

## Chapter 7

# Performance Appraisal System Effectiveness: A Conceptual Review

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### **ABSTRACT**

*Performance appraisal system (PAS) has been noticed to be one of the most challenging activities of human resource management and is even a destructive effect on the relationship of employees and employers. It not only motivates the employee but also improves the productivity level of an organization. Performance appraisal is considered to be a key instrument and is practiced in almost all types of organizations, but with a few differences. In an effort to change the behaviors and attitudes of employees in the organizations, performance appraisal systems have incorporated the new values and desired behaviors. In this contemporary state the organizations have become more enthusiastic to augment the performance of their employees. The chapter aims at identifying the performance appraisal system undertaken in the organizations and its influence on employees' competency and efficiency. It emphasizes on the problems and consequences faced by the organizations, and also the best practices undertaken for successful execution.*

### **INTRODUCTION**

Performance appraisal is one of the Human Resource Management (HRM) tools used to evaluate the job performance of employees. An organization's success or failure can be determined by ways in which performance is managed and effective utilization human resources (Dessler, 2011; Mondy & Martocchio, 2015). Performance Appraisal Systems (PAS) consist of the processes of setting standards and applications, and managing the incidents related to employees' performance appraisal. Assessment of human potential is very difficult, no matter how well the appraisal process is designed and planned. However, the practice continues to generate dissatisfaction among employees and is often viewed as unfair and

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ineffective. The success of an organization will therefore depend on its ability to measure accurately the performance of its members and use its objectivity to optimize them as a vital resource.

Performance can be defined as, “What is expected to be delivered by an individual or a set of individuals within a time frame, and could be stated in terms of results or efforts, tasks and quality, with specification of conditions under which it is to be delivered” (Kumari & Malhotra, 2012). Performance appraisal is a formal assessment and rating of individuals by their managers usually at an annual review meeting (Armstrong, 2006). Cascio (1998) defined performance appraisal as a process to improve employee’s work performance by helping them realize and use their full potential in carrying out the organization’s missions and to provide information to employees and managers for use in making work related decisions.

Performance appraisal is the process of identifying, observing, measuring, and developing human performance in organization. The Chartered Institute of Professional Development (CIPD) argues that, ‘Performance appraisal is an opportunity for individual employees and those concerned with their performance, typically line managers, to engage in a dialogue about their performance and development, as well as the support required from the manager’ (CIPD, 2013). The organizations are run and steered by the employees and it is through them the goals are set and objectives are achieved. Thus, the performance of an organization is dependent upon the total performance of all its employees (Patro, in press). It is a definite instrument in setting job standards, appraising worker’s genuine performance comparative to those standards, and providing feedback to the workers with the drive of inspiring the workers to eradicate the insufficiencies in the performance.

## **HISTORICAL BACKGROUND**

The evaluation of job performance has been called by many different names throughout the years as a tool of management, a control process, a critical element in human resources allocation, and many others. The first appraisal systems were just methods for determining whether the salary of the employees in the organizations was fair or not. Later, some empirical studies have shown that reduction or future pay were not the main effects of the process (Cardy & Dobbins, 1994). However, appraisal has been present throughout history and has advanced significantly over time. The earliest evidence of performance appraisal was seen in the 3<sup>rd</sup> century when a Chinese philosopher Sin Yu criticized a biased rater of the Wei Dynasty on the grounds that the Imperial Rater of Nine Grades rarely rates men by their merits but always rates them according to his likes and dislikes (Patten, 1977).

Furthermore, appraisal was witnessed in 1648 when it was stated the Dublin Evening Post evaluated legislators using a rating scale based on personal qualities (Wiese & Buckley, 1998). Appraisal became a more formal process, firstly in the 1800s, when a General in the US Army submitted an assessment of his soldiers to the War Department. The Army General used a global rating, which defined his men as for example ‘a good-natured man’ or ‘a knave despised by all’ (Bellows & Estep, 1954). The first recorded appraisal system in industry was by Robert Owen in New Lanark Mills, Scotland around 1800. He used character books and blocks to rate staff that records each worker’s daily report. The blocks were colored differently on every side to represent an assessment of the worker rating them from strong to weak and were displayed in the employee’s workplace (Cardy & Dobbins, 1994).

Following the success of the appraisal system, some US corporations tested this technique within their organizations. The tools for rating evolved over time from Global Rating towards Man-to-Man Rating and then to Trait-based Rating. These appraisal tools tended to focus on past actions instead of future goals

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