# CHAPTER 1

## 1.    INTRODUCTION

### 1.1.1    Background

Employee evaluation, which is also known as Performance Appraisal (PA), is critical to the functioning of an organisation as well as to the advancement of its employees. The organisation needs to rate its employees so that people can be identified to assume their position in the organisation. Employees need to have their work reviewed so that they may be acknowledged and rewarded when necessary. The implementation of an effective performance appraisal programme, however, is made complicated by the difficult task of obtaining a truly fair and accurate appraisal of an employee performance. (Gibbons and Kleiner, 1994)

Most employees are wary of PA and view it negatively and anxiously except perhaps for a small number of outstanding contributors who are extremely secure in their capabilities and a similar small number of poor performers who are indifferent or feel they can beat any appraisal process. Their fears are not without basis; in fact they perceive the biases lie in the rater's subjectivity. The rater may not measure his or her performance on the actual behaviours demonstrated and results achieved during the rating period, but instead use a variety of

subjective biases to rate performance. In other words, the actual rating may be based more on the gender, race, national origin, age or religion of the ratee or on performance in some past appraisal period, or even on physical or psychological makeup. (Gibbons & Kleiner, 1994)

These fears relating to unfair, highly subjective ratings receive significant reinforcement when the ratee feels that their supervisor or superior does not know the requirements of the ratee's job and standards to measure job performance. Their ignorance could stem from having no opportunity to observe many of the tasks performed or see the results achieved and no feedback given to the ratee of what is expected or anyone performing that job. (Longenecker, 1997)

The rating problem becomes magnified when the unacceptability of being "average" is analysed. The word "average" when describing performance has a negative connotation to many people. In this respect, "average" actually means "mediocre", or less than acceptable. In any work situation, there is a "number one contributor" or a small group whose performance exceeds that of others.

Hence it is highly unlikely that all those being measured are given equal ratings. In any case, many still question the justification of the rating when there is a wide disparity in the rewards and bonuses awarded especially among those in the "average" group who score marginally close to the high performers. How would we pacify an

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employee who scored a 79 (thus categorized as an "average" performer) and was grossly unhappy over a co-worker who scored an 80 and qualified as a high performer and enjoyed a much higher bonus and reward. Thompson and Dalton (1970), quoted by Pearce & Porter (1986) reported about the dysfunctional effects of appraisal feedback ratings. They found widespread dissatisfaction and lowered individual self-confidence and job performance. They noted that the signals and a ratee receive have a strong impact on his self-esteem and subsequent performance.

The impact of being rated "below average' could have an even more damaging effect on the employee and his subsequent performance. Pearce & Porter (1986) also suggested that employees given below average merit ratings become alienated and demoralized. The reason being that most employees consider their own work performance to be "above average".

Ironically, on the other side of the coin, many employees fear the physical and emotional abuse that may occur because of performance ratings. Undoubtedly, the great majority wants their contributions recognized, yet, there are many times when they do not want their peers or co-workers to know how they have been rated or what they have contributed. These fears too are not unfounded, one that is of being labelled as a "rate buster", which allows management to set higher performance requirements or goals for all other workers. The

other is the effort of the good or exceptional worker may result in the loss of jobs or co-workers because improved work-unit output of the exceptional worker.

If the results of most formal appraisal become public knowledge when it is meant to be confidential, this may be perceived as a threat by the other co-workers who score on average. This may lead to the exceptional worker being ostracized and subjected to physical and emotional abuse by his or her co-workers. The situation might take a worse turn when the exceptional worker is being publicly acknowledged and awarded for his outstanding performance.

The concerns of the ratee discussed above will not be complete without a mention of the major behaviour-influencing forces that affect rater behaviours. Among them are the desire to be accepted, concern with job security, self-protection, affiliation with those holding similar views or having similar qualities, selective perceptions and limitations due to lack of prior education, training, experience and necessary skills; and time constraints. Common rater errors identified that contaminate performance ratings are central tendency, halo, horn, recency, spill over and status effects. Many managers too feel ambivalent about the conflicting roles they have to play: as counsellor and evaluator. They dread having to "play God" when it comes to appraisal time.

If PA is so full of fallacies, then what is the point of doing it at all? The rater detests having to "play God"; the ratee dreads the criticisms and the outcomes. PA is such a matter of routine and the forms literally gather dust in the personnel department until it is appraisal time again to seek out those long-forgotten forms and dust them. Perhaps it is good to rethink what Douglas McGregor (1957) in his highly influential article "An Uneasy Look At Performance Appraisal" suggested to rid PAS of its ills, the emphasis should shift from "appraisal" to "analysis".

*"This implies a more positive approach. No longer is the subordinate being examined by the superior that his weaknesses may be determined; rather he is examining himself in order to define not only his weaknesses but also his strengths and potentials.... He becomes an active agent, not a passive "object". He is no longer a pawn in a chess game called management development."*

## 1.1.2 Problem Statement

The University of Malaya has a vision of becoming the premier university in Malaysia and also at the international level. To achieve this vision one of the basic requirements is to possess high-quality and motivated employees. However, since the inception of the New Remuneration System (NRS) in 1992 employees believe that the system has failed in achieving its intended objective and that the NRS has created disharmony, injustice, favouritism, unfairness and benefits only certain quarters of employees in the university.

Many factors contribute to this such as technical and human barriers that block accuracy and fairness in the measuring of employee

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performance as currently being used at the university. The technical barriers can be more easily overcome as compared to the human barriers. It is these human factors that form the basis of the problem that make the implementation of the NRS difficult and form the basis of subjectivity and errors in the performance appraisal system ratings. This therefore demands special attention. Does there exist any better way to achieve a balance between conducting a PA that is both technically and human error-free, or is it possible to scrape the system and opt for another type of performance appraisal system to replace the NRS?

### 1.1.3 Research Objectives

Generally the objectives of this research are:

(a)     to investigate the issues of the current performance appraisal system, the NRS, and its effectiveness as one of the management tools for determination of functions such as salary increment, promotion, bonuses, study leave and others.

Specifically the study aims at identifying employee perception of the performance appraisal system, whether it is a just and accurate system for the employees currently employed by the university.

(b)    To test the following hypotheses :

H 1 :    Employee satisfaction with the NRS is facilitated when the NRS is performance based and related to salary increment, bonuses and promotion.

H 2 :    Employees perceive that NRS in UM as a fair and accurate system

H 3 :    Employees perceive that factors such as employee closeness with the top management, gender, race, age and physical appearance influence performance rating.

H 4 :    Employees prefer performance ratings to be made known to them.

H 5 :    Employee satisfaction and acceptance of the NRS is facilitated when the NRS provides for the following :

(i)    Letting employees know their total marks rated and where they stand amongst colleagues

(ii)    Facilitate discussion about performance and inform employees of career development opportunities made available to them

(iii)   Establish and clarify employee-related goals and organizational expectation

(iv)   Improve employer-employee relationship

(V)   Provide assistance for non-performance employees

## 1.2   Literature Review

The literature review will focus on three primary areas. The review will first examine studies that discuss the purpose of performance appraisal and the benefits that may be obtained from conducting performance appraisal.

The research will also discuss on issues regarding performance evaluation process and factors that influence employee perception of the performance appraisal system.

Finally the literature review focuses upon research discussing performance appraisal cycle and reasons for the failure of PA system.

### 1.2.1   Purpose and Uses of Performance Appraisal

It might seem at first glance that PA is used for a rather narrow purpose - to evaluate employees in their jobs, but in reality a PA is one of the most versatile tools available for managers in an organisation.

They can serve many purposes that benefit the organisation and the employee whose performance is being appraised. According to Bohlander et. al. (2001) the objective of performance appraisal is as follows :

(a)     to give employees the opportunity to discuss performance standards regularly with the supervisor.

(b)     To provide the supervisor with the means of identifying the strengths and weaknesses of employee performance

(c)     To provide a format enabling the supervisor to recommend a specific performance designed to help employees improve performance

(d)     To provide a basis for salary recommendation

Cleveland et al. (1989) gave details on common uses of performance appraisal as below (Table 1.1):

Table 1.1:     Common Uses of the Performance Appraisal

|   |   |   |
|---|---|---|
| 1. | Salary administration | 5.85 |
| 2. | Performance feedback | 5.67 |
| 3. | Identification of individual strengths and weaknesses | 5.41 |
| 4. | Documentation of personnel decision | 5.15 |
| 5. | Recognition of individual performance | 5.02 |

| | | |
|---|---|---|
| 6. | Determination of promotion | 4.80 |
| 7. | Identification of poor performance | 4.96 |
| 8. | Assistance in goal identification | 4.90 |
| 9. | Decision in retention or termination | 4.75 |
| 10. | Evaluation of work achievement | 4.72 |
| 11. | Meeting legal requirement | 4.58 |
| 12. | Determination of transfer and assignments | 3.66 |
| 13. | Decision of layoff | 3.51 |
| 14. | Identification of individual training needs | 3.42 |
| 15. | Determination of organizational training needs | 2.74 |
| 16. | Personnel planning | 2.72 |
| 17. | Reinforcement of authority structure | 2.65 |
| 18. | Identification of organizational development needs | 2.63 |
| 19. | Establishment of criteria for validation research | 2.30 |
| 20. | Evaluation of personnel system | 2.04 |

*Ratings are on a seven-point scale

In general the above can be classified as either for administrative purposes or developmental purposes.

### a.  Administrative purpose

From the standard of administration appraisal programmes provide input that can be used for the entire range of HRM activities. For example, research has proven that performance appraisals are used most widely as a basis for compensation decision. (Bloom, 1999)

The practice of pay for performance is found in all types of organizations. Performance appraisal is also directly related to a number of major HR functions such as promotion, transfer and layoff decisions. Performance appraisal data may also be used in HR planning in determining the relative worth of job under a job evaluation programme and also as a criterion for validity selection test.

Finally it is important to recognize that the success of the entire HR programme depends on knowing how the performance of employees compare with the goals established for them. This knowledge is best derived from a carefully planned and administered HR appraisal programme. Appraisal systems have the capability to influence employee behaviour, thereby leading directly to improve organisational performance. (Bohlander, 2001)

b.      Developmental Purpose

From the standpoint of individual development, appraisal provides the feedback essential for discussing strengths and weaknesses as well as improving performance. (Torrington and Hall, 1998) Regardless of employee's level of performance, the appraisal process provides an opportunity to identify issues for discussion, eliminate any potential problems and set new goals for achieving high performance.

A developmental approach to appraisal recognizes that one of the roles of a manager is to improve job behaviour and not only to evaluate past performance. Having a sound basis for improving performance is one of the major benefits of an appraisal system.

## 1.2.2    Performance Appraisal – Concepts and Process

Performance appraisal (PA) is defined as a system of assessing the performance of employees on a regular basis against a set of clear standards or goals that are known ahead of time by both the rater and the person being evaluated (Sanchez, 1998). It is a four – step cycle : establishing standards, recording actual performance, reviewing performance in the light of standards and determining corrective action. (Szilagyi Jr. & Wallace Jr., 1990) The evaluation / reviewing performance step provides information on how well jobs are being performed. This information is deemed important for many personnel decisions as discussed earlier, like salary increases, recommendations for promotions, transfers, employee development and performance feedback. (Cleveland et al., 1989) Depending on he purpose of the performance evaluation, it will involve comparisons between individuals and within individuals themselves. Using appraisal to make promotion recommendations, for example, the rater is obliged to focus on comparisons between individuals, whereas within-individuals comparisons are necessary for determining employee training and development needs.

It is the performance evaluation process, i.e. making the comparisons that raters' subjectivity will creep in and not the rating received that influenced employees' perceptions of fairness and accuracy of the performance appraisal system (PAS). Employees will perceive the PAS more favourably when there is an opportunity for them to state their side in the performance review. They perceive that PA is based on relevant job dimensions and opportunity to discuss the objectives and plans during the review.

Generally employees' satisfaction with a PAS is related to satisfaction with processes (how PA is done) and outcomes of these processes (the actual ratings they perceive). Yet there are researchers who concurred that ratees will be more satisfied with a PAS if scale formats which focus on specific behaviours (e.g. Behaviour Observation Scale-BOS) are used (as they appear less subjective) instead of raters' subjective evaluation of behaviours. (Tziner et al., 2000)

A study carried out by Roberts and Pavlak (1996) showed that employees' acceptance of a PAS is facilitated when the PAS provides employee growth and development (84%) and improves employer-employee relations (88%). Higher levels of acceptance are also associated with perceptions that the PAS enhances motivation and productivity.

Other factors which influence acceptance and perception of a fair PAS are; there must be an absence of race and gender, bias ,conformance to equal opportunity law and confidentiality of appraisal information (89%).

A good PAS involves goal setting. Management By Objectives (MBO) is a formal goal-setting process throughout an organisation, from top management to line workers. Peter Drucker was the first to use the term Management By Objectives (MBO) and it was put into practice in the 1960s by management gurus then. Goal setting can help improve performance when used in PA. One must set specifics and defining measures of results may clarify the 'how', but this process is not automatic. Supervisors can expect to spend much time in helping subordinates determine how to attain their goals, besides setting the goals.

Landy et al. (1978) identified five variables that must be present in a PAS for employees to perceive it as fair and accurate. They are: frequency of evaluation; supervisors are familiar with the performance levels of the person being evaluated; are in agreement with the subordinate on job duties; engage in helping subordinates on job duties and form plans for eliminating performance weaknesses.

In his well-quoted work Greenberg (1986) proposed several determinants of perceived fairness of performance evaluation that can

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be categorized under procedural determinants and distributive determinants. Both procedural and distributive factors need to be taken into account in any thorough conceptualisation of justice in organisational settings. The four procedural factors identified which contribute to the perceived fairness of evaluation process are :

(a)     employee input is solicited before the evaluation and  is used, there is two-way communication during the evaluation interview

(b)     employee have the ability to challenge or rebut the evaluation

(c)     the rater is familiar with employee work

(d)     standards are applied consistently

Many studies have established that effective PA requires regular, ongoing, two-way communication between rater and ratee. (Roberts A., D Pavlak, 1996). 91% personnel professionals agree that regular performance counselling sessions are at least important. (Robert & Pavlak, 1996)

Performance feedback is very important because of its two-functional purpose.  One is motivational – here feedback acts as incentive, promising future rewards and another is as an error detection and queuing device. In this respect PA identifies impropriate works

behaviour and direct the employees to behaviours expected by the organisation. (Banister, 1986)

On a contradictory note, McGregor (1957) pointed out that because appraisal tend to have both administrative and developmental purpose they tend to place the superior in the incompatible roles of both judge and counselor. The act of judging tends to elicit defensiveness among those people who need development. They seem to have trouble hearing the criticism. When presented with a long list of criticism they tend only to hear the first few and not the rest because they are too busy thinking up arguments to refute the first few criticisms. (Porter et al., 1975)

Perhaps consensus can be achieved between supervisor and employees if not close the gap on what is the task to be done and appraised. The major fault with PAS is the fundamental misconception of what is to be appraised. Such perceptual congruence or consensus is important to the role-making function because it enables the employee to experience less stress and to achieve greater role congruence between expected and enacted roles. Clearly the PA process is a minefield of potential errors. The many sources of bias render PA ratings less accurate but in ways in which neither employer nor employee can easily identify.
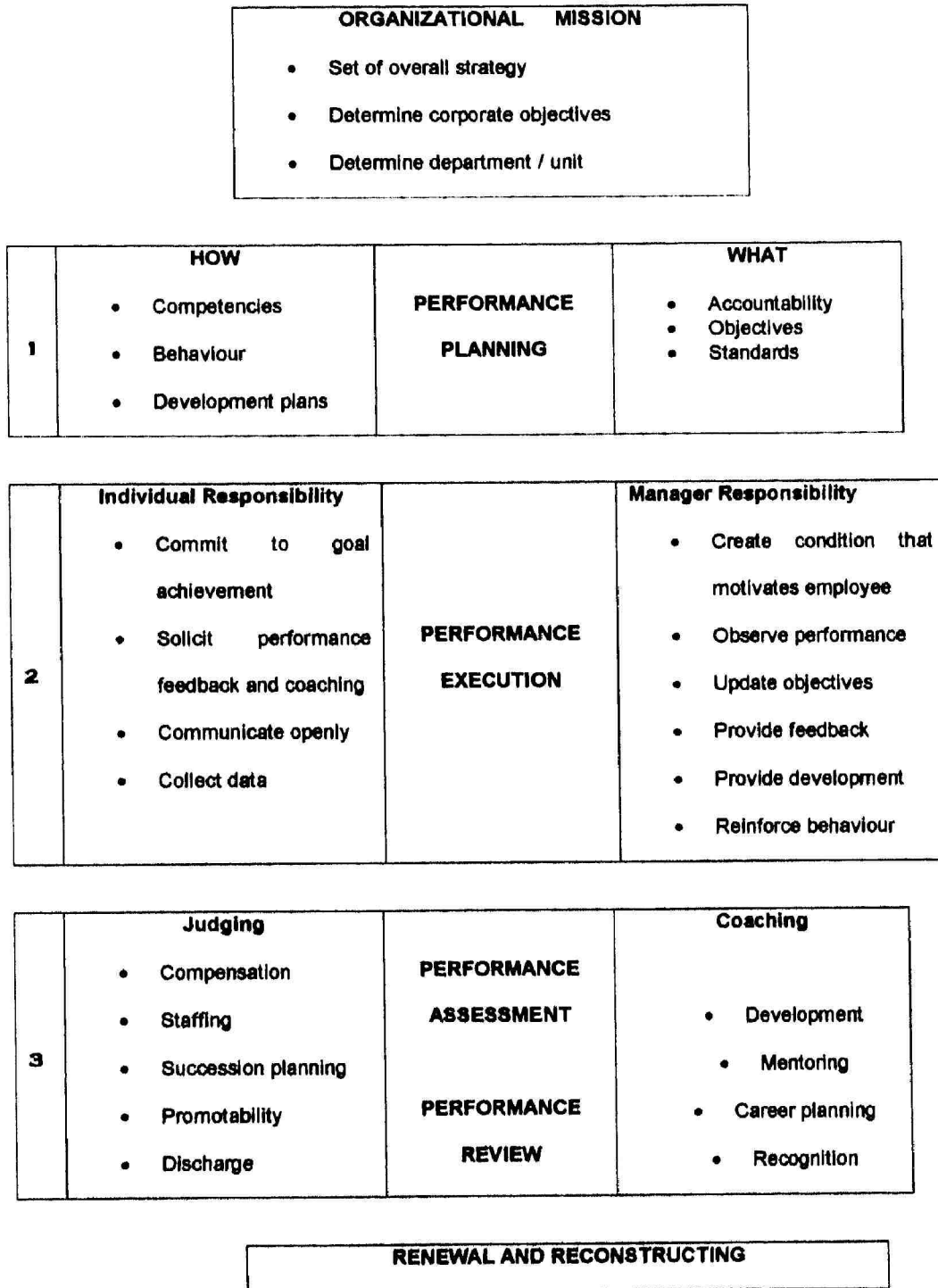
The world marketplace is rapidly changing and organizational change is inevitable too. Systematic management development efforts are necessary to accelerate and sustain management change. When organizations talk about management development, they frequently mention the practice of formal performance appraisal as a primary vehicle for management change. That being the case, then an effective appraisal system is imperative. In essence, what he termed as 'effective appraisal' is parallel to the integrated holistic approach propagated by Hartle (1997). Among other things, this approach recommends the 360-degree appraisal.

Last but not least it is worth noting that an important implication of PA. Most selection research uses performance ratings as its criterion of 'true performance'. If PA is not a good measure of true performance, then selection methods validated against appraisal will not be selecting the 'right' people for management, but simply be perpetuating an unsatisfactory status quo.

### 1.2.3 Performance Appraisal Cycle

Grote (1996) suggested that performance appraisal is not an event. It is a continuous process. He outlined the theoretical model as shown in the next page to explain the whole process.

**Table 1.2 : Theoretical model of Performance Appraisal Cycle (adapted from Grote, 1996)**

ORGANIZATIONAL    MISSION

- Set of overall strategy
- Determine corporate objectives
- Determine department / unit

| | HOW | PERFORMANCE PLANNING | WHAT |
|---|---|---|---|
| 1 | • Competencies<br>• Behaviour<br>• Development plans | | • Accountability<br>• Objectives<br>• Standards |

| | Individual Responsibility | PERFORMANCE EXECUTION | Manager Responsibility |
|---|---|---|---|
| 2 | • Commit to goal achievement<br>• Solicit performance feedback and coaching<br>• Communicate openly<br>• Collect data | | • Create condition that motivates employee<br>• Observe performance<br>• Update objectives<br>• Provide feedback<br>• Provide development<br>• Reinforce behaviour |

| | Judging | PERFORMANCE ASSESSMENT / PERFORMANCE REVIEW | Coaching |
|---|---|---|---|
| 3 | • Compensation<br>• Staffing<br>• Succession planning<br>• Promotability<br>• Discharge | PERFORMANCE ASSESSMENT<br><br>PERFORMANCE REVIEW | • Development<br>• Mentoring<br>• Career planning<br>• Recognition |

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**Phase 1 : Performance Planning**

This phase begins with employees meeting their immediate supervisors to review and confirm their job description together with the performance standard required. Thus it includes two critical tasks of establishing measurable objectives and analysing the way in which the individual will go about achieving these results. This phase requires active participation of both the supervisor (management) and the employees. They will usually engage in discussion to determine the work plan and targets for the period in line with the company goals and missions. A two-way open communication between both parties determines the end-result expected for each employee.

**Phase II:    Monitoring and Supporting**

Grote (1996) refers to this as the Performance Coaching phase. Here the supervisor continuously monitors and supports the progress of each employee reporting to him. Feedbacks are channelled to each employee on an ad-hoc basis or during a prescheduled monthly supervision/coaching meeting. Some of the activities undertaken during this phase are:

- Discuss present progress against target set
- Reinforce effective behaviour toward achieving target; and

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- Identify actions needed to achieve established targets

## Phase III : Conducting the Performance Appraisal

In this phase each employee will receive a formal written performance appraisal. It can be done either once or twice a year. Here again two-way communication is needed between the appraiser and the appraisee. Grote(1996) suggested that results achieved and the performance factors that contributed to employee accomplishment be discussed at this phase. From here on, the overall performance assessment will be finalized and future development progress determined.

## Appraisal Form

The heart of the performance process is the appraisal form. (Grote, 1996) It serves as the report card for the organisation members. There are many versions of appraisal forms used by companies around the world. However the main theme of any appraisal form revolves around the measurement of the key result areas. (KRA), which describes what the appraisee is supposed to achieve. Another area, which is highlighted on the 'form' is employee competencies. These are personal characteristics or behaviour of superior performers. It describes of an expected consistent work behaviour or attitudes shown by individuals in most situations in order to be a superior performer.

## 1.2.4  Reasons for the failure of appraisal programmes

In actual practice and for a number of reasons, formal performance appraisal programmes sometimes yield disappointing results. For example if an appraisal programme is used to provide a written appraisal for salary increment and at the same time to motivate employees to improve their work, the administrative and development purpose may be in conflict. As a result the appraisal process using the interview method may be used and matters regarding salary of the employee may be discussed. The manager then seeks to justify the action taken. In such cases the discussion may have little influence on the employee future job performance.

Research conducted by Longenecker (1997) shows that there are a number of factors that contribute to the failure of performance appraisal programmes such as :

(a)     unclear performance criterions/ineffective rating instruments (83%)

(b)     poor working relationship with the higher management (79%)

(c)     superior lacks information on manager's actual performance (75%)

(d)     lack of ongoing performance feedback (67%)

(e)     overly critical/second guessing reviews (63%)

(f)     perceived political reviews (54%)

(g)     lack of focus on management development /improvement (50%)

(h)     ineffective link to reward system (42%)

(i)     superior lack rating skills/motivation (33%)

PA in many organisations is a once-a-year activity in which the appraisal interview becomes a source of function for both the manager and employee. One of the main concerns of the employees is the fairness of the performance appraisal system, since this process is central to many HRM decisions. The employee who believes that the system is unfair may consider the appraisal process such as the interview a waste of time and hence plays a passive role during the interview.