



UNIVERSITI PUTRA MALAYSIA

**A PROCESS MODEL OF AN EFFECTIVE PERFORMANCE
APPRAISAL SYSTEM**

KUNARAJA SITA RAMAN

FPP 1997 21

A PROCESS MODEL OF AN EFFECTIVE PERFORMANCE
APPRAISAL SYSTEM

KUNARAJA SITA RAMAN

MASTER OF SCIENCE
UNIVERSITI PUTRA MALAYSIA

1997



A PROCESS MODEL OF AN EFFECTIVE PERFORMANCE
APPRAISAL SYSTEM

By

KUNARAJA SITA RAMAN

Project Submitted in Partial Fulfillment of
The Requirements for the Degree of
Master of Science (Human Resource Development)
In the Department for Extension Education
Fakulti Pengajian Pendidikan
Universiti Putra Malaysia

June 1997



ACKNOWLEDGEMENTS

I would like to express special appreciation to my supervisor, YM Dr Raja Ahmad tajudin Shah, for his many hours of guidance and consultation during the entire period of the preparation and completion of this thesis without which this thesis would not have been completed successfully. I would like to thank my course mates who have provided ideas and feedback that had in some way expedited the completion of this project. I would also like to thank all the staff members at the Department of Extension Education, UPM for not only their help and cooperation but also for ensuring a pleasant and enjoyable experience for the whole duration of my study at UPM.

My special thanks and appreciation also go to Universiti Malaya and Universiti Kebangsaan Malaysia, for kindly allowing me the use their facilities (the resource centres) while preparing for the project.

Finally, and specially I am very grateful to my wife Thilega, and my son Aaron for their patience, love, and understanding and encouragement throughout my graduate programme that ensured the successful completion of the coursework and the project paper.



TABLE OF CONTENTS

ACKNOWLEDGEMENTS	II
LIST OF FIGURES	VI
ABSTRACT	VII
ABSTRAK	IX
CHAPTER	
I INTRODUCTION	1
Background	1
Statement Of Problem	7
Objective of Study	8
Significance of Study	9
Limitations of Study	11
Definition of Terms	12
II REVIEW OF RELATED LITERATURE	
Introduction	14
Performance Appraisal	14
Designing A Performance Appraisal	
System	20
Methods of Appraisal	28
Sources of Performance Appraisal	33



	Supervisor Appraisal	33
	Self Appraisal	34
	Peer Appraisal	35
	Subordinate Appraisal	36
	Appraisal by Outsiders	37
	Some Major Implementation Problems of Performance	
	Appraisal Systems	39
	Legal Context	39
	Rating Errors	40
	Integrating Performance Appraisal with other	
	Human Resource Systems	43
III	METHODOLOGY	46
	Introduction	46
	Population of Sampling Units	47
	The Sampling of Units	48
	Data Collection and Analysis	50
	Reliability of Study	64
	Validity of Study	65
IV	FINDINGS	67
	Introduction	67
	The Components of the Proposed Model	67
	Step 1 Set Up Task Force	70



Step 2	Identify Organisational Variables	73
Step 3	Determine Purpose of PA	81
Step 4	Design the Performance Appraisal System	87
	Format of Performance Appraisal	87
	Performance Appraisal Methods	95
	Appraisal Timing and Frequency	106
	Sources of Appraisal	114
Step 5	Train and Measure	122
	Appeals	126
Step 6	Making HRM Decisions	128
	Use of appraisal data	128
	Performance Related Pay (PRP)	130
	Link between Performance Appraisal and HRM Decisions	135
Step 7	Evaluating Performance Appraisal	
	Effectiveness	124
VI	SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	139
	Objective of Study	139
	Methodology	140
	Summary of Findings	140
	Recommendations	144
	BIBLIOGRAPHY	147



LIST OF FIGURES

Figure	Page
1 A General Model of a Performance Appraisal System	21
2 The Full Connectedness Model	44
3 The Continuous Cycle of Performance Review	53
4 The Success and Doom Loop in Performance Appraisal	55
5 Model of Effective Performance Appraisal	59
6 Matrix Table Showing Key Components of the Eleven Models of Effective Performance Systems	61
7 The Proposed Generic Performance Appraisal Model	69
8 The Purpose of Performance Evaluation	82
9 Appraisal Process for Behavioral Ends	83
10 Appraisal Process for Administrative Purpose	84



ABSTRACT

This study thus attempted to develop a generic process model of a performance appraisal system based on the assumption that consideration of both psychometric and contextual factors in the design and implementation process will lead to a more effective and acceptable performance appraisal

The study was a qualitative study and employed a content analysis technique in its methodology, to identify the salient features of an effective performance appraisal system This first part of the study involved the collection of as much literature as possible, as available to the researcher, on performance appraisal theory and practices The literature was sourced from the resource centers of three local universities, which were in the form of books and research articles from journals and other materials The objective of this part of the study was to identify the most important components of an effective performance appraisal

After identifying the main components of the performance appraisal a further review of the research articles was done to extract more information about the strengths and weaknesses of these components and its relevance to the effectiveness of the performance appraisal system Based on this information a generic process model of an effective performance appraisal system was developed

This study identified seven main steps that would contribute to the effectiveness of the performance appraisal process which are : i) set up the task force, ii) identify organisational variables; iii) determine purposes, iv) determine appraisal format and procedures; v) train and measure, vi) make HRM decisions, and, vii) evaluate performance appraisal effectiveness

These components were then presented in a generic process model. The model described the step by step process of designing and implementing an effective performance appraisal system.

ABSTRAK

Kajian ini bertujuan untuk membentuk satu model sistem penilaian prestasi berasaskan andaian bahawa kedua-dua faktor pengukuran dan faktor persekitaran perlu diambilkira dalam proses merekabentuk dan pelaksanaan sesuatu sistem penilaian prestasi yang berkesan

Kajian ini merupakan satu kajian kualitatif yang menggunakan kaedah analisis kandungan untuk mengenalpasti komponen-komponen utama sesuatu sistem penilaian prestasi. Bahagian pertama kajian ini melibatkan proses mengumpul seberapa banyak maklumat yang dapat diperolehi oleh penyelidik tentang teori dan amalan penilaian prestasi. Maklumat-maklumat ini telah diperolehi daripada pusat sumber di tiga buah universiti tempatan. Sumber utama maklumat-maklumat ini adalah buku-buku dan jurnal. Objektif bahagian pertama kajian ini ialah untuk mengenalpasti komponen-komponen utama sesuatu sistem penilaian prestasi yang berkesan,

Selepas mengenalpasti komponen-komponen utama tersebut, satu lagi analisis artikel-artikel daripada jurnal telah dibuat untuk mencari maklumat yang mengulaskan kelebihan dan kekurangan komponen-komponen yang telah dikenalpasti itu dan perkaitannya dengan keberkesanan sesuatu sistem penilaian prestasi. Berdasarkan maklumat ini satu model umum sistem penilaian prestasi yang berkesan telah dibentuk.

Kajian ini telah mendapati bahawa terdapat tujuh langkah utama yang menentukan keberkesanan sesuatu proses penilaian prestasi. Komponen-komponen tersebut ialah i) Penubuhan satu jawatankuasa khas, ii) mengenalpasti angkubah-angkubah yang boleh mempengaruhi keberkesanan penilaian prestasi, iii) menentukan tujuan penilaian, iv) menentukan format dan prosedur penilaian, v) melatih penilai dan menilai, vi) membuat keputusan, dan vii) menilai keberkesanan sistem penilaian prestasi.

Langkah-langkah yang dikenalpasti itu telah dipersembahkan secara grafik dalam satu model proses penilaian prestasi yang berkesan. Model ini akan menerangkan langkah-langkah dalam proses merekabentuk dan pelaksanaan sesuatu sistem penilaian prestasi yang berkesan.

CHAPTER I

Background

The performance appraisal (PA) refers to a management technique where the performance of employees are assessed for reward or punishment. Sanchez,(1988) has defined the performance appraisal 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. This information is then used to make decisions on salary, promotions, dismissal and employee development. A well developed and implemented performance appraisal system is certainly an effective management tool to produce positive improvements in employee performance and productivity. Most organisations whether big or small, both in the public sector and the private sector have some form of formal appraisal systems in place.

This universal use of performance appraisal systems has up-staged employee performance appraisal as one of the most widely discussed tools or facets of personnel management. As a management tool, appraisal serves vital personnel functions. When implemented properly , a good performance appraisal system should be able to achieve the following functions to: (i) change or modify dysfunctional work behaviour;



(ii) communicate to employees managerial perceptions of the quality and quantity of their work, (iii) assess future potential of an employee and to recommend appropriate training or development assignments, (iv) assess whether the present duties of an employee's position have an appropriate compensation level, (v) provide documented record for disciplinary and separation actions, and, (vi) provide a document for comparative purposes in making promotion and or placement decisions. Thus the need for appraisal and indeed its inevitability in some form seems apparent when we see so much literature on the uses of performance appraisals.

In spite of its innumerable positive uses, the performance appraisal has remained as one of the most criticised, and debated management practices for decades (Lawler, 1994). Proponents argue that appraisals can help a supervisor define the work of an employee, measure that employee's performance, and reward him in a way that will create motivation. It makes the manager's life much easier in trying to get the employees improve their performance. However in practice it has been found that most appraisal systems do not motivate individuals nor guide their development effectively (Boudreaux, 1994). Even though many organisations have spent money and man-hours in an effort to develop and implement a formal performance appraisal system, few have actually come forward with the claim that they have succeeded in coming up with a system that has achieved its objectives (Lee, 1996). Instead most

complain that the implementation of new performance appraisal systems have only succeeded in causing conflict between supervisors and employees and lead to dysfunctional behaviours (Lawler, 1994). There is a growing mistrust among employees and managers with, each party suspicious of what the other is up to (Webb and Kliener,1992).

A survey of Fortune 100 companies in the US revealed that many companies support performance appraisal and have such systems in place, but concerns about fairness and the absence of any positive rewards for negative appraisals reduce their value as an important management tool (Thomas,1994). Lawler (1994) has even noted that performance appraisals are the one human resources function that both the managers and employees hate. Managers and employees dread the time of the year when they must either undergo strict and stressful reviews or perform them on the other. These reviews are extremely unpleasant for both the appraiser and the appraisee because of the personal affiliations involved. To most managers Performance Appraisals (PA) are unpleasant to them because being human they dislike `playing god' in making decisions that may affect the future of their subordinates. They know very well that their assessment will decide the appraisee's salary movements, promotion and termination. The fact that they have to face each other everyday while on the job makes this task of assessing even more difficult. Another factor is that PA's take away precious time from their already strained schedules. On top of that, are expected to make sound appraisals

of their subordinates within that short time period available to them. The most damaging factor however is that managers do not perceive the correlation between effective PA's and employee improvement (Webb and Kleiner 1992). If the managers do not perceive the correlation between effective performance appraisal and employee improvement over the long term, the organisation will not expend the time, effort nor the money to develop and implement an effective performance appraisal. This will eventually lead to major performance related problems for the organisation.

The employees on the other hand who want the feedback that performance appraisal yields, may still be very ambivalent about receiving it particularly if they feel that it is likely to be negative (Mohrman 1989). The appraisee's concern about negative feedback may be compounded by their doubts on the ability of their superior to give accurate and meaningful feedback. Some employees are also of the opinion that the appraiser is not in a position to assess them effectively as he hardly has the time nor the opportunity to observe and measure accurately employee performance. Some complain of biased or unjustified appraisals (Lewis, 1991). Public sector employees complain that the performance appraisal is used more as weapon to threaten rather than a tool to motivate (Olson-Buchanan, 1995). This problem is compounded by the existence 'hidden agendas' on the use of the appraisal data

(Fisher,1994). Employees are also not given the opportunity to appeal if they are dissatisfied with the appraisal.

The fact is dissatisfaction with performance appraisal systems has reached a critical state in many countries. In the US for instance, one survey of 297 managers, 32% rated their performance appraisals as very ineffective, while only 4% reported that they were effective to a large extent (David,1994). The general feeling in Malaysia is about the same. Ever since the New Remuneration System was implemented in 1992, incorporating a new performance appraisal format that was used to decide salary movements and promotions in the public sector, there has been a great hue and cry (Berita Harian₁). Civil servants both individually and through their unions have voiced objections to the NRS appraisal system on the grounds that they were done unfairly and tainted with too much of abuse , bias and subjectivity (Manan,1994).

Although performance appraisal systems are loaded with so many problems, managers and subordinates alike are not in a position to abandon it all together as at present there are no viable alternatives. So, in spite of its problems, it appears that the performance appraisal is here to stay, unless of course a new tool or technique that can achieve the PA objectives is developed soon. In fact of late Total Quality Management (TQM) has been touted as a suitable substitute or alternative to the performance appraisal system(Allender,1995; Halachmi,1993) , but TQM

too has its problems. Given this scenario, it appears that the performance appraisal still holds the key to effective performance management. Thus, the way forward would be to find ways to solve or reduce the PA implementation and design problems.

Fisher (1994) has expressed that one way to overcome many of the problems of performance appraisal practices is to design them properly. Jette and Werthiem (1984) also say that proper design and implementation procedures are necessary to ensure the development of an effective and acceptable performance appraisal.

If we look at the history of performance appraisal research, it can be seen that traditionally, researchers had considered that problems with performance appraisals more often than not, were related to the measurement process (Cleveland, 1995). It was felt then, that accurate and objective rating would ensure the success of performance appraisal systems. Thus, issues more commonly researched on were scale development, scale formats, reducing test and rater bias and the like (Landy and Farr, 1983). Probably, that is the reason why most researchers spent considerable time and effort in coming up with better appraisal forms that reduced rater subjectivity and increased rating accuracy. As a result, we now know a great deal about the psychometric variables like measurement techniques, rating scales, appraisal format and the like, but this has not, as literature proves, been very helpful in solving the

problems of low productivity, low employee morale and low employee acceptance levels of the performance appraisal system.

Researchers now believe that the solution is to depart from the traditional measurement orientation and approach PA from an applied social-psychological perspective (Ilgen & Faverio 1983, Murphy & Cleveland 1991). One advantage in viewing appraisals from a social-psychological perspective is that the role of context receives greater attention. Contextual factors refer to a set of qualitatively different variables that exists in the immediate and distal environment. The environment in which the PA is conducted has been designated as a source of considerable influence on the appraisal process (Ilgen & Feldman 1983, Mohrman, Lawler & Resnick 1984). Some examples of contextual factors are job characteristic, the nature of interpersonal relationship, the structure, climate and culture of organisations. It is important to know about the way individuals respond to different types and levels of contexts. It has been found that the perceived performance of organisations and the culture and values of the organisations have an effect on the appraisal processes (Toulson & Smith, 1994).

Statement of the Problem

The problem most Human Resource Managers face both in the private sector and public sector is designing and implementing an effective



performance appraisal that would increase the organisation's productivity and also motivate and develop their employees. Most models of performance appraisal systems view the performance appraisal process as an isolated part of the management process and emphasise certain rules and principles. These models thus do not share the vision that for an appraisal system to be affective and acceptable it has to be approached from a holistic perspective. In short, these models do not present an overall or an integrated model that considers all the critical factors that should be considered when planning and designing a performance appraisal system. PA systems should be viewed as a management practice that concerns all levels of the organisation, and as a function of the organisation climate. It has also become the basis of important human resource management decisions. Thus it is necessary to develop a model that would be of help to human resource managers in planning, designing, and implementing an effective performance appraisal system for their organisations. In the process it is hoped that some of the pressing problems of performance appraisals can be overcome.

Objective of the Study

The focus of this study is to review available literature on the performance appraisal processes and come up with a generic process model of a performance appraisal system that considers both the content

and contextual factors. The process approach is chosen as this approach focuses on **how** the appraisal is designed, the methods to be used and the factors to be considered. It will also present a step by step guide to ensure that every stage of the design and implementation stage is carried out properly. It is hoped that with this model, some of the problems of design and implementation problems of performance appraisals would be overcome.

Specifically the objective of this study is to -

- a) review existing models of performance appraisal systems
- b) identify the main components of an effective performance appraisal system
- c) develop a generic process model of a performance appraisal system

Significance of the Study

Performance appraisals though considered one of the most important management tools, is also often the most criticised management practice. In fact it has even been labeled as the 'achilles heel of management' (Eichel 1984). Meidan (1981) has noted that "performance appraisal within the organisation itself is generally acknowledged as one of the weakest points in organisational development". The scenario in Malaysia is about the same. Both the management

and the employees have often voiced their dissatisfaction over the performance appraisal system used in their respective establishments. This is true of both the private sector and the public sector.

Traditionally, attempts to overcome PA system problems have been centered on the instrumentation i.e. performance appraisal forms, rating scales and measurement criterion. This approach has not brought about any significant improvements especially on the acceptance level and its perceived effectiveness by the employees. The general trend now is to review the PA system as a whole rather than review specific components of the PA. As even the most carefully thought and painstakingly designed PA forms and rating scales does not guarantee improved employee acceptance and thereby increased motivation among the employees. The PA process has to be viewed as a social and communication tool rather than a measurement tool. This approach is more meaningful in the PA effectiveness as even the most accurate and reliable PA measurement might be of little use to motivate the employee if the employees do not perceive it to be fair or beneficial to them.

This study thus attempts to capture the overall picture of the performance appraisal system taking into consideration contextual factors which to a large extent determine employee perception of the PA practices and so its effectiveness.

It is hoped that the study will point out the strengths and weaknesses of PA policies, and practices after a systematic study and review of available literature on performance appraisals that affect the level of employee satisfaction or dissatisfaction and develop and recommend a model that ensures effective design and implementation of a PA system. It is also hoped that some of the major problems and weaknesses of performance management can be overcome through effective use of the PA.

Limitations of the Study

This study being a content analysis, is limited to literature that the researcher will be able to gain access. Since there is an abundance of materials on appraisal literature in the University's resource center, the researcher has decided to base his study on available literature in the resource centers of the Universiti Putra Malaysia (UPM), Universiti Kebangsaan Malaysia (UKM), and Universiti Malaya (UM). The researcher feels that this limitation is necessary considering the dearth of literature available, then, the term 'available literature' would be almost limitless. Limiting the study to the three universities will help to define the area of sampling for the study. Most of the literature obtained was from books, journals and periodicals. The CD-Rom facilities were also used to

source relevant articles but many of the original articles could not be sourced locally.

There were also some difficulties in obtaining suitable models of performance appraisal design. Most literature on performance appraisal talks of general guidelines rather than prescribe models. Thus the researcher could only base his review on 10 models. It is however hoped that it is representative of the performance appraisal practices of most organisations.

Definition of terms

The following are definitions of some of the terms that are used quite often in this study.

- (i) administrative function - uses of the performance appraisal to make decisions regarding promotion, transfers, punishment and wages and compensation
- (ii) appeal process - the opportunity given to employees to appeal against unsatisfactory or unfair appraisals
- (iii) appraisal - the process of observing and measuring the performance of employees
- (iv) contextual factors - external factors within the immediate and distal environment of the rater and ratee that affects the outcome of performance appraisals