

Performance Appraisal—A Tool for Competitive Advantage: A Case Study Review

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Abstract—An organization's goals can be achieved only when people put in their best efforts. How to ascertain whether an employee has shown his or her best performance on a given job? The answer is performance appraisal. Protagonists of modern techniques and practices of HRM purport that the latter are the source of achieving competitive advantage for an organization. The current paper attempts to develop an understanding of successful Performance management system as a case study review based on RICO Auto Ltd. Evidences are used to explore as to how Performance appraisal practices can instill greater productivity and effectiveness in organizations. Finally, we attempt to develop a conceptual framework of successful Performance appraisal practices in the global context. Organizations should employ requisite training, development, flexibility and employee relations practices to achieve excellent organizational performance.

Keywords: Performance Management System, Performance Appraisal, Human Resource Management, HRM Practices.

1. INTRODUCTION

On the surface, it is not readily apparent how some performance appraisal research issues inform performance appraisal practice. The structure of the paper is as follows. First we briefly review the dominant perspectives in this field as per the available literature and observe that none of the existing literature, to the best of our knowledge, explores the impact of select Performance assessment practices representing the unique challenges in the domain of scientific managerial practice on the overall organizational performance to achieve a competitive edge. Hence, in the next section we propose a framework to examine Performance appraisal and firm performance linkage as reviewed in the case of Rico Auto Ltd. In the last section we point out some limitations and propose directions for future research.

2. PERFORMANCE APPRAISAL RESEARCH

It is well understood that performance appraisal decisions and practices are likely to have an important and unique influence on organizational performance measured against the increase in revenue or efficiency or what Flippo(1966) referred to as

“systematic, periodic and an important rating of an employee's excellence.”[1] However, the views on the exact performance appraisal model linking the employee assessment and organizational productivity have undergone much change over time. This change has happened alongside change in the perceptions about human resources themselves from being a cost to be minimized and a potential source of efficiency gains to a source of value creation, or what Hamel and Prahalad termed "numerator management" [2].

Formal Performance Appraisal plans are designed to meet three needs, one of the Organization and the other two of the individual namely-They provide systematic judgments to back up salary increases, transfers, demotions or terminations. They are the means of telling a subordinate how he is doing and suggesting needed changes in his behavior, attitudes, skills or job knowledge. They let him know where he stands with the Boss. Also, the superior uses them as a base for coaching and counseling the individual.

3. PERFORMANCE MANAGEMENT SYSTEM: AN ORGANIZATIONAL PERSPECTIVE

In recent decades, however, the process of managing people has become more formalized and specialized. Many of the old performance appraisal methods have been absorbed into the concept of Performance Management, which aims to be a more extensive and comprehensive process of management. Some of the developments that have shaped Performance Management in recent years are the differentiation of employees or talent management, management by objectives and constant monitoring and review. Its development was accelerated by the following factors:

- The introduction of human resource management as a strategic driver and integrated approach to the management and development of employees; and
- The understanding that the process of Performance Management is something that's completed by line managers throughout the year - it is not a once off annual event coordinated by the personnel department.[3-6]

Performance management goes beyond performance appraisal. It deals with improving employee performance & development

whereas appraisal practices only advocates the individual's performance & his potential for performance. Often, performance appraisal witnesses directional and evaluative leadership but performance management requires more comprehensive and facilitative leadership. Therefore, Performance Management reflects the continuous nature of performance improvement and employee development, recognizing the importance of effective management, work systems and team contributions.

As viewed in the detailed case study of Rico Auto Ltd., managing performance refers to a process that enables an internal business to evaluate and continuously improve the individual subsidiary and corporate performance. Fig. 1 shows the detailed PMS adopted by the organization in order to achieve its competitive edge.

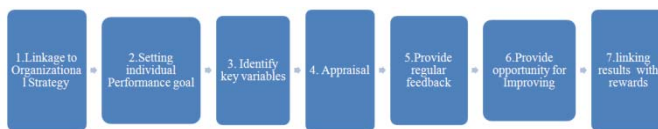


Fig. 1: A Firm-level Model Adopted for Effective Performance Management

4. OUR WORK

We conducted a series of focus group discussions with top and middle-level managers at Rico Auto Ltd. on the plausible links between employee's performance and firm's performance. Several potential intervening process factors were considered during these discussions. A dominant factor that came out was Performance appraisal, which could probably link these two. The discussions concluded by asserting that effective performance appraisal practices seldom lead directly to a high level of firm performance.

On the basis of our literature review and FG discussions we posit, therefore, that performance appraisal practices influence firm performance outcomes through effectiveness of the HR system and employee commitment and performance. A comprehensive literature review highlights three sets of HR practices that would support a healthy and innovation-oriented performance appraisal. They are: (1) training-focused—to retrain the employees in order to meet the standards as an emphasis on skills enhancement and human capital investment; (2) performance-based reward—an emphasis on rewarding employees' contributions and outcomes; and (3) team development—an emphasis on team appraisals and team-based activities. The following are the propositions being arrived at;

Proposition 1: The performance management system of a firm positively influences the perceived effectiveness of employee performance appraisal.

Proposition 2: The organizational culture influences the perceived effectiveness of the employee performance appraisal.

Proposition 3: The commitment and motivation of employees positively influences the perceived effectiveness of the employee performance appraisal.

Proposition 4: The selected set of HR practices positively influences the desired appraisal outcomes through the mediating role of the firm's strategic objectives.

The firm-level propositions as above are proposed for explaining, how greater role can be assigned to performance appraisal to be used to achieve competitive advantage in the global arena. The direct as well as indirect impacts of various factors have been analyzed in context of the internal and external environment of the firm considering the integration and perceived effectiveness of firm's performance management system.

5. LIMITATIONS

The methodology used to develop the framework is purely qualitative in nature, being based on the review of previous published work as well as outcome of a focus group discussion. As there are typically no objectives which are set in appraisal systems, there is no link to strategic or operational outcomes.

6. DIRECTIONS FOR FUTURE RESEARCH

Developing a "good" theory or conceptual framework which describes and explains the phenomenon of interest as comprehensively as possible is always important. Here we attempted to do the same in case of the Performance appraisal to achieve competitive advantage. However, one needs both a theoretical framework as well as empirical work to establish and examine relationships. The conceptual framework embodied in the model above is critical to attract the researchers' interest in empirical work in this area. Perhaps future research may focus attention on generating a cumulative body of accurate and meaningful estimates of effect sizes. We hope future empirical work in this regard will provide better and more meaningful tests of the propositions developed here.

7. CONCLUSION

Reflecting a multidisciplinary interest, we emphasized through this paper looking into the mechanisms by which employee performance appraisal ultimately impinge upon the organizational performance to achieve a competitive advantage. We derived some propositions and hope that validity of this conceptualization may be verified by future empirical research.

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