MISSING LINKS IN PERFORMANCE APPRAISAL: A CONCEPTUAL STUDY

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Abstract: Thousands of studies on Performance Appraisal (PA) exist in both the academic and practitioner literatures. The intended purpose of many of these works is somehow link PA to performance. The first section of this research aimed in comprehending the broad and complex mix of performance appraisal practices, issues, challenges and pitfalls. The missing links were identified using available literature, theory and practices in different countries, as well as across industries.

On the basis of gaps identified, the later section of this paper highlighted that the effectiveness of performance appraisal can be enhanced by designing a performance appraisal system that fits the culture and strategy of the organization and also strongly supports a quality-driven management strategy through which many familiar pitfalls of appraisal programs can be avoided. The holistic approach was adopted to address the issue of missing links and to making PA more effective.

Keywords: Performance Appraisal, effectiveness, practice, culture, strategy, organizational effectiveness, employee feedback, high performance work system

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1. INTRODUCTION

Performance Appraisal is about evaluating an employee’s current and past performance relative to his performance standards. Performance appraisal is generally practiced as a two step procedure as what to measure and how to measure. The generic dimensions like quality, timeliness and developing competencies come under what to measure. Several methodologies like Graphic Rating Scale, MBO etc. are used for appraisal of employees within the organization (Dessler, Varkey, 2009). The various purposes of performance appraisal practice are regulating employee behavior, developing employee capabilities, controlling and coordinating employee behavior. Components of appraisal system vary from organization to organization. Some form of unique practice is also followed by different organizations (Rao, 2004).

Performance appraisal helps to improve organizational effectiveness (Spinks, Wells, and Meche, 1999), particularly when attributes of the performance appraisal are directly linked to the objectives of the organization (Schraeder, Becton and Portis, 2007).

It should be kept in mind that performance appraisal is not only to meet organizational objectives but also to enhance individual performance. There is evidence of sheer negligence towards individual development and the main focus has been on financial performance of business. When talking about individual development, it solely depends on the relationship with supervisor. The relationship was dependent upon the number of times they interact, the flexibility of the supervisor towards understanding the employee in that foreign location. Considering the strategy adopted by the parent company the performance appraisal system varied. Appraisal system was more effective with geocentric or region-centric company. The in-effectiveness is more evident in companies following ethnocentric or polycentric strategy.

The objective of this paper is to comprehend the broad and complex mix of performance appraisal practices (PAS), issues, challenges and pitfalls. Thus, we first the missing links are identified using available literature, theory and practices in different countries, as well as across industries. On the basis of identified gaps, the effectiveness of performance appraisal was reviewed by designing a performance appraisal system as per the culture and strategy of the organization. The holistic approach was adopted to address the issue of missing links and for making PA more effective. For this PA and organization design, PA and other human
resource systems in organizations were studied. The most effective PA systems of past and present are identified and suggestions are given for future course of action.

**2. STREAMS OF RESEARCH ON PAS**

**80’s and PAS**

During 80’s the type of format of the appraisal program became an issue of legal requirements. Study done in Israel during that time shows that the country has almost all the professionals unionized, irrespective of sector or field. This tied the hands of the employers to layoff or take disciplinary actions even in case of extremely poor performance. Shortage of manpower added fuel to the fire. The practices of performance appraisal showed that majority of the organizations had formalized appraisal system. Amongst them, nearly half of one third of them had separate format for supervisors and non supervisors. There were various uses of appraisal in varying degree of requirements. Majority were for grade promotions, position promotion, identifying training needs and problem areas. Very few used it for salary determination, feedback to rate, improving quality judgment and evaluation of skills etc. As mentioned earlier, the format was mostly developed by the organization’s personnel department.

**90’s and PAS**

It was seen in 90’s that whenever both the parties were equally involved in development and implementation, the appraisal process became a success (Maroney, Bernard Patrick and Buckely, M. Ronald, 1992; Krausz, Moshe, 1980). Very few organizations went for outside consultants. The frequency of appraisal was more when the employees were new. But the appraisal criteria, timing or format was only well informed to the raters not the ratees. Nevertheless, unions had a strong say on the performance appraisal practice (Krausz, Moshe, 1980). When performance appraisals of non-managerial employees in government sector are considered with special reference to large American cities during 1987, the merit system was more prevalent. Employee feedback, identification of skill deficiencies and allocation of reward emerged as the dominant objectives. It was evident that employee communication and development was of prime importance. The rating scale technique was used most frequently and majority wise. Others also used few mixed techniques as the number of employee size increased. The appraisal was generally done annually. It is to be noted that
rating scale tends to measure performance annually. Also, due to large number, time devoted for each employee was very less. Employees as well as the evaluators were generally satisfied. Overall, during 1987; considerable differences existed between managerial and non – managerial appraisal in large American cities (England, Robert E and Parle, William M., 1987). In 1992, during feedback session, the appraiser highlighted more on efforts to improve performance in order to eradicate the performance problems in poor performers. Contrastingly, the same appraiser showed greater support and concern for high performers (Maroney, Bernard Patrick and Buckely, M. Ronald, 1992).

**Indian Context**

When the study was specifically done on Indian systems during 2000, there emerge reasons for importance of performance appraisal system. High performance work system is crucial for sustaining global competitiveness. This in turn requires objective performance appraisal process which is underemphasized in Indian practices. When compared with global appraisal practices, Indian appraisal system is biased and nonintegrated. Multinational organizations and joint ventures are systematized due to their market environment. They are more likely to discuss the appraisal system with their employees as well as provide feedback on the performance appraisal done on them. They also maintain more ethical standards as compared to public sectors who are more concerned with legal compliance. But this situation at any means does not indicate negligence on performance appraisal system.

It may be considered that the cultural and economical reasons prevailing in India compels to do that. Research based on Indian firms unearth that Indian appraisal system has fairly objective system. Like, conformity among employer and employee forms the foundation of the system. Again, open discussion for strengths and weakness and to find means to pick up upon it. Using the feedback for training need analysis, promotion etc. Overall, Organizations wherein high performance work system is followed, presence of structured appraisal system for both evaluative and developmental purpose is in use (Amba Rao, Sita C et.al, 2000).

A more recent research explored a better finding with power distance and appraisal practice. Societies which are high on power distance does appraisal of employees only but not of managers. The evaluations are also done by peers. On the contrary, low power distant society ensures to appraise employees of all ranks. Futuristic societies focus more for
human resource planning, training need identification and organization of work from appraisal process (Peretz, Hilla and Fried, Yitzhak, 2008). This is in agreement to what is mentioned in the earlier segment of the paper.

**Expatriates’ Performance Appraisal**

Another important aspect is the performance appraisal practices of employees working as expatriates. The primary theoretical basis for expatriate performance appraisal comes from the literature on domestic US performance appraisals (Gregersen et al., 1996). Designing the process of expatriate performance appraisal is of utmost importance as it tends to have positive effect on company performance (Sparrow, et al., 1994). The appraisal itself is done mostly over phone. There is a persistent dissatisfaction with the feedback process, the follow up and limited understanding of the rationale for appraisals as below mentioned in Figure 1.

![Diagram](image)

**Fig. 1: Core categories and their problems.** (Maley, et al., 2007)

At one hand these employees are out of their home country and on top of that they are not being kept into the communication. The situation only worsens. But one surprising aspect was that the appraisal process used information from peers, subordinates and self (Malay, et al., 2007).
Evaluation of expatriate performance is complex due to the interaction of the variables involved. Factors in the environment, such as differences in societal, legal, economic, technical and physical demands and variables associated with task and the personality of the individual, make it difficult to isolate job-related factors, set performance standards and devise procedures (Dowling et al., 1994; Gregersen et al., 1996). Peterson et al. (1996) emphasise that for the expatriate assignment, MNCs need to evaluate dimensions of performance, which are not specifically job-related, such as cross-cultural interpersonal qualities, sensitivity to foreign norms, laws and customs, adaptability to uncertain and unpredictable conditions and the host location’s integration with other MNC units. Generally, expatriates are avoided being evaluated on the basis of quantifiable hard criterion because of currency conversion, tax law and other financial issues. Rather they are evaluated more on leadership, interpersonal skills etc. This can sometime become more complicated because of cultural issue. So, it would be best to use multiple evaluation criteria (Janssens, 1994). Expatriate of higher level are generally appraised by the immediate superior in home country. Employees of lower level are appraised by the host country supervisor. This seems to make more logical sense as the host country supervisor will come to know the exact performance of the employee. Forms of home country appraisal are used which may be inefficient due to uniqueness of expatriate job description.

A lack of consensus is found on what is the best practice of international performance appraisal due to the complexity of international practices relating particularly to diversified operating host environment and firm-specific factors. Brewster (1988) argues that the appraisal at an international level is extremely complex because there is no obviously correct way to assess the performance of someone operating far away in circumstances not fully understood by the appraiser.

3. METHODOLOGY

This conceptual paper studies several literatures concerning performance appraisal with the intention to satisfy the author(s) and readers to provide an insight about the various components associated. Several studies have been found on these subjects and the most relevant ones have been incorporated. A time frame from 80’ have been taken into consideration to avoid too much of data, duplication and irrelevancy to current practices. The literature was mainly collected from online databases and reputed books and journals.
from India and abroad. A sincere effort has been made to address the issues sequentially, following the flow of the process of appraisal. It is an original work to summarize the concerned data of various researchers together to help in reducing effort for further exploration on this idea.

4. GAPS IDENTIFICATION

In addition to evaluating employees on a regular basis, organizations should also assess the effectiveness of the appraisal system periodically (Martin and Bartol, 1998). This may include an aggregate analysis of ratings provided by different supervisors to determine any anomalies or problematic trends (Martin and Bartol, 1998). Inherent problems often hinder the overall effectiveness of formal performance appraisal systems (Rees and Porter, 2003). On the basis of this our focus is on the inherent problems that exist within the organization like lack of integration between PAS and culture, strategy, structure, organizational cycle and/or organization design of the organization.

Dobbins, Platz, and Houston (1993) have mentioned that most research has simply assessed rate satisfaction with appraisal and not examined consequences of this satisfaction (Dorfman et al., 1986). Thus, we could easily say that the organizational as well as employee outcomes or say consequences of effective PAS have been given little attention.

5. RESEARCH AND FUTURE DIRECTIONS

Effectiveness of Performance Appraisal can be defined by employee satisfaction and his commitment towards the organization and this can be achieved by linking performance feedback process with the goal setting. Goal-setting may foster feelings of perceived participation in work-related issues, and may enhance feelings of meaningfulness at work, both of which were components of the present work satisfaction measure. Miller and Monge's (1986) concluded and Schneider's (1981) contented that perception of working in a participative climate may be strongly related to satisfaction at work. (Tziner and Latham 1989).

According to the Lawler, Morhman and Resnick (1984), an effective PA system is one that satisfies the needs of the parties involved in the process. Dipboye and de Pontbriand (1981) found that employees were satisfied with current appraisals when there was an opportunity to state their own side of issues, the factors on which they were evaluated were job relevant, and performance objectives were set. Similarly, Landy, Barnes, and Murphy (1978)
found that frequency of evaluation, identification of goals, and supervisor knowledge of subordinate performance were significantly related to appraisal satisfaction. Dorfman, Stephan, and Loveland (1986) found that supervisory support in the appraisal review was associated with higher levels of employee motivation, while discussions of pay and advancement were associated with higher levels of employee satisfaction. More recently, Giles and Mossholder (1990) demonstrated that supervisory variables were related to employee satisfaction with the appraisal session, and contextual variables were related to employee satisfaction with the appraisal system. Finally, and not surprising, several studies have also found that ratees are more satisfied with the appraisal process when they receive high evaluations than when they receive low evaluations (e.g., Bannister, 1986; Dipboye & de Pontbriand, 1981; Russell & Goode, 1988). Thus, our first research question is:

**RQ1:** How to define effectiveness of Performance Appraisal System as different authors have different viewpoints? Is this related to satisfaction of the employees, employee motivation, employee commitment, mix of these outcomes or something else?

Thus, the future research could focus in conceptualizing the effectiveness of PAS by empirically testing certain prepositions.

**Enhancing the effectiveness**

Lawler (1967) proposed that "attitudes toward fairness and acceptability of the system" determine the ultimate success of performance appraisal. Nemeroff and Cosentino (1979) and Tziner and Latham (1989) have provided strong support for the proposition that a performance review consisting of performance feedback followed by goal-setting would favourably influence work satisfaction and organizational commitment to a greater extent than performance review comprising feedback only.

**RQ2:** Why performance feedback has an impact on the fact that people are basically feedback seekers?

The above research question needs a plausible explanation (Ashford 1986).

Feedback is a vehicle through which the appraisee receives information about how well he meets organizational expectations and work requirements. Performance feedback slightly affects organizational commitment in contrast of employee satisfaction, even though measured along with the aspects of superior-subordinate relationships. The concept of organizational commitment has been defined as the extent to which an employee identifies
with and is involved in his work unit and the organization as a whole (Curry, Wakefield, Price and Mueller, 1986). Performance feedback followed by goal-setting is one of the factors which directly deal with the degree of improvement. Through the process of goal-setting the appraisee receives a direction to proceed towards his goal and to align his own task with the organization's objectives.

**RQ3**: How goals set for an employee relate to and contribute to his work unit and his organization accomplishments?

As suggested by Landy and Farr (1980) and Mitchell (1983) performance appraisal effectiveness can be affected by numerous factors. Social contexts such as the nature of the task, the continuous work group, and rater and ratee's attitude similarity and observational opportunity have been suggested by Ilgen & Feldman (1983) and Mitchell (1983) as possible direct or indirect causes of judgmental error.

Lawler, Morhman and Resnick (1984) have suggested that for effective PA managers and subordinates must have a shared perception of the purposes and the functions of the process and a shared belief that it is useful to them in an individual basis.

Best performance appraisal format ignores differences among jobs (Lee 1985). Lee in 1985 has suggested that utilizing performance appraisal formats and designing training programs without considering the nature of the task may explain unsuccessful attempts in devising more accurate and efficient performance appraisal systems. On the basis of this we have two research questions:

**RQ4**: Does appraising performance according to the nature of the task improve performance appraisal systems?

**RQ5**: Does this alignment with the nature of task also contribute to the successful organizational placement and promotion decisions?

Stroul (1987) and Davis and Mount (1984) have also shown interest for enhancing the effectiveness of PA on training of managers to encourage a new attitude. They found trained managers more knowledgeable of performance appraisal than untrained managers. Thus, training fulfils the three functions:

- Reposition the manager’s role and emphasize employee development as an essential responsibility;
- Help managers develop skills and strategies to enact their new role;
Give managers technology they need to apply in their staff development activities. Longenecker (1989) has mentioned that for a system to be effective managers must not have only the skills necessary to conduct effective appraisals but also the willingness to do so. Longenecker and Goff (1992) have recommended that one can improve the effectiveness of PA system by assessing the effectiveness of current appraisal system, arranging appraisal skills training for managers, understanding employees the appraisal system (making them aware), increasing managers’ willingness to conduct effective appraisals and starting with effective performance planning.

Dobbins, Platz, and Houston (1993) have examined the influence of ratee trust in the appraisal system on ratee reactions to appraisals. Trust may be a potent variable which affects employees’ reactions to appraisals.

**RQ6:** How human aspects such as emotional intelligence, trust, personality, self efficacy, etc. are related with the effective PAS?

It has been assumed that ratees, who are more satisfied with appraisals, will be more motivated to improve their future performance and thus, increase the effectiveness of appraisal.

**RQ7a:** Is there any relationship between satisfaction, motivation and performance of the employee?

**RQ7b:** if yes, then what role motivation plays between satisfaction and performance, mediator or moderator?

Orpen (1997) argued that performance appraisals are potentially more effective if the techniques or procedures employed are matched with the nature of the tasks being performed. Whilst accepting that it is not possible ever to achieve perfectly accurate appraisals because of the nature of what is involved, it is still up to individual managers to create the conditions necessary for the potential of appraisals to be released as much as possible, by rewarding effective appraisals (Carroll & Schneier, 1990), providing opportunities for raters to observe the relevant behaviours to be rated (Fletcher, 1994), and making explicit the exact purposes of the appraisal process (Miner, I990). Thus, our next research question is:
RQ8: If the procedures or techniques are inappropriate for the tasks performed by the ratees’ then will this lead to inaccurate ratings or depends on the underlying cognitive processes?

Schraeder, Becton and Portis (2007) have addressed the strategies for minimizing the negative attributes of performance appraisals, while leveraging the positive attributes of performance appraisals for organizations like training of raters, use of behaviour based methods. Martin and Bartol (1998) argue that appraisals of employee performance should be directly related to the accomplishment of job-related tasks. Jenks (1991) supports this contention by further advising that ratings should be less subjective in nature, providing ongoing feedback and use of multiple raters (one increasingly popular method for obtaining feedback from multiple sources is 360-degree feedback (Kubicek, 2004)).

Mamatoglu (2008) in his longitudinal study has investigated the impact of the 360-degree feedback system (DFS) on organizational context (culture and climate) and related it to the perception of communication and the effectiveness of an organization’s performance appraisal system.

PA and Organization Culture

The appraisal system must reflect the organization’s culture. This is a necessary condition for gaining management commitment. An appraisal system that is out of synch with cultural norms also will lack meaning for employees, because it will be viewed as irrelevant to how things really get done (Gubman, 1984).

Bringing appraisal practices into agreement with culture requires a critical analysis of the elements of culture that impact appraisal. These include the ways employees are rewarded and advances through the organization, the structure and exercise of power, the flow and directions of feedback and other communications, the way in which work is planned and directed etc (Gubman, 1984).

Organizations should integrate ongoing, continuous appraisal of employee performance into the culture of the organization where feedback is seen as a function of quality improvement, not a periodic ritual that proves unpleasant for employees and supervisors (Schraeder, Becton and Portis, 2007).

360-DFS was found to have an effect on achievement and support culture perceptions; however, there was no significant effect on perceptions for the other cultural typologies.
assessed (power and hierarchical). In addition, 360-DFS showed the predicted influences both on the perception regarding communication atmosphere and effectiveness of the performance appraisal system (Mamatoglu, 2008).

**PA and other Human Resource Systems**

The importance of performance appraisal for organizational actions such as selection, training, motivation, and compensation has been widely discussed because the actions based on the information from the rating process have critical implications for both the individual and the organization. Accuracy in measuring performance has been a major concern in the last more than 70 years (Lee 1985).

The literature on performance appraisals suggests that the appraisal process can:

- Increase employee motivation and productivity
- Provide a solid basis for wage and salary administration
- Facilitate discussion concerning employee growth and development
- Provide data for human resource decisions and for employee goal setting and performance planning
- Provide managers with an important communication tool (Morhman 1989).

McCrensky in his article “Increasing the effectiveness of staff performance appraisal” has discussed that effectiveness of PA system can be improved by implementing actions with the process not as a self-contained but as an essential and integral sector of the total performance management system. Policies and methods should ensure that the results obtained from performance appraisal will be systematic inputs to such functional areas as promotion, reassignment, selection for fellowship and training opportunities and other aspects of participation in planning and evaluating management policies and goals. If such purposes cannot be served properly or substantially enough through the implementation of the performance appraisal process, the costs and efforts expended will be largely wasted.

**RQ9**: How other human resource practices such as R&S, recruitment and compensation are linked with Performance Appraisal System?

**6. INSIGHTS AND SUGGESTIONS**

As per above discussion we could suggest that many factors in performance appraisal assessment leads towards the satisfaction of employees and thereafter towards the effectiveness of PA system. One factor like level of performance ratings is responsible to enhance effectiveness. Positive evaluations are seen as more accurate, are valued more, and are better accepted than negative ratings (McEvoy and Buller, 1987). Positive ratings
elicit positive reactions toward the appraisal (Kacmar et al., 1996). Another factor, ratees’ participation in feedback discussion also contributes to the effectiveness of PA system. The influence of employees’ participation on their reactions to feedback discussions including satisfaction with feedback has been investigated in several studies (DeGregorio and Fisher, 1988; Dipboye and de Pontbriand, 1981; Giles and Mosholder, 1990; Wexley et al., 1973). Satisfaction with rater, this also plays a crucial role for effectiveness. Reviews and models by Cederblom (1982) and Klein et al. (1987) have also highlighted the significance of the rater in shaping ratees’ reactions to appraisal feedback. Other researchers have also asserted that supervisors play a crucial role in the success or failure of any appraisal system (Nathan et al., 1991; Pooyan and Eberhardt, 1989).

Literature says satisfaction with appraisal feedback will positively influence subsequent performance. In addition, several studies have reported that satisfaction with feedback positively affects employees’ motivation to improve their job performance (Burke et al., 1978; Wexley et al., 1973; Russell and Goode, 1988). For these reasons, satisfaction with feedback on past performance could influence future performance of employees by making PA system effective. The future organizations should focus on structural, cultural and generational issues while designing performance appraisal system.

7. LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

This study is a review of literature which is taken in limited numbers. More referrals could have made the study still better. The time limitation remained a constraint. An in-depth study on performance appraisal functions can be taken up for further exploration. In-depth case study method on these functions will definitely give a better understanding to the diverse nature and practices of performance appraisal. An empirical research based upon the literature review would add up to strengthen the idea about current practices. A longitudinal research could help in getting a clear viewpoint. Appraisal practices could be studied sector wise, so as to find out prevalent practices in those sectors. Statistical techniques can be used for identifying trends, correlations and factors constituting appraisal practices in organizations. Future research can focus on suitability of performance appraisal practices with organization design, structure and organizational goals, etc.
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