

## ROLE OF PERFORMANCE APPRAISAL POLICY AND ITS EFFECTS ON EMPLOYEE PERFORMANCE

**Michael A. Akinbowale**

Department of Human Resources Management,  
Faculty of Management Sciences  
Durban University of Technology, KwaZulu-Natal,  
Durban, South Africa

**Melanie E. Lourens**

Department of Human Resources Management,  
Faculty of Management Sciences  
Durban University of Technology, KwaZulu-Natal,  
Durban, South Africa

---

**Dinesh C. Jinabhai**

Department of Human Resources Management, Faculty of Management Sciences  
Durban University of Technology, KwaZulu-Natal, Durban, South Africa  
E-mail: [abiodunnus2002@yahoo.com](mailto:abiodunnus2002@yahoo.com)

---

### ABSTRACT

**P**erformance appraisal policy has been viewed by organizations and human resources practitioners as an effective tool for human resources management. However, effective performance appraisal policy remains a practical challenge to managers and employees because of cognitive, motivational and behavioural factors. At an organizational level, the performance appraisal policy impacts other human resources policies as well as organizational strategy. The effectiveness of an organization's performance appraisal policy is a prerequisite for ensuring the success of its selection, training and employee performance. At a strategic level, the need for rapid and effective organizational changes in today's dynamic social, economic and political environment requires that employees continually re-align their performance with the evolving goals and objectives of the organization. The need to continually re-align employee performance characterizes many organizational units which continue to struggle with getting their employees to embrace the philosophy and practices that are geared at enhance employee performance.

**Keywords:** Performance, Appraisal, Policy, Effects, Employee, Performance, Strategy.

---

## **Introduction**

Performance appraisal is the strength of performance management, which in turn affects the organizational performance. It helps to identify and overcome the problems faced by the employees on his/her work (Mackey and Johnson, 2000:3). Although it has many benefits for the organization, Anderson (2002:80) states that performance appraisal have the equal probability of having a bad impact on the organization as well as on employee performance.

According to Mackey and Johnson (2000:3), where the performance appraisal improves the work performance and employee satisfaction, it can also demotivate employees and leaves a bad impression on the good employees. Most of the employees do not approve of continuous performance appraisal and also consider it as a burdensome activity (Anderson, 2002:80). According to Kuvaas (2006:509) and Rudman (2003:437), a performance appraisal and employee appraisal is a method by which the job performance of an employee is evaluated (generally in terms of quality, quantity, cost and time) typically by the immediate line manager or supervisor. A performance appraisal is a part of the process of guiding and managing career development in both private and public sectors. It involves the task of obtaining, analyzing and recording information about the relative worth of an employee to the organization. Mani (2002:158) states that performance appraisal is an analysis of an employee's recent successes and failures, personal strengths and weaknesses and suitability for promotion or further training.

According to Rudman (2003:437), performance appraisal has a positive and negative impact. Employees who receive a good score on his/her appraisal are generally motivated to perform well and maintain his/her performance. Positive feedback on appraisals gives employee a feeling of worth and value, especially when accompanied by salary increases. If a supervisor gives an employee a poor score on his/her appraisal, the employee may feel a loss of motivation in the workplace. Consequently, this can impact on the employee's performance (Cook and Crossman, 2004:527).

Performance appraisal is important for employees at all levels throughout the organization. The parameters, the characteristics and the standard for evaluation may be different, but the fundamentals of performance appraisal are the same. But performance appraisal is more effectively used as the tools of managing employee performance (Anderson, 2002:132).

## **Employee Attitudes towards Performance Appraisal Policy**

According to Stone (2002:3), employees often assume a defensive position when deficiencies are pointed out. This is especially true if pay, recognition or rewards are at stake. In addition, employees will resist a policy that is perceived to appraise or reward unfairly (Roberts, 2002:334). Hunt (2005:2) highlights that conflicts on the purposes and goals of a performance appraisal policy often exist when implemented. The performance appraisal policy must be part of a performance management policy that emphasizes ongoing communication and coaching in order to motivate the employee (Mondy and Noe, 2008:261). The significant barriers to the implementation of an employee performance appraisal policy are often neglected (Grote and Grote, 2002:232). While performance appraisal policy may improve employee performance, ill-prepared performance appraisal policy can adversely impact on employee performance (Hunt, 2005:2). Wade and Ricardo (2001:26) contend that commitment from the organization to conduct performance appraisal policy correctly is essential. This includes logistical and technical support, in-depth job analysis and on-going training.

According to Roberts (2002:334), managers may often fail to provide timely and accurate expectations and feedback to employees regarding performance. When feedback is provided, it is often communicated incorrectly thereby reducing morale and further reducing employee performance (Stone, 2002:123). Furthermore, employee groups often oppose the implementation of a performance appraisal policy. This is due to a variety of factors including distrust of management's ability, a perception that the performance appraisal policy is unfair and a traditional emphasis on superiority rules (Levinson, 2005:38).

### **The Development and Design of Performance Appraisal Policy**

According to Williams (2002:3), for many organizations, the primary goal of performance appraisal policy is to improve employee and organizational performance. However, a potential problem with performance appraisal policy and possible cause of much dissatisfaction, is expecting too much from one appraisal policy. Rudman (2003:107) contends that a performance appraisal policy that is effective for developing employees may not be the best for determining pay increases. A properly designed performance appraisal policy can help achieve organizational objectives and enhance employee performance.

According to Wade and Ricardo (2001:26), the basic purpose of a performance appraisal policy is to improve performance of employees, teams and the entire organization. Performance appraisal policy may also serve to assist in making administrative decisions concerning pay increases, transfers or terminations. In addition, performance appraisal policy should be legally defensible. Although a perfect performance appraisal policy does not exist, every policy should possess certain characteristics. Bond and Fox (2007) contend that an organization should seek an accurate assessment of performance that permits the development of a policy to improve employee performance. The policy must honestly inform employees of how they stand with the organization.

Cook and Crossman (2004:106) highlight that the fundamental objective of performance appraisal policy is to facilitate management in carrying out administrative decisions relating to promotions, dismissals, layoffs and pay increases. For example, the present performance of an employee is often the most significant consideration for determining whether or not to promote the employee. Managers must recognize that an employee's development is a continuous cycle of setting performance goals, assessing performance as to the accomplishment of the goals and then setting new higher goals (Roberts, 2002).

### **How to Measure Employee Performance**

The most difficult part of the performance appraisal policy is to accurately and objectively measure the employee performance (Bond and Fox, 2007:5). Measuring the performance covers the evaluation of the main tasks completed and the accomplishments of the employee in a given time period in comparison with the goals set at the beginning of the period (Rudman, 2003:4). According to Kuvaas (2006:508), measuring also encompasses the quality of the accomplishments, the compliance with the desired standards, the costs involved and the time taken in achieving the results. Bond and Fox (2007:5) contend that measuring employee performance is the basis of performance appraisal policy and performance management. Accurate and efficient performance measurement not only forms the basis of an accurate performance review but also gives way to judging and measuring employee potential (Fletcher and Bailey, 2003:360).

For the purpose of measuring employee performance, different input forms can be used for taking the feedback from the various sources like the supervisor, peers and the employee (Markle, 2000:7). According to Rudman (2003:4), all the perspectives thus received should be combined in the appropriate manner and to get an overall, complete view of the employees' performance. Bond and Fox (2007:128) state that some suggestions and tips for measuring employee performance are:

- Organizational outcomes or the achievement of organizational goals should also be kept in mind;
- If possible, collect the feedback about the performance of the employees through multi-point feedback and self-assessments; and
- Also take note of the skills, knowledge and competencies and behaviours of the employees that help the organization to achieve its goals.

According to Anderson (2002:2), for an organization to be effective for its goals, it is very important to monitor or measure its employee performance on a regular basis. Effective monitoring and measuring also includes providing timely feedback and reviews of the employees for their work and performance according to the pre-determined goals and solving the problems faced (Mani, 2002:142). Rudman (2003:12) highlights that timely recognition of the accomplishment also motivates and helps to improve the performance of employees.

According to Aguinis (2009:2), measuring the performance of the employees based only on one or some factors can provide with inaccurate results and leave a bad impression on the employees as well as the organization. For example, by measuring only the activities in employee's performance, an organization might rate most of its employees as outstanding, even when the organization as a whole might have failed to meet the goals and objectives. Therefore, a balanced set of measures should be used for measuring the performance of the employees (Kuvaas, 2006:509).

### **Strategic Objectives in Performance Appraisal Policy**

According to Anderson (2002:81), objectives of performance appraisal policies are as diverse and numerous. Performance appraisal objectives should be organization specific, as the policy should be aimed at a specific context for a specific purpose. Kuvaas (2006:505) states that an organization designs its performance appraisal policy and involves management and employees to assist in the design. The organization should provide the managers that are not performance appraisal experts with general performance appraisal policy guidelines (Ford, 2004:551). These guidelines act merely as design input and guide the lay person who does not possess in-depth knowledge of performance appraisal policy design and process (Bond and Fox, 2007:7).

### **Planning for Performance Appraisal Policy on Employee Performance**

According to Rudman (2003:32), a performance appraisal policy can be used for various planning activities, as well as a strategic planning tool. Williams (2002:27) states that performance appraisal policies are part of a larger set of human resources practices. Furthermore, it is the tool for evaluating the degree to which every employee's day-to-day activities tie in with the goals of the organization. Aguinis (2009:334) highlights that performance appraisal policy can be used for labour planning, both in an audit function and as a tool for forecasting staffing needs. Anderson (2002:3) states that performance appraisal policy can be used as a strategic input by stating that performance appraisal policy facilitates the creation of a clear vision

throughout the organization. Moreover, if linked to the organization's strategic plan, then the performance appraisal policy should enable the organization to transform strategic plans into real accomplishments (Rudman, 2003:32). On a more operational level, goal setting, as an appraisal objective, is also seen as a planning function, as an employee plans his/her future performance with his/her immediate supervisors, through the performance appraisal policy's goal setting objectives (Van-Dijk and Kluger, 2010:2).

### **Administration Objectives of Performance Appraisal Policy**

According to Tyson and York (2000:384), amongst the many objectives that performance appraisal policies may have, the most obvious is that of human resources administration. Furthermore, it provides a classification for the objectives of performance appraisal policy and underscores the administrative objectives as providing an orderly way of determining employee performance. The administrative objective is closely related to the informative objectives, where performance appraisal policy provides management with data on the employee performance with information of his/her perceived strengths and weaknesses (Hunt, 2005:2). Bond and Fox (2007:6) highlight that performance appraisal policy provides flow of information about performance and developmental needs of employees, to enhance future personnel decisions about job assignments and promotion.

### **Communication and Motivation as Elements of Performance Appraisal Policy**

According to Kuvaas (2006:510), communication and motivation are key elements to employee performance. Moreover, performance appraisal policy creates a learning experience that motivates employees to develop themselves and improve their performance. Robbins and Coulter (2002:36) highlight that performance appraisal fulfills an important communicative function by reinforcing and entrenching the organization's core values and competencies. According to Mani (2002:141), performance appraisal policy should constitute an open communication, where both manager and employee state what is done well and what needs improvement. Tyson and York (2000:115) state that performance appraisal forms a vehicle for management and employees to develop a mutual understanding of responsibilities and goals. Rudman (2003:13) highlights that performance appraisal frequently have performance goals (e.g. to motivate or improve employee performance) and interpersonal goals (e.g. to maintain a workgroup climate) as specific performance appraisal policy objectives. Anderson (2002:23) contends that staffing, performance appraisals, training and motivation principles are four key policies necessary for ensuring the proper management of an organization's human resources. Furthermore, staffing, training and development is based on performance appraisal policy foundation. Thus, the performance appraisal should aim at contributing information on which these policies can be built (Simmons and Lovegrove, 2002:4).

According to Rudman (2003:15), a performance appraisal policy can improve employee performance and contribute towards employee involvement. However, this can only be accomplished if all employees are involved with the goal setting process (e.g. policy design must allow for joint goal-setting). Poon (2004:330) states that a further facet to the communication objectives of the performance appraisal policy is the ability to give feedback to employees about his/her performance on various tasks. Robbins and Coulter (2002:610) contend that performance appraisal policies are most often employed as a means of providing feedback to employees about their performance on the job. Bates (2003:12) reinforces this view by stating that regular feedback is given, regarding the employee's past and present performance to ensure an improvement in employee performance.

## **Assessment of Performance Appraisal Policy on Employee Performance**

The most obvious objective of performance appraisal policy is that of assessment and the evaluation of an employee's performance, as objectively as possible, against specified job goals (Williams, 2002:1). Moreover, apart from assessing the individual's performance against his/her specific job goals, performance appraisal policy can also be used to assess the employee's capacity for advancement (Armstrong, 2001:465). Through the assessment function of performance appraisal policy, a powerful means of managerial control is created, by the setting of objectives in a hierarchical fashion and a review of success or failure in achieving these objectives (Bates, 2003:12).

## **Employee Performance Expectations**

According to Aguinis (2009:2), managers and employees should agree on performance expectations in advance of the performance appraisal policy period. Employees cannot function effectively if they do not know what they are being measured against. On the other hand, if employees clearly understand the expectations, they can evaluate their performance and make timely adjustments as they perform their jobs without having to wait for the formal evaluation review (Robbins and Coulter, 2002:350). According to Rudman (2003:13), performance management begins long before an employee's first annual performance appraisal policy. An employee's first day on the job is the first chance to establish performance expectations. Job descriptions contain a list of tasks and responsibilities. However, employee performance expectations include duties and responsibilities and the manner in which an employee should perform his/her job effectively (Markle, 2000:7). Tyson and York (2000:142) highlight that organizations routinely provide a job description, yet fail to discuss with new employees the purpose of the job and how it relates overall for the organization and the employee. Stone (2002:3) contends that discussions about employee expectations reveal what underlies the day-to-day tasks in the employee's performance description. Clarifying employee performance expectations is one step to creating an effective performance appraisal policy. As a result of non-awareness of the employee performance expectations, employee efforts could be wasted or unrecognized (Robbins and Coulter, 2002:250).

## **Conclusion**

The adequate performance of employee's based on performance appraisal policy will result in improvement in employee performance. Feedback, particularly on interpersonal (supervisor-subordinate) basis will be found to be useful and highly effective in motivating employees to improve their performance. It can also be contended that, promotion and salary increment of the employee may be greatly influenced by properly organized and executed performance appraisal policy. In addition, it can improve communication and the quality of working life and make employees feel that they are valued by the organization.

---

**Bibliography:**

1. Aguinis, H. (2009). *Performance Management*. 2<sup>nd</sup> Edition. Upper Saddle River, NJ: Pearson Prentice Hall.
2. Anderson, J.R. (2002). *Measuring Human Capital: Performance Appraisal Effectiveness*. Paper presented at the Human Resource Track Midwest Academy of Management Conference. Kansas City: Missouri.
3. Armstrong, M. (2001). *A Handbook of Human Resources Management Practice*. 8<sup>th</sup> Edition. London: Kogan.
4. Bates, S. (2003). Performance Appraisals: Some Improvement Needed. *Human Resources Journal*. 48(7): 11-19.
5. Bond, T. & Fox, C. (2007). *Applying the Rasch Model: Fundamental Measurement in Human Sciences*. 2<sup>nd</sup> Edition. New Jersey: Lawrence Erlbaum Associates.
6. Cook, J. & Crossman, A. (2004). Satisfaction with performance appraisal systems. *Journal of Managerial Psychology*. 19(5): 526-541.
7. Fletcher, C. & Bailey, C. (2003). Assessing Self-awareness: Some Issues and Methods. *Journal of Managerial Psychology*. 18(5): 395-404.
8. Ford, D.K. (2004). Development of performance appraisal training program for the Rehabilitation Institute of Chicago. *Journal of European Industrial Training*. 28(7): 550-568.
9. Grote, R.C. & Grote, D. (2002). *The performance appraisal question and answer book: A survival guide for managers*. New York: Broadway.
10. Hunt, N. (2005). *Conducting Staff Appraisals: How to set up a Review System that will ensure fair and effective appraisal and improve individual performance and organizational results*. How to Books, 5<sup>th</sup> Edition. Oxford: Jordan Hill.
11. Kuvaas, B. (2006). Performance Appraisal Satisfaction and Employee outcomes; mediating and moderating roles of work motivation. *International Journal of Human Resources Management*. 17(3): 504-522.
12. Levinson, H. (2005). *Management by Whose Objectives. Harvard Business Review on Appraising Employee Performance*. Harvard Business School Publishing. Boston: Allyn & Bacon.
13. Mackey, K. & Johnson, G. (2000). *The Strategic Management of Human Resources in New Zealand*. Auckland: Irwin/McGraw-Hill.
14. Mani, B. (2002). Performance appraisal systems, productivity, and motivation: A case study. *Public Personnel Management*. 31(19): 141-159.
15. Markle, G.L. (2000). *Catalytic Coaching: The end of the performance review*. Qorum Book. West Port: Conn.
16. Mondy, W. & Noe, R. (2008). *Human Resources Management*. 10<sup>th</sup> Edition. Harlow: Prentice Hall.
17. Poon, M.L. (2004). Effects of Performance Appraisal Politics on Job Satisfaction and Turnover Intention. *Personnel Review*. 33(3): 322-334.
18. Roberts, G.E. (2002). Employee performance appraisal system participation:  
19. A technique that works. *Public Personnel Management*. 31(3): 332-372.
20. Robbins, S.P. & Coulter, M. (2002). *Management*. 7<sup>th</sup> Edition. Upper Saddle River, NJ: Prentice Hall.
21. Rudman, R. (2003). *Human Resources Management in New Zealand*. Auckland: Pearson Education New Zealand Limited.

22. Simmons, J.A. & Lovegrove, I.W. (2002). Negotiating a research method's conceptual terrain: lessons from a stakeholder analysis perspective on performance appraisal in universities and Institutes. Paper presented at the *European Conference on Research Methods in Business and management*. Reading: Kidmore End.
23. Stone, R. (2002). *Human Resources Management*. 4<sup>th</sup> Edition. Brisbane: Wiley.
24. Tyson, S. & York, A. (2000). *Essentials of Human Resources Management*, 4<sup>th</sup> Edition. Oxford: Jordan Hill.
25. Van-Dijk, D. & Kluger, A.N. (2010). *Does task type moderate the effect of feedback sign on motivation and performance?* Paper presented at the Academy of management. Chicago: Illinois.
26. Wade, I. & Ricardo, R. (2001). *Corporate performance management. How to build a better organisation through measurement – Driven strategic Alignment*. Butterworth: Heinemann.
27. Williams, R.S. (2002). *Managing Employee Performance: Design and Implementation in Organisations*. London: Thompson Learning.