



Performance Appraisal and Its Significance as a Human Resource Management Tool

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Introduction

Performance appraisal (PA) is one of the human resource management (HRM) tools used to evaluate the job performance of employees (Dessler, 2011; Mondy et al. 2002; and Tompkins, 1995). The ultimate goal of PA is to maintain better performance by fostering employees' motivation, which would depend upon the situations in the workplace, such as reward system, rules and regulations. This is pertinent to Herzberg's two-factor theory, which constitutes two variants about motivation. According to Bateman and Snell (2011), the first one focuses on motivators such as the nature of the job, duties and responsibilities, and job satisfaction to determine motivation. The second one known as hygiene factors includes working circumstances, compensation, supervision and the policy of an organization. The theory suggests that these factors should adequately be administered in order to motivate employees, and to serve several HRM purposes such as promotion or termination. The results of the PA are measured based on a number of appraisal methods such as category scaling and comparative methods (Mathis and Jackson, 2006). The category scaling facilitates the measurement of performance of employees on a certain form by checking categorically grouped levels such as highest and lowest. The comparative appraisal methods entail the ranking and comparison of performance ratings of employees of a particular work unit.

The major aim is, based on the results of the PA, to raise the motivation and productivity of employees by rewarding better performance, for example, by giving a pay increase (merit pay). The question of interest is that whether or not the merit pay would be feasible during bad economic times. According to the Center for State and Local Government Excellence, the current economic downturn has forced local governments to cut costs that would affect their workforce. As posted on the Center's website, the result of a survey shows that "Hiring freezes, pay freezes, layoffs, and



furloughs top the list of ways in which local and state governments are cutting costs....” In line with this, the purpose of this study is to examine whether or not the current economic downturn has affected the performance appraisal (PA) practices of the seven cities under examination. The study also addresses PA procedures and steps, as well as the circumstances associated with rewarding performance.

Methodology

This study presents the PA practices of a cluster of seven cities in the U.S., which will remain unidentified for the sake of maintaining the anonymity of informants. The information utilized in this study was collected based on questionnaire surveys and secondary sources (HR policy documents from the seven cities). In late June 2008, a questionnaire was sent to knowledgeable individuals from these seven cities containing 16 semi-structured questions pertinent to PA practices. All responded to the questions, although one of the respondents from one of the cities preferred merely to deliver a PA policy document of that city, claiming that a shortage of staff prevented response to the questions. In late June 2010, and early July 2010, an e-mail questionnaire containing 10 semi-structured questions was sent to seven knowledgeable individuals of these seven cities via e-mail. The questions contained in the questionnaire primarily focused on the association between the current economic downturn and the performance and reward system. All the participants responded to the questionnaire by providing adequate information in writing. This helped the investigator engage in several e-mail correspondences seeking clarifications.

Findings and Discussion

The findings reveal the purposes, steps and procedures, rating scale, and reward system of PA as applied to the seven cities.

PA Purposes

Interestingly enough, according to the information obtained, these cities have had similar performance practices with the exception of the lack of merit pay in one city. In all of these cities, performance is appraised for the sake of administrative and developmental purposes. The result of the rating helps the management identify the good performing employees as well as underperformers. The good performers are rewarded by being given, for example, merit pay or bonuses. Underperformers are



given some type of training (developmental purpose) to improve their deficiencies. For instance in city A, performance ratings are utilized to facilitate constructive communication in order to maintain a good working relationship between managers and employees. In cities B and C, ratings are used to communicate performance feedback to employees in order for them to become accountable in their work and foster growth in their development and skills. City G applies PA results to identify employees' strengths and weaknesses, and thus to make decisions concerning salary increases, promotion, training, transfer, layoffs, demotion or dismissal. City C utilizes PA for the purpose of communicating and promoting city values. The city is able to understand each employee's needs in comparison with a standard of performance relative to an employee's career growth.

In all of the cities, employees are informed of their weaknesses and strengths. Such practices show that the cities promote adequate feedback on PA. The fact that these cities use performance ratings in relation to administrative and developmental purposes indicates that their performance management practices are correlated to merit principles. Those employees exhibiting deficiencies are given the chance to improve their performance, for instance, through training. If an employee is unable to perform up to expectations, disciplinary measures, which include termination, are taken. Those employees who perform well are eligible to receive salary increases or an occasional bonus during good economic times, and this shows that PA is tied with merit pay principles, with the exception of one city, which does not have a merit pay scheme.

In terms of time, in all of the cities, employees are generally evaluated annually with a certain exception. For instance, in City D, there is an informal review approximately every 90 days. In city A and B, those employees who are newly hired are evaluated at the end of their six-month probation period. In all of the cities, there is a practice of providing training to supervisors to help them handle the PA properly. For instance, in city A, supervisors are given trainings pertinent to PA about four times annually. This helps supervisors identify the strengths and weaknesses of subordinates and understand the steps and procedures involved in the PA.

Steps and Procedures



According to the information obtained, the steps and procedures involved in the PA are similar in all of the cities. The supervisor and the subordinate should first meet in order to reinforce a common understanding concerning performance expectations and measures, and then to rate the performance at the end of the performance period. For example, in city G, a coordinator submits the evaluation form to the employee's immediate supervisor at a date specific prior to the evaluation time. The supervisor and the subordinate meet and discuss the evaluation. The rating conducted by the immediate supervisor has to be reviewed by a reviewing authority that can make any changes deemed necessary. At last, the completed evaluation forms reach the HR office. These steps are similar in all of the cities as indicated in their PA policy documents.

Concerning feedback, the supervisor has the obligation to indicate the strengths and weaknesses of the subordinate, providing written justification for each rating. The evaluated employees can also provide opinions concerning the rating by writing comments in the space provided. The respondents assert that the supervisors do rate their subordinates in a fair manner. The question remains as to whether a subordinate has the opportunity to air a grievance concerning the rating. Notwithstanding feedback, in all of the cities, an employee has the right to express his/her complaints related to arbitrary performance evaluation. An immediate supervisor conducts an employee's performance, whereas the supervisor's superior reviews the appraisal. An employee, following the administrative process, can appeal to the reviewer (supervisor's superior). Since an immediate supervisor conducts evaluation, it appears that he/she has a greater influence in this matter. In city D, in order to alleviate this potential concern, the supervisor's supervisor discusses the issue with the employee and the rater by arranging a meeting to talk with the parties separately. Nonetheless, as indicated in the city's PA manual, unless the immediate supervisor is convinced that a change in the rating score is warranted, the supervisor's superior is not completely free to amend it. In city F, if a subordinate encounters an arbitrary evaluation, he/she is able to take it to the next levels. If the City Manger cannot provide a satisfactory solution, the Citizen Grievance Panel examines the case. The respondent from this city states:



“Performance evaluations cannot be grieved unless the employees can show that the evaluation was arbitrary and capricious.”

City G’s Policy shows that an employee’s complaint can reach up to the level of city manager although it does not show whether or not the supervisors’ superior can change a rating score. In fact, the document indicates that since it is an administrative appeal the city manager’s decision would be binding. It can be argued that a supervisor is obviously in a strong position in relation to evaluating a subordinate. It is a common knowledge that a supervisor can be biased either positively or negatively in terms of evaluating a subordinate. As pointed out by Tompkins (1995), this can create a tendency of submissiveness on the part of employees to their supervisors. Bowman (2010) also states: “Managers see pay for performance as a basis of control and employees embrace its intuitive appeal (p. 70).” Thus, one can contend that leaving the decision of rating solely to a supervisor seems to conflict with the importance and philosophy of employees’ empowerment, such as the option of appraising their supervisors.

The practice of subordinates appraising supervisors does not exist in these cities. Further, with the exception of receiving some information from customers concerning certain services through a survey, there is no way for an individual employee to be evaluated by a customer. The respondent from city C points out the lack of a formal mechanism to provide customers’ evaluation, and the fact that nevertheless some departments attempt to get feedback from customers on a non-regular basis. The absence of a formal mechanism to evaluate employees by customers, and the lack of opportunity for subordinates to evaluate their supervisors, signify that the 360-degree appraisal system is not in place in these cities.

Rating Scale

With slight variations in terms of labeling the level of performance, the PA forms of all the cities show similar rating scales constituting a category of assigned numerical values. The performance levels are also associated with factors such as employees’ knowledge of the job, integrity, relationship with co-workers, superiors, and subordinates. The idea is that such performance evaluation factors are linked, in the estimation of the supervisor, to the contribution of an employee to organizational



productivity achieved. The collected information and the documents reveal that the evaluation factors are not closely related to specific observable and objective data such as units of production. This practice signifies that the cities are not focusing on the result-oriented PA method, but rather the categorical appraisal method, which addresses certain approximate factors of performance. A supervisor can choose a labeled category to rate a subordinate's performance on an evaluation form. This categorical appraisal method has its own limitations. In line with the ideas of Mathis and Jackson (2006), the performance labels, for instance, "less than acceptable" or "fully acceptable," "partially achieving expectations" or "meets expectations" are liable to be interpreted differently by different raters. The categories may also inhibit a supervisor from using his/her best judgment, to rate his/her subordinate's performance differently from what is available to be checked on the form.

The subjectivity of this evaluation technique may also induce a supervisor to make a mistake by consciously or unconsciously overstating or understating the rating score based on his/her personal judgment. In fact, according to the information obtained, supervisors of the cities are given training and orientation to use the evaluation guidelines carefully in order to evaluate employees objectively. This can help mitigate possible rating error.

It is a common knowledge that subjective judgment is likely to contain errors. However, it is unrealistic to expect objective evaluation on a subjective appraisal measure. Furthermore, raters may feel uncomfortable doing the appraisal because of potential subordinate dissatisfaction with the rating. Thus, in order to avoid disaffection and possible threats from subordinates, supervisors may overstate the rating score. Fried et al. (1999) assert that "rating inflation is a political strategy employed by supervisors to further their self-interest (p. 432)." This can serve the purpose of avoiding unnecessary confrontation. The respondent from city G discusses the possible tendency of overinflating rating scores, and explains:

There is an ever-increasing need to remind supervisors to not over inflate the scores of their employees and to be just in their scoring. Supervisors are being trained in the proper forms of communication and coaching with their employees to make the process more than just an annual occurrence, but as a communication tool (Received on July 1, 2008).



Similarly, the performance guideline of city G indicates that some supervisors think that rating subordinates strictly may create misunderstanding in the workplace. In fact, inflating the rating in order to avoid confrontation has the tendency to result in a PA problem known as leniency. Hence, supervisors should be obligated to maintain professional integrity in order to fairly evaluate subordinates and reward performance.

Rewarding Performance

Interestingly enough, the PA practices of all the cities involve a feedback system in which the employee is informed of his/her weakness as a prelude to motivating improvement in his/her performance. If an employee demonstrates repeated weaker performance than expected, appropriate disciplinary measures would be taken after performance counseling. For instance, the PA guidelines of one locality indicate that PA counseling help to identify a performance problem and both the supervisor and the subordinate openly discuss and seek solution to the problem. The supervisor is expected to give advice to the underperforming employee unless the identified problem is so severe that an administrative measure such as termination is needed. In other words, an underperforming employee may pass through certain steps such as performance probation time, or demotion, the failure of which to improve may lead to termination.

The practice of adopting the feedback system to inform employees of their strengths and weaknesses shows the existence of an open PA technique in these cities. In fact, all the PA documents of six cities indicate that performance should be associated with incentive, in that best performers should be rewarded through promotion or pay increases. The measures taken concerning less-performing employees also show the existence of a pass/fail system, which is required to keep performance level up to expected standards. Nonetheless, in one of the cities performance is not linked with merit pay (pay increase on base salary based on good performance). With the exception of this city, PA is associated with merit pay principle in the other six cities. However, this merit pay principle is in jeopardy due to the current economic downturn. A respondent from one of the cities explains:

While current budgetary constraints have resulted in no merit increases for City employees, this issue has created some level of concern with our current appraisal system. As a result, there is some employee perception



that there is no incentive to perform above minimum standards. Ultimately, this has created an organizational challenge (Received on September 23, 2008).

According to the information obtained from the respondents, merit pay has been blocked due to economic downfall in the fiscal year (FY) of 2010 and 2011 in one locality, and in FY 2009, 2010 and 2011 in another locality. Likewise, in one of the cities, no merit pay continued after it was given to employees in July 2007. All pay increases have been stopped in another city after it last occurred in FY 2009. In yet another two cities, no merit pay occurred in FY 2010 and in FY 2011.

Concerning variable payment, in one locality, a salary supplement was given to employees for one year. The respondent states that, "During our last fiscal year [FY 2010], we granted a one-time salary supplement, the percent of which was determined in part by each employee's performance rating (Received on July 2, 2010)." In another city, a bonus was scheduled to be given to employees, the purpose of which has been intended to help offset the increased cost of living. Another city has introduced a non-monetary reward system to show appreciation for best performing employees.

The economic downturn has also negatively affected yet another locality's non-monetary incentive scheme, which was originally designed for the provision of low cost recognition items. As a coping mechanism to budgetary constraints, each work unit has developed an internal strategy of recognizing better performing employees, for instance by giving certificates of appreciation. The respondent also states: "Additionally, we instituted... [a] recognition that allows both employees and supervisors to recognize and thank co-workers, team members, etc. for any reason that they believe the employee should be recognized (Received on July 6, 2010)." In another city, due to budget cuts, monetary incentive schemes have been discontinued, and as a coping mechanism, each work unit has been encouraged to develop its own internal strategy to acknowledge best performing employees. In another locality, an early retirement incentive has been introduced to decrease the number of position eliminations due to reduction in force (RIF). The respondent from this locality states: "This year we offered an early retirement incentive (a percentage of salary) for eligible employees. Because



the number of retirements increased, the number of employees who were affected by the RIF action was decreased (Received on July 30, 2010).”

All of the respondents indicated that there is no technique in place to measure the possible demotivation on the part of employees due to lack of merit pay resulting from the economic uncertainty. Nonetheless, the respondents from two cities were relatively specific. The first respondent is of the opinion that supervisors would have encountered some motivational issues regarding lack of pay increases. The city’s administration has clearly communicated the situation and received feedback that employees have understood the budget constraints. The respondent from another city alluded to the demotivation issue by stating: “Employees aren’t thrilled. Some are trying to get promotions (mostly not happening). Employees were invited to participate in a poll of ways to meet the budget shortfall. The majority voted for a decrease in pay (which didn’t happen) to keep others employed (Received on July 28, 2010).” The respondent from another locality notes that the economic downturn has also had a motivational impact in that some employees have exerted their maximum effort to improve their performance for fear of termination. This respondent highlighted the negative aspect by stating: “Employees are more stressed and somewhat apprehensive about losing their position and having to do more work w/ [with] less resource (Received on August 11, 2010).” These episodes show the possible existence of demotivation negatively affecting high performance portraying the importance of hygiene factors and the motivators (Herzberg’s two-factor theory of motivation).

Regarding the question of staff turnover due to lack of pay increase, all of the respondents indicated that there is not any measure in place to determine this. The respondent from one city indicates that employees who leave their positions do it because of other related reasons. This respondent indicates the staff turnover within the city is as low as 4%. Similarly, the respondent from another city notes the rate of turnover in that locality was 7% in FY 2008 and 4.9% in FY 2009. These figures correspond to the finding of Leavitt and Morris (2008) who affirm that, “Employee turnover rates for the seven cities ranged from a low of 4.5% to a high of just less than 10.0% (p.188).” A lower rate of labor turnover is predictable since elimination of positions has become a common occurrence due to the economic downfall limiting the



availability of vacant positions. The respondent from one city points out that the budget cuts in funding from the state not only affected merit pay but also resulted in position eliminations in FY 2010 and in FY 2011. Likewise, the respondent from another city reiterates the same problem and states that, “No empirical data [exists] but there appears to be a lot of apprehension due to staff cuts and the possibility for more cuts in FY 2012 (Received on July 2, 2010).” Since the intensity of budgetary constraints appears to be severe, this issue could persist until the economy undergoes a major recovery.

A logical alternative is that if it were difficult to maintain the merit pay or pay increase, it would be appropriate to focus on the non-monetary reward system. Otherwise, PA, as a HRM tool to establish merit ethics in identifying best performers, would suffer a decrease in effectiveness. In other words, the merit principle entails the notion that PA, together with the feedback, improves productivity and creates an appropriate working atmosphere especially when related to merit pay. Those employees who demonstrate good performance ought to be rewarded, whereas others, whose performance does not match the standards of adequate performance, would be denied such rewards. It is also imperative that underperforming employees be given appropriate training or counseling to enhance their performance to the expected level.

Conclusion

These seven cities follow adequate performance appraisal (PA) practices. The contents of their PA guidelines and evaluation forms are analogous to the evaluation methods and procedures, which are commonly known in human resource management (HRM). These cities conduct PA to evaluate employees work performance in relation to employees’ duties and responsibilities, which are identified and labeled based on categorical appraisal technique. The cities have formal PA, which requires the relationship between a supervisor and subordinates to be guided by procedures stated in the PA policy documents.

The PA process in one of the cities is not tied to merit pay; to learn the underlying reasons further investigation is required. The other six cities maintain the pass/fail PA based on performance upon which salary increments and bonuses awarded during good economic times. This concurs with the hygiene factors highlighted



in Herzberg's two-factor theory of motivation. However, the current economic shortfall has negatively affected the customary pass/ fail merit pay practices, particularly blocking salary increases of better performing employees of these cities. The study shows how the economic downturn impedes rewarding performance, and the major focus is how layoffs and furloughs balance the budget. Until the economy regains its potency, rewarding performance through merit pay remains an unresolved issue; it could possibly result in demotivation and less productivity. As a coping mechanism, the cities ought to capitalize on the non-monetary reward system to encourage better performing employees. Meticulous research is important to learn the attitudes of employees of these cities concerning the PA system, and particularly the pass/fail and merit pay system in relation to the current economic downturn.

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