

## A Review on Performance Appraisal System: An Ineffective and Destructive Practice?

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**Abstract:** This paper discusses the issues pertaining to the implementation of performance appraisal exercise in the organizations. This exercise is supposed to improve employees' competency and productivity. However, poor execution of performance appraisal exercise can be detrimental especially to the organizational performance. Performance appraisal also has been noticed to be one of the most problematic activities of human resource management and is considered as rather an unnecessary bureaucratic practice or and even a destructive effect on the relationship of employees and managers. Two main reasons of this problem are employee satisfaction and perceive fairness on the performance appraisal system.

**Key words:** Performance appraisal • Satisfaction • Fairness • Mishandling • Justice

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### INTRODUCTION

Performance appraisal (PA) systems consist of the processes of setting standards, application, managing and informing the incidents related to employees' performance appraisal. Employee performance evaluation is one of the most applied techniques organizations managements used in the developed countries. Despite of how to define the appraisal process or its specific features, performance appraisal system is documented, structured and has become a necessary process in organizations.

The performance appraisal generally includes an interview between the supervisor and the subordinates as well as performance filling forms and paper works required for further documentation of the evaluation system [1]. Suhaimi Sudin [2] stated that "organizational justice and fairness" are the key elements of PA that determine the success and acceptance by employees which eventually lead organizations to the achievement of their business goals.

Kavanagh, Benson & Brown [3] reported that the nature of the managing organizations can be observed in the system of employees' performance management and appraisal (PA) practiced in organizations. This process involves a measure where employee's contribution and commitment in different sections and levels of the organizations are evaluated based on the organizational achievements. Clearly, an effective performance appraisal

system can make an organization to make the right decision towards further success and growth. On the same note, an ineffective performance appraisal system can jeopardize the efforts of an organization by creating dissatisfaction and confusion which then leads to organization failure. Performance management ensures that the employees' performance is aligned with organizational business goals. Researchers confirm the requirements of an effective appraisal system by emphasizing on its ability to recognize an individual's strengths and weaknesses and specify how his or her capabilities may be enhanced and weaknesses prevailed [4].

Disappointment and dissatisfaction, as result of poor performance evaluation have further motivated human resource experts and managers to measure the influence of performance appraisal systems on employees and eventually, the organization's performance. A performance evaluation system could be acceptable in structure and design but practically ineffective due to rejection or disagreement of some of the users. Therefore, how valid is the system depends on the reactions of the users, i.e. managers and subordinates. Despite of the present widespread application of performance appraisal systems and its crucial effects on the organization productivity, there is a significant dispute about their efficiencies. Studies have shown relatively lack of satisfaction with the appraisal systems in most of the organizations [1-6].

An organization may apply a developed performance appraisal system, but if that system is not embraced and supported by employees, its effectiveness will eventually be confined [2,6,1] Hannay [7], Kondrasuk [3], Suhaimi Sudin [2] Latham, Heslin& VandeWalle [8] and Kavanagh, Benson & Brown [3] suggested that workers' reactions to performance appraisal play an important and consistent effect on application of performance appraisal systems and their procedures.

The employees' satisfaction with performance appraisal is sometimes quite complicated and hard to predict due to its behavioral aspect of employee perception. Previous studies revealed that many employees are not happy with their appraisal scores and their effects on their compensations. This may be due to different reasons from personal expectations to the economic factors like inflation and high living expenses. However, personal expectations are more popular reasons for most employees. The rewards they expect are usually more complicated than extra payments. People want their efforts being recognized. The direct and vast effect of employees' satisfaction on organization's profitability makes managers to be vigilant about all aspects of employees' satisfaction. Managers use performance appraisal to direct employees toward achieving organization's goals and performance targets. However, the appraisal process has the potential to adversely affect employees' attitude, create dissatisfaction and finally affect the organization's performance [6-8, 2].

At the same time, organizations can support different needs of employees; from their basic physiological need to more complicated needs like self-actualization, performance recognition and possibility of promotion and growth. Furthermore, Kondrasuk [6], Suhaimi Sudin [2] Latham, Heslin& VandeWalle [8] and Kavanagh, Benson & Brown [3] believed that mutual relation between success of an organization and its workers clarifies the significance of study about factors encountered in employee satisfaction.

Researchers recommended that the evaluation and appraisal process can become an origin of significant dissatisfaction when workers found out that the system is biased, political and/or irrelevant [6-8, 2].

The reasons could be related to the conflicts between actions that managers take and the expectation of the employees. More than that, the efforts exert by employees are usually important for them to be recognized; it is what most of the workers of steel industry like to be effectively considered during performance evaluation.

**Pertinent Issues of Performance Appraisal:** Ideally, a performance appraisal should be a completely rational process, leading to unbiased and objective judgments about how well each of the employees has performed and how he or she should be treated. It is not difficult to guess that the performance evaluation process is far from objectives. Indeed, people have a limited capacity to process, store and retrieve information, thus making them prone to bias when evaluating others [2,9].

Kondrasuk [6] suggest that performance appraisal, even at its best condition, does not work and in the worst case, can damage morale communication and relationship within the organization. Moreover, according to Kondrasuk [6] performance appraisal is one of the most important and often one of the most mishandled aspects of management. Performance appraisal also has been noticed to be one of the most problematic activities of human resource management and is considered as rather an unnecessary bureaucratic practice or and even a destructive effect on the relationship of employees and managers.

Kavanagh, Brown & Benson [3] also asserted that in performance appraisal process, it is likely that the evaluation is subjectively biased by his or her emotional state; managers may consider variable codes and standards for different employees which results are inconsistent, biased, invalid and unacceptable appraisal. To have better appraisal systems, researchers have emphasized on validity and reliability by creating newer "methods" of performance appraisals (e.g. behavioral systems that better describe specific necessary job duties of employees or 360-degree feedback methods that give more precise results through multiple source rating. However, despite of using new appraisal techniques in evaluation, critics continue to condemn performance appraisal systems as ineffective and destructive practice.

The performance appraisal could be one of main sources of dissatisfaction if it does not recognize the effort of employees despite of getting specific goals, whether it is not related strongly to the organization reward or the appraisal related reward would not attractive to the employees [4].

Many researches pointed to the errors that supervisors often make during performance appraisal which could be the main source of dissatisfaction. Such errors are very likely to affect employees' appraisal results by which the performance scores received by people may be inaccurate [2,3,8].

In the study of Hannay [7], she quoted that Nickols [10] specified number of perceived problems with performance appraisals such as:

- Reduction of performance as employees set “easily achievable” goals
- Creation of emotional negative feelings
- Against the need for team working
- Emphasis on task rather than overall process results
- Foster a short-term view
- Foster political game-playing
- Costly practice requires for designing, preparing and conducting appraisals including training costs and handling appraisal appeals and potential problems.

**Satisfaction with Performance Appraisal:** Suhaimi [2] argue that performance appraisal is related to an intricate dynamic relationship between employee satisfaction and perception of fairness. This proves that there have been many reports on dissatisfactions and satisfactions of performance appraisal.

A performance appraisal system will not be effective in organizations if it is not appealing on the “users’ satisfaction” [1,2, 3,7] and it will not acceptable by the employees [8,6]. So, it will be crucial to investigate the “reactions and attitudes” of supervisors and employees about the “performance appraisal system” because every practice is eventually judged according to its positive results and its effectiveness. Employee satisfaction toward appraisal system is a necessary component in performance appraisal. It will be successful if the appraisal and feedback method is mainly accepted by the employees [1-8].

Employee satisfaction with performance appraisal could be related to work performance. Since performance appraisal often includes development of employees with essential knowledge and skills, it may also add to organization’s investment on employee’s development [1]. Hannay [7] and Dargham [1] reported that employees’ reactions to appraisals system are important to further enhance their performance. Furthermore, employees’ emotional reactions and perceptions are essential in understanding the efficiency level of performance appraisal systems as per mentioned by Kondrasuk [6] and Kavanagh, Benson & Brown [-3]. So it is important to use appraisal reactions such as satisfaction, results acceptability and desire in the appraisal.

Employee satisfaction toward appraisal system is an essential component in performance appraisal. The success of appraisal and feedback system relates to how

employees accept the appraisal method and results [2,7,1,3]. This brings the notion that the performance appraisal must be treated as a program for developing and motivating employee. Studies have reported that there is a positive and strong connection between satisfaction with performance appraisal system and overall employees’ perception of the satisfaction [11,4]. Dargham [1] investigated the relationship between employee satisfaction toward performance appraisal and appraiser and appraisal purposes. Their conclusion reinforced the importance of development purposes of appraisal process and emphasized on employee's perceptions of performance use. Organizations should prove the priority it had considered for the developmental feature of the performance appraisal process to employees and show that they apply this method for job and career development.

In the study of Kavanagh, Benson and Brown [13] in which, data from 2377 public sector employees was used, they found out that employee’s participation in appraisal process, emotional reaction to the appraiser and his knowledge of the performance appraisal methods and procedures are all significantly connected to the employee’s perceptions and reaction toward performance appraisal. Therefore, performance appraisal satisfaction emerges from the fair evaluation of the performance appraisal so that the organization can get effective and accurate appraisal as well as the employees will be satisfied with the appraisal results. Employees are satisfied with performance appraisal systems when there are trusts and the supervisors are supportive in giving feedback to their subordinates.

**Fairness of Performance Appraisal:** The study of “justice in organizations” recently emphasized primarily on people's understanding and perceptions of the “fairness” of the outcomes (benefits or punishments) they get. That would be their experience of the end state or results of a “reward or punishment allocation process”. The relatively new studies found out that employees usually show less satisfaction toward results and outcomes in which they believe to be “unfair” than those results that they believe to be “fair”. Greenberg [12] as per cited in Dargham [1] asserted that justice is a common theme that cuts across all aspects of work life, providing coherence and unity to an array of organizational practices that otherwise might appear unconnected. This is not to say that fairness is the only or even the most important consideration in organizational practice. Justice can be a consideration in virtually everything that an

organization does because it is through its own policies and procedures; a company defines and establishes its relationship with each employee. In other words, fairness partially determines how an organization and its members treat one another. It provides a framework within which individuals and institutions interact. This relationship, when characterized by fairness and mutual respect, is a healthy source of morale and productive behavior.

Appraisal processes which create perception of justice and trust between employees and supervisors enhance employee's motivation. Employees understand their strengths and deficiencies through performance evaluating application and it also helps both employees and supervisors to improve their job performance. Performance appraisal helps human resource planners with specification of required training program and development needs and by identifying best performers among employees of the organization. Employees will clearly understand organization and management expectations, which help them to improve their performance to match with organization's criteria for desirable performance [3].

Kavanagh, Benson and Brown [3] stated that research on fairness of performance appraisal was encouraged by Lawler's [13] findings about what employees think about the fairness of a performance appraisal system and its relationship and significant influence on the final success of any appraisal system. This is because perceived fairness was connected to confidence with and acceptance of the appraisal system. The perception of fairness toward performance appraisal has been discussed and investigated with respect to the theory of organizational justice which includes the procedural, distributive, interactional (interpersonal and informational) justice as the independent factors and employees' satisfaction as the dependent factors. The findings indicated that distributive and informational justice are strongly related to satisfaction with the appraisal ratings; distributive, interpersonal and informational justice have positive relationship with satisfaction with supervision; and distributive and informational justice are connected to satisfaction about performance appraisal system. It is also noted that distributive, interpersonal and informational justices have strong impact on overall employees' satisfaction [2].

Noe *et al.* [14] reported that an employee must understand the employees from her/his own perception and understanding about the organizational systems' fairness based on the system's procedures, outcomes and managers' methods in treating employees when applying

those procedures. A perception of interactional justice shapes employee's judgment about how organization applies its actions in order to consider the employee's feeling.

## CONCLUSION

In conclusion, the fairness of a performance appraisal system has been recognized as an important effect on the success of any organization because perceived fairness was connected to the acceptance of this system and eventually, the performance of employees and organization. Employees create conclusions about a system's (e.g. appraisal system) fairness based on the system's results, outcomes and procedures and how supervisors treat employees when applying those procedures. Noe *et al.* [14], Suhaimi [2], Dargham [1] and Kondrasuk [6] outlined three principles of justice which can be summarized as distributional or outcome fairness, procedural justice and interactional justice to the employee satisfaction. The employees' perceptions of outcome fairness depend largely on their judgment about the consequences of a decision and the procedure to make such decisions. Indeed, the fairness of HR decisions in organizations is decided by considering different facets of justice. The understanding and perceptions of performance appraisal purpose have been connected to employee satisfaction with both appraisal and supervisor. Therefore, the purpose of performance appraisal may affect all dimensions of employee's perception and reactions toward performance appraisal. Finally, this will directly affect the organisation as the performance of a company is the performance of its employees.

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