

PERFORMANCE APPRAISAL SYSTEM AND ITS IMPLICATIONS ON ORGANISATION'S PERFORMANCE

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ABSTRACT

This study aims at examining the implications of performance appraisal on the overall performance of the organisation. Empirical evidences emerging from previous studies from developed countries have left much to do on developing countries. There is a major gap in the relevant literature on developing countries which this research tries to fill especially as it relates to Nigerian organisations. Survey research design was used with the application of probability sampling technique in selecting our case study organisations and respondents. Primary data were collected through questionnaire. Data were analysed through descriptive statistics while regression and analysis of variance were used to test our hypotheses. It was discovered that performance appraisal system impacts corporate performance positively and recommendation was made that these organisation should continuing period performance appraisal of their employees.

KEY WORDS: Performance appraisal, Organisations performance, Organisation, Management.

1. INTRODUCTION

Appraisal is an essential part of good management. It stimulates a two way flow of useful information between managers and subordinates that continuously clarifies roles and objectives and engenders support in the pursuit of mutually agreed organisational goals. Since employees are of immeasurable value to the organisation, it is only proper for the organisation to pay close attention to the human resources, because the overall performance of the employee determines

the performance of the organisation as an entity. Performance appraisal is a management tool that aids the assessment of employees in an organisation to determine their effectiveness and efficiency with the aim of adding to their performance at work. The employees' input determines the overall output of an organisation; this is why it is so important to keep a close eye on the performance level of employees in the organisation because their input is equivalent to the output of the organisation.

Performance appraisal has been greatly researched by management scholars. For instance, Fletcher (2001) examines performance appraisal and management; Fletcher (2004) looks at how to make performance appraisal works; Scott and Einstein (2001) study strategic performance appraisal in team-based organisations; Taylor (2003) examines performance management and appraisal; Losyk (2002) investigates how to conduct a performance appraisal, while Chandra and Frank (2004) discuss utilisation of performance appraisal systems in health-care organisations. A quick perusal at the above-cited studies reveals that there is still much study to be conducted on performance appraisal. Besides, most of the studies conducted on performance appraisal were conducted in developed countries. This leaves much to be done on developing or underdeveloped countries. Furthermore, many reputable sources; researchers, management consultants, and psychometricians 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. (Stone, 2002). At the other extreme, there are many strong advocates of performance appraisal. Some view it as potentially "... the most crucial aspect of organizational life" (Grote, 2002). Because of the above controversy, performance appraisal needs to be further studied.

From the foregoing, the primary objective of this study is the systematic discovery of the relationship between performance appraisal and organisation's performance. The specific objectives of this research study are to: (i) examine the effect of performance appraisal on employees' performance; (ii) identify the way performance appraisal helps employees to know what is expected of them in the organisation; and (iii) investigate how performance appraisal serves as an effective tool in enhancing organisation's performance.

In order to achieve the objectives of the study, the following hypotheses are advanced and tested in the course of this study.

Hypothesis 1: H_1 : There is a significant relationship between performance appraisal and the employees' performance.

Hypothesis 2: H_2 : Performance appraisal is an effective tool in enhancing organisation's performance.

Hypothesis 3: H_3 : Performance appraisal helps employees' identify with what is expected of them in the organisation.

2. LITERATURE REVIEW

2.1 CONCEPTUAL FRAMEWORK OF PERFORMANCE APPRAISAL

According to (Hackett 1979), performance appraisal is the name given to regularly (or annually) formalised and recorded review of the way in which an individual performs in his job. Performance appraisal scrutinizes an employee's input and recognises strengths and weaknesses with the aim of making relevant decisions in the organisation. Redman (2001) defines performance appraisal as an organisational system, comprising deliberate processes

for determining staff accomplishments to improve staff effectiveness.

Overall performance appraisal is a highly interactive process which involves personnel at all levels and differing degrees with the view to determine job expectations, job descriptions, select relevant appraisal criteria, develop assessment tools and procedures; and collecting, interpreting, reporting results, all for the purpose of making judgments about staff that lead to better managerial decisions (Losyk, 2002).

Performance appraisal is not just a method of evaluating employees; it is also a method of getting acquainted with workers. Performance appraisal opens a way of improving the level of output of employees which determines the outcome level of the organisation. Performance appraisal also is an avenue of instilling discipline in the work environment. A manager has to be firm on employees who are slack or not result oriented and not conforming to the ethics of the organisation. Therefore, every method necessary to improve the employees, develop them and get the best out of them is very necessary. In the course of this study, employees are enlightened and also helped in discovering how much performance appraisal can revolutionise an organisation. This research is also set out to make people realise the need for performance appraisal as a management technique in organisation.

2.2 TYPES OF PERFORMANCE APPRAISAL

Merit pay: The first step to performance pay, merit pay means setting some basic salary according to the position and the rank of the employee and the variable part of the salary is based on the periodic performance reviews.

Profit Sharing: Sharing the profits of the enterprise with the employees as bonus.

Incentives and Performance Bonus: Rewards for special accomplishments or fulfilment of the targets set such as sales commission.

Gain sharing: Sharing of gains as a result of the increased performance of the employees with them.

Although performance related pay has always been a topic of discussions and controversies with many arguments against it, but it has also been proved that performance based pay motivates employees to perform better and earn, and encourages learning, innovation, creativity, problem solving and empowerment which can be facilitated through proper performance measurement and reviews (Marshall and Wood, 2000).

2.3 REQUIREMENTS OF AN EFFECTIVE APPRAISAL SYSTEM

Requirements for an effective appraisal system, according to Boxell and Purcell (2003) are as follows;

Relevance: This implies the periodic maintenance and updating of job analyses, performance standards, and appraisal system.

Sensitivity: Sensitivity implies that a performance appraisal system is capable of distinguishing effective from ineffective performers. If it is not, and the best employees are rated no differently from the worst employees, then the appraisal system cannot be used for any administrative purpose, it certainly will not help employees to develop. And it will undermine the motivation of both supervisors and subordinates.

Reliability: Reliability refers to consistency of judgment. Appraisals made by raters working independently of one another should agree closely. In appraising employees ratings made by supervisors tend to be more reliable than those made by peers.

Practicality: Practicality implies that appraisal instruments are easy for managers and employees to understand and use.

2.4 APPROACHES TO PERFORMANCE APPRAISAL

Traditionally, performance appraisal has been used as just a method for determining and justifying the salaries of the employees. Then it began to be used as a tool for determining rewards (a rise in the pay) and punishments (a cut in the pay) for the past performance of the employees. This approach was a past oriented approach which focused only on the past performance of the employees i.e. during a past specified period of time. This approach did not consider the developmental aspects of the employee performance i.e. his training and development needs or career developmental possibilities. The primary concern of the traditional approach is to judge the performance of the organisation as a whole by the past performances of its employees. Therefore, this approach is also called as the overall approach. In 1950s the performance appraisal was recognised as a complete system in itself and the modern approach to performance appraisal was developed (Armstrong, 2001).

The modern approach to performance development has made the performance appraisal process more formal and structured. Now, the performance appraisal is taken as a tool to identify better performing employees from others, employees' training needs, career development paths, rewards and bonuses and their promotions to the next levels. Appraisals have become a continuous and periodic activity in the organizations. The results of performance appraisals are used to take various human resource decisions like promotions, demotions, transfers, training and development, reward outcomes. The modern approach to performance appraisals includes a feedback process that helps to strengthen the relationships between superiors and subordinates and improve communication throughout the organization. The modern approach to Performance appraisal is a future oriented approach and is developmental in nature. This recognizes employees as individuals and focuses on their development.

2.5 LIMITATIONS OF PERFORMANCE APPRAISAL

Perhaps the most important limitation of appraisal is the reluctance of supervisors to take the pain of and trouble to prepare the periodic appraisals of each of their subordinates. Supervisors find it more problematic still to discuss the results of their appraisals with their employees.

According to McGregor (1954), this may be because many supervisors "are uncomfortable when they are put in the position of 'playing God'. Another limitation in practice is that performance appraisals are so often made, recorded, filed and forgotten." Later, personnel decisions are made without reference to these appraisals despite the fact that the whole purpose of performance appraisal is to improve employee performance and to reward such improved performance by promotions, favourable job assignment, merit wage and salary increase, among other forms of employee compensation. In addition, most of the indicators used for measuring the performance the employees are not quantifiable in nature, making it difficult to measure the performance. In addition, there is often a lot of bias and subjectivity involved in the ratings given by the superiors.

2.6 RELATIONSHIP BETWEEN PERFORMANCE APPRAISAL AND ORGANISATIONAL PERFORMANCE

Performance appraisal processes are one of the central pillars of the performance

management which is directly related to the organisational performance and have a direct impact on it. Employee performance ultimately affects the organisational performance and objectives.

According to Wayne (2006) the evidence of high work performance practices is associated with increase in output (defined as output per worker). There are obviously many factors that influence the basic indices of organisational performance; some of them are government policies and even state of an economy. These factors are considered to be more potent in their effect can ever be. Nonetheless, performance appraisal has its own effects; the best indicator of their impact on organisational performance in the broadest sense is the extent to which the targets set for individuals are seen as being achieved (Fletcher, 2004). For an organisation to be effective, the goals, the standards and the action plans need to be planned well in advance. Thus, performance appraisal facilitates the achievement of organisational goals. It also facilitates the optimal use of the organisational resources. According to Fletcher (2004) there are obviously many factors that influence the basic indices of organizational performance, some of them are government policies and even state of an economy. These factors are considered to be more potent in their effect can ever be. Nonetheless, performance appraisal has its own effects; the best indicator of their impact on organizational performance in the broadest sense is the extent to which the targets set for individuals are seen as being achieved.

3. METHODOLOGY

In this study, survey research design was used. Data were collected from sampled employees of organisations selected for the study in order to determine the relationship between organisational performance (dependent variable) and performance appraisal (independent variable). This study examines Bureau of Public Enterprises where its staff constitutes the study population. Simple random sampling method was used in selecting our respondents. This method gives every employee of the organisation equal chance of being selected as part of the sample elements. The sample size selected is 72 employees out of which 60 respondents filled and returned the questionnaire for our analysis. This means that we have 85.7% response rate. To ensure the validity of the research instrument for this study, content validity which deals with item validity and sampling validity is used to ensure adequate by the instrument of the scope implied by the subject of study. In addition, experts in the field also helped in the evaluation of the question items of the instrument and adequacy of the sampled elements of the population by the measuring instrument used (Ojo, 2003). The judgement that an instrument is measuring what it is supposed to is primarily based upon the logical link between the questions and the objectives of the study. In this study, the test-retest reliability was used to check the degree of consistency of the instrument. This was done by distributing questionnaires on two different occasions to determine the level of consistency. The results obtained were not the same but highly correlated which implies that the research instrument is reliable for the research work. Data collected through the questionnaire were analysed using descriptive statistics while regression and analysis of variance were employed to test the hypotheses and establish the relationship between performance appraisal system and its implications on organisations performance.

4. HYPOTHESES TESTING AND DISCUSSION OF RESULTS

Relevant data gotten from the field through the questionnaire that deals with the objectives of the study were analysed and interpreted accordingly. The research hypotheses were also tested in order to determine their validity or otherwise. Each hypothesis was, however, tested separately to determine its relevance in the light of the available evidence from data gathered analysed in this study.

Hypothesis 1: H_1 : Performance appraisal is an effective tool in enhancing organisation's performance.

Table 1: Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.315(a)	.099	.083	1.269

a Predictors: (Constant): Performance appraisal is a practical tool for enhancing organisation's performance.

b Dependent Variable: Organisation's performance is based on performance appraisal.

Table 1 above shows how much of the variance in the dependent variable (organisation performance is based on performance appraisal). From the model above, it is believed that performance appraisal is a practical tool for enhancing organisation's performance.

In this case, R square value is 0.99 expressed in percentage; this means that my model explains 99% of the variance in the dependent variable (organisation's performance) are enhances by performance appraisal.

Table 2: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.627	1	5.627	6.278	.015(a)
	Residual	51.085	57	.896		
	Total	56.712	58			

a Predictors: (Constant): Performance appraisal is a practical tool for enhancing organisation's performance.

b Dependent Variable: Organisation's performance is enhanced by performance appraisal.

Table 2 above shows the assessment of the statistical significance of the result. The model in this table is 0.15; this indicates the result is significant. Therefore, the alternative hypothesis should be accepted.

Table 3: Coefficients (a)

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	3.578	.398		8.993	.000
	Performance appraisal is a practical tool for enhancing organisation's performance.	.235	.094	.315	2.506	.015

Dependent Variable: Performance appraisal is a practical tool for enhancing decision making

This explains which of the research objective is making a statistically significant contribution to the model. In this study, we are interested in the beta values which are used for comparison. The value is .315. The relationship between the variance explained in the model's controlled. It is obvious that this statement makes a significant contribution to the prediction of performance appraisal. The result of the analysis shows that performance appraisal is a significant tool in enhancing organisation's performance.

Hypothesis 2: H_1 : There is a significant relationship between performance appraisal and employees' performance.

Table 4: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.405(a)	.164	.149	.794	2.258

a Predictors: (Constant), Performance appraisal system.

b Dependent Variable: Employees' performance

Table 4 above shows how much of the variance in the dependent variable (employees performance) is explained by the model. In case, R square is .164 expressed by a percentage, this means that the model explains 16.4% of the variance in the dependent variable. The adjusted R square 0.149, while the standard error of estimate indicates 2.258 which signify the error term that was not captured in the model.

Table 5: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.924	1	6.924	10.975	.002(a)
	Residual	35.327	56	.631		
	Total	42.251	57			

a. Predictors: (Constant), Performance appraisal system.

b. Dependent Variable: Employees' performance

Table 5 above shows the assessment of the statistical significance of the result. The model in this table is 0.02; this indicates the result is significant. Therefore, the alternative hypothesis should be accepted.

Table 6: Coefficients (a)

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2.459	.457		5.380	.000
	Performance appraisal is positively related to employees performance.	.328	.099	.405	3.313	.002

a Dependent Variable: Employees' performance is positively related with performance appraisal.

The relationships between the variance are explained in the model is controlled. It is obvious this statement makes a significant contribution to the prediction of how performance appraisal contributes to the level of employees' performance. Therefore, we accept our alternative hypothesis.

Hypothesis 3: H_3 : Performance appraisal helps employees' identify with what is expected of them in the organisation.

Table 7: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.345(a)	.119	.104	1.250

a Predictors: (Constant):Performance appraisal system.

b Dependent Variable: Employees' are identified with the organisation's expectation.

Table 7 above shows how much of the variance in the dependent variable (employees identification of organisation's expectation) is explained by the model. In this case, R square is .345 expressed by a percentage which is 34.5%.The adjusted R square 0.119, while the standard error of estimate indicates 1.250 which signifies the error term that was not captured in the model.

Table 8: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.250	1	12.250	7.842	.007(a)
	Residual	90.600	58	1.562		
	Total	102.850	59			

a Predictors: (Constant), Performance appraisal system.

b Dependent Variable: Most employees are identified with organisation's expectation.

This table shows the assessment of the statistical significance of the result. The model in this table is 0.07; this indicates the result is significant. Therefore, the alternative hypothesis is accepted.

Table 9: Coefficients (a)

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.800	.820		2.196	.032
	Performance appraisal helps employees' identify with what is expected of them in the organisation.	.500	.179	.345	2.800	.007

a Dependent Variable: Employees are identified with what is expected of them in the organisation.

In this table, we are interested in the beta values which are used for comparison. The value is .345; the relationship between the variance explained in the models' controlled. It is obvious this statement makes a significant contribution to the prediction that performance appraisal helps employees' to identify with what is expected of them in the organisation.

5. CONCLUSION

The conclusions that can be drawn from this study are: (i) That majority of the respondents are in support of performance appraisal system and they really believe in it as it is being practice in their organisations. (ii) That performance appraisal is an important instrument in managing and directing the employee toward self improvement and career development. (iii) That effective feedback from appraisals motivates employees to improve their performance and productivity. (iv) That organisations should put efforts into appraising their employees on a regular basis so as to enable the organisation know the effectiveness and efficiency of its employees in order to improve their productivity. (v) That organisation should also be aware of the appraisal technique that is suitable to assess their employees which can positively affect employee's attitude to work. (vi) That performance appraisal is an important instrument in managing and directing the employee toward self improvement and career development.

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