



About Energi Talent Resourcing

Energi Talent Resourcing are a specialist technical recruitment partner to the whole of the Oil & Gas and Power sector; finding and placing market-leading talent.

Importance of Performance Appraisal in Organizations

This guide has been prepared for companies to help highlight the importance of performance appraisals in human capital development. The importance of this tool in achieving organizational aims through its most important resource cannot be over emphasized.

INTRODUCTION

Performance appraisals is an integrative function in Human Resource management, its primary aim lies in evaluating employees performance, motivating the staff and improving on the general work function of the organization. Majority of organizations around the world, regardless of its size, public or private, services or manufacturing, use performance appraisal, with varying degrees of success, as a tool in achieving a variety of human resource management objectives. An effective form of performance appraisal will aid an organization to achieve its aims and objectives, by identifying areas of staff training needs and strengthening it to result in more resourceful and productive employees. Performance appraisals is a vital component of a broader set of human resource practices; it is a mechanism for evaluating the extent to which each employee's day-to-day performance is linked to the goals established by the organization. The history of the use of performance appraisal dates a long way into time, even as early as the third century A.D. when Sin Yu, an early Chinese philosopher, criticized a biased rater who was in the employ of the Wei dynasty on the grounds that "the Imperial Rater of Nine Grades seldom rates men according to their merits but always according to his likes and dislikes". However, the first recorded instance of performance appraising in an industry was by Robert Owen at his cotton mills in New Lanark, Scotland, in the early 1800s. In his use of character books and blocks where wooden cubes of different colors representing different degrees of merit were hung at the work station of each employee. The character books were used in recording the daily reports of each employee and the character blocks represented color wise, an assessment of the employee's competency ranging from good to bad.

In former years, the system of appraisal were inclined to accentuate the traits, deficiencies and abilities of employees but contemporary systems now emphasizes on their present performance and future goals. Earlier but still popular classification of performance appraisal objectives was give by (McGregor, 1987) who classified its objectives by;

- Administration – here performance appraisal gives a basis for an organized way of determining transfers, promotions and salary increases.
- Informative – providing management with feedback data on the performance of staff
- Motivational – creates a learning experience that motivates employees to develop on their weaknesses and utilize their strengths to improve their general performance

Also, present day performance appraisal systems seek to achieve different objectives in organizations which include;

- Identifying employee development and training needs
- Identifying potentials in employees which merit placement or promotions
- Strengthening communications structures between the supervisor and subordinate by the use of feedback between both
- And a powerful means of managerial control, through setting of objectives and a review of success or failure in achieving these

Over the years, performance appraisal has widened as a concept and in the shape of performance management has seen it become part of a strategic approach to integrating human resource activities and business policies and as a result, research on this area has moved from measuring accuracy of performance ratings to focusing more on the motivational and social aspects of it.

THE ROLE OF PERFORMANCE APPRAISAL IN ORGANIZATIONS

In the rapidly changing business environment of today, organizations are very keen on competition and the effects it has on their businesses, organizations are also more involved in the quality of their products and the services they offer, and also on how to operate more efficiently. The vital role of performance appraisal is one of several aspects of performance management which is employed by organizations in getting the cooperation and involvement of its employees in achieving its aims and objectives which subsequently leads to the organizations success. Performance appraisals act as a mechanism which gives the

organization insight on how its employees are coping with their objectives or goals, and how well they align with the organizations expectations or standards. It also provides an accurate system for determining salary decisions and pay-for-performance programs. As the main tool in performance management, performance appraisals can also increase employee satisfaction by involvement which in turn also positively improves the overall performance of the organization. However, it can also have a negative effect on the performance of the organization as well as its employees. According to HR professionals, performance appraisal is seen as one of the most important and often one of the most mishandled aspects of management. Most employees consider the continuous performance monitoring with the use of performance appraisals to be arduous and tasking. In the application of performance appraisals as part of improving organizational performance, great care should be taken in its implementation and should be handled with the supervision of experts on such matters.

The role of performance appraisals in organizations is primarily centred on achievement against goals and also on the assessment of employee competencies. Also, recent research on some aspects of performance appraisal contents in the context of strengthening organizational aims includes;

1. **Contextual performance**; this usually refers to non job specific behaviours such as enthusiasm, dedication, cooperation and persistence. It deals with attributes that extend beyond task competence and which promote behaviours or attitudes that improve on the organizational environment and its effectiveness. Majority of research on this area was carried out on employees in non-managerial positions; however, the study revealed that regular employees focused more on interpersonal facilitation in judging overall performance ratings, while those in managerial positions paid more attention to task performance. An important question raised was centred on how to appraise contextual performance, and the solution proffered was to use a 360 degree form of feedback as a method of determining behavioural outputs which relate to contextual performance, and to pool this with questionnaires that reflect personality types to contribute to the assessment of basic tendencies and behavioural patterns that can be addressed in a more developmental context.
2. **Goal orientation**; is a new concept which originated from educational literature, it is an orientation which leans towards the development or demonstration of an employee's ability. It identifies two groups of underlying goals which are sought by

individuals in terms of achievement situations; the first one is the learning goal orientation (LGO) and the second is the performance goal orientation (PGO). The learning goal orientation (LGO) is a form of orientation concerned with the development of competence by developing new skills and mastery of new tasks and problems, while the performance goal orientation (PGO) is one which is concerned with the orientation to establish and demonstrate the certainty in an employee's competence by seeking positive assessments and avoiding criticism. Further research by experts shows that LGO was found to be positively related to feedback seeking, while PGO was negatively related to feedback seeking. In terms of performance appraisal, it would be expected that individuals characterised by LGO would show more positivity in their response to development suggestions, genuine feedback and challenging goals. While individuals who exhibit PGO traits might have less tolerance for anything but favourable feedback and might be inclined to channel their efforts towards maintaining their performance in aspects where they have already been proven effective. The implication of this for performance appraisal, in terms of goal setting, shows the need for different strategies in appraising employees with differing orientations.

3. **Self-awareness**; this is a new area of recent research into new elements for prospective integration in performance appraisals. It deals with the use of multi-source feedbacks to improve target managers levels of self-awareness, with the aim to provide better equivalence between their assessment of their performance and the way it is seen by their peers, subordinates, bosses and their customers. Studies carried out have indicated that a high self-awareness is associated with better performance. From such findings, it is possible, by highlighting such characteristics, to integrate it into the practical context of performance appraisals.

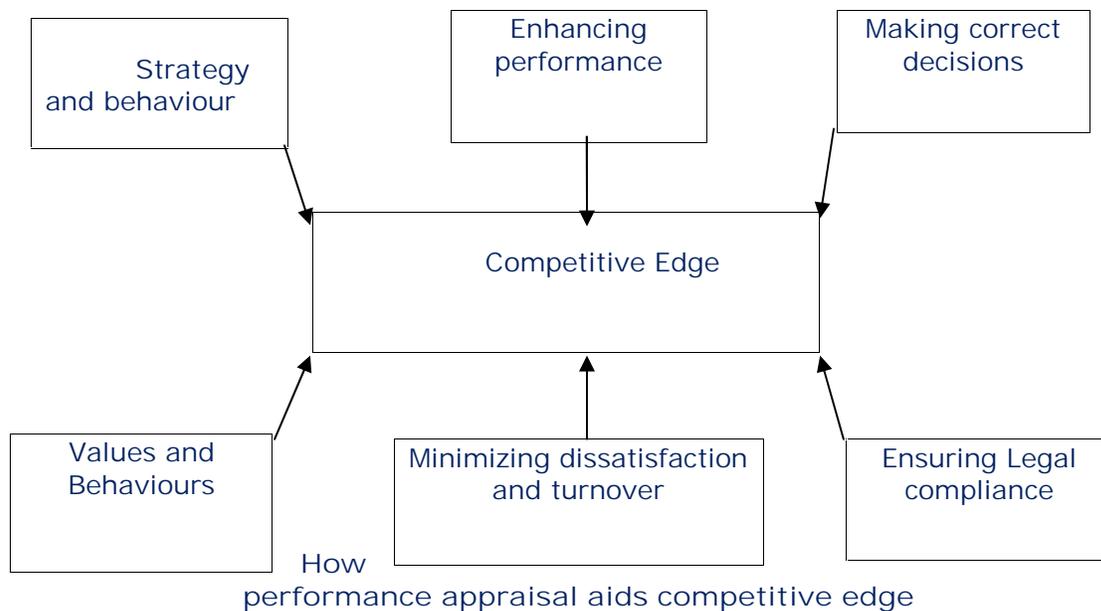
The main objectives of performance appraisals include;

- To ascertain the raising of pay in an organized sector of the organization where a pay system hasn't been put in place
- To assess the development and training requirements for the employees of the organization
- To influence the promotion of an employee based on the factors of performance and competence

- To enhance communication by providing a platform for dialogue between superior and subordinate, presenting a better understanding of personal goals and issues
- To aid employees understand their positions in relation to their performance, with a view to enhancing development by the vehicle of constructive criticism and guidance in performance appraisals
- And to ascertain the effectiveness of other human resource programs

The use of performance appraisal in strengthening an organizations competitive edge

As highlighted in the preceding paragraph, on the objectives of the use of performance appraisals, which lists the purpose of the activity, emphasis also has to be made on how it contributes to aiding organizational aims by strengthening its competitive advantage. Below is a figure which illustrates this aim;



Source; (www.scribd.com, 2005)

Further expatiations on the functions of performance appraisal that improve an organizations edge include;

- **Improving performance;** in this aspect, employee behaviour is directed towards achieving organizational goals and by monitoring of the behaviour to ensure that this goals are achieved. This can be done with the aid of an effective appraisal system.
- **Ensuring legal compliance;** in avoidance of in-house problems and possible subsequent legal issues constituted by the unfair use of a biased appraisal system for the promotion of employees on the merit of reasons other than performance, appraisal systems have to ratified for performance management use on the basis of accuracy and fairness to all employees
- **Making appropriate decisions;** the appraisal system is considered as very critical in its use for taking decisions on issues such as promotions, transfers, raises, training etc. hence decisions taken on the above issues have strong and direct influences on the competitive strengths of an organization
- **Reducing job dissatisfaction and rates of turn over;** satisfied and motivated employees form the bedrock of a strong and competitive organization, but this status could be unseated by the practice of an unfair and inaccurate appraisal system, resulting in the frustration and demotivation of employees who perceive the use of such systems to be negative.

In order to achieve its goals, an organization needs a plan that aligns the behaviour of its employees with its strategy. Individuals in organizations engage in activities or behaviours which they perceive will lead to reward, and as such, they are inclined to engage in this activities emphasized by the organization in anticipation of the reward. An example given is; if attention is on service, the employees will engage in activities and behave in ways that will facilitate the gains of the rewards associated with service delivery. If emphasis is placed on control of cost, the employees of the organization will also find ways to control cost and be subsequently rewarded in the process. Thus the performance appraisal becomes a means of identifying if the behaviour of the employee is in alignment with the organizations overall strategy and provides a feedback mechanism on the consistency of the behaviour-strategy link.

Performance appraisal and Organizational Strategy

From the view point of strategy management, organizations can be grouped under three categories; prospectors, defenders and analysers, and the role of performance appraisal is prominent in all three categories.

Defender organizations - are characterised by a narrow and relatively stable product-market domain, as such these organizations need only occasionally make major adjustments to their methods of operations, structure and technology. As a result, their primary attention is channelled to enhancing the efficiency of existing operations. Due to the focus placed on building skills within such organizations, behaviour oriented performance appraisals are used to identify its training needs.

Prospector organizations - implement strategies that focus on different market and product opportunities, also organizations such as these regularly conduct trials on the potential responses to emerging environmental developments, as they often are the herald of this change. Therefore their emphasis is on the identification of skills and acquirement of human resources from external sources, as opposed to building skills within the organization. The role of performance appraisals in this organization is to recognize its staffing needs.

Analyzer organizations – this type of organizations carry out operations in two types of product market fields, where one field is stable and the other is constantly changing. The overseers in organizations such as this usually keep tabs on their external environment for emerging competitive trends, and as such, organizations like these favour programmes that support the development and acquisition of skill. This type of organizations usually favour performance appraisal systems that can aid in identifying staffing and training needs, and also carries it out at an individual, group or divisional stages.

The strategic importance of performance appraisal system to an organization can be seen in three ways;

- It creates an alignment for consistency between the organizational strategy and the job behaviour patterns of employees
- It also creates consistency between the values held by the organization in relation to the job behaviour of employees
- It acts as a feedback mechanism

NEGATIVE ASPECTS OF THE PERFORMANCE APPRAISAL SYSTEM

As with any tool, problems will usually arise from its use which is directly related to the form of its use. In the case of performance appraisal systems, the problems arising from its use are usually in the form of biases associated with the rater. These biases produce rating errors, or deviations between the “true” rating an employee deserves and the actual rating assigned. Rating errors reduce the reliability, validity, and utility of performance appraisal systems. Biases in performance ratings manifest themselves in many forms. In the use of performance appraisal systems, it is assumed that the rater in charge of appraising is reasonably accurate and objective, however, in reality, the memory functions of the raters are quite fallible, and this results in the rater subscribing to their own predetermined set of likes, dislikes, and expectations about other individuals, which in the end, may or may not be valid.

Rater Biases

The most common place examples of rater biases found in organizations include;

- Halo effect – this effect occurs when the rater identifies a factor as being of high importance and then ascribes a good rating to the employee based on that one factor. Here the rater fails to distinguish between the strong and weak points of the employee, and the effect is from one aspect to the next.
- Horns effect – this effect occurs as a result of an inappropriate generalization from one area of an employee’s performance to all aspects of the individual’s performance. It is also the opposite of the halo effect.
- Central tendency – here the inclination of the rater is to rate employees in the centre of the scale even if evidence from their performance clearly shows the need for a substantially higher or lower rating. This emanates from the erroneous belief of some raters that all employees should be treated as same and also a basis to avoid any confrontation resulting from the appraisal.
- Standards of evaluation – this results from perceptual differences between raters in understanding the meaning of the words used in evaluation.
- Leniency effect – this refers to the handing out of undeserved high ratings to employees, usually on some form of emotional bias on the part of the rater.

- Attractiveness effect – this is a well researched tendency where raters assume that individuals with attractive characteristics are also better performers.
- Past performance error – this effect allows the previous poor or good performance of an employee to influence the raters judgment in a more recent appraisal
- Recency effect – here the effect allows for minor events which occurred more recently to influence the current rating than major and more significant events which might have occurred in the past. This could also be attributed to the retentive abilities of the rater’s memory.
- Personal bias – this could be on a conscious or unconscious level, where the rater is influenced to rate the employee either higher or lower, on the basis of origin, race, age gender or other factors.
- Relationship effect – here individuals who have good quality relationships with their supervisors receive higher ratings based that premise.
- Similar-to-me effect – this refers to the tendency of individuals to rate people based on the presumptions that the possess qualities similar to the ones they exhibit.
- Stereotyping error – here the tendency lies to rate people based on generalizations and to ignore individual differences.

It is advisable that raters could ask their managers to review their appraisal to reduce chances for rater biases towards the employee. He also encouraged the integration of elements such as; employee comments, attendance record, milestone achievements, key work responsibilities etc into the performance appraisal to improve on its validity and reliability.



CONCLUSION

As has been discussed here, the importance of performance appraisals in achieving the aims of an organization has been fully ascertained. The only point of caution will be in its implementation, as it has several negative aspects which could come to fore when improperly implemented. A proper appraisal system, administered under the right circumstances will be of utmost benefit to an organization that regards the role of human resources as vital in the profitable existence of such said organization.

Energi Talent Resourcing provides tailored recruitment support solutions to the Oil & Gas and Power sector. Reach us for a better discussion on how the specialists we represent can create value in your organization.