PERFORMANCE REVIEW: KEEPING IT FEASIBLE

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ABSTRACT

The strategic human resource management (SHRM) approach tries to link all aspects and practices in HRM directly to organizations' goals. One of the most important aspects in SHRM is the performance management, in which the HR manager make sure that employee performance are on target, by applying practices such as performance review and merit rating. The following paper discussed the performance review process, what factors make an effective performance review and the benefits of the process, highlighting important aspects of a successful strategic model of performance management, using the strategic model of management of performance. Effective performance review depends to commitment of the organization. Entailed in the commitment is the willingness of the organization to develop a suitable method of train the appraiser to make sure that they fully understand and that they believe in the process. Another important factor is that performance review process should be aligned with organization goals to give it the right direction and fair standard.

Keywords: employee performance, strategic human resource management, performance management

INTRODUCTION

Every organization has its own missions and objectives that need to be achieved by effectively utilizing all of its resources, including human resource. Human resource is considered as the most valuable asset in organization but also difficult to handle as there are many aspects linked to human resource such as regulations, skills, personal goals

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and even personal problems. Therefore managing human resource is an important and complicated part of an organization operation.

Effective management of human resource is an area that has been continually researched and developed. The strategic human resource management (SHRM) approach tries to link all aspects and practices in HRM directly to organizations' goals. As explained by Bratton (p 38), strategic approach to HRM refers to "a managerial process requiring human resource policies and practices to be linked with the strategic objectives of the organization". One of the most important aspects in SHRM is the performance management, in which the HR manager make sure that employee performance are on target, by applying practices such as performance review and merit rating. Performance review aims to provide valuable feedback to both organizations and employee. This process should be implemented to all kinds of organizations, small or big, profit or non-profit.

This paper will discuss the performance review process, what factors make an effective performance review and the benefits of the process, highlighting important aspects of a successful strategic model of performance management, using the strategic model of management of performance by Nankervis, Compton and Baird (2005, p. 334) and guest in Den Hartog, Boselie and Paauwe (2004, p.560).

PERFORMANCE REVIEW IN STRATEGIC HRM

Performance management is considered as a very important factor in order to achieve a better organizational performance. In their paper, Den Hartog, Boselle and Pauuwe commented the link between performance management and organization's performance as "the topic of a heated debate", that the two concepts "have a positive relationships" and that HRM practices are typically expected to raise motivation and loyalty of employees which then will increase employees performance and as a result will create a positive impact to organizational performance (Den Hartog et.al., p. 559).

However, claims like that are generally made based on logical assumptions, Colbert, as quoted in Nankervis and Compton (2006, p. 84), said that "direct cause-effect relationship are inherently

problematic". The process, result and effect of performance management is very much depended on the attitudes and skills of the people responsible for it (Nankervis and Compton, 2006, p. 84). Although mostly assumed, the link between performance management and the pursue of organizational goals is very important and the two concept logically have a causal effect.

According to Baron and Armstrong the strategic and integrated nature of performance management is significant, focusing on 'increasing the effectiveness of organization by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors'. In their view, the performance management is an on-going process that "involving performance reviews focusing on the future rather than the past" (Baron and Armstrong in Den Hartog et.al., 2004, p.557).

Performance review is an important part of performance management. Nankervis, Compton and Baird use the term 'performance review' instead of performance appraisal in their literature, in much the same way as what we have known as 'performance appraisal' with some added characteristic such as continuous (not only once a year) and linked closely to organization' goals (see Nankervis et.al., 2005, p. 332-392). In their explanation, performance review is seen as "the only logical means to appraise, develop and thus effectively utilize the knowledge and abilities of employees" *(Nankervis et.al., 2005, p. 339). More explicitly, they explain that performance review is a way to measure employees performance, and usually every organization has a formal program to do that (Nankervis et.al., 2005, p. 332-333). Therefore, in this essay performance appraisal is understood as the main component of performance review.

PURPOSE AND BENEFIT OF PERFORMANCE REVIEW

Performance review has been existed in research and practice for a long time, that it becomes "one of the most praised, criticized and debated management practices for decades" (Screwvalla in Nankervis et.al., 2005, p. 333). Despite its long history, researches have not been successful to design a performance review model that can fit all organizations (DeNisi and Pritchard, 2006, p. 253). However,

performance review remains an important issue and a valuable management practice. Effective performance review is believed to bring advantages both to organization and the worker, and it is considered as a very important part of performance management that can influence that strategy implementation and organization's performance (Milliman, J., Nason, S., Zhu, C., De Cieri, H., 2002, p. 106).

There are many opinions written on the benefit of performance review, with similarities between them. Saul (1994, p. 117) has made a comprehensive list of potential benefits of performance review that has covered most of them:
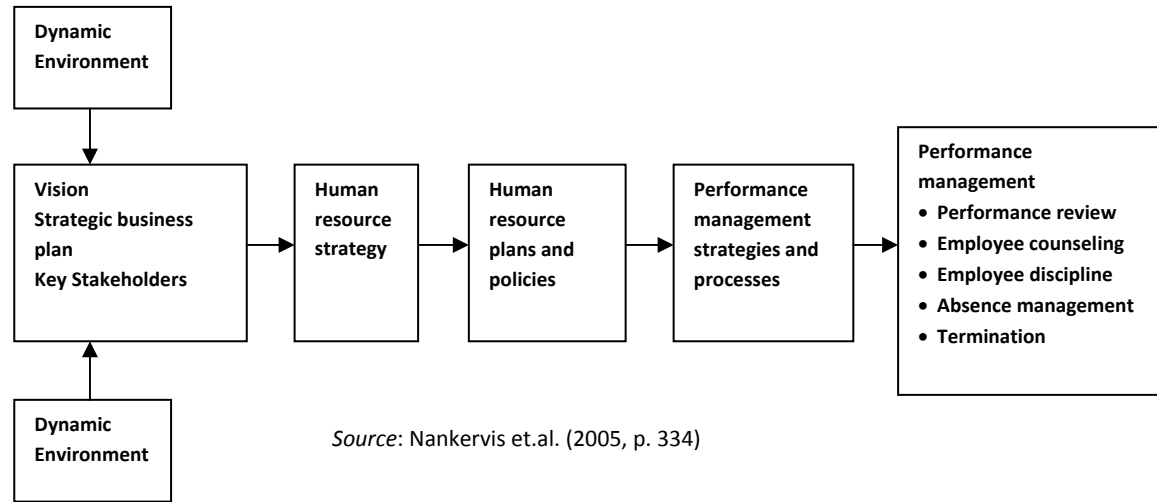
> *Improved performance, greater commitment to corporate objectives and culture, improved management-staff communication, improved responsiveness to problems, objective basis for remuneration, more cost-effective training and development, less 'fire fighting', relevant guidelines for individual creativity and initiative, better workplace planning and financial budgeting, improved staff motivation and morale, more soundly based career planning and firm basis for validating and defending human resource management decisions.*

For individuals, appraisal is a way to give feedback regarding their performance, which is a very important thing (Nankervis et.al., 2005, p. 339). Getting feedback on their performance, employees will have a firm ground on where they stand and whether they are being treated fairly. Good performance followed by good reward system is a strategy to retain potential employee and maximize their contribution to the organization. A good feedback system will also be able to determine fairly whether an employee with bad performance can be developed further through a series of actions like training or moving to different area, or whether that particular person has reached its maximum capacity.

For the organization, employee review is a management feedback system (Nankervis et.al., 2005, p. 333). Referring to Nankervis et.al.'s model, performance management is the implementation part of the planning and strategies development, performance review as part of

the performance management then provides information for the whole range of HRM related issues.

A strategic model of management of performance

Dynamic Environment				

Vision
Strategic business plan
Key Stakeholders

Human resource strategy

Human resource plans and policies

Performance management strategies and processes

Performance management
• Performance review
• Employee counseling
• Employee discipline
• Absence management
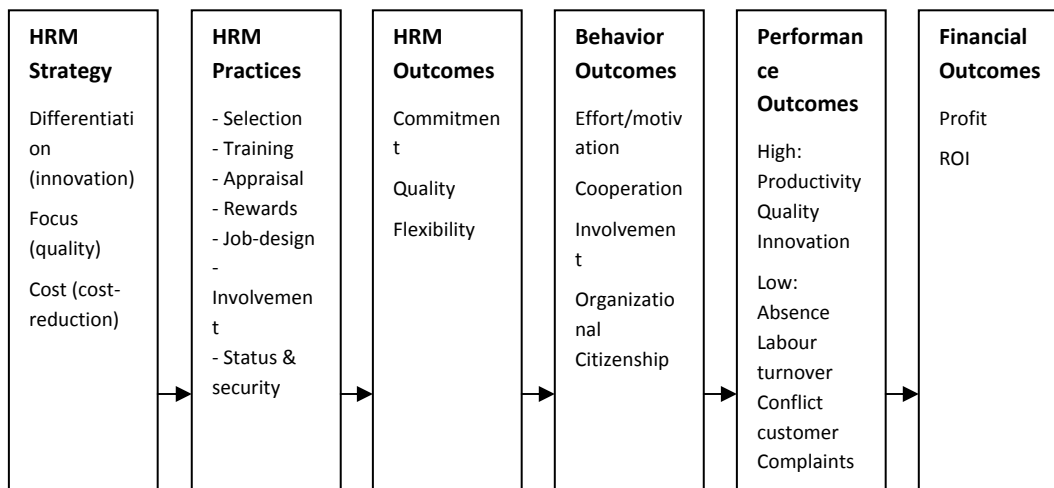• Termination

Dynamic Environment

Source: Nankervis et.al. (2005, p. 334)

In the model, after the HRM strategy has been determined based on organization's strategy, the HR plan is modified. To create an HR plan, data gathered from performance review process is very important to make a realistic planning that is suitable to employee based on their performance review, this will include budgeting and remuneration, training and possibly positioning of employee. At the end of the process, performance review data is also used for evaluation of the whole HR activities described. Without relevant data gathered from performance review, the organization would not have a firm grounding to make its HR plan. According to Gratton et.al., an performance appraisal plays an important part of strategic HRM because it "facilitates the assimilation stage by

monitoring performance and providing feedback to support the attaintment of strategic goals" (Gratton et.al. in Werbel and DeMarie, 2005, p. 256).

Despite the various purposes of performance review explained by different authors, most of them agree that those purposes are serving a larger purpose, that appraisal is conducted to improve employee performance as part of the performance management system (DeNisi and Pritchard, 2006, p. 255). Den Hartog et.al. use the model by Guest to explain the link between HRM and performance. They explain that HRM practices should be made inline with the HRM strategy that has been decided earlier.

Linking HRM and Performance

HRM Strategy	HRM Practices	HRM Outcomes	Behavior Outcomes	Performance Outcomes	Financial Outcomes
Differentiation (innovation) Focus (quality) Cost (cost-reduction)	- Selection - Training - Appraisal - Rewards - Job-design - Involvement - Status & security	Commitment Quality Flexibility	Effort/motivation Cooperation Involvement Organizational Citizenship	High: Productivity Quality Innovation Low: Absence Labour turnover Conflict customer Complaints	Profit ROI

Source: den Hartog et.al. (2004 p. 560)

A little different from the model by Nankervis et.al., the Guest model put performance appraisal at an earlier stage. Here performance appraisal, and other practices using performance appraisal information as a basis like training and reward, are expected to shape a positive behavior in individual that then contribute to the achievement of organization's goals. At the end, the performance outcome is very much related to the ultimate organization's goal, the financial outcome. Hence, in this model, they conclude that individual

employee performance influences organizational performance (Den Hartog et.al., 2004, p. 560).

Both models agree that performance review should be linked with achieving organization's goals. In the Nankervis model, performance review process is determined by organization's strategies, while in Guest's model the achievement of organization's goal is depended on individual performance assessed earlier through performance appraisal process.

EFFECTIVE PERFORMANCE REVIEW

Effective performance review is determined by a lot of factors that can be grouped into practical and philosophical factors. The practical factors include things like scheduling of the appraisal, setting the interview room to be unthreatening, preparing the form and informing the employee about the appraisal well in advanced (see McNamara, 1999). The practical factors are important to get as much information as possible from the performance review process, however the philosophical factors are more important because they determine whether the performance review process is being conducted as it should be or as a mere annual event. The philosophical factors include the organizational attitude and commitment toward the process, the alignment of organization's and individual's goals, the ability of appraiser and the method of choice to conduct the performance review.

The organizational commitment to conduct performance review determines the organization's attitude toward the whole process. According to Nankervis et.al. (2005, p. 332), successful performance review is determined by "the philosophy underlying it" as well as other factors. A committed organization will have a clear program and schedule of the whole process, process the feedback by taking appropriate actions based on the result in terms of training, career development or merit rating and demand a serious attitude from the appraiser to do their task well. Employees seeing that the organization is committed and serious will take a similar attitude towards the whole process and vice versa.

To ensure that individual performance is inline with the organization's, the performance review needs to be designed to reflect organization's strategy. Job description should be specific, individual's goal to be aligned with organization's, and constant supervising provided. The importance of alignment is shown in the model by Nankervis et.al. above. Without aligning the goals of individuals and organization, there is no common purpose to be achieved and no standard of measurement. The key concept of the above model is that the whole performance review process should be tied up to the organization's strategic plan, and the managers who perform the performance review should make a 'performance agreement' that is linked closely to it (Nankervis et.al., 2005, p. 334).

Therefore, it is also very important that managers/supervisors have a good understanding of the methodology used to do performance review and all process entails and also the right attitudes toward the whole process. According to a research by TPM/Hudson Global Resources quoted in Nankervis, et.al. (2005, p. 332), there are still many managers that think the performance review is just a routine annual event because they cannot see the link between appraisal and organization strategy. Another problem is that there are many managers that do not like giving appraisal, and also employees that are not ready to receive the feedback their getting (Milliman et.al., 2002, p. 106). Managers are afraid in 'playing the God role', they feel uncomfortable to be responsible to judge other people performance and especially to socialize bad appraisal (McGregor, 1990, p. 157).

Considering the importance of the role and the difficulties involved, training for appraiser is a very important aspect for an effective and successful performance review. To gain as much feedback as possible from the process, organization should avoid the performance review to become a routine that is needed to get out of the way as soon as possible, and well-trained managers/supervisors are key persons in the process. Not only will they guide the discussion to the right direction, they will also be able to provide useful feedback both to further motivate their subordinate and give the right recommendations to the company regarding a particular employee. Training for appraiser should include the system training and communication skills training. Good communication skill is very important (Parker, 2003, Saul, 1994), as appraisers should be able to give good feedback or socialize

bad performance and thus give motivation and direction. Wrong and unclear communication method could demotivate employee and hence the purpose of the process is not reached.

The methods of the appraisal used in an organization is another important factor to a successful program, this includes the intervals, the method of giving feedback, the interview method used and the form that should be filled (if any). Current trend indicates that a good performance appraisal should not bring any surprising result to the employee to avoid disappointment and demotivation, hence constant supervising and formal or informal meetings between supervisor and subordinate.

The organization also has to decide the feedback system they want to use, whether supervisor feedback is sufficient, or whether they want to implement multi-source feedback such as the 360-degree feedback. Although the 360-degree feedback seems more valid because it includes more involvement from different people, there was "concerns whether it is effective" and "costly to implement" (DeNisi and Pritchard 2006, p. 258). Using different sources of feedback could bring benefit to the organization, as it can give a more complete picture of a person's performance, however it is also a longer and more complicated process, hence time consuming and more costly.

And, again, because managers/supervisors are still the ones who have the main responsilbility for the whole process, Saul (1994, p. 117) suggests that the ideal thing is to design the whole system so that managers will be able to:
- Make sure that all subordinates have good understanding of the organization's and how they will contribute in achieving them
- Set realistic performance target based on knowledge, skills and motivation of individuals
- Set an agreed standards of performance
- Define clearly the authority that the individual has to take action and to commit the resources of organization
- Develop a performance improvement plan

PERFORMANCE REVIEW IN PRACTICE

Regardless the importance of it, performance review has not always been practiced effectively in organizations, and the gap between theory and practice in this field is quite wide (DeNisi and Pritchard, 2006, Parker, 2003). Quoting Jeremy Nichols, companies do not spend enough time and effort to develop a good performance management system that are both strategic and implementable (Parker, 2003, p. 355). As explained previously, effective performance review should be unique to each individual, linking individual's goal to job description and organizational goals and creating a system that ideally assess both. However, it is rigorous and time consuming process, especially in large organization, while the HR department job is not only thinking about performance review. A current research by Nankervis and Compton shows that there is a decline in HR professionals' satisfaction regarding their effectiveness that is possibly caused by the expectation to modify the performance appraisal process (Nankervis and Compton, 2006, p. 99).

In case of small organizations, performance review is not always prioritized. As explained by Beaver and Hutchings (2004 p. 87):

> *Of all the functional aspect of HRM, it is most difficult to convince small business managers of the need for taking a strategic approach to developing formal performance appraisal.*

According to both author, the reason of that includes cost-related factor and the over-confidence factor that employees are already consciously made a choice to work in small business rather than in big companies for the small business character benefits (Beaver and Hutching, 2004, p. 88).
Another factor that limit such process in small organizations is that sometimes HR is mixed with other department, and HR affairs are juggled with other tasks.

Considering the positive impact of performance review to organization, it is a regret if an organization cannot conduct performance review effectively. One way to solve the problem is to compromise in designing the system, to make it simple to implement although not 100% ideal. As explained by Nankervis et.al. (2005, p. 334):

Achieving an effective performance review can be difficult, so it makes sense to keep the system as uncomplicated as possible.

Several samples of the simplified system that have been proven implementable is the five-minutes feedback of HBA company and the performance management system of Coca-Cola Amatil (Parker, 2003, p. 336-337).

CONCLUSION

As the current trend in HRM is to give bigger role, involvement and opportunities to employee to work together in achieving organization's goal, performance review plays a crucial part in performance management system. Depending on the point of view, performance review could be beneficial as a feedback system for organization or as an agent to help increasing individual performance to achieve organization goals.

Effective performance review depends to commitment of the organization. A committed organization will ensure that the performance review is taking place and use the result from the process to increase employee performance. Entailed in the commitment is the willingness of the organization to develop a suitable method of train the appraiser to make sure that they fully understand and that they believe in the process. Another important factor is that performance review process should be aligned with organization goals to give it the right direction and fair standard.

Although proven beneficial to both organization and employees, not all organizations put effective performance review in practice, and the problems occur in both big and small organizations. Work load, complicated system and, again, the attitude of the organization are the main obstacles. One way to solve the problem is to try to develop a simplistic method suitable to each organization, which is easy to implement although perhaps not as ideal as expected.

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