A Theoretical Framework for Implementing Performance Appraisal

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Abstract

Performance appraisal (PA) is a complex subject. It is therefore important to cover this topic in depth, by providing a framework of appraisal purposes, methods, characteristics, problems, legal considerations, and paying attention to the importance of PA as a valuable area for development.

Advisory, Conciliation and Arbitration Service (ACAS) see appraisal as a record of assessing an employee’s performance. It is an integrated part of a
performance management system. It is an important tool which can be used as a control and development mechanism, by looking back on what has been achieved during the reporting period and agree the objectives for the next. According to Long (1992), approximately 82% of all organisations within the UK have some form of appraisal scheme.

In a similar way, Corbridge et al., (1998) defined that:

"PA is a sub-set of performance management and related to the formal process of assessing and measuring employee performance against agreed objectives."

Additionally, PA can be used to communicate acceptable performance levels and to identify and reward outstanding performers (ACAS, 1998). However, the issue of linking reward and pay with performance appraisal is still the subject of ongoing debate, despite the growing use of performance related pay in the 1990's. Anderson (1993) argues that the PA should have two separate phases, one for assessment and reward and the other for development purposes. It is a view supported by among others, Carlton & Sloman (1992) and Holdsworth (1991), who states that whilst salary reviews should be loosely based on PA, the two events should be separate in terms of time in order to be avoided any potential confusion on behalf of the appraisees and appraisers concerning with the purpose of PA.

Training and development can be initiated for a variety of reasons, for an employee or group of employees and one of them is when a PA indicates that performance improvement is needed (McNamara, 1999).

According to Schweinger and Sumners (1994) training for the appraisers, is the most significant step in optimising the audit department's PA system. Training forms are indispensable parts of every quality evaluation system. The company's personnel department will most likely be able to provide the training. The following points (Schweinger et al, 1994) should be covered:

- giving adequate and timely feedback;
- practising active listening skills;
- avoiding psychometric errors; (see Table 6 below)
- and, dealing with emotional barriers to express constructive criticism.

**Purposes of PA**

In today's global competitive business environment, PA is widely accepted as being a vital tool in the management of performance and a means of har-
necessing greater employee commitment (Fletcher, 1999). Almost eighty years on from the introduction of the first formal monitoring systems Armstrong et al, (1998) stated that the subject of PA is still a much debated and continuous area.

PA is mainly used for two purposes: judgmental and developmental. The judgmental purpose focuses on assessing the relative value of each employee to the department in order to make sound administrative decisions. These decisions entail salary increases, promotions, probation and lay-off. The developmental or coaching purpose focuses on providing feedback on past performance, discussing strengths and weaknesses, clarifying future performance expectations, establishing future goals and assessing training needs (Schweiger et al, 1994).

Fletcher (1999) states that appraisal is:
- used as a vehicle for motivating staff
- the purpose of PA is to improving performance through setting objectives and targets of achievement
- to assist in employee performance
- to be used as a payment reward for efforts of last period
- for development purposes, identifying training needs and personal development
- suggest way of managing shortcomings of performance

Taylor (1998) stated that the fundamental purpose of appraisal is to align the aims and objectives of the individual to that of the aims and objectives of the organisation.

Also, according to IRS (1994) survey -based on 94 organisations from most sectors of the economy- the most common reasons given by employers for conducting PA are to: 1) identify training needs, 2) improve individual and corporate performance and 3) encourage manager-staff dialogue. In a similar way, Anderson (1993) suggests that the main purposes of PA are: to review past performance; to improve current performance/assess training needs; to set performance objectives; to assess future potential and to assess salary increases.

In summary, ACAS (1998) states that the main purposes of appraisal are to:
- review performance
- review potential
- identify training needs
- determine financial reward for performance

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Methods of PA

The ACAS booklet (1998) states that there are three distinct types of appraisal:

1) Performance reviews
Opportunity for managers and employees to discuss performance to see what sort of improvements can be made or offer the appraisee assistance to enable to perform more effectively.

2) Review of potential and development needs
Aimed to predict the level and type of work that employees are capable of doing for the future and how they can be best developed for sake of their own career, maximising their contribution to the organisation.

3) Reward review
Determine the rewards that employees will get for their past work performance. Usually separate from the appraisal process but in the main information for these reviews are provided for by the initial appraisals.

According to Cherrington (1995) pay-for-performance has significantly increased productivity in companies where it has been installed, and also has a positive impact on employee morale. There are many different methods/approaches of PA available to an organisation, the method is mainly dependent on who is involved in them. There is much literature, including Corbridge et al, (1998); Fletcher (1999); Armstrong (1998); Maddux (1996); Torkildsen (1999) and Towers (1992) about the different types of PA and most of them agree on who is involved in them as well as their benefits and drawbacks.

Traditional Appraisal

The most common and widely adopted approach to PA is the traditional or top-down appraisal, in which the immediate line managers, undertake the formal appraisal of those reporting directly to them (Marchington et al, 1997). This approach tends to be the most widely adopted (The Industrial Society, 1997).

360 Degree Feedback

In recent years, there has been a growing interest in multi-rater or 360 degree feedback, in response to an increasing need for greater employee commitment and empowerment. In essence, 360 degree feedback enables all the stakeholders in a person's performance to comment and give feedback (Ward, 1995). Stakeholders may include peers, subordinates, internal/external customers and managers.
Upward Appraisal

According to Atwater, Waldman, Atwater and Cartier (2000) a recent trend in the appraisal system is upward appraisal. This is when employees are not rated by their supervisors but from their subordinates. The reason behind this theory is that subordinates tend to know their supervisor better than superiors know their subordinates. They see their bosses and have a good insight into their moods, skills, preferences, strengths and limitations. Graddick and Lane (1998) suggested that upward appraisal is increasingly a component of executive appraisals. In addition, Waldman and Atwater (1998) supported the view that upward appraisal is recognised as one component of the wider 360 degree feedback process, with companies such as IBM and Syntex using it in their performance appraisal systems.

Balanced Scorecard

It is a set of measures that gives manager a fast but comprehensive view of the organisation performance and includes both process and result measures. Private sector businesses usually focus on the financial measures of their bottom line: return-on-investment, market share and earnings-per-share. By balancing internal and process measures with results and financial measures, managers will have a more complete picture and will know where to make improvements (Koebelin, 2001).

Self - Appraisal

In case that staff understand the objectives they are expected to achieve and the standards by which they are to be evaluated, they are in a good position to evaluate their own performance. If they are given the opportunity, they will criticise their own performance objectively and take action needed to improve it. Moreover, because staff development is self-development, staff that appraise its own performance may become more highly motivated (Mondy, Noe and Premeaux 1999).

Rating Scales

A rating system compares employee performance to some set of criterion and produces either a number or a letter grade that represents the employee's level of performance (Corbridge et al, 1998). In a survey, conducted by Tziner, Joanis and Murphy (2000) the results suggested that the rating scales used in evaluating job performance can affect the characteristics of the goals that are set as a result of performance feedback, ratees' percep-
tion of these goals, and ratee's satisfaction with PA. An example of rating scales (Appendix A) is that of Australian Canoeing Inc. (www.hrmguide.net, 2001).

**Ranking scales**

A ranking scale evaluates employees based on whether they are better, equal or worse than their peers. It is a comparison between employees (Corbridge et al, 1998).

**Observation**

When using the observation method, the appraiser usually watches the employee perform job tasks and records his or her observations. This method is used primarily to gather information on jobs emphasising manual skills (e.g. fitness instructor). However, observation is a time consuming process and used alone is usually an insufficient means of conducting appraisal, particularly when mental skills are dominant in a job (Mondy, et al. 1999).

**Comparison between PA and 360 feedback**

Lassiter (1998) suggests that PA is an evaluative process used to determine results. Its purpose is to measure and evaluate contribution to the organisation in order to provide feedback and fairly distribute rewards. PA allows employees to clearly see the results of their efforts, the relationship between their job and the organisation's performance, and be rewarded for their particular contribution. First creating clear and agreed upon goals, and then measuring progress against them can, best determine results, or contribution. This establishes the benchmark and gives employees a known target at which to aim. In the absence of clear goals, managers are forced to measure something else. What often gets measured, then, are factors such as effort, attitude, personality, teamwork, behaviour, etc; feedback on how an employee is supposedly 'doing' (Lassiter, 1998). But this is not an accurate and fair measure of job performance and contribution.

On the other hand 360 feedbacks is a developmental tool. It is designed to encourage employees to grow and develop by providing feedback on their proficiency in the skills, competencies, behaviours, and practices related to the conduct of their jobs. As employees learn, grow and develop, the organisation increases its capacity to perform at higher levels. In business this means these organisations are more likely to out-perform their competitors. PA and employee development is separate and distinct processes.
with different purposes and different measurement tools. They can and do complement each other (Lassiter, 1998; Sullivan, 1999; Kent, 1999).

**Characteristics of effective appraisal and benefits**

In designing an effective appraisal process, one of the most fundamental questions for the organisation is what are going to be the aims or objectives of the appraisal process (Fletcher, 1999) because this will have a major impact on the approach taken. There are a wide variety of potential objectives for PA, however, the most common and widely used objectives of appraisals tend to be motivating staff, developmental purposes and assessing employee performance for the purpose of making reward decisions (Marchington et al, 1997). It is argued, that even the above objectives may conflict with one another and that all three should not be combined in the same scheme at the same time (Mulvie, 2000).

It appears that the success of PA is very much dependant on a particular organisation's culture and the attitudes and perceptions of managers and employees towards the appraisal process. However, it is clear from the literature available that there are a number of characteristics, which can contribute to making PA effective. These are:

- Clear purpose and objectives with an increasing focus on performance improvement and development rather than assessment and links with pay (Fletcher, 1999).
- Clear links to achieving organisational objectives. Performance management and appraisal needs to be "viewed as so critical to the organisation's performance that it is embedded in the culture, talked about constantly and acted on continuously" (Saunier and Mavis, 1998).
- Openness, participative approach. Appraisal should not be something that is done to employees; it should be a joint process (Holdsworth, 1991).
- Ownership by line managers and individuals, rather than the personnel or HR department (Egan, 1995).
- Skilled appraisers and appraises. A rolling programme of training for both appraisers and appraises can help ensure problems are overcome and also that areas for improvement are identified (Myland, 1999).
- The adoption of performance management. Increasingly, it is being accepted that performance management with its emphasis on greater involvement in and ownership of organisational objectives and its focus on an integrated approach to the development of a performance culture, can help improve the effectiveness of the appraisal process (Fletcher, 1999).

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• Flexible and simple guidelines and instructions, as opposed to formalised procedure (Egan, 1995).

• Regular monitoring and maintenance of the appraisal process to identify problem areas and areas for improvement (Myland, 1999).

Lockett (1992) argues that effective appraisal systems have a number of benefits:

1. **Benefits to the organisation**
   The system motivates employees by learning what skills are available which can be drawn on to enhance their overall performance and by being to identify before a problem arises how to they may need to train or develop the employee to meet organisational goals.

2. **Benefits for the employee**
   The employee may receive recognition and support from management as they develop work role and be remedied how they are contributing to the effectiveness of the organisation overall. The employees can voice their views and offer suggestions on both their own development and that of the organisation.

3. **Benefits for the manager**
   The relationship with the employee will be enhanced; the manager can give the employee recognition and support in continuing development and enhance the employee's motivation by reminding them of the overall goals of the organisation to which they are contributing.

Having examined the characteristics of an effective PA, the next step is to examine who is responsible to drive the appraisal process.

**Responsibility for appraisal**

It is vital that line management within the organisation visibly owns the appraisal. A direct response of who should carry out an appraisal would be the person who line manages the job closest—i.e. they should know what the job entails and be familiar with employees' performance. It is true to say that immediate line managers should carry out staff appraisals as they delegate work and frequently monitor and are aware of the appraisee's work on a day-to-day basis (Torrington et al, 1995).

On the other hand, it may be argued that appraisal should be carried out by senior management or outsiders (e.g. agencies), but this could be costly to the organisation and staff may not feel comfortable with these appraisers (Mulvie, 2000).
The lack of managerial skills in handling the appraisal interview, is a reason for the failure of appraisal systems, according to Lockett (1992), Attwood and Dimmock (1996). Myland (1992), stresses the importance of not just training of managers in interview skills, provision of feedback and setting performance standards, but also in attitude changing. It is a widely held belief that managers should not be permitted to conduct appraisals until they have not only conducted the necessary training but have also provided evidence that the training has been successful (Myland, 1992).

Tyson and York (1996), argue that where no appraisal training is given to managers, this represents the 'Theory X' approach to appraisal, which assumes there is an apparent confidence in the manager’s ability and authority to judge and therefore does not require training for this task. "Theory X" assumes that most people prefer to be directed, are not interested in assuming responsibility, and want safety above all. Managers who accept "Theory X" (developed by McGregor in 1960) attempt to structure, control, and closely supervise their employees. These managers feel that external control is clearly appropriate for dealing with unreliable and irresponsible staff (Hersey, Blanchard and Johnson, 2001).

It is recommended that appraisees be trained in appraisal as well as their appraisers. As Freemantle (1994) says, the question relates to equality of opportunity as well as to empowerment. In cases where managers are trained in PA but employees are not, appraisal tends to be seen as a downward process.

As it has been already mentioned, the survey of Marchington et al, (1997) for the IPD, indicated that there is an increasing number for performance appraisals to be conducted by line managers and individuals, with organisations asking that only training needs and personal development plans be sent to the human resource department.

Finally, as Carrell, Elbert and Hatfield (1995) pointed out, in a non-competitive work group environment peers may be in the best position to evaluate a co-worker's performance. Peer evaluation can provide the organisation with information that other appraisers (e.g. line managers) could not get, due to a lack of direct contact with the staff. However, these subordinates will not give objective and honest appraisals because of possible retaliation.

Having analysing who is responsible for the appraisal, the next issue concerning with PA is "when". In other words how often (frequency) the staff is getting appraised.

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When to conduct PA

The frequency of the appraisal is a main issue. It should depend upon several factors such as the position in the hierarchy and the experience in the job. Managers, new and promoted employees, need to be appraised more often than assistants and experienced staff. As a general rule an annual appraisal is not frequent enough except if there are some interim reviews (Fletcher, 1999).

Armstrong et al. (1998) pointed out -in a similar way- the importance of the frequency. He suggested that the appraisal of staff should be an ongoing process not carried out once or twice a year. The frequency will fundamentally depend upon the size and nature of the organisation and scheme for example in a fast changing organisation appraisals maybe required more frequently. In addition, there is a more frequent need for poor performers and new employees, this should be incorporated into the induction process (Armstrong, et al, 1998; Johnson, 2001).

Most guide books emphasise that the appraisal of an employee is a continuous ongoing process of monitoring, feedback and review and should not be limited to a formal review once a year. This can result in managers failing in their duties for reviewing staff’s performance on a day-to-day basis (Mullins, 1993). However, according to Armstrong et al., (1998) this could be time consuming for managers, appraisers and appraisees.

Finally, the environment and the time allocated affect the effectiveness of the appraisal. An informal quite room is required to set good conditions for the appraisal. The appraisal should not take place in the manager’s office because it is not a casual discussion (Fletcher, 1999).

Problems in PA

There are a number of reasons why PA, sometimes is not as effective as it could be. According to Anderson (1993) there are many problems associated with appraisal, which are as follows:

a) Ability to appraise

Managers are uncomfortable when they are put in the position of ‘playing God’ with people’s lives and thus have a reluctance to tackle difficult issues. They do not like criticising the staff but assessing staff performance is part of their responsibilities.

b) Lack of time

Busy managers argue that appraisal takes too much time. In fact, it is a question of priority and managers should allocate enough time for an effective appraisal.
c) Lack of objectivity

There is a problem of objectivity in the rating because of rating bias. An assessment, is not the truth, it is always subjective. Walker (1992) pointed out that employees are easily confused if its objectives is not widely communicated and understood across an organisation.

d) Defensiveness of the appraisee

Can also be a problem, as can be the appraiser's unwillingness to give feedback on poor performance.

e) Psychometric errors (Table 6, below).

Table 6: Psychometric Errors

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<th>Psychometric errors are measurement errors due to the psychological predisposition of the appraiser</th>
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<td><strong>Leniency/(harshness):</strong> Higher/ lower rating than warranted by actual performance.</td>
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<td><strong>Halo:</strong> Appraisee receives the same rating on logically unrelated performance criteria due to the appraiser's overall impression of the employee.</td>
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<tr>
<td><strong>Restriction of range:</strong> Appraiser's tendency to assign the same ratings to different employees irrespective of their performance levels.</td>
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<tr>
<td><strong>Recency:</strong> Recent performance is taken as the entire year's performance.</td>
</tr>
<tr>
<td><strong>Contrast:</strong> Inappropriately high/ low rating after a deserved low/ high rating to the previous employee</td>
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Problems of negativity and inconsistent commitment, lack of confidence in face-to-face situations have been identified by Myland (1999). In designing PA schemes, it is clear that factors such as organisational culture and structure have a significant impact. As a result, it is necessary for each organisation to identify the right approach to suit its organisational structure (Myland, 1999).

Beardwell and Holden (1997) pointed out that as a result of lack of cooperation and commitment on behalf of individual employee to the PA process, employees are likely to be distrustful of its purpose. Consequently, the employees fail to appreciate how it can benefit them and the organisation and behave in a negative and defensive manner, during the interview.
Another problem, related to PA is that the system can interfere with teamwork (Lester, 2001). PA is nearly always conducted on an individual basis, but people do, and are constantly exhorted to, work in teams. Most are interdependent and it is not possible, or desirable, to separate the contribution of individuals. The system over-emphasises individual differences in performance, looking for differences that are not there.

Freemantle (1994) expressed the opinion that when terminology typically used in appraisal forms such as ‘objectives’, ‘competence’, ‘goals’, ‘aims’ and so on, causes lack of understanding and confusion to the appraisee. Finally, Abelson (2001) mentioned the discrimination that can be occurred during the PA process. The problem particularly identified in rating systems. Employees at Microsoft, Ford Motor and Conoco said that rating systems are unfair because they favour some groups of employees over others: white males over blacks and women, younger managers over older ones. A growing number of companies are turning to grading systems, also known as forced rankings or distributions, as a way of making sure managers evaluate employees honestly and make clearer distinctions among them (Abelson, 2001).

Beyond the above problems related to PA process, there are also some legal considerations that are involved in PA. Therefore, it was thought that they have to be addressed.

Legal Considerations

Research conducted by Malos (2000) in various computer databases revealed that almost 500 published judicial and arbitration decisions from just the last several years involve performance appraisals in one form or another. Many of these decisions turned out merely to contain evidence of favourable performance, offered to show that an individual was qualified for a particular job, and to raise an inference that the reason for refusing to hire, promote, or retain that person must have been discriminatory.

King (2000) points out that the law requires that PA should be: job related and valid; based on a thorough analysis of the job; standardised for all employees; not biased against any race, colour, sex, religion, or nationality; and performed by people who have adequate knowledge of the person or job. The appraisers have to be sure to build in the process; a route for recourse if an employee feels he or she has been dealt with unfairly in an appraisal process (e.g. that the employee can go to his or her supervisor's
supervisor). The process should be clearly described in a personnel policy (Zachary, 2000; Wanguri, 1995).

Conclusion

There are a number of 'characteristics' that can contribute to effective PA. Whilst there is increasing interest in performance management and the need for a more strategic and integrated approach to managing performance, it is clear that PA still has a central role to play in managing and improving both individual and organisational performance.

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