

THE IMPORTANCE OF DEVELOPING PERFORMANCE APPRAISAL SYSTEMS IN ROMANIAN SMALL ENTREPRISES

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Abstract:

The paper is focused on issues and opportunities of performance appraisal system which must be taken into consideration by the Romanian managers in order to obtain efficiency and satisfaction of their employees.

Performance appraisals process has three important objectives:

- To encourage good performance, and to correct and discourage substandard performance
- To provide a foundation for future human resources decisions
- To provide a basis for the employee's training and future development

Performance appraisal systems begin with a job analysis to identify important performance characteristics and standards. Appraisals are often tied to rewards and pay, placement and promotion, and training and development.

Performance measures must be well-defined and job-related to attain acceptable levels of reliability and validity. The establishment of agreed-upon performance standards between employees and managers is crucial to the appraisal process.

Care must be taken to reach a consensus on the expectations of both parties before implementing the measures for evaluating worker performance.

JEL Classification numbers: O15 - Human Resources; Human Development; Income Distribution; Migration.

Key words: Performance appraisal, agreed-upon performance standards, rewards, needs, satisfaction .

Acknowledgments:

The original idea of this paper has grown when the National Council of Romanian SME's, Survey's Department, was published the results of an survey on 112 organizations, regarding the stadium of implementing advanced human resources techniques in their developing strategy.

The conclusions and the recommendation of this paper are focused on the most important objectives of performance appraisal process, the need and the way of implementing in Romanian SME.

After 17 years, the managers of Romanian SME still do not understand the importance of implementing performance appraisal systems in their organizations.

The results of a survey done by the National Council of Romanian SME's, Survey's Department in 2006, among SME's Romanian managers' shows that in 70% of these organizations the reward systems are not really connected with the performance appraisal, and the real needs of employees are not seriously considered.

In what regards the interest displayed by managers for a balanced approach in assessing the performances and the social problems that employees may have, the

study shows that only in less than a third (28%) of the companies surveyed such activities are performed.

The results of the survey also indicate the fact that still, 41% of the respondents are aware that both financial and spiritual stimuli are important, and in 28% of the companies there are great differences with respect to the way the performances of the employees are rewarded.

The obstacles of change

The change in organizations is a challenge in itself. It is hard to quantify how quickly an organization can change, but it is clear that the speed in adjusting to the changes in the external environment offers it a long-term competitive advantage. To this also adds the capacity to anticipate or create tendencies in the environment. The change is managed by the leaders of the organization, but it does not become real if the employees do not assume its objectives. Many times, this means a change in mentality. The longer the history of the company is, the more difficult it becomes to take such a challenge. If you have done things in a certain way for 20 years, it is hard to start doing them differently. The educational management experts have come to the conclusion that it takes between 2 and 6 years for a company to change its culture.

At the level of managers, one of the obstacles is that many of them still can not separate their executive role from the strategic one they would need in order to support change. There is also a vicious circle sometimes. And that happens because there are organizations where the structure forces managers to act as executants, not as managers. From the point of view of the employees, the main obstacle is connected to their mentality and laziness. Very often employees assume a passive position in what change is concerned – “It’s the job of managers to change something.” The phenomenon does not appear from the very beginning and it is not completely devoid of logical explanations. We are used to operate with routine. Routine make us confident and comfortable, because when we do what we have done so well time and time before, we feel good. The problem appears when you do not realize that some things around you have changed and what was well done in the past becomes completely insignificant today. This is what happens when employees are not really concerned with the effects of their work on the people they work with and on the people they work for. Psychologically speaking, this means stagnation at the level of the individual, who refuses to learn, to develop. Of course, there are other causes that belong to the systems in the organization, but because we are talking about human resources, I chose to refer only to these aspects.

Also, from the point of view of the employee, the challenges are connected to their ability of facing the changes in the organizational environment, which many times require a significant effort, without moments of relaxation. There would be more things to add here, but they are all related to mentality and poor organizational education.

For instance, a significant challenge today is the incapacity of certain employees to understand which the mechanisms of the company where they work are, what puts it into motion and which the decisional factors are. On the other hand, there is their incapacity to regard and perceive themselves as real resources. When this phenomenon is generalized, the organization faces real obstacles in its development. The main cause is the way in which the organization understands to give feedback with respect to the performance and behavior of the employees against the required standards. It is also true that the employees are not used to demanding feedback, even when it completely misses and does not seem to be encouraged by the organizational

practices. This results in the lack of self confidence that employees display, and on the long run it leads to the lack of self awareness. To regard yourself as a resource means to be aware of the fact that, in the organizational space, any effort to be more productive or to work in a more intelligent manner is first of all an investment in yourself and then in the organization. And that is because your personal value grows in direct proportion with the abilities, knowledge and innovative capacity. Permanently going beyond your limits, you widen your knowledge horizon and you learn new things about yourself. And equally important, these abilities become sources of differentiation for the organization, or in other words, sources of competitive advantage.

On the Romanian market, we can talk about really gifted employees, people who, with the support of their own values or the support of the organization to which they belong, add value to everything they do. It is about people who know their own abilities very well and who have the right attitude. These people are the ones that employers compete for, and the ones that impose a change in the human resources management approach. Employers of this kind need special motivational programs, and when I say motivation I do not think only of financial motivation, I also think of professional challenges without which they could not survive within the organization. Actually, the value of such people resides in two aspects: one has to do with reasoning (their professional preparation) and the other one has to do with emotion (the passion, the energy and the inspiration with which they work). Their main purpose is not money. They are people of high values who believe unconditionally in the significance of what they do. They are the kind of employees who often accept worse-paid jobs if they offer them challenges where they can value their abilities, their knowledge or where they have the opportunity to learn new things. Unfortunately, many times organizations do not know how to take advantage of the emotional energy of such employees, even though they claim to appreciate their innovative spirit and their talent. Likewise, there are also employees who in spite of coming in the organization with a lot of energy and promising potential, end up not fulfilling the initial promise because the organization does not sustain their efforts. This may have many negative consequences: the employees lose their integrity because they do not have enough power to fight against the inertia of the system, and as they do not want to resign they accumulate frustrations about the organization. The most common result of this is the lack of interest from the part of the employee to sustain the objectives of the organization.

Suggestion for implementing an efficiently performance appraisal system:

Performance appraisal systems have several purposes. Appraisals are often tied to rewards and pay, placement and promotion, and training and development. A system of appraising worker performance can also assist in human resources planning and job definition.

Furthermore, performance appraisals have three important objectives:

- To encourage good performance, and to correct and discourage substandard performance
- To provide a foundation for future human resources decisions
- To provide a basis for the employee's training and future development

There are also important criteria for designing performance appraisal systems which include (American Compensation Association, Individual Perf. Mgmt., p. 2.15, 1992):

- Standards for performance appraisals should be based on an analysis of job requirements. (Records of job analyses should be maintained by the entity.)
- Performance standards must be communicated to employees in advance of performance appraisal.
- Employees should be evaluated on specific dimensions of job performance rather than on a single, global, or overall measure.
- Performance should then be documented and recorded on an appraisal form.
- Appraisers should be trained to administer performance appraisals.
- Appraisers' ratings and decisions should be audited.
- Human resources decisions should be consistent with appraisals.
- A formal appeal process should be established.

Performance appraisal systems begin with a job analysis to identify important performance characteristics and standards.

Job dimensions are the essential characteristics an employee must fulfill to perform a job well. Job dimensions differ from job duties. For example, the job duties of a receptionist might be to answer the phone and take messages. The related job dimension would be customer service.

Performance measures must be well-defined and job-related to attain acceptable levels of reliability and validity. Performance measures must be documented and discussed with employees.

Evaluators often make one of five mistakes when rating performance:

- Rating an employee based on how much they like or dislike him or her
- Rating everyone at one level, e.g., high, medium, or low
- Rating an employee at the same level on each job dimension
- Letting the rating form and reference materials make the judgment instead of taking the time to make actual observations and translate them to the Appraisal form
- Letting recent performance influence ratings ("halo/horns" effect)

In the conventional performance appraisal or review process, the manager annually writes his opinions of the performance of a reporting staff member on a document supplied by the HR department. In some organizations, the staff member is asked to fill out a self-review to share with the supervisor. Most of the time, the appraisal reflects what the manager can remember; this is usually the most recent events. Almost always, the appraisal is based on opinions as real performance measurement takes time and follow-up to do well. The documents in use in many organizations also ask the supervisor to make judgments based on concepts and words such as "excellent performance," "exhibits enthusiasm," and "achievement oriented."

Performance appraisals are formal systems that provide feedback to employees. Good feedback should follow as closely as possible on an action, should be specific rather than general, and should be limited to actions that pertain to an employee's responsibilities and fall within an employee's control.

Many managers are uncomfortable in the role of judge, so uncomfortable, in fact, that performance appraisals are often months overdue. The HR professional, who manages the appraisal system, finds his most important roles are to develop the form and maintain an employee official file, notify supervisors of due dates. Despite the fact that annual raises are often tied to the performance evaluation, managers avoid doing them as long as possible. This results in an unmotivated employee who feels his manager doesn't care about him enough to facilitate his annual raise.

Why is this established process so painful for all participants? The manager is uncomfortable in the judgment seat. He knows he may have to justify his opinions with specific examples when the staff member asks. He lacks skill in providing feedback and often provokes a defensive response from the employee, who may justifiably feel he is under attack. Consequently, managers avoid giving honest feedback which defeats the purpose of the review.

In turn, the staff member whose performance is under review often becomes defensive. Whenever his performance is rated as less than the best, or less than the level at which he personally perceives his contribution, the manager is viewed as punitive. Disagreement about contribution and performance ratings can create a conflict ridden situation that festers for months. Most managers avoid conflict that will undermine work place harmony. In today's team-oriented work environment, it is also difficult to ask people who work as colleagues, and sometimes even friends, to take on the role of judge and defendant.

The manager must be able to facilitate the exchange of information between the entity and the individual. Performance appraisers who are trained to recognize effective and ineffective performance and are aware of possible system problems will provide more reliable ratings than untrained appraisers. Training helps appraisers develop a common frame of reference for evaluating performance.

A performance management system starts with how a position is defined and ends when you have determined why an excellent employee left your organization for another opportunity.

Within such a system, feedback to each staff member occurs regularly. Individual performance objectives are measurable and based on prioritized goals that support the accomplishment of the overall goals of the total organization. The vibrancy and performance of the organization is ensured because it focus on developmental plans and opportunities for each staff member.

Performance standards must be communicated to employees in advance of performance appraisal. Employees are more receptive to a performance appraisal system when open communication and discussion of the system occur between managers and employees. Information about the appraisal process should be presented in a format that allows employees to feel actively involved in the process. Communication about the performance appraisal system should demonstrate the value of the system to the employee. Communication of the system should include written documentation. Training on the performance appraisal system should include the mechanics of the system and the skills needed to operate the system.

The establishment of agreed-upon performance standards between employees and managers is crucial to the appraisal process. Care must be taken to reach a consensus on the expectations of both parties before implementing the measures for evaluating worker performance.

In a performance management system, feedback remains integral to successful practice. The feedback, however, is a discussion. Both the staff person and his manager have an equivalent opportunity to bring information to the dialogue. Feedback is often obtained from peers, direct reporting staff, and customers to enhance mutual understanding of an individual's contribution and developmental needs. (This is commonly known as 360 degree feedback). The developmental plan establishes the organization's commitment to help each person continue to expand his knowledge and skills. This is the foundation upon which a continuously improving organization builds.

Policies and procedures for the appraisal system must be written either in policy format or in a manual. Performance should be documented and recorded on an appraisal form. Evaluation criteria should be clearly stated. Evaluations should include supporting documentation and evidence of feedback. The appraisal system should allow for a response from the employee verifying that the results of the appraisal have been communicated to him or her.

Leading the adoption and implementation of a performance management system is a wonderful opportunity for the HR professional. It challenges the creativity, improves the ability to influence, and allows fostering real change in the organization.

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