

Does Performance Evaluation Matter? An Explanation from A Literature Study

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Abstract. Performance evaluation aims to improve human resources to accelerate the achievement of organizational goals. This systematic review identifies individual performance evaluation indicators and builds a reliable information system based on errors in evaluating performance. This research is qualitative. This research uses secondary data using a literature study approach. A systematic literature search was conducted for peer-reviewed articles published from 1991 to 2022 that discussed performance evaluation. Bibliographical databases include Science Direct, Emerald, JSTOR, and Osiris. Articles must identify individual performance appraisal factors and errors in performance evaluation. The results identify that the organization carries out performance evaluations aimed at reviewing individual performance to determine each individual's potential so that it can be adjusted to the organization's reward and punishment standards. However, several individual performance appraisal factors and errors in a performance evaluation that have important implications for practice are caused by the halo effect, horns effect, central tendency, and strictness and leniency. This study has several limitations because this review covers a range of performance evaluation topics, ignoring many other papers that could provide meaningful insights. Further research can expand the topic of discussion related to performance evaluation indicators, especially in Indonesia. In addition, this review explicitly discusses performance evaluation in the private sector. Further research can specifically discuss public sector performance evaluation so that it has an impact on improving public sector performance and encouraging Good Corporate Governance (GCG).

Keywords: Performance Evaluation, Errors in Performance Evaluation, Literature Study

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Introduction

Performance Evaluation is a very important issue in almost all lines of the organization, both business and government entities (public and private sectors). Companies implement performance measurement systems to communicate their strategies to various stakeholders (Ittner et al., 2003). Performance evaluation systems provide useful information for managers and employees to help them determine actions that are beneficial to the company (Otley, 1999).

Performance appraisal is a form of corporate responsibility in carrying out business activities, with performance appraisal the company can determine attitudes and take the best steps in implementing existing policies and rules (Kasmir, 2017).

Performance appraisal is very important for the company. Performance appraisal is not only a means of conveying information related to the realization of programs targeted by the company but also can motivate employees to develop a plan that aims to improve performance towards a better one. Performance appraisal will help the company see the strengths and weaknesses of the company and help the company determine salaries and promotions (Kasmir, 2017; Musa, 2013; Rivai and Sagala, 2009).

The use of performance evaluation systems plays an important role in clarifying roles, performance, and psychological empowerment of company employees (Yuliansyah & Khan, 2015). The performance evaluation system will also improve employees' cognition of tasks and goals, and intrinsically motivate them by creating habits, promoting a comfortable work environment and healthy work competition (Yuliansyah, et al, 2016)

Every organization is competing to create the best performance evaluation system that best suits the needs of the organization. Measuring the performance of profit-oriented business organizations is of course very different from government organizations or other non-profit organizations that are oriented towards community satisfaction and achievement of organizational goals. Yuliansyah, et al., (2017) and Widarjo, W. (2018) state that a performance measurement system must be designed together with a business strategy to obtain superior performance.

Various methods of performance appraisal have emerged as an answer to organizational needs in evaluating employee performance, which is a company's valuable asset (human capital) that must be managed properly (Keong Choong, 2013). An

effective performance measurement system, according to Waterhouse and Svendsen (1998), must be made with human learning in mind. Managers and workers must be able to use the information provided by performance measurement systems to gain insight into the relationship between their efforts and company profits. This will enable them to test the validity of the basic assumptions of the system and implement the necessary changes to increase the company's profits (Argyris, 1994).

Errors in performance measurement will not only reduce employee motivation (especially those who excel), but will also have an impact on the low performance of individual achievers within the company. Furthermore, this impact will then be reflected in the company's declining performance, both financially and non-financially (Yuliansyah, et al., 2017).

In addition, the inaccuracy of performance measurement can cause damage to the work environment climate, where employees feel that their performance appraisal is done unfairly. So that the relationship between employees and appraisers (bosses) will become unhealthy and affect the condition of the team (Yuliansyah & Khan, 2015; Yuliansyah, et al, 2016).

Human resources are assets owned by the company as the creators of ideas, ideas, and driving systems that exist in the company. No matter how sophisticated the technology and information systems the company has, without the presence of qualified employees or human resources, no one can operate it. In addition, technological sophistication will not replace the role of humans in providing ideas and innovations as well as making the best decisions for the company. Thus, human resources have a very important role for the survival of the company (Rivai and Sagala, 2009).

Performance is the ability that a person has in working and completing the tasks and responsibilities of the company. Poor ability and understanding of work will result in poor performance, which in turn will have an impact on poor company performance. Therefore, it is very important to conduct performance appraisals on employees so employees will receive evaluation feedback and continuous changes, so the company's performance is maintained well (Mathis & Jackson, 2005; Sedarmayanti. 2011).

Performance evaluation generates feedback on performance goals and objectives, the process of planning and implementing performance that can be carried out by management through a process of assessing, reviewing, and measuring performance that can be taken to improve performance in the coming

period (Nursam, 2017; Wirawan, 2015). Performance appraisal is expected not only to focus on evaluating employee performance, but to focus on developing and growing employee motivation, as well as assessing the role of managerial performance in making strategies in dealing with competition. The role of performance evaluation is directly proportional to the performance that will be produced by employees who are influenced by management performance, if management performance is good, it will produce good output for the company, conversely if management performance is not good, it will affect employee performance and lead to not achieving its goals that have been set (Wirawan, 2015; Sedarmayanti, 2011).

Using literature review, our research tries to contribute to performance evaluation literature by suggesting different perspective about the importance of performance evaluation and how to build the reliable system in organization. Our Research will focus on three aspects. First, what is the Purpose of Performance Evaluation. Second, How to Build a Reliable Performance Appraisal System. The last is Factors Causing Performance Measurement Error.

Research Method

Data Sources and Search Strategy

This is qualitative research. Our research uses secondary data by digging up references using a literature study approach. A systematic literature search was conducted from February 1 to March 30, 2023, retrieving peer-reviewed articles published from 1991 to 2022. We used the Google Scholar and Publish or Perish apps to find articles and organize them to build an argument. Bibliographical databases include Science Direct, Emerald, JSTOR, and Osiris. Search terms include performance evaluation, individual performance appraisal, rewards and punishments, Reliable Performance Evaluation System, performance evaluation indicators, and Performance Measurement Error.

Selection Criteria

Papers included must have been peer-reviewed, published in a reputable journal, published between 1991-2022, addressing the topic of performance evaluation. Papers should identify related individual performance appraisals, performance indicator evaluations, and Performance Measurement Errors

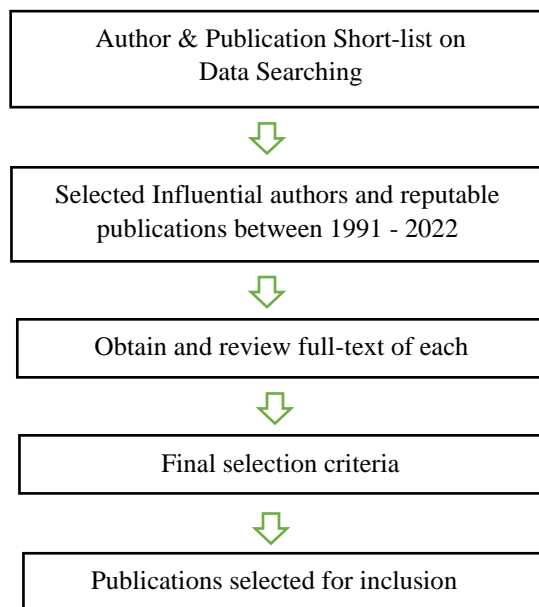


Fig. 1. Selection Data Sources

Result and Discussion

Performance Evaluation Purposes

Performance evaluation system will bring major changes to the organization (Nudurupati et al., 2011). Every organization is competing to create the best performance measurement system that best suits the needs of the organization. Performance measurement systems provide useful information for managers and employees to help them determine actions that are beneficial to the company (Otley, 1999). The company's performance measurement system consists of aspects of individual performance measures (Neely et al., 2005). Individual performance measures can be categorized based on the balanced scorecard (Kaplan & Norton, 1992) and the outcome and determinant framework (Fitzgerald et al., 1991). Individual performance appraisal by companies has at least three main objectives.

1. Performance Reviews

The company can compare the targets set at the beginning of the period and the actual achievements at the end of the period (ex 1 year). Furthermore, individual performance reviews will reflect changes in company value. The importance of submitting the results of the performance appraisal by the appraiser will be feedback on the performance of employees in the company. So that

individuals can improve their performance in the next period and companies can mitigate this risk by preventing the same risk from recurring with certain strategies. When individuals fail to achieve the set targets, of course, this will be a record for the company. What factors are the cause of failure for not achieving the target? Internal or external? Can the individual mitigate the same risk in the next period? Individuals need to get feedback from the company related to their performance which is conveyed through the appraiser (superior) to then become the basis for individuals and superiors in setting performance targets for the next period.

2. Potential Reviews

Companies can find out the qualifications and potential of their human resources to then develop the right strategy for the development of these individuals. Everyone certainly has different potential. Companies can start preparing special programs for employees and group them according to the company's work needs. This includes promotion opportunities, job rotation and location relocation (ex from branch to headquarters). The earlier the company knows the potential of this individual, the better it will be for the company to be able to manage quality human resources and retain them for the needs of the company. Individuals who know that the company has a career development plan for him and according to the plan he has (or he agrees with the company's plan) will consider himself valuable and try to give his best performance to achieve the plan owned by the company.

3. Rewards and Punishment Reviews

Companies can show appreciation for the performance of employees who have succeeded in achieving or even far exceeding the performance targets set by the company. The main goal is to be able to motivate employees to be able to contribute even better to the future. Generally, companies will provide monetary and non-monetary rewards, for example bonuses, incentives, salary increases, promotions, educational or training scholarships, or even vacation tickets abroad, including spiritual tours such as umrah to the holy land or visits to places other worship. In addition to rewards, companies can also provide punishment for employees who fail to achieve performance targets that have been set and mutually agreed upon. The aim is as a warning so that employees can improve their performance in the coming period. This form

of punishment can vary, both in monetary and non-monetary forms, such as letters of reprimand, obligations to take part in performance evaluation programs or training, not getting bonuses, eliminating incentives, cutting salaries, decreasing position levels, delaying promotions, moving work locations and so on. even to termination of employment. The performance appraisal purpose is to enhance organizational performance through enhancing performance of Human Resources that the organization has. More specifically, Sunyoto (1999) suggests another purpose of performance appraisal is to.

- a. Increase mutual understanding between employees regarding performance in the team.
- b. Record and acknowledge the work of employees, so that they are motivated to improve performance or at least equal to the performance achievements in the previous period.
- c. Provide opportunities for employees to discuss their desires and aspirations for work and provide understanding of employee career plans in the company.
- d. Define or reformulate future goals that the company expects and employees want, so that employees are motivated to maximize their potential to be able to achieve it.
- e. Examine the employee development plan, including training or training needs that are also agreed upon by the employee.

The Importance of Building a Reliable Performance Evaluation System

To prevent errors in measuring individual performance, companies need to set up a reliable performance measurement system according to organizational needs. In the initial paragraph of the article, it was stated that different types of organizations will require different performance measurements. Setting up indicators in performance measurement is an important part that should not be forgotten.

In the production department, for example, the indicators can be formulated with the success of meeting production needs that have been estimated in a timely manner, the quality of the products produced according to predetermined quality standards, cost efficiency and the level of product defects produced according to the target.

As for the sales department, indicators can be formulated with the successful absorption of products in the consumer market, expanding consumer market share, increasing consumer awareness and engagement with company products, increasing competitiveness compared to competing products, and efficiency in sales and marketing costs.

Furthermore, the human resources department, indicators can be formulated with the success of employees in meeting targets, the level of work violations committed by employees, the number of employees who have very good performance, the number of employees who have successfully passed training or certification, the development of a healthy work environment for the team and low employee turnover rate.

All the indicator instruments above are examples to show that there are differences in the indicators used by companies to measure the performance of their employees according to the department or level of work they have. Of course, the indicators used to measure the performance of managers will be different from the indicators for measuring staff level performance. Furthermore, production department employees will have different performance measurement indicators with sales department employees. Different duties and responsibilities will require different performance measurement indicators.

To build a reliable performance appraisal system, a company or organization needs to consider the performance appraisal methods used, the sources of appraisal information data, the practicality of the appraisal and the performance appraisal process by the appraiser himself. Usually, the issue that often arises is, is the objectivity of the appraiser towards employee performance really based on real performance in the field or is there an element of subjectivity, namely the like and dislike factor of the appraiser on the employee. This needs to be considered carefully by the organization to improve organizational performance in the future. In addition, Silaen, et al (2021) explain several benefits of performance appraisal.

1. Performance Improvements

Workers, supervisors, and HR departments can

benefit from the constructive criticism provided by performance reviews.

2. Compensation Adjustment

Decision makers can use the results of performance reviews as a basis for increasing salaries, giving bonuses, and providing other forms of financial incentives.

3. Placement Decision

Promotions, reassignments, and even terminations can all be based on the results of a performance review.

4. Training and Development Needs

Poor performance is a sign that an employee needs training and development, so it is important for everyone to have the opportunity to grow in their position.

5. Career Development Program

Performance reviews help employers make more informed choices about workers' future jobs.

6. Staffing Process Irregularities

Good or bad results may reflect the effectiveness (or lack thereof) of the company's or organization's employee procurement processes.

7. Information Inaccuracies

Poor performance evaluation can include HR plans, job analysis data, or HR management system.

8. Job Design Errors

Improper performance evaluation can lead to poorly drafted job descriptions.

9. Equal Employment Opportunities

It is possible to implement internal placement decisions without bias if performance evaluations are conducted fairly.

Several factors need to be underlined because they contribute to the significance of performance: Every worker wants the opportunity to improve their skills as much as possible in the workplace; Individuals are motivated to do their best because they expect to be recognized for their efforts; Everyone also wants an unbiased view of what they do.

Factors Causing Performance Measurement Error

Noe, et al. (2014) outlines several potential causes of rater error and barriers to objective performance evaluation.

1. Halo Effects

Whenever an employee makes a favorable impression on their manager or supervisor, they usually receive a shining rating during the performance review. There are many ways to make an impression, such as through one's daily actions, one's work, one's clothing, and so on.

2. Horns Effect

The horns effect, in which reviewers consistently rate employees poorly even when they try to impress them, is the antithesis of this phenomenon.

3. Central Tendency

This problem arises when the evaluator has a bias to give everyone a score somewhere in the middle. Most of the time, this is the result of a careful or incompetent rater who fails to accurately reflect an employee's performance. By not giving a bad grade, the appraiser avoids potential drama. In addition, the rater's lack of familiarity with the subordinate's work prevents him or her from giving an adequate mark.

4. Strictness & Leniency

This bias manifests itself when evaluators tend to consistently rate all employees either very low or very high. Some managers are more generous than others when it comes to monetary compensation. Some managers have a habit of giving everyone on their team a minimum score of 90, even if they don't do a very good job. However, there are managers out there who, despite their team's good form, still give them an 85 score.

5. Similar to Me

Raters exhibit this bias when they are more likely to positively evaluate an employee who has some characteristics in common with the rater, such as ethnicity, gender, religion, race, education, worldview, politics, and so on.

Conclusion

Performance Evaluation is very important for almost all organizations. The better the performance

measurement carried out by the organization, the greater the opportunity for the organization to improve human resources to accelerate the achievement of organizational goals.

To build a reliable performance appraisal system, a company or organization needs to consider the performance appraisal methods used, the sources of appraisal information data, the practicality of the appraisal and the performance appraisal process by the appraiser himself. Usually, the issue that often arises is, is the objectivity of the appraiser towards employee performance really based on real performance in the field or is there an element of subjectivity, namely the like and dislike factor of the appraiser on the employee. This needs to be considered carefully by the organization to improve organizational performance in the future.

Several factors need to be underlined because they contribute to the significance of performance: Every worker wants the opportunity to improve their skills as much as possible in the workplace; Individuals are motivated to do their best because they expect to be recognized for their efforts; Everyone also wants an unbiased view of what they do.

This research has limitations because performance evaluation indicators are not always clearly labeled in papers, so it will increase the risk of miscoding. Design evaluation methodological limitations in some studies make it difficult to associate results with campaign effects. Finally, this review covers a series of performance evaluation topics, ignoring many other papers that can provide meaningful insights. Future research can expand the topic of discussion related to public sector performance evaluation indicators, especially in Indonesia, resulting in increased performance in the public sector and encouraging Good Corporate Governance (GCG).

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