

The Relationship between Performance Appraisal and Job Performance

Sopiah

Faculty of Economics, State University of Malang

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Abstract

Objective: This article is intended to determine the relationship between performance appraisal and job performance empirically and theoretically.

Design/ Methodology/ Approach: The paper is a general review of the academic literature and Human Resources Management.

Findings: There is a positive relationship between performance appraisal and job performance based on theoretical and empirical studies.

Value: This paper theoretically and empirically discusses or studies the relationship between performance appraisal and job performance.

Keywords: Performance Appraisal, Job Performance

Introduction

There is a number of resources that belong to every organization, whether for-profit organizations and non-profits ones. The resources referred to, among others: man, machine, nature, money, material, and others. Of these resources, human resource is the most determining the success or failure of an organization. Snyder (1980) suggested "Man is the most valuable resource, and behavioral science prepared a lot of techniques and programs that can guide the use of human resources more effectively".

Mustopadidjaja (1997) further stated: "Development of human resources is an indicator which is internationally recognized as a success indicator of development and the factor that contributes to the responsible and sustainable behavior, as well as a determinant of the success of economic development". (Wheeler in Rindjin, 1992) further said: "The importance of investment in human resources shows the level of greater profits than the investment in the physical field".

In order Human Resources that is so important and strategic in the success or failure of an organization can be empowered and utilized effectively and efficiently, the performance appraisal of the organization becomes important. Assessment of performance is the key to cultivate the organization toward the achievement of organizational goals effectively and efficiently. Employee Performance Appraisal is one of the tools or techniques to improve employee performance, to motivate employees to work harder, to develop the potency of employees, and even to increase the ability of employees in the future, which in turn will be

influenced by their performance feedback in the past as well as the direction of the following development (Simamora, 1995).

Theoretical and Empirical Background

A. Theoretical Background

Definition of Performance Appraisal

Performance Appraisals is the assessment of individual's performance in a systematic way. It is a developmental tool used for all round development of the employee and the organization. The performance is measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, co-operation, judgment, versatility and health. Assessment should be confined to past as well as potential performance also. The second definition is more focused on behaviors as a part of assessment because behaviors do affect job results.

Performance appraisal is a regular process for assessing the performance of employees in a given period conducted by the leadership. In more broad term the performance appraisal can be done by the employees themselves, subordinates, and coworkers. It is called by employee performance assessment 360%. The more the parties to assess the performance the better. Rao (1996) argues: "the assessment of the performance of a mechanism to ensure that people at all levels conducted the duty as desired by supervisor". Sin (1996): "performance appraisal is a management technique to identify individual donations to the organization". Werther and Davis (1989) stated that performance appraisal is a process of organization evaluating individual performance, where they also suggest that the key elements of the system of performance appraisal will determine the quality of the performance appraisal namely : employee performance, performance measures, performance standards in relation to the work. "

Performance appraisal (or performance review) is a process for individual employees and those concerned with their performance, typically line managers, to discuss their performance and development, as well as the support they need in their role. It's used to both assess recent performance and focus on future objectives, opportunities and resources needed.

Thus, it can be concluded that the performance appraisal is a performance appraisal process, conclusion on employee performance, development of performance in a particular period conducted by superiors, subordinates, themselves or co-workers.

Objectives of Performance Appraisals

The objectives of conducting performance appraisal are:

1. Promotions
2. Confirmations
3. Training and Development
4. Compensation reviews
5. Competency building
6. Communication Improvement
7. Evaluation of HR Programs
8. Feedback & Grievances

The Goals of Performance Appraisals

The target of performance appraisal (goals) can be grouped into general goals and

specific goals. The following Table 1 describes the general and specific goals as follows:

Table 1
Performance Appraisals Goals

General Goals	Specific Goals
Developmental Use	Individual needs Performance feedback Transfers and Placements Strengths and Development needs
Administrative Decisions/ Uses	Salary Promotion Retention / Termination Recognition Lay offs Poor Performers identification
Organizational Maintenance	HR Planning Training Needs Organizational Goal achievements Goal Identification HR Systems Evaluation Reinforcement of organizational needs
Documentation	Validation Research For HR Decisions Legal Requirements

Based on the literatures we can conclude that goals of performance appraisal are:

1. Knowing the stage and the skills and abilities of each employee on a regular basis.
2. Can be used as a basis for the planning of human resources, particularly the improvement of working conditions, improving the quality and results of the work.
3. As a basis to develop employee.
4. Encouraging healthy reciprocal relationship between leaders and subordinates.
5. Knowing the condition of the company as a whole, especially the field of human resources.
6. For individual employee, performance appraisal is useful to know the advantages and disadvantages that can spur to cultivate employee performance.
7. The results of the performance assessment can be useful for research and human resources development as a whole (Soeprihanto, 1998).

Cherrington (1991) suggested five roles and performance assessment if that role is fulfilled it will provide benefits:

1. Directing the activities of human resources, such as the placement (staffing), appointment and promotion of employees.
2. Compensation. The provision of fair compensation is based on performance. (Merit System).
3. Providing information to individuals about their performance.
4. Identifying training needs.
5. Integrating Human Resources planning activities and coordinating with other

personnel functions.

Methods Of Performance Appraisals

Numerous methods have been devised to measure the quantity and quality of performance appraisals. Each of the methods is effective for some purposes for some organizations only. None should be dismissed or accepted as appropriate except as they relate to the particular needs of the organization or an employee.

Broadly all methods of appraisals can be divided into two different categories.

- Past Oriented Methods
- Future Oriented Methods

Past Oriented Methods

1. **Rating Scales:** Rating scales consists of several numerical scales representing job related performance criterions such as dependability, initiative, output, attendance, attitude etc. Each scales ranges from excellent to poor. The total numerical scores are computed and final conclusions are derived. Advantages – Adaptability, easy to use, low cost, every type of job can be evaluated, large number of employees covered, no formal training required. Disadvantages – Rater's biases
2. **Checklist:** Under this method, checklist of statements of traits of employee in the form of Yes or No based questions is prepared. Here the rater only does the reporting or checking and HR department does the actual evaluation. Advantages – economy, ease of administration, limited training required, standardization. Disadvantages – Raters biases, use of improper weighs by HR, does not allow rater to give relative ratings.
3. **Forced Choice Method:** The series of statements arranged in the blocks of two or more are given and the rater indicates which statement is true or false. The rater is forced to make a choice. HR department does actual assessment. Advantages – Absence of personal biases because of forced choice. Disadvantages – Statements may be wrongly framed.
4. **Forced Distribution Method:** here employees are clustered around a high point on a rating scale. Rater is compelled to distribute the employees on all points on the scale. It is assumed that the performance is conformed to normal distribution. Advantages – Eliminates Disadvantages – Assumption of normal distribution, unrealistic, errors of central tendency.
5. **Critical Incidents Method:** The approach is focused on certain critical behaviors of employee that makes all the difference in the performance. Supervisors as and when they occur record such incidents. Advantages – Evaluations are based on actual job behaviors, ratings are supported by descriptions, feedback is easy, reduces recency biases, chances of subordinate improvement are high. Disadvantages – Negative incidents can be prioritized, forgetting incidents, overly close supervision; feedback may be too much and may appear to be punishment.
6. **Behaviorally Anchored Rating Scales:** statements of effective and ineffective behaviors determine the points. They are said to be behaviorally anchored. The rater is supposed to say, which behavior describes the employee performance. Advantages – helps overcome rating errors. Disadvantages – Suffers from distortions inherent in most rating techniques.
7. **Field Review Method:** This is an appraisal done by someone outside employees' own

department usually from corporate or HR department. Advantages – Useful for managerial level promotions, when comparable information is needed, Disadvantages – Outsider is generally not familiar with employees work environment, Observation of actual behaviors not possible.

8. **Performance Tests & Observations:** This is based on the test of knowledge or skills. The tests may be written or an actual presentation of skills. Tests must be reliable and validated to be useful. Advantage – Tests may be apt to measure potential more than actual performance. Disadvantages – Tests may suffer if costs of test development or administration are high.
9. **Confidential Records:** Mostly used by government departments, however its application in industry is not ruled out. Here the report is given in the form of Annual Confidentiality Report (ACR) and may record ratings with respect to following items; attendance, self expression, team work, leadership, initiative, technical ability, reasoning ability, originality and resourcefulness etc. The system is highly secretive and confidential. Feedback to the assessee is given only in case of an adverse entry. Disadvantage is that it is highly subjective and ratings can be manipulated because the evaluations are linked to HR actions like promotions etc.
10. **Essay Method:** In this method the rater writes down the employee description in detail within a number of broad categories like, overall impression of performance, promoteability of employee, existing capabilities and qualifications of performing jobs, strengths and weaknesses and training needs of the employee. Advantage – It is extremely useful in filling information gaps about the employees that often occur in a better-structured checklist. Disadvantages – It is highly dependent upon the writing skills of rater and most of them are not good writers. They may get confused success depends on the memory power of raters.
11. **Cost Accounting Method:** Here performance is evaluated from the monetary returns yields to his or her organization. Cost to keep employee, and benefit the organization derives is ascertained. Hence it is more dependent upon cost and benefit analysis.
12. **Comparative Evaluation Method (Ranking & Paired Comparisons):** These are collection of different methods that compare performance with that of other co-workers. The usual techniques used may be ranking methods and paired comparison method.

Future Oriented Methods

1. **Management By Objectives:** It means management by objectives and the performance is rated against the achievement of objectives stated by the management. MBO process goes as following:
 - Establish goals and desired outcomes for each subordinate
 - Setting performance standards
 - 1. Comparison of actual goals with goals attained by the employee
 - Establish new goals and new strategies for goals not achieved in previous year.
 - Advantage – It is more useful for managerial positions.
 - Disadvantages – Not applicable to all jobs, allocation of merit pay may result in setting short-term goals rather than important and long-term goals etc.
2. **Psychological Appraisals:** These appraisals are more directed to assess employees potential for future performance rather than the past one. It is done in the form of in-depth interviews, psychological tests, and discussion with supervisors and review of

other evaluations. It is more focused on employees emotional, intellectual, and motivational and other personal characteristics affecting his performance. This approach is slow and costly and may be useful for bright young members who may have considerable potential. However quality of these appraisals largely depend upon the skills of psychologists who perform the evaluation.

3. **Assessment Centers:** This technique was first developed in USA and UK in 1943. An assessment center is a central location where managers may come together to have their participation in job related exercises evaluated by trained observers. It is more focused on observation of behaviors across a series of select exercises or work samples. Assesseees are requested to participate in in-basket exercises, work groups, computer simulations, role playing and other similar activities which require same attributes for successful performance in actual job. The characteristics assessed in assessment center can be assertiveness, persuasive ability, communicating ability, planning and organizational ability, self confidence, resistance to stress, energy level, decision making, sensitivity to feelings, administrative ability, creativity and mental alertness etc. Disadvantages – Costs of employees traveling and lodging, psychologists, ratings strongly influenced by assessee's inter-personal skills. Solid performers may feel suffocated in simulated situations. Those who are not selected for this also may get affected.

Advantages – well-conducted assessment center can achieve better forecasts of future performance and progress than other methods of appraisals. Also reliability, content validity and predictive ability are said to be high in assessment centers. The tests also make sure that the wrong people are not hired or promoted. Finally it clearly defines the criteria for selection and promotion.

4. **360-Degree Feedback:** It is a technique which is systematic collection of performance data on an individual group, derived from a number of stakeholders like immediate supervisors, team members, customers, peers and self. In fact anyone who has useful information on how an employee does a job may be one of the appraisers. This technique is highly useful in terms of broader perspective, greater self-development and multi-source feedback is useful. 360-degree appraisals are useful to measure inter-personal skills, customer satisfaction and team building skills. However on the negative side, receiving feedback from multiple sources can be intimidating, threatening etc. Multiple raters may be less adept at providing balanced and objective feedback.

Following are the tools used by the organizations for Performance Appraisals of their employees:

1. Ranking
2. Paired Comparison
3. Forced Distribution
4. Confidential Report
5. Essay Evaluation
6. Critical Incident
7. Checklists
8. Graphic Rating Scale
9. BARS

10. Forced Choice Method
11. MBO
12. Field Review Technique
13. Performance Test

The Meaning of Employee Performance

Employee performance is derived from the word job performance that means real work produced an employee within a specific time period. Performance is a comparison between the work of the real compared to the standard set by the company (Dessler, 2000). Performance is the quantity and quality of produced or services rendered by a person in doing the job (Luthan, 2005). Performance is the work of behavior (Armstrong, 1999). Performance is the relationship between work and behavior.

The Factors Affecting Performance

There is a number of factors that affect performance, including:

- a. Effectiveness and efficiency
- b. Authority (authorities)
- c. Discipline
- d. Initiative

The Characteristics of Employee Performance

Characteristics of people who have high performance are as follows (Mangkunagara, 2002):

1. Having a high personal responsibility
2. Dare to take risks
3. Having realistic goals
4. Having a thorough work plan work
5. Utilizing concrete feedback
6. Looking for opportunities to realize a predetermined plan.

There are five indicators for measuring the performance of individual employees according to (Robbins, 2006), namely:

1. Quality, measured by the quality of work produced and the perfection of the work.
2. Quantity, the amount produced in a particular period, such units.
3. Timeliness, completion of work in accordance with the time set by the company.
4. Effectiveness, the level of use of all the resources of the organization are optimized to get the results from each unit of resource use.
5. Independence, an achievement level or where the employee has the responsibility and commitment to the organization.

Employee performance is the working result of the employee within a certain time period. Performance is the degree to which the employee reaches the job requirements (Simamora, 1995). Performance is the achievement record resulting from the acquisition of a particular job function or activity during a specific time period (Bernardin and Russel, 1993).

Employee performance measurement include: quality (fineness, cleanliness, accuracy), the speed of time, the number and kinds of jobs, skills in using tools, and knowledge of the work (Sharif, 1987). Lovez (1987) added, performance measurement include: quantity of work, quality of work, knowledge of the work, decisions, work planning, and regional organizations.

The Effect of Performance Appraisal on Employee Performance

Performance appraisal is the foundation or basis for management or leadership of the company or organization to make decisions or other strategic policies. For example: (a) Management will make compensation policies. Fair compensation will be created, if the basis for determining the compensation is the actual performance of the employee. (b) Management will make policies on staffing levels. Placement of the right employees can be done if the basis is the real performance ratings. (c) Management will make policies related to education and training of employees. The right employee performance appraisal can be a basis for determining who gets what education and training. (d) The management can make the right policy to foster employees.

Employee performance appraisals are considered good if:

- a) The use of assessment methods is appropriate.
- b) Able to prepare a job description correctly.
- c) The evaluator is a competent person.
- d) Using the appropriate performance standards.

Standard employee performance is considered right, if: (1) realistic, (2) specific, (3) the standard performance is measurable, observable, (4) performance standards are consistent with organizational objectives, (5) performance standards are challenging, (6) performance standard is clear, can be used, (7) the standard performance is dynamic.

The relation between effort, ability, working conditions and performance can be explained with the Figure 1 below:

$$\begin{array}{ccccccc}
 & & \text{Feed Back} & & & & \\
 & & \text{Performance Appraisal} & & & & \\
 & & & & & & \\
 \text{Effort} & + & \text{Ability} & = & \text{Performance} & & \\
 (\text{motivation}) & & (\text{Training}) & & (\text{Productivity}) & &
 \end{array}$$

Figure 1. The Relation Between Effort, Ability, Working Conditions and Performance (Diadoft in Klenger and Nalbandian, 1995)

If a performance appraisal is carried out properly, then the purpose of the performance appraisal will be achieved. Werther and Davis (1996) states that one purpose of performance appraisal is to improve employee performance. Sin (1996) added that one of the benefits of performance appraisal is to improve employee performance. Armstrong (1990) added that the performance appraisal helpful in helping to improve performance by knowing the strengths and weaknesses on the employee.

Empirical Background

There is a number of studies that examined the relation between performance appraisal and job performance, including:

Arvinder Kour Mehta (2015) explained: Performance appraisal is one of the main functions of human resource management. It is useful not only for Management but also for the employees so that they can know and understand about their performance from the Management Point of view.

James Kwame Mensah (2004) has findings that, implementation of a TM system leads to employee performance, but a TM output mediates the relationship between TM and employee performance.

Lawrence H. Peters (1996), *Interpersonal Affect and Performance Appraisal: A Field Study*. His research states that there is a relationship between the attitude of the trait rating, the rating outcome, and overall performance either partially or simultaneously.

Charles H. Schwepker, Jr. and Thomas N. Ingram (1996) with the journal entitled: *Improving Performance Through Sales Ethics*, concluded that the ethical decision of Salesman positively correlated with the performance of employees.

John. E.D. and Harold 1996, the title of the journal: *Models of Theorizing Strategic Human Resources Management: The results concluded: From the three patterns of universalistic, contingency and configurational: performance appraisal has a positive relationship with ROA and have a marginally positive relationship with ROE, job description and job security.*

W. Timothy, W. (1996) Title of the journal: *Linking Performance Reviews to Productivity and Quality*. His research concluded that on the model reviews (model conventional measure), the performance did not result in increased productivity and quality, while the model of a new performance evaluation (CIR) is a model that provides rewards for those who make the system work more increases that have an impact on improving productivity and quality of work.

Stephen J. Spur and William Barber (1994) title of the study: *The Effect of Performance on A Worker's Career: Evidence for Minor League Baseball*. The study concluded that the baseball player's performance is closely related to the determination of sale, while age did not affect the sale.

Wanda J. Smith, K. Vennard Harrington and Jeffrey D. (2000), journal title: *Predictors of Performance Appraisal Discomfort: A Preliminary Examination*. Concluding: (1) Performance Appraisal Discomfort (PAD) positively associated with the trust and the importance of performance appraisal. (2) Controlling for Age and Experience, Communication Reticence positively associated with PAD, (3) Controlling for Age and Experience length of rater - rate associated has negative relationship with PAD.

Gregerson (1996), journal title, *Expatriate Performance Appraisal in US Multinational Firms*. The study concluded: Variations assessment criteria of balance the number of assessors, appraisers knowledge characteristics, the frequency of the number of evaluation have positive effect on the perception of the accuracy of the expatriate's performance appraisal.

Schwepker & Ingram (1996), title of the study, *Improving Sales Performance Through Ethics*. The study concluded: (1) the factors that affect the judgment of salesman's moral, among others: gender, marital status, age, education level, experience level, variation of income, type of product sold. (2) Factors affecting sales performance: the successful achievement of the quantity and quality of sales, the use of technical knowledge, the ability to control additional costs.

The result demonstrated that PAs linked to monetary outcomes is a powerful HR management tool that is appreciated by employees. Furthermore, we explore the moderating effects of personality traits (Big Five, locus of control) on the relationship between PAs and job satisfaction. The results show that if tangible benefits cannot be provided or are not tied to the assessment procedure, the use of appraisals with no monetary consequences can be detrimental for open-minded and self-determined employees, as appraisals could then

potentially raise expectations that are not fulfilled.

Results from a number of research experts in the human resource management above concluded that there is positive and significant effect of performance appraisal to job performance.

Concluding Remarks

Employee Performance Assessment is one of the tools or techniques to improve employee performance, motivate employees to work harder, development of potential employees, and even to increase the ability of employees in the future, which in turn will be influenced by their performance feedback in the past as well as direction of the future development.

Performance is the achievement records generated from a particular job function or an activity over a specified period. If a performance appraisal carried out properly, then the purpose of the performance appraisal will be achieved. Werther and Davis (1996) states that one purpose of performance appraisal is to improve employee performance. Sin (1996) adds that one of the benefits of performance appraisal is to improve employee performance. Armstrong (1990) said that the performance appraisal is useful in helping improve performance by knowing the strengths and weaknesses on the employee. James Kwame Mensah (2004) has the findings that implementation of a TM system leads to employee performance, but a TM output mediates the relationship between TM and employee performance.

A number of empirical study results also support theoretical studies stated that there is a positive relationship between the performance appraisal and the employee's performance. Thus it can be concluded that there is a positive relationship between performance appraisal and employee performance in theoretical or empirical basis.

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