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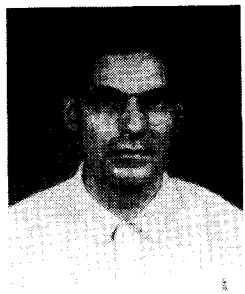
Theoretical Aspects of Performance Appraisal



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1. Background

In every organisation by far the greatest and the most valuable asset is its human resources. These resources include individuals with a wide variety and range of knowledge, skills, attitudes and abilities and are expected to perform job activities in a manner that contribute to the organisation (Sherman and Bohlander, 1992). The value and importance of these resources exceed other resources such as financial and physical assets. Besides, these have always been critical to the success of any organisation. Naturally, every organisation will try to increase the efficiency of its employees and this is only possible if it has comprehensive information about them and their efficiency. The most widely used mechanism for this purpose is performance appraisal (PA).

2. Definition of Performance Appraisal

The formal appraisal of an employee is not a new phenomenon. Randell (1994) mentions its development in Britain from the time of Robert Owen and the New Lenark Textile Mills through to the present time. Various scholars have defined 'performance

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appraisal' in different ways. Some of the definitions in wider use are discussed here.

Viewing performance appraisal as a conducive tool for the improvement of employee's performance, Randell, Packard and Slater (1984) emphasise on the aspect of procedure to collect, check, share and use of information collected from the employees working in the organisation in order to add to their performance.

In his more recent work, Randell (1994:21) finds performances appraisal as an ongoing process and defines it as:

"The process whereby current performance in a job is observed and discussed for the purpose of adding value to that level of performances."

On the other hand, Mick and Wilkinson (1996) find Randell's above definition quite intriguing. They argue that the three types of performance criteria can be appraised. The first criterion is personal traits like loyalty, dependability or leadership skills etc. The second is behaviours, i.e., how work is performed, including persuasion or listening skills or sensitivity and third criterion is the outcome.

Another group of scholars like Armstrong (1995) and Lawson (1989) emphasise on the motivation and commitment of employees to realise their potential. Their definitions, thus , focus on the planned future actions of an organisation rather than on post performance.

However, Shuler and Huber (1990:190) take a comprehensive view and argue that performance appraisal is essential for summing up of all the factors that affect the formal structured systems of measuring and evaluating performance. Taking it as a mechanism for measuring an employee's productivity and effectiveness, they define performance appraisal as:

" A formal structured system of measuring, evaluating, and influencing an employee's job related attributes, behaviour and outcomes as well level of absenteeism to discover how

productive the employee is and whether he/she can perform as more effectively in the future, so that the employee, the organisation and society all benefit."

This definition encompasses most of the characteristics of performance appraisal that have been described by other social scientists at different times. This, can say, is a comprehensive definition of performance appraisal.

The importance of performance appraisal system has been pleaded by many scholars like Fletcher (1993) who argue that those organisations which try to avoid appraisal scheme, end up having it in an unstructured and indisciplined form with the potential of bias and unfairness.

Now, the question arises as to what are the areas of performance appraisal. In this context, Lathan and Wexley (1994) have identified the following three primary areas, such as, a review of employees' past performance from which both the employees and the organisation can learn, an identification of the future needs of the individuals and organisation, and taking an action plan specifying what is to be done.

3. Objectives of Performance Appraisal

There are several conflicting viewpoints about the principal objectives of performance appraisal, while some observers perceive it as a technique for assessing and rewarding performance, others consider its major purpose to be the identification of future development needs (Mick and Wilkinson, 1996). Moreover, its goals have varied across the developed countries themselves. For instance, as Randell (1994) points out, the British approach has been predominantly person-centered and skill-based whereas US companies have been emphasised a work-centered and mechanistic philosophy.

But what is the empirical evidence? Research has shown (Long , 1986) that percent of the organisations employ appraisal for the purpose of performance reviews and 97 percent for training and development. Likewise, 81 percent organisations practise this mechanism for setting performance objectives, 75 percent for assisting career planning decisions and 71 percent for the assessment of future potential, while only 40 percent use it for pay reviews.

From above, it emerges that the two basic purposes of performance appraisal are: development and administrative. The development approach comes when objectives to be achieved are the determination of performance objectives, assessment of employee training and development needs, human resource planning, and employee potential assessment. Similarly, the later purpose comes when objectives of the appraisal are the assessment of rewards, updating of personnel records, motivating employees, and controlling work performance

Several prominent experts such as McGregor (1957), Stewart and Stewart(1978), Hunt (1986) and Anderson (1993) suggest inter alias the following as the main purposes of performance appraisal:

(a) Improving performance of the employees

Performance appraisals help identify training and development needs (required additional knowledge, abilities and skills to perform jobs) and to assess the employee's potential. Interview with employees during appraisal provides the appraiser the opportunity to talk about the appraisee's career, skills, ambitions, etc. Some employees need career counseling. In order to assess the development needs of the staff, the appraiser can consider long and medium term to maximise employees' contribution (Stewart and Stewart. 1978).

(b) Making personnel decisions

Appraisal is also used for personnel decisions such as salary review, transfer, placement, reward and promotion. In addition, it can serve as legal grounds for dismissal of employees (Goel, 1993).

(c) Succession planning

An organisation must prepare a list of people ready to take over in the event of a job becoming vacant (Stewart and Stewart, 1978). It is essential to prepare human resource to take over key/leading positions in the organisation. Appraisal enables the management to think about the abilities and development of its staff to meet the required skills to perform the jobs. Further, it also helps in

identifying to what extent the organisation has strength in depth for particular occupation groups (Anderson, 1993).

(d) Diagnosing organisational problems

Appraisals have the capacity of diagnosing organisational problems. They do so by identifying training needs, development needs, low performers, and required skills and abilities to fulfill organisational objectives. In addition, they can distinguish effective performers, if they are conducted properly. Organisations can adopt Management by Objectives (MBO) through the use of appraisal system. When MBO works well all the people in an organisation share a common goal and commitment. delegation is also encouraged. It contributes to improve on the job effectiveness in each employee's present position by requiring planned attention to goals and priorities (Sherman and Bohlander, 1992).

(e) Improving communication

Performance evaluation is a continuous process which involves communication of work goals, giving instructions, assigning works, fixing and agreeing targets, observing and evaluating work progress and ongoing verbal interaction that happens between supervisors/managers and subordinates. the appraisal process can improve supervisor-subordinate relationships and dialogue that contributes to continuous discussion, coaching, training and counseling of employees. these improve the quality and responsiveness of the workforce (Williams, 1981 and Anderson, 1993).

(f) Handling poor performance/legal issues

Legislation in some countries has made it more difficult to dismiss an employee without evidence of their unsatisfactory performance over a period of time. Similarly, it is necessary that adequate opportunity should be given to an employee to improve his/her performance. Randell et al (1984:13) have classified these purposes into three categories, i.e., rewards review, performance review; and potential review. These academic pundits opine that using a single type of performance appraisal

simultaneously for different purposes can result into failure, that is, the performance appraisal should not be used for conflicting purposes. Instead, performance, reward and potential review should be assessed separately and differently. Similarly, King (1989) emphasises the same point by arguing to confine performance appraisal to limited and specific goals.

Undoubtedly, each organisation has its own objectives. Moreover, organisational culture varies from organisation to organisation. Accordingly, various organisations have various kinds of appraisal systems. However, for the successful implementation of the appraisal, the participation of employees and management is a prerequisite. Participation helps strengthen the commitment of the management and staff. Moreover, it also enables the designer to set clear and distinct objectives for the scheme. In this context, Pratt (1985) rightly argues that people are committed to a scheme in which they are involved from the start. Finally, it can be concluded that in order to maintain clarity and avoid conflict, it is necessary to define appraisal objective clearly. The effectiveness of performance appraisal system depends on the way it is designed and on the process it is conducted. Moreover, one of the main reasons of the failure of many performance appraisal schemes is the lack of commitment amongst the management and staff.

4. The Nature of Performance Appraisal

The nature of appraisal systems may be closed or open. In a closed appraisal system, the appraiser assesses the performance of his/her subordinate without communicating any information to him/her. Due to this factor, the appraisee is not aware of how(s)/he has been assessed. In this system, subordinates do not participate in the appraisal process and even they are not given feedback. In absence of feedback of their results, appraisees are unable to improve their weaknesses (Stewart and Stewart, 1985). Contrary to the closed system, an open appraisal system has a wide avenue for discussion between appraiser and appraisee regarding the later's job, skills, ability, and problems. Both the

appraiser and the appraisee frankly discuss the strengths and the weaknesses of the later and accordingly take remedial measures to improve performance. Moreover, in this system, the appraiser discloses part or whole of the assessment report to the appraisee. One main advantage mentioned by Walker et al (1977) is that through an open appraisal system, an appraisee fully participates in the appraisal process. This, however, ranges from simply signing the appraisal form to actually writing some part of the assessment.

Like the IPM study in 1973 as quoted by Walker et al (1977), Mondy and Noe (1987) also stress that MBO provides the impetus towards shared ownership of the performance appraisal process by the appraiser and the appraisee focusing more on an employee's job performance rather than on his personal traits. Actually, an open system of appraisal improves communication between the supervisors and subordinates leading to learning; on the part of the supervisor about what the subordinates think and feel about his/her jobs and what motivates him/her, and on the part of the subordinates about what is needed to achieve favourable assessments of job performance (Long, 1986 and Torrington and Hall, 1995).

Nevertheless, it is possible that an open reporting system may not be sufficiently practicable in appraiser's comments for the fear of negative motivation/reaction from the appraisee. Despite this fear, fair and immediate feedback can increase trust and confidence. In this context, ACAS (1988) points out that managers are more likely to make fair and objective assessment if they are aware that the assessment will be shown to the appraisee.

5. Who is Appraised?

The coverage of appraisal varies from organisation to organisation. Generally, in most organisations, appraisal takes in everyone from senior manager to the first level supervisors,

clerical and secretarial staff, i.e., all employees. In some organisations, appraisal reports are made on all staff except senior most staff, while in others, appraisal covers some managerial staff. Stewart and Stewart (1978) assert that in some organisations only managers are appraised, while some appraise employees of certain grade only and others appraise all the people working with them.

6. Who is the Appraiser?

Supervisors and managers traditionally are the appraisers of their subordinates. since supervisors are closer to the subordinates, they are in better position to perform this function (Schuler and Huber, 1990 and Torrington & Hall, 1995). Hence, the immediate supervisor, generally, completes the appraisal. Appraisal is usually subject to some kind of revision by the supervisor's boss or the 'grand-parent' who looks the report, adds his/her signature and any comment (s)/he thinks necessary. In some organisations, the higher level of management (by personnel, by some appraisal committee or combination of these) reviews the report assessed by the supervisor. Redman and Snape (1992) suggest that there can be as many as seven options, and some systems involve several of these for the same appraisal by adopting a familiar terminology; these are:

- the individual's immediate supervisor ('parent' appraiser)
- his/her supervisor's supervisor ('grandparent' appraiser)
- colleagues at the same grade/level ('peer' appraiser)
- internal customer for the individual services ('aunt/uncle' appraiser)
- external customers for the individual services ('client' appraiser)
- the appraisee's subordinates ('upward' appraiser)
- the individual himself/herself ('self-appraiser')

Further, Torrington and Hall (1995) and Fletcher (1993) have added two more categories: the member of the personnel department; and assessment centres.

Of late, this conception of appraisal has been broadened and called a *'360 – Degree appraisal'*. This is an appraisal of an individual by his/her boss, peers, subordinates and customers. In this system of appraisal, information is collected using questionnaires. Ward (1995) concedes that it can motivate staff and the assessment is based on real work. The results of the appraisal are more reliable because it is done by various categories of people. Nevertheless, like any other appraisal procedure, it has also some problems. The appraisers may emphasise weaknesses rather than strengths. Also there could be the lack of confidentiality because the appraisal is done by several individuals. Moreover, the lack of training of the appraisers may result into poor reports.

7. What is Appraised?

The performance appraisal system can measure a variety of things qualitatively and quantitatively; such as personality traits, behaviour of performer, achievement of goals etc. Coates (1994) argues that what is actually measured in performance appraisal is the extent to which the individual conforms to the organisation.

8. The Administration of Appraisal

While designing the appraisal scheme, organisations must consider the relevant issues like the frequency, documentation and timing of performance appraisal. These issues are briefly discussed below:

(a) Frequency

Formal appraisal, generally/ is an annual activity. Now a days, appraisal is done more frequently in some organisations, i.e., every six months or variable frequencies. Periodical appraisals during the year are a

typical feature of result-oriented programmes. However, performance appraisal should not be only once a year rather it should be a continuous process (ACAS, 1988 and King, 1989). An ongoing process enables the manager to assess his/her subordinates regularly and take some remedial measures immediately instead of waiting until the end of the year. In order to maintain employee's performance excellent, its outcomes must be communicated regularly to him/her (Latham and Wexley, 1994).

(b) Documentation

For performance appraisal, it is essential to have a precise, accurate and simplified performance because a complex, cumbersome and jargonised document will lead to confusion, delay and misunderstanding. Wilson (1991) rightly argues that a lengthy and boring appraisal form causes long and frustration and brings managers far from the real objectives of the system.

(c) Timing

Generally, a manager is busy in conducting meetings, tours and co-operation activities. However, it is necessary that there should be a time schedule for appraisal assessment.

9. Process of Appraisal

The appraisal process begins with the establishment of performance standards. Decenzo and Robbins(1995:362) suggest the following steps of the appraisal process:

- Establish performance standards
- Communicate performance expectations to employee
- Measure actual performance
- Compare actual performance with standards
- Discuss the appraisal with the employees and
- Initiate corrective action (if necessary)

This draws the need for more participative performance appraisals which can be helpful to improve employee performance.

10. Techniques of Appraisal

There are various techniques and approaches, which are often applied evaluating employee's job performance; personality traits; and behaviour; (Torrington and Hall, 1995, Long, 1986 and Megginson, 1985). However, each technique has its advantage and disadvantages. These techniques are categorised as following:

10.1 Absolute standard

In absolute standards no comparison is made with any other employee, and performance is measured alone. This group includes:

(a) Essay appraisal

It is a descriptive method in which the supervisor lays down employee performance, strengths and weakness and potential. It is simple and informative, but difficult to have a cross-comparison with others.

(b) Critical incident method

Supervisor attempts to measure certain or key behaviour and performance about success and failure in meeting the job requirements. This method facilitates to draw strengths and weaknesses of the individual but there remains difficulty in comparison and ranking of the subordinates.

(c) Checklist

This is the method that does not evaluate performance but only keeps records and presents the behaviour in the overall checklist. Tough the

method helps reduce rater-bias, it is difficult to maintain checklist for each job category.

(d) Graphic rating scale

In this method, the evaluator places a mark along a continuum that best describes employee performance. It is less time consuming and easy to understand and compare, but lacks depth of information.

(e) Forced choice

In this method, supervisor has to choose statements which seem suit to employee from a special type of checklist. It reduces rater-bias, but rater is ignorant for feedback.

(f) Behaviourally anchored rating scale (BARS)

This method specifies definite observable and measurable job behaviours on a continuum and the superior rates employees on the basis of the behaviours along the continuum. These scales combine major elements from the critical incident and graphic rating approaches. The method is comparatively free from leniency and halo-effect but it consumes more time on framing out rating scales for each job.

10.2 Relative standards

In this method, individuals are compared against other individuals. The following are the popular methods in this group:

(a) Group order ranking

This method requires superiors to place employees according to a predetermined classification and individuals are placed between two extremes of good and bad job performance, e.g., 10% (outstanding- at the top), 20% (good-above

average), 40%(satisfactory- average), 20% (fair- below average), and 10% (poor- at the bottom). It is generally used to determine the individual's overall effectiveness within the organisation. This method also reduces leniency in rating. However, it is difficult in placing the employees in the category when they are in a small group.

(b) Individual ranking

It simply ranks individuals in an order from highest to lowest.

(c) Paired comparison

In this method, all individuals are compared with other employees in the group on 'one-on-one' basis. A rank order is usually obtained by counting the number of times each employee is chosen as the better of the two. Finally, on the basis of overall performance or any distinct performance trait, a decision is made (Long, 1986). Complexity and time consuming nature are the main drawbacks of this technique.

10.3 Objectives

In this method, employees are evaluated by how they accomplish specific objectives of their jobs. It needs the verification and quantification of objectives and job results.

11. Factors Affecting Appraisals:

Everyone expects objectivity in appraisal, i.e.; the evaluation should be free from personal biases and prejudices. But the following rating errors and other common problems may hinder the effectiveness of performance appraisals:

11.1 Rating Errors

Randell et al (1984) point out the following as the most common rating errors which hinder objectivity in performance evaluation:

(a) Leniency error

Every evaluator has his/her own value system which acts as a standard against which appraisals are made. Some supervisors overrate and some underrate irrespective of work performance.

(b) Halo error

This sort of error occurs when the evaluator assesses an individual either high or low on all factors on the basis of a particular task behaviour.

(c) Similarity error

Such an error occurs when an evaluator rates other people in the same way (s)/he perceives him/herself.

(d) Recency error

Superiors, sometimes, assess subordinates performance overly influenced by the recent performance before the evaluation takes place without all tasks or behaviour over the evaluation period.

(e) Central tendency

It occurs when the evaluator assigns average to all employees irrespective of their performance.

(f) Miscellaneous biases

Such sort errors occur when someone assesses on the ground of sex, race, ethnicity, religion etc. without assessing the employee's merit.

(g) Shifting standards

This kind of error appears when the evaluator rates each subordinate by different standards and expectations.

11.2 Other Common Problems

Besides the above discussed rating errors, several scholars such as Cowling and Mailer (1989), Pratt (1986) and Anderson (1988) have indicated the following common problems that may impede the proper functioning of performance appraisal:

- The absence of adequate training to appraisers.
- Lack of top management support and commitment.
- Inadequate briefing about the purpose and characteristics of the appraisal system to appraisees.
- Unequal standards applied by different managers.
- Lack of follow-up action emerging from appraisals and failure to make effective use of appraisal data.
- Organisational culture.
- Resistance from top-level managers, appraisers and appraisees.
- Conflicting aims and objectives of the appraisal scheme.
- Limited financial resource of the organisation.
- Trade union hostility
- Dangers from importing an appraisal scheme from another organisation.

12. Measures to Remove Errors and Other Constraints

The above errors can be reduced through a number of initiatives within the system, for example, central tendency rating errors can be curtailed by introducing 'the force distribution rating method', and the leniency error by increasing 'anchor point and dimension definition' so as to reduce scale ambiguity. Other errors like the 'halo effect' and 'subjective judgment' can be removed through 'rater training', 'instrument design' or 'system design.'

In order to mitigate other common constraining factors, many prominent experts like Anderson (1988) and Harrison (1995) suggest to:

- secure top management support and commitment,
- provide proper training, coaching and briefing to all the appraisers and appraisees on all aspects of appraisal,
- separate appraisal objectives, make them precise, unambiguous and shared and limit them in scope and number,
- consult with the trade unions, specially in the designing stage,
- avoid unequal performance standards,
- understand the organisational culture, focus on the process rather than the documentation,
- develop positive interview outcomes, and
- emphasise the links between performance appraisal and ongoing coaching and counselling.

13. Conclusion

From the above discussion, it can be concluded that the performance appraisal system is a dynamic process of learning and evaluating employees in an organisation for achieving organisational goals. Here, individual traits, behaviour and outcomes of employee's performance are assessed methodically and their future needs such as training and career development are evaluated. Although both open and closed systems of appraisal are still in practice, an open appraisal system is relatively better than a closed system. Despite the various advantages of the appraisal scheme, there are several problems besetting it such as rating errors. However, rating errors can be minimised/removed through such as force distribution rating, anchor point and dimension definition, rater's training as well as system design. Likewise, other common problems can be alleviated by making efforts for securing support and commitment from the stakeholders of the scheme, facilitating adequate training to the appraisers and appraisees, laying

emphasis on the process rather than documentation. Finally, if performance system is used in an objective and unbiased manner, it will go a long way in benefiting not only the organisation but also to appraisees and appraisers.

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