

# **EMPLOYEE EVALUATION AS A COMPONENT OF THE STRATEGIC MANAGEMENT**

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## **1. Introduction**

Most companies have a formal performance appraisal system in which employee job performance is rated on a regular basis, usually once a year. A good performance appraisal system can greatly benefit an organization. It helps direct employee behavior toward organizational goals by letting employees know what is expected of them, and it yields information for making employment decisions, such as those regarding pay raises, promotions, and discharges.

Developing and implementing an effective system is no easy task, however. For instance, one study found that a majority of companies – 65 percent – are dissatisfied with their performance appraisal systems. Analysts have found that a fairly low degree of reliability and validity remains a major bug in most appraisal systems. Many such systems are met with considerable resistance by those whose performance is being appraised, thus hampering the possibilities for effectiveness. While accurate and informative appraisal systems can be a major asset to a business, they are too often an unrealized goal.

There are three major steps in the performance appraisal process: identification, measurement, and management. With identification, the behaviors necessary for successful performance are determined. Measurement involves choosing the appropriate instrument for appraisal and assessing performance. Management, which is the ultimate goal, is the reinforcing of good performance and the correction of poor performance. Each step is described below. Additionally, management by objectives, which involves evaluating performance without a traditional performance appraisal, is described.

The purpose of this article is: 1) giving a first oversight of the creation and the background of the problem of assessment and reward; 2) giving an insight into the necessity and possibilities to arrive at a genuine differentiated assessment and reward because of its strong influence on employee motivation. This is one of the most important goals of the strategic management.

## **2. The history**

In the 60-70s XX century few selection specialists were concerned with classification and compensation functions in their organizations. That changed to some extent in the 1970s when the job analysis methods underlying position classification and pay-setting were found inadequate as a foundation for content-oriented employee selection procedures. These and related problems facing personnel directors and assessment specialists were described at an IPMA symposium organized by A. Maslow in the mid-1970s titled "Selection and Classification: Shall the Twain Ever Meet?", and in a 1978 Public Personnel Management article by Ollie Jensen pointing out "major conceptual morasses and misdirections of effort associated with job and personnel evaluation." Among the efforts of assessment specialists to overcome these problems were development of "multi-purpose" job analysis procedures, and involvement in establishing minimum qualification requirements. More recent have been challenges to the basic foundations and methods of job evaluation. For some organizations, these challenges stem largely from demands that pay be equal for jobs of "comparable worth." In others, personnel directors confront employee groups and unions,

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managers, and others dissatisfied with job evaluation and pay decisions. One consequence is that personnel assessment specialists previously responsible only for personnel selection are increasingly being asked to assist in the preparation and review of new classification and compensation procedures, and in some cases even to assume management of such systems. Arvey and Fossum provide an introduction to this topic, outlining important problems which are commonly found in job evaluation procedures and the potential contributions of assessment specialists to solving problems which may exist in the job evaluation procedures used by their organizations. Their introduction to job evaluation is especially relevant for assessment specialists having backgrounds primarily in employee selection, and they include references to sources which cover aspects of the measurement issues they raise in greater depth.

Job evaluation methods were first devised shortly after WWI, a result of several changes in personnel practices. The first change was the application of job analysis by Frederick Taylor to job design in industrial engineering, and by industrial psychologists to the development of selection and placement techniques. The second change was the growth of large organizations, and the specialization of jobs. "Internal" labor markets developed in these large organizations, with the design of jobs specific to each organization. Because these jobs had no counterpart in other organizations – the external market – a new method, job evaluation, was created to establish wages for them. Job evaluation procedures have been used primarily to help slot jobs into a wage structure which is presumed to relate to "market" wages - the wages paid by other employers competing for employees. The simplest approach was to rank order jobs in terms of their market wage, "worth," or other organizationally meaningful criterion. Nonmarket (internal labor market) jobs were slotted between ranks, based on judgments about job content by job evaluators who compared them with the content of the "market" jobs. More complex methods were quickly developed in the 1920's, particularly those known as "factor comparison" and "point factor" methods. In the 1930's, industry-wide variants of the point method such as those developed by the National Metal Trades Association were introduced. There are important distinctions between factor comparison and point methods which we will explain next.

### **3. The Factor Comparison Method**

The factor comparison method evaluates jobs using five compensable factors: skill, mental effort, physical effort, responsibility, and working conditions. Compensable factors are those characteristics of jobs presumed to reflect the tasks, duties, responsibilities, knowledges, skills, and abilities for which the employer is paying. The application of the factor comparison evaluation process, as it was conceived, begins by identifying certain jobs in the organization (usually nonexempt classifications as defined by the Fair Labor Standards Act) for which employers in the labor market compete for employees. These jobs are rank ordered for each compensable factor according to the level required by the job. Next, an independent evaluator or an evaluation team divides the wage currently ordered for each compensable factor according to the level required by the job. Next, an independent evaluator or an evaluation team divides the wage currently paid each job into appropriate amounts for each of the compensable factors without knowledge of the assigned ranks. In the first step, then, the jobs are ranked by factors; in the second step, pay is appropriated across factors by job. Jobs are then ranked again, according to pay apportioned for each factor. A comparison is then made of the ranks of all jobs, within factors, given by each of the two methods (ranking, and pay apportioning). If there is agreement for a particular job, it is designated a "key job" and serves as an observation to be later used for slotting non-key jobs into the compensation structure. Once all of the factors in the key jobs have been "priced," the non-key jobs (primarily internal labor market) are compared factor by factor with key jobs to determine where they should be slotted and what wage rate for each factor should be extrapolated from their slot position. The entire process relies primarily on the judgment of evaluators, who are presumed to be familiar with the jobs in question or to have been made familiar with them through job analysis results. Point Methods Point methods also define a set of compensable factors, frequently

similar to those listed above for factor comparison methods. Each factor, however, is initially weighted with respect to its judged value or contribution to the organization. Each factor is used as a rating scale, divided into a number of levels or "degrees." Each degree is typically defined or "anchored" by a description enabling a job evaluator to match the relevant job content information with a particular degree on the rating scale. For each degree, within each factor, a certain number of "points" are defined. Normally, points for a given degree on a given factor are proportional to that factor's weight, simplifying the arithmetic calculations needed to arrive at a total point value for each job [1, p.5].

#### 4. Employee evaluation and motivation

Salary administration is a vital part of management. Far more output can be obtained from employees who know that their salaries not only reflect the relative value of their jobs within the company, but also are competitive in relation to current market rates outside. By establishing the values of both jobs and employees, and treating them like any other valuable company asset, management will be able to budget more effectively and operate more profitably. The remuneration of staff goes beyond simply salary into the fields of bonus, bonus allowances and 'fringe' benefits, all of which influence the pattern of payment. Hereby the span of the subject as we want to treat it here is pretty much established. Employee evaluation is formal assessment of an employee's performance in his or her job, as measured by certain objective indicators (e.g. sales figures, absenteeism) or by more subjective rating procedures. The employee may be evaluated in absolute terms or by comparison with others doing similar work, as in the paired comparison method. The results are usually presented to the employee as part of his or her performance appraisal [2].

The schematic below is an example of the outcome from the technique. It shows (in blue) the key dimensions of a job compared against the evaluated attributes (in red) of a suitable candidate. It is immediately apparent where the strengths and weaknesses of the candidate are, in relation to this one position. Actions and decisions can then be taken in respect of the strengths and weaknesses [3, p.11].

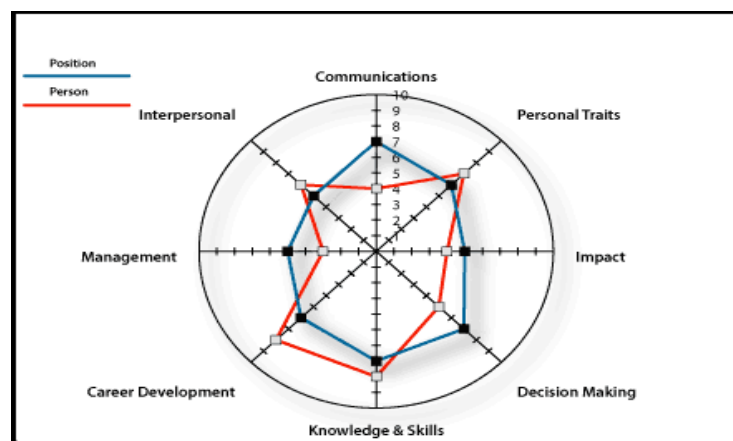


Fig. 1. Position Profile Analysis

##### 4.1. Identification

The organization must determine for each job family the skills and behaviors that are necessary to achieve effective performance. The organization should identify dimensions, which are broad aspects of performance. For instance, "quality of work" is a dimension required in many jobs. To determine which dimensions are important to job performance, the organization should rely on an accurate and up-to-date job analysis. Job descriptions written from job analyses should offer a detailed and valid picture of which job behaviors are necessary for successful performance.

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rating procedures. The employee may be evaluated in absolute terms or by comparison with others doing similar work, as in the paired comparison method. The results are usually presented to the employee as part of his or her performance appraisal [4, p.30].

In the identification stage, the company must also choose who will rate employee performance. Supervisors, peers, and the employees themselves may provide performance ratings. In most instances, performance appraisals are the responsibility of the immediate supervisor of an employee. Supervisors rate performance because they are usually the ones most familiar with the employee's work. Additionally, appraisals serve as management tools for supervisors, giving them a means to direct and monitor employee behavior. Indeed, if supervisors are not allowed to make the appraisals, their authority and control over their subordinates could be diminished.

While supervisory ratings can be quite valuable, some companies have added peer appraisals to replace or supplement those given by the supervisor. Naturally, peers and supervisors each view an individual's performance from different perspectives. Supervisors usually possess greater information about job requirements and performance outcomes. On the other hand, peers often see a different, more realistic view of the employee's job performance because people often behave differently when the boss is present. Using peer ratings to supplement supervisory ratings may thus help to develop a consensus about an individual's performance. It may also help eliminate biases and lead to greater employee acceptance of appraisal systems [5, p.21].

Potential problems may limit the usefulness of peer ratings, however, especially if they are used in lieu of supervisory ratings. First, the company must consider the nature of its reward system. If the system is highly competitive, peers may perceive a conflict of interest. High ratings given to a peer may be perceived as harming an individual's own chances for advancement. Second, friendships may influence peer ratings. A peer may fear that low ratings given to a colleague will harm their friendship or hurt the cohesiveness of the work group. On the other hand, some peer ratings may be influenced by a dislike for the employee being rated.

Some organizations use self-ratings to supplement supervisory ratings. As one might expect, self-ratings are generally more favorable than those made by supervisors and peers and therefore may not be effective as an evaluative tool. However, self-ratings may be used for employee development. Their use may uncover areas of subordinate-supervisor disagreement, encourage employees to reflect on their strengths and weaknesses, lead to more constructive appraisal interviews, and make employees more receptive to suggestions [6, p.90].

## **4.2. Measurement**

Once the appropriate performance dimensions have been established for jobs, the organization must determine how best to measure the performance of employees. This raises the critical issue of which rating form to use. In the vast majority of organizations, managers rate employee job performance on a standardized form. A variety of forms exist, but they are not equally effective. To be effective, the form must be relevant and the rating standards must be clear. Relevance refers to the degree to which the rating form includes necessary information, that is, information that indicates the level or merit of a person's job performance. To be relevant, the form must include all the pertinent criteria for evaluating performance and exclude criteria that are irrelevant to job performance [7, p.43].

The omission of pertinent performance criteria is referred to as criterion deficiency. For example, an appraisal form that rates the performance of police officers solely on the basis of the number of arrests made is deficient because it fails to include other aspects of job performance, such as conviction record, court performance, number of commendations, and so on. Such a deficient form may steer employee behavior away from organizational goals; imagine if police officers focused only on arrests and neglected their other important duties [8, p.13].

When irrelevant criteria are included on the rating form, criterion contamination occurs, causing employees to be unfairly evaluated on factors that are irrelevant to the job. For example, criterion

contamination would occur if an auto mechanic were evaluated on the basis of personal cleanliness, despite the fact that this characteristic has nothing to do with effective job performance. Performance standards indicate the level of performance an employee is expected to achieve. Such standards should be clearly defined so that employees know exactly what the company expects of them. For instance, the standard "load a truck within one hour" is much clearer than "work quickly." Not only does the use of clear performance standards help direct employee behavior, it also helps supervisors provide more accurate ratings; two supervisors may disagree on what the term "quickly" means, but both attribute the same meaning to "one hour".

To meet the standards described in the previous section, a firm must use an effective rating form. The form provides the basis for the appraisal, indicating the aspects or dimensions of performance that are to be evaluated and the rating scale for judging that performance. Human Resources (HR) experts have developed a variety of instruments for appraising performance. A description of the most commonly used instruments, along with their strengths and weaknesses, is given in the following paragraphs. A summary of these instruments appears in Exhibit 1. It should be noted, however, that companies can create additional types of instruments. For instance, they can rate employees on job task performance using graphic or behavior rating scales.

### **4.3. Accuracy of the ratings**

Accurate ratings reflect the employees' actual job performance levels. Employment decisions that are based on inaccurate ratings are not valid and would thus be difficult to justify if legally challenged. Moreover, employees tend to lose their trust in the system when ratings do not accurately reflect their performance levels, and this causes morale and turnover problems. Unfortunately, accurate ratings seem to be rare. Inaccuracy is most often attributable to the presence of rater errors, such as leniency, severity, central tendency, halo, and recency errors. These rating errors occur because of problems with human judgment. Typically, raters do not consciously choose to make these errors, and they may not even recognize when they do make them [9, p.10; 10, p.140-210].

Severity error occurs when individuals are given ratings that are lower than actual performance warrants. Severe ratings may be assigned out of a dislike for an individual, perhaps due to personal bias. A male appraiser may, for example, underrate a highly-performing female employee because she threatens his self-esteem; a disabled employee may receive an unduly low rating because the employee's presence makes the appraiser feel embarrassed and tense; or an appraiser may provide harsh ratings to minorities out of a fear and distrust of people with different nationalities or skin color. Alternately, a severe rating may be due to the very high standards of a rater, or to "send a message" to motivate employees to improve.

When raters make leniency and severity errors, a firm is unable to provide its employees with useful feedback regarding their performance. An employee who receives a lenient rating may be lulled into thinking that performance improvement is unnecessary. Severity errors, on the other hand, can create morale and motivation problems and possibly lead to discrimination lawsuits.

Central tendency error occurs when appraisers purposely avoid giving extreme ratings even when such ratings are warranted. For example, when rating subordinates on a scale that ranges from one to five, an appraiser would avoid giving any ones or fives. When this error occurs, all employees end up being rated as average or near average, and the employer is thus unable to discern who its best and worst performers are. Central tendency error is likely the result of administrative procedures. That is, it frequently occurs when an organization requires appraisers to provide extensive documentation to support extreme ratings. The extra paperwork often discourages appraisers from assigning high or low ratings. Central tendency errors also occur when the end points of the rating scale are unrealistically defined (e.g., a 5 effectively means "the employee can walk on water" and a 1 means "the employee would drown in a puddle").

Appraisals are also subject to the halo effect, which occurs when an appraiser's overall impression of

an employee is based on a particular characteristic, such as intelligence or appearance. When rating each aspect of an employee's work, the rater may be unduly influenced by his or her overall impression. For example, a rater who is impressed by an employee's intelligence may overlook some deficiencies and give that employee all fives on a one-to-five scale; an employee perceived to be of average intelligence may be given all threes. The halo effect acts as a barrier to accurate appraisals because those guilty of it fail to identify the specific strengths and weaknesses of their employees. It occurs most often when the rating standards are vague and the rater fails to conscientiously complete the rating form. For instance, the rater may simply go down the form checking all fives or all threes.

Most organizations require that employee performance be assessed once a year. When rating an employee on a particular characteristic, a rater may be unable to recall all of the employee's pertinent job behaviors that took place during that rating period. The failure to recall such information is called memory decay. The usual consequence of memory decay is the occurrence of error; that is, ratings are heavily influenced by recent events that are more easily remembered. Ratings that unduly reflect recent events can present a false picture of the individual's job performance during the entire rating period. For instance, the employee may have received a poor rating because he or she performed poorly during the most recent month, despite an excellent performance during the preceding eleven months.

## **5. Personnel assessment**

By Robert M. Guion, and Scott Highhouse in their book “Essentials of Personnel Assessment and Selection” discuss the essentials that managers and other well-educated people should know about the assessment processes so widely used in contemporary society and so widely not understood. It emphasizes that good prediction requires well-formed hypotheses about personal characteristics that may be related to valued behavior at work and the need for developing a theory of the attribute one hypothesizes as a predictor – a thought process too often missing from work on selection procedures. In addition, it explores such topics as team-member selection, situational judgment tests, non-traditional tests, individual assessment, and testing for diversity. The goal is to produce an accessible guide to assessment that covers basic and advanced concepts in a straight-forward, readable style. It provides a review of the most relevant statistical concepts and modern selection practices that will equip the reader with the tools needed to be competent consumers of assessment procedures and practices, and to be well-informed about the kinds of questions to be answered in evaluating them [11, p.234].

Personnel assessment refers to any method of collecting information on individuals for the purpose of making a selection decision. Selection decisions include, but are not limited to, hiring, placement, promotion, referral, retention, and entry into programs leading to advancement (e.g., apprenticeship, training, career development). Selecting qualified applicants is a critical step in building a talented and committed workforce, supporting an effective organizational culture, and enhancing the overall performance of the agency. While many applicants may apply for any particular position, quantity does not guarantee quality. Assessment procedures can be a cost-effective tool in narrowing down large applicant pools. Assessment tools can also make the selection decision process more efficient because less time and fewer resources are expended dealing with applicants whose qualifications do not match what is needed by the agency.

Effective personnel assessment involves a systematic approach towards gathering information about applicants' job qualifications.

Factors contributing to successful job performance (e.g., oral communication, problem solving) are identified using a process called job analysis. Job analysis identifies the duties performed on the job and the competencies needed for effective job performance.

Basing personnel assessment closely on job analysis results makes the connection between job requirements and personnel assessment tools more transparent, thereby improving the perceived fairness of the assessment process.

## **5.1. Management by objectives**

Management by objectives (MBO) is a management system designed to achieve organizational effectiveness by steering each employee's behavior toward the organization's mission. MBO is often used in place of traditional performance appraisals. The MBO process includes goal setting, planning, and evaluation. Goal setting starts at the top of the organization with the establishment of the organization's mission statement and strategic goals. The goal-setting process then cascades down through the organizational hierarchy to the level of the individual employee. An individual's goals should represent outcomes that, if achieved, would most contribute to the attainment of the organization's strategic goals. In most instances, individual goals are mutually set by employees and their supervisors, at which time they also set specific performance standards and determine how goal attainment will be measured.

As they plan, employees and supervisors work together to identify potential obstacles to reaching goals and devise strategies to overcome these obstacles. The two parties periodically meet to discuss the employee's progress to date and to identify any changes in goals necessitated by organizational circumstances. In the evaluation phase, the employee's success at meeting goals is evaluated against the agreed-on performance standards. The final evaluation, occurring annually in most cases, serves as a measure of the employee's performance effectiveness.

MBO is widely practiced throughout the United States. The research evaluating its effectiveness as a performance appraisal tool has been quite favorable. These findings suggest that the MBO improves job performance by monitoring and directing behavior; that is, it serves as an effective feedback device, and it lets people know what is expected of them so that they can spend their time and energy in ways that maximize the attainment of important organizational objectives. Research further suggests that employees perform best when goals are specific and challenging, when workers are provided with feedback on goal attainment, and when they are rewarded for accomplishing the goal.

## **6. Conclusions**

Subsequently it seems sensible to summarize which requirements must be met by a system of achievement reward here.

1. The task determinations – the fulfillment of which is coupled to an extra reward – should be: thoroughly researched into their relevance for the company or institution concerned; thoroughly researched into their feasibility; made known to all concerned with clear documentation of requirements, goals and instructions beforehand.
2. The measure in which the setting of tasks are fulfilled should be: determined objectively as much as possible; truly at the influence of the position holders concerned within the circumstances for which the setting of tasks are valid.
3. The system of achievement reward should express a collective importance of the company or institution and the rewarded. This also means that, in the case of possible deficiencies and/or side effects of the system, neither of the parties is stimulated in a direction leading to conflicting interests.
4. The system should allocate a reasonable extra reward for a reasonable extra achievement on a longer or shorter term. Provisions should be built in to counteract inflation tendencies.
5. As long as someone is holding a position he or she should receive a base wage or salary. The different base or position wages should display the required qualitative achievement levels in such a way that the sense of fairness of those concerned is satisfied. Achievement reward should not be used as a compensation for shortcomings in the base or position wages.
6. The system should be sufficiently straightforward so that everyone concerned can understand it. Before the system is implemented all concerned should see and understand the intentions and the functioning of it. Those concerned in this case are both those that will receive their achievement

reward by the system, as well as those that must exercise the system (such as the managers).

7. The application of the principle “reward according to achievement” should not be limited to some level or group within the company. It should in principle hold for everyone or nobody and should not include discrimination (as still too often between the workers and not the managers). This does not mean that the system of reward achievement should be the same for all groups. This would neither be possible, or pragmatic. It must be well thought out in which measure individual and/or in groups reward linking are implemented and exercised.

8. The costs of setting up, implementing, maintaining and administration should be in reasonable proportion to the expected direct and indirect benefits.

9. The payments should be accompanied with a clear and for those concerned controllable documentation showing the manner in which the extra reward was calculated.

10. The reward system should be established and guaranteed for at least one year. It is essential to consult desired alterations with all those concerned well on time. This is an absolute requirement for the creation and maintaining of the for co-operation essential trust.

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## **Summary**

In this article a first oversight of the creation and the background of the problem of assessment and reward are given. An author gives also an insight into the necessity and possibilities to arrive at a genuine differentiated assessment and reward because of its strong influence on employee motivation.

**Key words:** employee evaluation; personnel assessment; strategy; salary; reward; test; rating scale; motivation; qualification.

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