAS WITH INVESTMENT BIAS		
Halo error	~	Herding
Recency effect	~	Anchoring, Hindsight bias
The Leniency error	~	Heuristics
Contrast	~	Framing Cognitive biases
Central tendency	~	Herding
Discrimination between insider and outside	~	Mental accounting

Source: Based on secondary data

7. CONCLUSION

To put in a nutshell, the present article has confirmed that there exist a common bias between performance appraisal and investment decision. The paper have also validated that in both the scenarios i.e., performance appraisal decision and investment decision there is exists a huge scope for investment decisions being biased. On a whole, the authors of the study strongly suggest that bias in organizational decisions and individual decision is directly proportional to the quality of the result. That means more the bias, less the quality of outcome. The present can be further extended to identify the determinants of bias in organizational and individual decisions and also can develop strategies to mitigate the triggers of bias.

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