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THE ROLE OF PERFORMANCE APPRAISAL IN THE CONTEXT OF PERFORMANCE MANAGEMENT SYSTEMS

Literature review

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M10

Abstract

Performance management is a complex concept that integrates all business activities and creates a continuous system for improvement. One of the key ingredients in an efficient performance management system is a well-designed performance appraisal that integrates the individual goals with the team and organization goals. When designing a performance appraisal system one has to consider the many existing techniques, tools and sources of error. Also, when defining the expected results and KPI's for measurement, it is important to know the difference between output and outcome. The present paper aims to synthetize, through a literature review, the main aspects of performance appraisal in the context of performance management, pointing out its advantages and disadvantages.

Introduction

The concept of evaluation or performance appraisal is not a new one to the business market, and is still subject of many debates. There are people that will encourage it and people against it, there are groups of people that will suggest other methods instead of it, and there are people that will suggest several ways to do it, for there are many concepts and recipes for it. But at the end of the day, the fact that still remains is that: one cannot improve something that wasn't measured first. How will one know that the company goes towards the desired goals? How will one know that his or his employees' results improved over time, or following a specific training? Or how will one manager know that his team needs to access one particular training over the other? These are several and few of the questions that performance appraisal can help find an answer to.

When speaking of business performance one thinks of several areas where performance takes shape: company's performance, management performance, employees' performance. This is because all are interconnected and codependent. The concept of performance management then arises, and includes all the above mentioned areas. This is a complex concept, continuous and useful to the business.

According to Armsrong M. (2009) performance management concentrates over organizational performance as well as individual performance. The individual performance improvement plans will not always lead to an organizational performance improvement; this is why there is necessary a strategic approach through which the performance management strategy lines up with the company's business strategy. So, Armstrong M. (2009) defines the management performance as being "a process for establishing shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing and developing people that improves individual, team and organizational performance." (Armstrong M., 2009, pg. 55). Performance doesn't refer only to what is achieved but also how it is achieved. "Performance management is essentially a developmental process that aims to improve the performance and potential of people through their own effort and with the help of their managers and the organization." (Armstrong M., 2009, pg. 56).

Leech C. (2007) states that the organizations that own an efficient performance management system support its employees to reach the organizational objectives. Stanciu D.R. (2013) specifies that performance management becomes one of the main tools for business management regarding the impact this one has over the individual behavior and in directing this towards reaching the organizational strategic goals.

Performance management cycle

Performance management focuses on actions regarding the future planning, improvement, and personal development more that appraising past performance. This is a continuous and evolutionary process through which performance improves over time. This cycle is presented in Figure. 1.

The above mentioned cycle is carried out after a sequence adapted after Armstrong M. (2009) illustrated in Figure 2.

This sequence points out a logic, linear and unlikely to happen in reality picture. It represents a design that provides the guide lines for an ideal management performance sequence, and underlines the key performance management activities:

Performance and development planning:

This sequence involves the agreement between the manager and the individual regarding how the latter is expected to perform in terms of results and behavior. This agreement represents the framework of performance management. Within this stage the manager and individual define the role profile in terms of key result areas, they define what people need to know and be able to do, to understand the necessary behavioral competencies, for the role and also to define the core values.

Performance measures:

Armstrong M. (2009) states that measuring performance is relatively easy for employees responsible for achieving quantified targets, such as sales, but it is more difficult for knowledge workers. This difficulty is alleviated by the distinction between two forms of results – outputs and outcomes.(Armstrong M., 2009) "An output is a result that can be measured quantifiably, while an outcome is a visible effect that is the result of effort but cannot necessarily be measured in quantified terms." (Armstrong M., 2009, pg. 69).

Risher H. (2003) points out that when assessing performance it is also necessarily to consider also the inputs in the shape of the degree of knowledge and skill attained and behavior that is demonstrably in line with the competency framework, statements and core values.

Classification of output and outcome measures adapted after Armstrong M. (2009)

Output measures include:

- Financial measures – income, shareholder value, added value, rates of return, costs;
- Units produced or processed, throughput; level of take-up of service;
- Sales, new accounts;
- Time measures – speed of response or turnaround, achievements compared with time-tables, amount of backlog, time to market, delivery times.

Outcome measures include:

- Attainment of a standard quality, level of service etc);
- Changes in behavior;

- Completion of work/project;
- Acquisition and effective use of additional knowledge and skills;
- Reaction – judgment by others.

Goals

Setting the goals represents the key chapter in planning the performance and agreement stage, and represents a process on its own. Latham and Locke (2006) state that people will perform better when they have set specific, challenging and attainable objectives. Acceptance of goals will be achieved when:

- People perceive the goals as reasonable and fair and trust their managers;
- There are arrangements for individuals to participate in goal setting;
- Support is provided by the supervisor.
- People are provided with the resources required to achieve their goals;
- Success is achieved in reaching goals that reinforces acceptance of future goals

Latham and Locke (2006) state that specific and challenging objectives lead much better to performance than general objectives. Also, the employees that take part in setting their own goals are more likely to set more difficult goals than would others set for them, and also this process increases the acceptance of such goals. Besides advantages there are also some disadvantages in setting goals, and these are presented in *table 1*.

Integrating goals

Integrating or line up the individual objectives with the organization goals represents that all the focus is oriented in the right direction. This process is called *cascading the objectives*. Armstrong M.(2009) states that this process should not be only a top- down process, and the people from all levels should have the opportunity to indicate how they can contribute to the attainment of team and departmental objectives.

Integration is achieved if everyone is aware of corporate, functional, and team goals, and the objectives they agree for themselves are consistent with those goals and will contribute in specified ways to their achievement. This process in illustrated in Figure 3.

Leech C. (2007) presents that cascading the objectives, is that which leads the performance management process. The final result should be, regardless of the size of the company, that each individual has its own objectives that can be followed all the way to the strategic company objectives.

Classification of appraisal techniques and sources of errors

Pitariu H. (2000) states that evaluating the human potential of a particular work team, means, firstly, to know with scientific methods each individual, and to objectively appreciate its competency. Further on, the objective appreciation will be passed on to work efficiency and some administrative decisions.

According to Guion R.M. (1998) a proper evaluation should take into account at least three things:

1. A source of information, preferably the result of an observation or a recording of the events subject to appraisal;
2. Organizing and remembering information useful to the appraisal;
3. Quantitative evaluation of the remembered items based on well set rules.

The appraisal is a complex process and there are multitudes of ways to do it and to present it to the manager and employee, and each way has its advantages and disadvantages. So, when designing an evaluation system one should pick the best suited way for its purposes and best adapted to its organization. In the following list the author presents a classification of performance appraisal methods, adapted after Pitariu H. (2000):

- Evaluation scales: graphic scales, evaluation scales with multiple steps, standardized scales; scale with points;
- Individual comparing systems: classification system based on the order of merit, pairwise comparison system, forced distribution system; groups comparison system;
- Behavioral descriptions: appraisal scales with behavioral anchors, standard mixed evaluation scales, behavior observation scales, summarized behavior scales;
- Other types: forced picked evaluation, critic incidents technique, lists of responsibilities, binary rating, Zapan method, 360 degrees Feedback, self-efficacy, visual methods.

All the above mentioned methods has its advantages and are also subject to errors. One has to take into account that each appraisal system refers to the efficiency of humans working with humans and from this starting point one can classify the error sources:

- Errors that belong to the assessor and reflect the appraisal distortions caused by it;
- Errors caused by psychometric construction deficiencies of the evaluation system;
- Measurement precision errors;

Conclusions:

The role of the appraisal in the performance management system is essential, and this provides the necessary data for the decision factors. If it is a well-constructed and efficient appraisal system integrated in a working performance management system, this has the potential to further increase the performance through proper motivation of the individuals.

Pulakos E.D., Mueller-Hanson R.A. and O'Leary R.S.(2008) state that appraisals for taking decisions (eg: payment according to performance) tend to be higher than the ones for development that are usually variable, reflecting the individual's strong points as well as the areas for development. They also state that there should be considered a difference in use of the numeric ratings for systems that target the decision making and the descriptive ratings that should be taken into consideration for development systems, offering a much wider range of information.

Armstorng M. (2009) has pointed out a series of advantages and disadvantages that should be considered about appraisals. He mentioned as arguments:

- It satisfies the individual's need to know where it stands on a particular scale;
- It offers a convenient mode to summarize judgments so that the high or low performances to be easily identified;
- It motivates the people through something to fight for in the shape of greater results;
- It is impossible to have a merit pay system without a general evaluation;
- It offers a base for identifying the high performers for the talent management program.

The main disadvantages pointed out by Armstrong M. (2009) it would be the subjectivity of the process, and the fact that this makes it difficult to obtain consistence between appraisals by two different managers. Due to the ambiguity of the notion of performance the subjectivity may increase. Campbell D.J., Campbell K.M. and Chia H (1998), point out two problems of the appraisals. The first issue would be the inaccuracy of the performance measurement systems, the second would be the interrelated performance, where the performance of one is dependent on the performance of another, or the work task is carried out by more than one individual.

Observing all the issues regarding the disadvantages of the appraisal system, the organization has to ensure a good and transparent communication on all its levels regarding the purpose and the procedure for the appraisal. The management has to involve all individuals in setting their own and team objectives, and to ensure that each has the opportunity to state its opinion. The study made by Boswell W.R. and Boudreau J.W. (2000) shows that the performance appraisal targeting the individual development, reflects in the employee a positive attitude regarding the employer and appraiser, as opposed to when the evaluation system is used for evaluation purposes that reflects a more cold attitude between the employer and employee.

Longenecker C. and Ludvig D. (1990) mediate for management discretion when evaluation the subordinates and point out that manager should develop and communicate clear standards through which they judge the performance of their employees, before the evaluation period. They also point out the necessity for managers to continuously offer feedback, integrated in the performance management system as a continuous process. The appraisal interview should be carefully prepared as any other business meeting, and should provide the employee with the opportunity to renegotiate his future objectives and also his development path.

As one can easily see the appraisal has a crucial role in the development and improvement of performance, and should be carefully constructed according to the organization's needs. It is recommended that throughout the process, starting with the design stage all employees to the involved and the process to be transparent. All appraisers should go through training programs regarding the appraisal procedure and to be clearly informed about the error factors in the process of evaluation that they are directly responsible of, and the impact that a false evaluation might have over the performance of the organization.

Acknowledgement

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Table No 1
Benefits and problems of goal setting adapted after Latham and Locke. (2006)

Benefits	*Potential problems*
Gives a sense of purpose;	Lack of sufficient knowledge for goal attainment;
Provides an unambiguous basis for judjing success;	Goal conflict among group members;
Increases performance;	Fear of risk-taking;
Is a means for self –management;	Ignoring non-goal dimensions of performance;
Increases subjective well-being	Demoralization because, following success, management may set higher, impossible goals.

Figure No.1 Performance mangemet cycle adapted after Armstrong. M (2009)

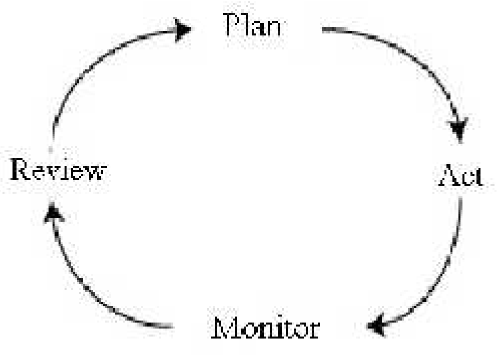

Figure No.2. The performance management sequence (adapted after Armstrong M., 2009, pg. 63)

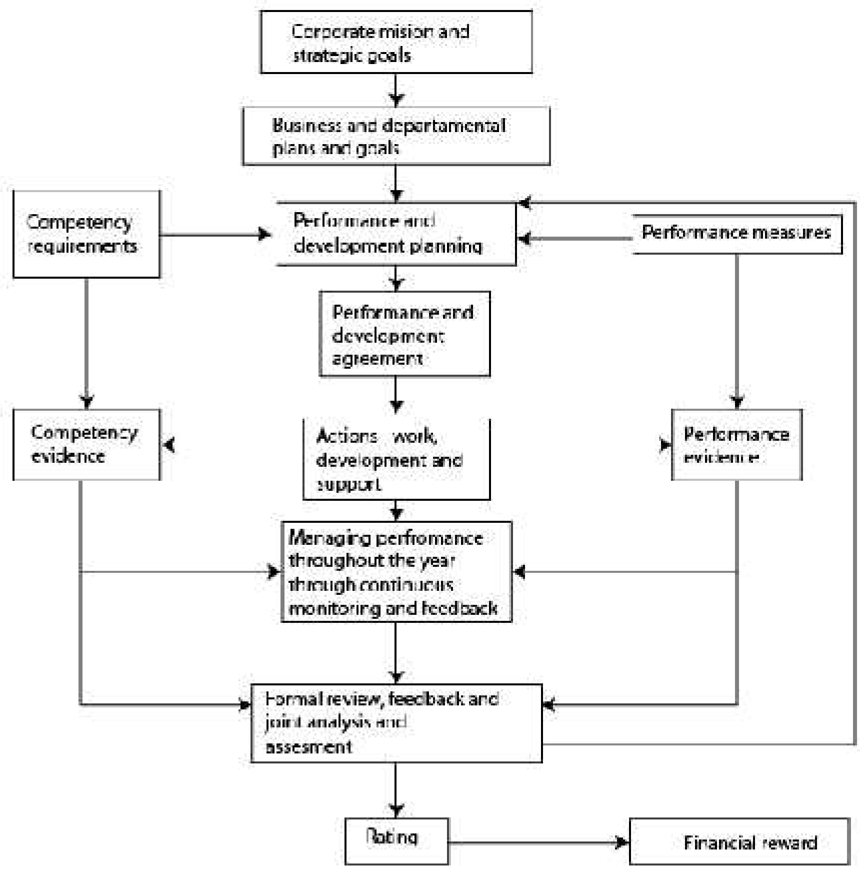

Figure No.3. Integration of goals (adapted after Armstrong M., 2009, pg. 102)