

# Examining employee appraisal, reward and demotivation



The history of performance appraisal is quite brief. Its roots in the early 20th century can be traced to Taylor's pioneering Time and Motion studies. But this is not very helpful, for the same may be said about almost everything in the field of modern human resources management.

As a distinct and formal management procedure used in the evaluation of work performance, appraisal really dates from the time of the Second World War – not more than 60 years ago. Yet in a broader sense, the practice of appraisal is a very ancient art. In the scale of things historical, it might well lay claim to being the world's second oldest profession!

There is, says Dulewicz (1989), "... a basic human tendency to make judgements about those one is working with, as well as about oneself." Appraisal, it seems, is both inevitable and universal. In the absence of a carefully structured system of appraisal, people will tend to judge the work performance of others, including subordinates, naturally, informally and arbitrarily.

The human inclination to judge can create serious motivational, ethical and legal problems in the workplace. Without a structured appraisal system, there is little chance of ensuring that the judgements made will be lawful, fair, defensible and accurate.

Performance appraisal systems began as simple methods of income justification. That is, appraisal was used to decide whether or not the salary or wage of an individual employee was justified. The process was firmly linked to material outcomes. If an employee's performance was found to be less than ideal, a cut in pay would follow. On the other hand, if their

<https://assignbuster.com/examining-employee-appraisal-reward-and-demotivation/>

performance was better than the supervisor expected, a pay rise was in order. Little consideration, if any, was given to the developmental possibilities of appraisal. It was felt that a cut in pay, or a rise, should provide the only required impetus for an employee to either improve or continue to perform well.

Sometimes this basic system succeeded in getting the results that were intended; but more often than not, it failed. For example, early motivational researchers were aware that different people with roughly equal work abilities could be paid the same amount of money and yet have quite different levels of motivation and performance.

These observations were confirmed in empirical studies. Pay rates were important, yes; but they were not the only element that had an impact on employee performance. It was found that other issues, such as morale and self-esteem, could also have a major influence. As a result, the traditional emphasis on reward outcomes was progressively rejected. In the 1950s in the United States, the potential usefulness of appraisal as tool for motivation and development was gradually recognised. The general model of performance appraisal, as it is known today, began from that time.

## **Modern Appraisal**

Performance appraisal may be defined as a structured formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and

skills development. That is, the appraisal results are used to identify the better performing employees who should get the majority of available merit pay increases, bonuses, and promotions.

By the same token, appraisal results are used to identify the poorer performers who may require some form of counselling, or in extreme cases, demotion, dismissal or decreases in pay. (Organisations need to be aware of laws in their country that might restrict their capacity to dismiss employees or decrease pay.) Whether this is an appropriate use of performance appraisal – the assignment and justification of rewards and penalties – is a very uncertain and contentious matter.

Controversy, Controversy: Few issues in management stir up more controversy than performance appraisal. There are many reputable sources – researchers, management commentators, psychometricians – who have expressed doubts about the validity and reliability of the performance appraisal process. Some have even suggested that the process is so inherently flawed that it may be impossible to perfect it (see Derven, 1990, for example). At the other extreme, there are many strong advocates of performance appraisal. Some view it as potentially “... the most crucial aspect of organisational life” (Lawrie, 1990).

Between these two extremes lie various schools of belief. While all endorse the use of performance appraisal, there are many different opinions on how and when to apply it. There are those, for instance, who believe that performance appraisal has many important employee development uses, but scorn any attempt to link the process to reward outcomes – such as pay rises

and promotions. This group believes that the linkage to reward outcomes reduces or eliminates the developmental value of appraisals. Rather than an opportunity for constructive review and encouragement, the reward-linked process is perceived as judgmental, punitive and harrowing.

For example, how many people would gladly admit their work problems if, at the same time, they knew that their next pay rise or a much-wanted promotion was riding on an appraisal result? Very likely, in that situation, many people would deny or downplay their weaknesses. Nor is the desire to distort or deny the truth confined to the person being appraised. Many appraisers feel uncomfortable with the combined role of judge and executioner.

Such reluctance is not difficult to understand. Appraisers often know their appraisees well, and are typically in a direct subordinate-supervisor relationship. They work together on a daily basis and may, at times, mix socially. Suggesting that a subordinate needs to brush up on certain work skills is one thing; giving an appraisal result that has the direct effect of negating a promotion is another.

The result can be resentment and serious morale damage, leading to workplace disruption, soured relationships and productivity declines. On the other hand, there is a strong rival argument which claims that performance appraisal must unequivocally be linked to reward outcomes. The advocates of this approach say that organisations must have a process by which rewards - which are not an unlimited resource - may be openly and fairly distributed to those most deserving on the basis of merit, effort and results.

There is a critical need for remunerative justice in organisations.

Performance appraisal – whatever its practical flaws – is the only process available to help achieve fair, decent and consistent reward outcomes.

It has also been claimed that the appraised themselves are inclined to believe that the appraisal results should be linked directly to reward outcomes – and are suspicious and disappointed when told this is not the case. Rather than feeling relieved, the appraised may suspect that they are not being told the whole truth, or that the appraisal process is a sham and waste of time.

### **The Link to Rewards:**

Recent research (Bannister & Balkin, 1990) has reported that the appraised seem to have greater acceptance of the appraisal process, and feel more satisfied with it, when the process is directly linked to rewards. Such findings are a serious challenge to those who feel that appraisal results and reward outcomes must be strictly isolated from each other.

There is also a group who argue that the evaluation of employees for reward purposes, and frank communication with them about their performance, are part of the basic responsibilities of management. The practice of not discussing reward issues while appraising performance is, say critics, based on inconsistent and muddled ideas of motivation. In many organisations, this inconsistency is aggravated by the practice of having separate wage and salary reviews, in which merit rises and bonuses are decided arbitrarily, and often secretly, by supervisors and managers.

## **Basic Purposes**

Effective performance appraisal systems contain two basic systems operating in conjunction: an evaluation system and a feedback system.

The main aim of the evaluation system is to identify the performance gap (if any). This gap is the shortfall that occurs when performance does not meet the standard set by the organisation as acceptable. The main aim of the feedback system is to inform the employee about the quality of his or her performance. (However, the information flow is not exclusively one way. The appraisers also receives feedback from the employee about job problems, etc.)

One of the best ways to appreciate the purposes of performance appraisal is to look at it from the different viewpoints of the main stakeholders: the employee and the organisation.

### **Employee Viewpoint:**

From the employee viewpoint, the purpose of performance appraisal is four-fold:

Tell me what you want me to do.

Tell me how well I have done it.

Help me improve my performance

Reward me for doing well.(from Cash, 1993)

## **Organisational Viewpoint:**

From the organisation's viewpoint, one of the most important reasons for having a system of performance appraisal is to establish and uphold the principle of accountability. For decades it has been known to researchers that one of the chief causes of organisational failure is " non-alignment of responsibility and accountability." Non-alignment occurs where employees are given responsibilities and duties, but are not held accountable for the way in which those responsibilities and duties are performed. What typically happens is that several individuals or work units appear to have overlapping roles.

The overlap allows – indeed actively encourages – each individual or business unit to " pass the buck" to the others. Ultimately, in the severely non-aligned system, no one is accountable for anything. In this event, the principle of accountability breaks down completely. Organisational failure is the only possible outcome.

In cases where the non-alignment is not so severe, the organisation may continue to function, albeit inefficiently. Like a poorly made or badly tuned engine, the non-aligned organisation may run, but it will be sluggish, costly and unreliable. One of the principal aims of performance appraisal is to make people accountable. The objective is to align responsibility and accountability at every organisational level.



## **Appraisal Methods**

### **Techniques in Performance Appraisal**

In a landmark study, Locher & Teel (1977) found that the three most common appraisal methods in general use are rating scales (56%), essay methods (25%) and results-oriented or MBO methods (13%). Certain techniques in performance appraisal have been thoroughly investigated, and some have been found to yield better results than others.

### **Encourage Discussion:**

Research studies show that employees are likely to feel more satisfied with their appraisal result if they have the chance to talk freely and discuss their performance. It is also more likely that such employees will be better able to meet future performance goals. (e. g., Nemeroff & Wexley, 1979).

Employees are also more likely to feel that the appraisal process is fair if they are given a chance to talk about their performance. This especially so when they are permitted to challenge and appeal against their evaluation. (Greenberg, 1986).

### **Constructive Intention:**

It is very important that employees recognise that negative appraisal feedback is provided with a constructive intention, i. e., to help them overcome present difficulties and to improve their future performance. Employees will be less anxious about criticism, and more likely to find it useful, when they believe that the appraiser's intentions are helpful and constructive. (Fedor et al., 1989)

In contrast, other studies (e. g., Baron, 1988) have reported that “destructive criticism” – which is vague, ill-informed, unfair or harshly presented – will lead to problems such as anger, resentment, tension and workplace conflict, as well as increased resistance to improvement, denial of problems, and poorer performance.

### **Set Performance Goals:**

It has been shown in numerous studies that goal-setting is an important element in employee motivation. Goals can stimulate employee effort, focus attention, increase persistence, and encourage employees to find new and better ways to work. (e. g., Locke, et al., 1981)

The usefulness of goals as a stimulus to human motivation is one of the best supported theories in management. It is also quite clear that goals which are “...specific, difficult and accepted by employees will lead to higher levels of performance than easy, vague goals (such as do your best) or no goals at all.” (Harris & DiSimone, 1994)

### **Appraiser Credibility:**

It is important that the appraiser (usually the employee’s supervisor) be well-informed and credible. Appraisers should feel comfortable with the techniques of appraisal, and should be knowledgeable about the employee’s job and performance.

When these conditions exist, employees are more likely to view the appraisal process as accurate and fair. They also express more acceptance of the appraiser’s feedback and a greater willingness to change. (Bannister, 1986)

## **Perceptual Errors:**

This includes various well-known problems of selective perception (such as the horns and halos effect) as well as problems of perceived meaning.

Selective perception is the human tendency to make private and highly subjective assessments of what a person is “really like”, and then seek evidence to support that view (while ignoring or downplaying evidence that might contradict it). This is a common and normal psychological phenomenon. All human beings are affected by it. In other words, we see in others what we want to see in them.

An example is the supervisor who believes that an employee is inherently good (halo effect) and so ignores evidence that might suggest otherwise. Instead of correcting the slackening employee, the supervisor covers for them and may even offer excuses for their declining performance.

On the other hand, a supervisor may have formed the impression that an employee is bad (horns effect). The supervisor becomes unreasonably harsh in their assessment of the employee, and is always ready to criticise and undermine them.

The horns and halo effect is rarely seen in its extreme and obvious forms. But in its more subtle manifestations, it can be a significant threat to the effectiveness and credibility of performance appraisal.

## **Perceived Meaning:**

Problems of perceived meaning occur when appraisers do not share the same opinion about the meaning of the selected traits and the language

used on the rating scales. For example, to one appraiser, an employee may demonstrate the trait of initiative by reporting work problems to a supervisor. To another appraiser, this might suggest an excessive dependence on supervisory assistance – and thus a lack of initiative. In the same way, the language and terms used to construct a scale – such as “Performance exceeds expectations” or “Below average skill” – may mean different things to different appraisers.

### **Rating Errors:**

The problem here is not so much errors in perception as errors in appraiser judgement and motive. Unlike perceptual errors, these errors may be (at times) deliberate.

The most common rating error is central tendency. Busy appraisers, or those wary of confrontations and repercussions, may be tempted to dole out too many passive, middle-of-the-road ratings (e. g., “satisfactory” or “adequate”), regardless of the actual performance of a subordinate. Thus the spread of ratings tends to clump excessively around the middle of the scale.

This problem is worsened in organisations where the appraisal process does not enjoy strong management support, or where the appraisers do not feel confident with the task of appraisal.

### **Rating Scales**

The rating scale method offers a high degree of structure for appraisals.

Each employee trait or characteristic is rated on a bipolar scale that usually

has several points ranging from “ poor” to “ excellent” (or some similar arrangement).

The traits assessed on these scales include employee attributes such as co-operation, communications ability, initiative, punctuality and technical (work skills) competence. The nature and scope of the traits selected for inclusion is limited only by the imagination of the scale’s designer, or by the organisation’s need to know.

The one major provision in selecting traits is that they should be in some way relevant to the appraisee’s job. The traits selected by some organisations have been unwise and have resulted in legal action on the grounds of discrimination.

### **Advantages:**

The greatest advantage of rating scales is that they are structured and standardised. This allows ratings to be easily compared and contrasted – even for entire workforces.

Each employee is subjected to the same basic appraisal process and rating criteria, with the same range of responses. This encourages equality in treatment for all appraisees and imposes standard measures of performance across all parts of the organisation.

Rating scale methods are easy to use and understand. The concept of the rating scale makes obvious sense; both appraisers and appraisees have an intuitive appreciation for the simple and efficient logic of the bipolar scale.

The result is widespread acceptance and popularity for this approach.

<https://assignbuster.com/examining-employee-appraisal-reward-and-demotivation/>

**Disadvantages:**

**Trait Relevance:** Are the selected rating-scale traits clearly relevant to the jobs of all the appraisees? It is inevitable that with a standardised and fixed system of appraisal that certain traits will have a greater relevance in some jobs than in others.

For example, the trait “ initiative” might not be very important in a job that is tightly defined and rigidly structured. In such cases, a low appraisal rating for initiative may not mean that an employee lacks initiative. Rather, it may reflect that fact that an employee has few opportunities to use and display that particular trait. The relevance of rating scales is therefore said to be context-sensitive. Job and workplace circumstances must be taken into account.

**Systemic Disadvantage:** Rating scales, and the traits they purport to measure, generally attempt to encapsulate all the relevant indicators of employee performance. There is an assumption that all the true and best indicators of performance are included, and all false and irrelevant indicators are excluded.

This is an assumption very difficult to prove in practice. It is possible that an employee’s performance may depend on factors that have not been included in the selected traits. Such employees may end up with ratings that do not truly or fairly reflect their effort or value to the organisation. Employees in this class are systemically disadvantaged by the rating scale method.

## **Essay Method**

In the essay method approach, the appraiser prepares a written statement about the employee being appraised. The statement usually concentrates on describing specific strengths and weaknesses in job performance. It also suggests courses of action to remedy the identified problem areas. The statement may be written and edited by the appraiser alone, or it be composed in collaboration with the appraisee.

### **Advantages:**

The essay method is far less structured and confining than the rating scale method. It permits the appraiser to examine almost any relevant issue or attribute of performance. This contrasts sharply with methods where the appraisal criteria are rigidly defined. Appraisers may place whatever degree of emphasis on issues or attributes that they feel appropriate. Thus the process is open-ended and very flexible. The appraiser is not locked into an appraisal system the limits expression or assumes that employee traits can be neatly dissected and scaled.

### **Disadvantages:**

Essay methods are time-consuming and difficult to administer. Appraisers often find the essay technique more demanding than methods such as rating scales. The technique's greatest advantage – freedom of expression – is also its greatest handicap. The varying writing skills of appraisers can upset and distort the whole process. The process is subjective and, in consequence, it is difficult to compare and contrast the results of individuals or to draw any broad conclusions about organisational needs.

## **Results Method (MBO Method)**

The use of management objectives was first widely advocated in the 1950s by the noted management theorist Peter Drucker.

MBO (management by objectives) methods of performance appraisal are results-oriented. That is, they seek to measure employee performance by examining the extent to which predetermined work objectives have been met.

Usually the objectives are established jointly by the supervisor and subordinate. An example of an objective for a sales manager might be: Increase the gross monthly sales volume to \$250, 000 by 30 June. Once an objective is agreed, the employee is usually expected to self-audit; that is, to identify the skills needed to achieve the objective. Typically they do not rely on others to locate and specify their strengths and weaknesses. They are expected to monitor their own development and progress.

### **Advantages:**

The MBO approach overcomes some of the problems that arise as a result of assuming that the employee traits needed for job success can be reliably identified and measured. Instead of assuming traits, the MBO method concentrates on actual outcomes. If the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance. Employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities.



**Disadvantages:**

MBO methods of performance appraisal can give employees a satisfying sense of autonomy and achievement. But on the downside, they can lead to unrealistic expectations about what can and cannot be reasonably accomplished.

Supervisors and subordinates must have very good “ reality checking” skills to use MBO appraisal methods. They will need these skills during the initial stage of objective setting, and for the purposes of self-auditing and self-monitoring.

Unfortunately, research studies have shown repeatedly that human beings tend to lack the skills needed to do their own “ reality checking”. Nor are these skills easily conveyed by training. Reality itself is an intensely personal experience, prone to all forms of perceptual bias.

One of the strengths of the MBO method is the clarity of purpose that flows from a set of well-articulated objectives. But this can be a source of weakness also. It has become very apparent that the modern organisation must be flexible to survive. Objectives, by their very nature, tend to impose a certain rigidity.

Of course, the obvious answer is to make the objectives more fluid and yielding. But the penalty for fluidity is loss of clarity. Variable objectives may cause employee confusion. It is also possible that fluid objectives may be distorted to disguise or justify failures in performance.

## **Benefits of Appraisal**

Perhaps the most significant benefit of appraisal is that, in the rush and bustle of daily working life, it offers a rare chance for a supervisor and subordinate to have “time out” for a one-on-one discussion of important work issues that might not otherwise be addressed. Almost universally, where performance appraisal is conducted properly, both supervisors and subordinates have reported the experience as beneficial and positive.

Appraisal offers a valuable opportunity to focus on work activities and goals, to identify and correct existing problems, and to encourage better future performance. Thus the performance of the whole organisation is enhanced. For many employees, an “official” appraisal interview may be the only time they get to have exclusive, uninterrupted access to their supervisor. Said one employee of a large organisation after his first formal performance appraisal, “In twenty years of work, that’s the first time anyone has ever bothered to sit down and tell me how I’m doing.” The value of this intense and purposeful interaction between a supervisor and subordinate should not be underestimated.

## **Motivation and Satisfaction:**

Performance appraisal can have a profound effect on levels of employee motivation and satisfaction – for better as well as for worse.

Performance appraisal provides employees with recognition for their work efforts. The power of social recognition as an incentive has been long noted. In fact, there is evidence that human beings will even prefer negative recognition in preference to no recognition at all.

If nothing else, the existence of an appraisal program indicates to an employee that the organisation is genuinely interested in their individual performance and development. This alone can have a positive influence on the individual's sense of worth, commitment and belonging.

The strength and prevalence of this natural human desire for individual recognition should not be overlooked. Absenteeism and turnover rates in some organisations might be greatly reduced if more attention were paid to it. Regular performance appraisal, at least, is a good start.

### **Training and Development:**

Performance appraisal offers an excellent opportunity – perhaps the best that will ever occur – for a supervisor and subordinate to recognise and agree upon individual training and development needs.

During the discussion of an employee's work performance, the presence or absence of work skills can become very obvious – even to those who habitually reject the idea of training for them!

Performance appraisal can make the need for training more pressing and relevant by linking it clearly to performance outcomes and future career aspirations.

From the point of view of the organisation as a whole, consolidated appraisal data can form a picture of the overall demand for training. This data may be analysed by variables such as sex, department, etc. In this respect, performance appraisal can provide a regular and efficient training needs audit for the entire organisation.

## **Recruitment and Induction:**

Appraisal data can be used to monitor the success of the organisation's recruitment and induction practices. For example, how well are the employees performing who were hired in the past two years?

Appraisal data can also be used to monitor the effectiveness of changes in recruitment strategies. By following the yearly data related to new hires (and given sufficient numbers on which to base the analysis) it is possible to assess whether the general quality of the workforce is improving, staying steady, or declining.

## **Employee Evaluation:**

Though often understated or even denied, evaluation is a legitimate and major objective of performance appraisal. But the need to evaluate (i. e., to judge) is also an ongoing source of tension, since evaluative and developmental priorities appear to frequently clash. Yet at its most basic level, performance appraisal is the process of examining and evaluating the performance of an individual.

Though organisations have a clear right – some would say a duty – to conduct such evaluations of performance, many still recoil from the idea. To them, the explicit process of judgement can be dehumanising and demoralising and a source of anxiety and distress to employees.

It is been said by some that appraisal cannot serve the needs of evaluation and development at the same time; it must be one or the other. But there may be an acceptable middle ground, where the need to evaluate

employees objectively, and the need to encourage and develop them, can be balanced.

## **Reward Issues**

Some interesting insights into what can go seriously wrong in a system of reward-linked performance appraisal is found in the work of Deets & Tyler (1986).

## **The Xerox Experience**

The Reprographic Business Group of the Xerox Corporation operated a very traditional system of performance appraisal based on rating scale methods. The rating outcomes were linked to pay outcomes. In fact, the results had direct effects on merit pay rises – everyone at Xerox knew that and expected it.

The Xerox system included all the common features of rating scale systems. The appraisal interviews were held annually and conducted by the employee's immediate supervisor.

Accomplishments of the preceding year were recorded and performance levels were judged according to various predefined criteria. The system included some elements of essay appraisal, since appraisers were required to write brief supporting statements for each rated criterion.

The Xerox system also called for a summary rating; an ultimate digit, from a low of 1 (for unsatisfactory) to a high of 5 (exceptional). The summary rating attempted to encapsulate the whole year's performance in a single number.

The significance of that final number was immense. It literally determined the size of the employee's annual pay rise. The higher the rating, the bigger the rise. For Xerox employees, the thing that really mattered about appraisal was getting the biggest possible final number.

Analysis of ratings over time showed that more than 95 percent of employees were either 3s, 4s or 5s; that is, the spread of ratings heavily favoured the higher end of the scale. Almost every employee, according to the appraisal system, was performing at or above the average. The lower end of the scale, the ratings of "below average" and "unsatisfactory" were very rarely used. The effect of this distortion was that any employee who scored less than a 4 ("exceeds expected performance level") began to feel like a failure!

The appraisal process became a sort of ratings lottery; the aim of the game was to get the highest possible score and win the jackpot. The process became fixated on that all-important final digit.

This situation placed tremendous pressure on those appraised and appraisers alike. The appraisers had the unenviable task of deciding the winners from the losers. No wonder most of them preferred to hand out an abundance of overly-generous ratings!

Xerox eventually replaced this system with an MBO/essay form of appraisal. They abandoned rating scale methods completely.

That may have been an over-reaction, since the fault did not lie with the method itself so much as with its intimate - and ultimately inflexible linkage

- to the annual pay rise. When reward outcomes are so closely linked to the size of a rating on a five point scale, the difference of one point either way can become very important and provocative.

The Xerox rating system might have worked if the direct causal relationship between the summary rating and merit pay outcomes had been eliminated or at least softened.

### **The Case for Linkage**

The question of whether appraisal results should be allowed to directly influence decisions about pay increases (and other reward outcomes such as promotion) has been hotly contested. It is still one of the most contentious issues in human resources management. One of the main reasons for separating appraisal results from reward decisions is the belief that a t