



Performance Appraisals as a Quality Management Tool: Literature Review

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Abstract

Nowadays, in our competitive business conditions controlling and improving quality levels of operational processes is not enough to gain advantages among rivals however as it is well known fact that performance of employee's create a great impulse on improvement, companies also need to examine and evaluate the performance of them as one of the part of their quality management strategies. In this point, performance appraisal which is a systematic and periodic process managed by a manager or consultant which (i) examines and evaluates an employee's work behavior by comparing it with preset standards, (ii) documents the results of the comparison, and (iii) uses the results to provide feedback to the employee to show where improvements are needed, become an important tool to achieve higher quality levels. For enterprises, performance appraisal helps them diagnose whether the adopted strategy and organizational structure will help to achieve their goals. In both ways, performance appraisals directly affect the quality levels in companies. For that reason, this study aims to create a vision for performance appraisals as a quality management tool so a literature review was constructed from the quality management view of point to understand the importance of performance appraisals.

Keywords: Performance, Quality, Strategy

Introduction

Historically, in the every period of time organizations and companies have been adapting themselves to changing conditions to survive and to be successful. Nowadays, global competition affects companies therefore in these business conditions the principal aim of organizations is to remain competitive by adapting changes to their structure. Thus, companies develop new and integrated strategies that let them be much more effective, efficient than ever in every new circumstance.

Quality movement and managing quality has always been one of the major interests of management theorists. Over years, quality movement extended its content and had rapidly internalized by countless organizations whether they are public or private ranging across manufacturing and service sectors [1]. The underlying reason is that the quality management is used in all areas of a company from beginning to end in other terms from the product form that are manufactured until the customer services provided after sales and helps to determine a firm's success in a number of ways. From a competitive business conditions point of view, since quality management can be defined as the "process of controlling, ensuring and improving quality; both in business operations and productivity", advantages that are provided by quality management cannot be ignored.

On the other hand, it is well known fact that performance of employee's creates a great impulse on improvement, so companies also need to examine and evaluate the performance of them as one of the part of their quality management strategies. In organizational life, evaluation of employees effectively and communicating feedback is always considered as a permanent challenge. Although it is a well-known fact that "performance" is itself a vague term, and capable of no simple definition, the measurement of the performance is compelling for managers and management theorists. What is more, the widespread shift from hierarchical organizational structures to more

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team based structures brings a shift in both the content and the structure of the employee evaluation process. In 2006, as Prajogo and Sohal [2] stated in their study that “The link between organizational strategy, structure and performance is a classical theme in strategic management literature, with the main thesis being that organization strategy determines organizational structure, which in turn influences organization performance [3]-[4].”

Human resource department managers try to lead performance appraisals to provide a variety of benefits such as improvement in performance, creating an opportunity for communication, data for individual decisions, etc. nevertheless Deming [5] identified performance appraisal as one of the seven deadly diseases that stand in the way of the TQM transformation. Besides, there are some studies to suggest continue conducting appraisals with quality movements because of the active, sophisticated nature of today’s modern jobs , in this work environment. In this study performance management systems and importance of performance appraisals are examined from the organizations point of view. Then relationships between quality management systems and performance appraisals are considered with existing literature. The main aim of the study is inspecting performance appraisals as a quality management tools and reveal the relationship between them and provide a basis for future researches.

Performance Management and Performance Appraisals

Performance management provides an important integrated framework, both academically and practically [6]. Performance management systems start with aims and objectives. To evaluate performance mainly objectives are used and it is a well-known fact that objectives can be considered as the fundamental requirement for control [7]. Organizations generally meet multiple, competing and sometimes conflicting objectives [8]. Ferreria and Otley [9] tied to describe the structure and operation of performance management systems in their study because these systems are typically set out by managers to meet key partner expectations as Otley mentioned [10]. The conclusion of having to satisfy objectives at the same time is generally that performance becomes a multi-dimensional concept [10].

In 2011, Gruman and Saks [11] determine several stages for performance management process. In literature, generally consist of activities such as setting targets of performance, monitoring performance, facilitation, appraisals and feedback, and improvement [12]-[13]. As Holbrook Jr [14] stated “Performance appraisal has occupied the attention of researchers in human resource management, organizational behavior, and industrial/organizational psychology for many years.” Performance appraisals are an important part of organizational life because they can serve a number of purposes. Several studies focused on solving performance problems, setting goals, administering rewards and discipline, and dismissal [15]-[16]. The appraisal process is generally presented as the “acquisition of information to provide a rational decision-making and resource allocation” [17]. Performance appraisal establish a system that facilitate managerial control via developing data handling. The individual is given information on how they are doing and what they should be doing differently.

Performance appraisal is defined as “...a measurement of the achievement of organizational goals [18], and the goals of enterprise activities are to enhance business performance.” However, Wilson [19] examined the assumptions that underlie the design of appraisal schemes thus identified the difficulties and dilemmas inherent in the process. Galbraith and Schedel [20] pointed out that performance appraisal indicators cannot be determined from a single perspective because of performance management nature. Furthermore, the scope and perspectives are very complicated and extensive. Venkatraman and Ramanujam [21] proposed performances of three areas, including financial performance, operational performance, and organizational effectiveness. To create competitive advantages, Kaplan and Norton [22] proposed using the balanced scorecard. They suggested integrating financial and non-financial indicators for the performance appraisal system.

In 1976, Maier [23] introduced the most common performance appraisal method which involves two stages: calculation of a rating and an interview in which the rating is communicated to the subordinate [23]. Ilgen [16] summarized a number of studies to reveal the effects of dissatisfaction with performance appraisals. Murphy and Cleveland [24] found that criticism and complaints generally based on performance appraisals in many firms.



From this point of view dissatisfaction is vital because employees are only satisfied when final appraisal ratings match their beliefs about their performance [16]. When performance feedback systems are viewed as unfair from employee point of view, employee resistance is increased against change and thus the likelihood of striking back at the system is increased [25].

Prior to 1980s, initial performance appraisal research efforts generally focused on improving the rating instrument. The underlying reason is that at initial studies main assumption is that the design of the evaluation form which is used during the performance appraisal process was the center of evaluation accuracy [26]. On the other hand, recent studies refused this assumption. According to recent studies organizational context, appraisal purpose, and rater motivation have much more importance when determining the evaluation outcomes rather than instrument format [24]-[27]-[28].

Performance management is a critical aspect of organizational effectiveness [29]. However, several studies provide that "...less than a third of employees believe that their company's performance management strategy process lead them in improving performance [13]". In 2002, Beswetherick [30] conducted a questionnaire about performance management systems effectiveness and results show that the majority of managers confirmed that performance appraisal was effective in determining their needs, supporting and monitoring their personal and professional development. Designing the "right" performance appraisal instrument is the first step and it is vital especially from employee perception of fairness. Employee acceptance is critical to the implementation [31] and sustaining the benefits of appraisals. If employee has justice concerns about the system, this causes several problems. One of the most critical of them is influence of employee responses to a variety of human resource decisions about pay differences, employee disputes, and layoffs. Moreover, justice concerns can be effective on reactions of both managers and employee about appraisal process. Landy et. al. [32] surveyed managerial and professional employees and found that experience of employees' about performance evaluation systems especially about performance appraisal interview is directly affect the perception of justice. Although there is not too many study about fair performance evaluation, Bretz et al. [33] reported that managers defined justice as the most important performance appraisal issue.

Although performance evaluation can be considered as the heart of performance management system [29], the full process can be extends to whole organizational policies, practices, and design features in other terms any procedure that interact to produce employee performance. This integrated approach represents a regulation to strategic human resources management [34]. Coens and Jenkins [35] stated in their study that human resources management requires performance appraisals in organizations to gain a variety of benefits [35]. As Şimşek et. al. [36] tried to provide objective and fair performance appraisal drivers in their study they also emphasize the importance of what is the importance of performance appraisals for human resource management, such as improving performance of operational level, creating an opportunity for communications, making decisions for employment, and creating individual development plans [36]. Although main aim of performance appraisals are motivating individuals and driving their behavior through the objectives of the organization [37]-[38], application of performance appraisal is not always smooth or productive.

As mentioned before, modern management theories often make it difficult for supervisors to "manage" subordinates' performance. In this continuously changing business environment, some researchers suggested that not managing subordinates' performance will be more effective in terms of focusing on managing the context. In 2007, Lilley and Hinduja [39] stated in their study that "The primary purpose of appraising and coaching employees is to instill in them the desire for continuous improvement." Management of performance should be non-threatening and action oriented [40]. Leeuw and Van den Bergh [41] investigated how performance management practices influence behavior of individuals. They conducted a survey among 102 companies thus identified three independent clusters of operator behavior that positively correlate with performance improvement; "Understanding", "Motivation" and "Focus on Improvement". To avoid resistance, performance management should not only be focused on tasks but also on the relation with operators. Another reason to focus on "facilitating", instead of "managing" performance has to do with developments in performance management



itself. Today, the focus of the performance management process is largely on results, as opposed to personality, behaviors, or competencies [13]-[42].

Environments change, organizations change, and so performance management systems also need to change in order to sustain their relevance and usefulness. Andres et. al. [43] stated that companies have been adapting themselves for changing business and environmental conditions and in this way performance management is one of the fundamental components. The change in the performance management systems applies not only the design infrastructure that supported the performance management systems but also to the way performance management information is used. However, the main issue is not the procedure of change, but rather the extent and type of change. Because it has to be including whole system that performance management taken place and it should be redesign again.

Quality Management and Performance Appraisals

Deming [5] stated that performance is a function of many forces such as the employee, coworkers of employee's, the job and equipment, customer, management and the working environment etc. This situation can be considered as the main reason of variance in other terms not only the individual but the whole system should be hold responsible for variance. Therefore, making fair evaluations for employee performances via performance appraisals cannot be possible. Some quality proponents advocated that "That is, most employees in the organization function at about the same level of performance, and thus it is systems-level features, such as materials and machinery, that are responsible for variations in performance." From employee point of view, they concerned solely with their own performance in these systems because dealing with quality issues in the system can prevent them from achieving higher levels of performance goals.

Waldman [44] suggested advanced group appraisals and a system orientation and Westerman [45] advocated the use for peer raters as an alternative perspective for the compatibility of performance appraisal and quality management. Masterson and Taylor [46] suggested an advanced performance management system in their study that include individual level program with evaluative and developmental components. Cary et. al. [1] used performance ratings as a function of person and system effects on rate performance. Deadrick and Gardner [47] offered the performance distribution assessment system to enhance communication and improve performance with identifying person and system influences in overall performance.

Organizational resistance to the elimination of performance appraisal may be well founded, if appraisal systems make important contributions to organizational effectiveness without impeding the success of quality management operations. In several studies, researches supported the idea that complete abandonment of performance appraisals, create some performance evaluation problems from both employers' and the employee' sides. Cardy and Carson [48] make some logical and statistical analysis to provide some arguments about this concept. Actually it is clearly seen from several studies that quality management systems and performance appraisals can work successfully since they can complete each other in some points.

Organizations adopting quality management systems and performance appraisals together can use this information more efficient rather than organizations in which just performance management systems are using for performance evaluation. What is more, in such organizations in which quality systems and performance appraisals adopted together employee performance expectations will contribute more to overall organizational performance more than will be in the case in organizations adopting only performance management systems. From employee point of view this integrated structure provides higher levels of participation in organizational activities and from supervisor point of view, they have a greater organizational support for their role as coach and stronger intentions to use performance management systems.

On the other side, using performance appraisals as a quality management tool can add values to total quality management system. Kurtzberg et. al. [49] stated that widespread shift from hierarchical organizational structures



to more team based structures comes a shift both the content and the structure of the employee evaluation process. Employees receive more accurate performance appraisals for individual employees and more coaching and development activities from their supervisors. This shift in the role of supervisor or manager creates a great impulse in organizations. The underlying reason is that employees have a better understanding of how their job performance contributes to organizations' goals. From the strategic planning dimension of quality managements system this understanding is critical. From many researches it is stated that employees in organizations adopting quality management and performance appraisals should report higher contributions to quality and organization and higher intensions to participate quality efforts. This analysis is directly related to human resource development and management and has a great importance since Deming [5] has encouraged the importance of rethinking human resource's role in supporting quality. Employees tend to have higher satisfaction with human resource management decisions such as promotions, training and compensation when quality management and performance appraisals use together.

In 1996, Cardy and Carson [48] examined performance ratings as a function of person and system. They stated that continue conducting appraisals in organizations should be studied from both employer and employee perspectives. From employer perspective, documentation of performance appraisals and feedback may be need for legal defense. What is more, appraisal dimensions and standards can operationalize strategic goals. Despite the fact that performance appraisals supported the belief of traditional individual focus, appraisal criteria include teamwork and the teams can be the focus of appraisal itself. From this point of view, employee perspective should be considered. Assessment and recognition of performance levels can motivate improved performance. Cardy and Carson (1996) stated that fairness requires that differences in performance levels across workers be measure and impact outcomes. Again in 1996, Masterson and Taylor stated in their study that rather than being contradictory quality management and performance appraisals may be quite complementary such that each adds value to the operations of other and to organization as a whole.

Conclusion and Further Studies

Performance appraisal is a human resource management tool that has received much attention from several researches [26]. Performance appraisal has occupied the attention of researchers not only in human resource management but also in organizational behavior and industrial/organizational psychology for many years.

In the literature, prior studies focused on improving rating factors for performance management. The underlying reason is that central point was the evaluation accuracy which is only depends on the design of the form. After new concept and trends emerged during recent years, the focused areas shifted from rating factors to purpose of the appraisals. As the business conditions changes organizations has to change their strategies and have wider visions and integrate their management concepts to survive.

Cardy and Carson [48] stated in their study that main challenge for managers and human resource professionals is to adopt traditional human resource management practices to a quality management environment. As Deming advocated in his study that rethinking human resource's role in the organizations have a great importance to support quality. As mentioned before, to integrate academic and real life cases performance distribution assessment method was offered by Deadrick and Gardner [47]. This method show that performance appraisals and quality management principles are compatible with each other the underlying reason is that method helps organizations develop and sustain quality management environments.

Nowadays, not only designing right fair performance appraisal system and facilitating these right systems are enough but also organizations engaged their quality principles their human resource strategies. Employee acceptance is always a critical concept for all organizations to sustain a system but in customer driven conditions this is not enough as long as it is not create value for customer. As a further study, the role of performance appraisals in quality systems has to be analyzed and results should be compared other quality tools. Since it creates an impulse on the performance of the employee, it should be proved that whether there will be a positive



impact on quality level or not. In literature several studies argued that performance appraisals and quality management can be used together however there are such a few study that tried to prove in a mathematical models.

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