

## **VALUES IN MANAGEMENT: CULTURAL RESTRUCTURE FOR AN EFFECTIVE PERFORMANCE APPRAISAL**

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### **ABSTRACT**

The world of business has changed significantly. Human resources management (HRM) now has become part of the organization's strategic decision making process, where human capital is becoming the core of a firm's ability to achieve superior performance. The competitive edge of an organization exists within the quality of its people. Since literatures have proven that values affect human behaviour, enriching organizational environment and an alignment of individual values with organizational values is important in order to have a long term organization's sustainability. The existing system of beliefs and values that shaped the model for management now is seems to be not effective enough for the current management environment. The purpose of this conceptual paper is to clarify the concept of values in management from the perspective of human resources. This paper discusses the need to primarily shift from an existing system of employees to value based management. This new approach of leadership tool will be discussed from HRM perspective and will be proposed to be improved in the area of performance appraisal. A survey of literatures from relevant fields is carried out to justify the main issue related to the relationship between values and the effective performance appraisal. This paper proposed an integrated conceptual framework of effective performance appraisal by testing values as the mediating effect of values in management in the context of HRM perspective for further empirical work.

Keywords: Values in management, human resources management, effective performance appraisal

## INTRODUCTION

When employees are viewed as strategic and valuable assets and becoming the core of a firm's ability to achieve superior performance, human resources management (HRM) is considered a backbone of an organization (Baruch & Altman, 2002; Schuler & Tarique, 2007). Unlike an old day, HRM takes part in a company strategic planning and effectively contributes to the organization management (Bridle, 2010). In fact, in modern business environment with rapid technological change, tougher competition and changes in the workforce pattern, the role of HRM in some ways is more important now than ever. It has a great impact on organization's performance in a way that perception of HRM practices could influence employees' subsequent attitudes and outcome (Nishii & Wright, 2008).

In strategic HRM approach, employees are considered as critical organizational tool to survive in turbulent business environment. Although there are scholars who argued that monetary reward is not the employees' ultimate goal (Ahmad & Ali, 2004), some other HR scholars did suggest that worker's pay and salary are indeed important in managing people (Perry, 1995; Bartol and Locke, 2000). This is because money could influence workers' motivation and could become an incentive for workers either to stay or quit from their organization (Furnham, 1994). Therefore, it is important for an organization to take care of the workers' income and welfare (Ahmad & Ali, 2004), in which, performance appraisal is always become a reward-related practical tool for employees' motivation. Consequently, it has an important influence on employees' reaction towards their work, their supervisor and their organization as a whole (Jr & McNall, 2010).

Therefore, performance appraisal is considered the most important HRM practices (Cardy and Dobbins, 1994; Selvarajan & Cloninger, 2009; Biron, Farndale, & Paauwe, 2011). Performance appraisal is also increasingly seen as a key part of the strategic approach to management when it is able to explain the linkage between the employee's competencies and behavior with organization's strategic objective (Dusterhoff, Cunningham, & MacGregor, 2013). Furthermore, researchers and practitioners have growingly agreed that the success of performance appraisal process is essential in encouraging employee development and motivation (Kuvaas, 2006; Fletcher 2001) that will lead to employees' performance.

However, despite the prevalence used of performance appraisal, it has been criticized in several areas. Until recent, it has been and still is the most problematic human resource area and the most avoided task by the managers and HR departments (Dessler, 2011). Performance appraisal is criticized as wasting time and causing a destructive effect on managers-subordinates relationship. Study of the relevant literature by Kondrasuk (2011) found 76 common problems of performance appraisal which includes purpose of performance appraisal, persons involve in performance appraisal, performance appraisal measurement as well as the system and the process of performance appraisal. Surprisingly, in some cases, the problems lead to the recommendation of abandon the performance appraisal completely (E. E. Lawler, Benson, & McDermott, 2012).

It has been said that the failure of performance appraisal as a strategic tool to improve employees' motivation is because that this tool has neglected the social aspect of human behavior. While several researchers have suggested that performance appraisal affect employees' behavior and some other researchers have agreed that values affect human behavior, the integration concept of values and performance appraisal into a more humanist approach is seemed to be more effective. Several recent studies of human values has proposed the practising values is an important aspect for building a successful strategy and corporate culture (Talwar, 2009). This is consistent with the study by Oketch (2004) who argues that fostering integrity in the organization while promoting positive engagement in the communities in which company operates is actually the successful strategy for business.

Unpredictably, while performance appraisal is always link to monetary reward, a recent study on new pattern of workforce trend may have diverted the focus of the existing performance appraisal system and support the idea of values integration. According to Kelly Global Workforce Index (KGWI) survey two-third (67%) of Malaysian workers surveyed, responded that they would be prepared to give up higher pay or career growth or advancement for a better work life balance (BERNAMA, 2015). They opined that improving work life balance is important to employees. While in term of working environment, 54% of the respondents agreed that they would be prepared to give up higher pay or career growth or advancement for more flexible work schedule (BERNAMA, 2015).

This change of employees' priorities has created a significant impact to the global workforce pattern especially in Malaysia. This finding is consistent with the increasing research-based evidences that have suggested employees, particularly the knowledge workers, do not consider money as the only important reason to work for a company (Senge et al., 1994). In contrast, they are expecting more exciting and admiring working environment and an alignment of their individual values with organizational values so that the gap between the two values is smaller, consequently, increase their commitment (Finegan, 2000). While Freitas, Jabbour and Santos (2012) has proposed a systematic HRM evolution model which involve social and environment aspect such as quality of life at work and incorporation of environment issues in order to gain organization sustainability, KGWI's result has proven that the relevant demand has already occurred in current human resources trend.

Therefore, it is essential to the HRM team to identify new approach of managing employees' performance since workers are more concerned with values and social approach of management as a factor to increase their job performance. While values has proven to affect behaviour, an extrinsic reward and punishment is no longer become the driving factor to motivate people. Thus, an efficient HRM approach requires an emphasis on social affection and human values in managing people. Systems and beliefs that make up the model of management and organization at the time of the 20th century were less relevant. In fact, previous studies have indicated that achieving the ambitious organizational goals requires a serious thinking on HRM issues as well as an articulation of the role of organizational values at all levels (Torraco & Swanson, 1995; E. E. I. Lawler, Mohrman, & Lawler III, 2000).

Considering the above facts, this paper is to clarify the concept of values in management and suggest how the integration of the new concept of values in management and performance appraisal from the perspective of human resources can be implemented. This paper seeks to examine the importance of values in management particularly in human resource area. The objective of this paper is to obtain the conceptual and theoretical foundation of the importance of values in management and how the roles of values affect the implementation of an effective performance appraisal. This paper will provides an integrated conceptual framework of values in management and an effective performance appraisal in the context of perception of fairness for further empirical work.

This paper is a conceptual focused paper and a review is conducted on key literature of values in management and performance appraisal area. The selected journals and articles have been reviewed based on the relevant concepts from conceptual and research papers. The following sections describe the need of an effective performance appraisal as a strategic human resources tool in an organization.

## **EFFECTIVE PERFORMANCE APPRAISAL**

An effective performance appraisal and management system is an integral part of organization's human resources effectiveness (Guest, 1997). Although performance appraisal is only one contributing micro-process in the macro context, it is central to the effectiveness of the performance management (Piggot-Irvine, 2003). Supporting the idea, Grote (2011) has pointed out that performance appraisal has more influence on individual careers and work lives than any other management process. Performance appraisal can both make a business more efficient and help keep employees motivated. By evaluating people at regular intervals, appraisal helps firm show where their employees excel, where they can improve and how well they have followed the goals set by the firm. While performance appraisal is almost universally accepted, its actual operation is somehow has failed to become an effective managerial tool in managing people.

The processes inherent in the appraisal system and the performance appraisal outcomes themselves can have an important influence on employees' reactions toward their work, their supervisors, and their organization as a whole. While performance appraisal is designed to provide input into a number of HR-related decision and practices such as pay reward, promotion or talent pool decision (Bell, Lee, & Yeung, 2006), several studies have proven that

performance appraisal have a major impact on employee attitude (Brown, Hyatt, & Benson, 2010; Mayer & Davis, 1999) such as job satisfaction, organizational commitment, turnover intentions (Jawahar, 2006), trust for management (Mayer & Davis, 1999) and behavioural outcomes such as individual work performance (Kuvaas, 2008; Thurston & McNall, 2010). The appraisal process can also become a source of frustration and extreme dissatisfaction when employees perceive that the appraisal system is biased, political or irrelevant (Skarlicki & Folger, 1997). Therefore, an effective performance appraisal is a key successor in HRM.

The meaning of effective performance appraisal are varies. Performance appraisal is considered effective when appraisal interactions are non-controlling, non-defensive, supportive, educative and yet confidential that link to the clarity, objectivity and highly integrative information (Piggot-Irvine, 2003). In general, an effective performance appraisal is the system that is accepted and supported by both the managers and employees. The definition of acceptance of performance appraisal system by Lawler (1967) means perceived fairness that linked to employees' confidence (Kavanagh & Brown, 2007). While various authors such as Rankin & Kleiner, 1988; Lawler et al., 2012; Piggot-Irvine, 2003 use different names and modified descriptions to explain the subject for effective performance appraisal, this article adopts the criteria for effective performance appraisal that proposed by Marshall & Wood (2000) as the basis for the proposed conceptual framework.

According to Marshall & Wood (2000) model, there are four constructs to define as most influential context variables on rater judgement and behavior that are potentially to effect performance appraisal. They include management concern, clarity of the defined purpose (s) of appraisal, accountability for the conduct and outcomes of appraisals as well as adequacy of the appraisal instruments for the appraisal task.

i) Management concern

Management concern refers to the scenario when the senior management demonstrated concern on the quality of the appraisal process and the outcomes. It can be in term of personal commitment upon the appraisal process and personal support on the allocation of organizational resources needed in the appraisal. Scrutiny, review and recognition form senior management will also be the evident of management concern towards the appraisal process. Management concern gives major impact to the effectiveness of PA. The managers will be more motivated to evaluate carefully when they believe that their rating outcomes will influence the concern of senior management (Marshall & Wood, 2000). In addition, the demonstration of management concern may reduce the level of political activity that normally associated with PA process and in fact, increase the validity of the process (Gioia & Longenecker, 1994).

ii) Clarity purpose (s) of appraisal

The common purposes of performance appraisal include for administrative decision-making, research for personnel data or for employee feedback and development (Marshall & Wood, 2000). The purposes may vary but the clarity of the stated purpose and the perceived relationship between that purpose and the appraisal process should remain imperative. According to Marshall and Wood (2000), when the purposes of appraisal are not well defined, managers may assume different purposes and adopt different standard, and as an effect, the differences in the interpretation of the purposes of an appraisal may indirectly influence the accuracy of ratings and other outcomes.

iii) Accountability

Accountability is a major concern for managers when conducting appraisal (Longenecker & Gioia, 1988), and it has been shown to influence performance appraisals in several different ways. Accountability in this context is a clear expectation of a manager that someone else will evaluate how he/she conducts appraisal and rate his/her staffs and the others can ask for justification related to the rating. When managers expect to be seriously observed on their conduct of appraisals, they are more likely to reflect on the validity of the system and their perceived capability to rate their staff accurately and to conduct effective appraisals (Marshall & Wood, 2000).

iv) Adequacy of the appraisal instruments

According to Marshall & Wood (2000), instruments here refer to the adequacy of the format for the appraisal. The instrument has been said to influence a manager's motivation and effort in order to ensure that the valid judgments during the appraisal process is achievable (Marshall & Wood, 2000). Accordingly, the manager will be more likely to put much effort in the collection and processing of data during the appraisal process when the appraisal instrument is viewed as adequate.

## VALUES AND ORGANIZATIONAL CULTURE

Values have several meanings. It has been long said that values affect human behaviour in and out of the organization (Box, Odom & Dunn, 1991; Hofstede, 1980). According to Rokeach (1973), values are fundamental beliefs and assumptions that guide individual behavior and judgements across situations. Hofstede (1984) defines values as broad tendencies to prefer certain states of affairs over others', while, Schwartz (1994), on the other hand, argues that values are structured through a combination of social and psychological conflicts, experienced by the individual expressing these values.

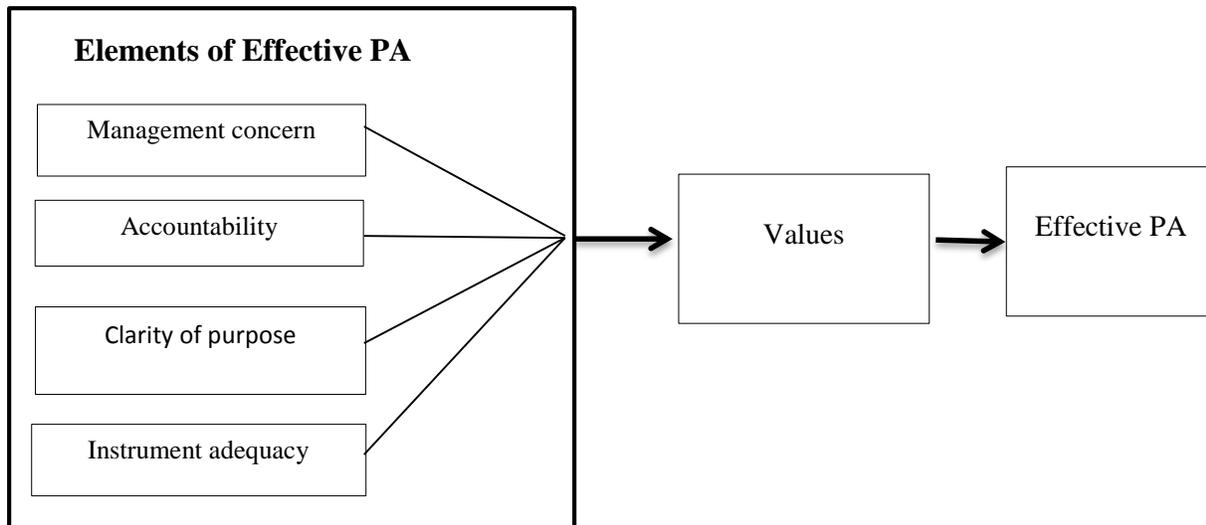
Values are considered vitally importance in human action (Bates *et al.*, 2001). Within an organization, value is said to exist when the members of the organization share key values related to acceptable behaviour among the members and the organization's strategic goal (Paarlberg & Perry, 2007). In that sense values are considered as the essential component of organizational culture (Sinha, 1995). In fact, there is an increasing number of literatures suggest that values within an organization will directly influence individual behaviour that support the organization's goal (Meglino, Ravlin, & Adkins, 1989).

In management, the concept of values has been introduced by Garcia and Dolan (1997) known as Management by Values (MBV), as a development and further extension of earlier model (i.e. Management by Instruction (MBI) and Management by Objective (MBO)(Shimon L. Dolan & Garcia, 2002). As a management philosophy and practice, this latest proposed model is becoming a principal driver for developing sustainable, competitive and more humane cultures in the organization (Simon L. Dolan & Richley, 2006). Since the competitive edge of an organisation resides within the quality of its people and human capital is becoming the core of a firm's ability to achieve superior performance (Baruch and Altman, 2002; Schuler and Tarique, 2007), restructuring the organizational culture to make it more humanistic and creating a culture of trust is becoming a must for the short-term competitiveness of the firm as well as for its long-term survival (Zhang, Dolan, & Zhou, 2009).

Values system influences decision making and it does motivate individual behaviours and impacts upon actions in both managerial and non-managerial context (McGuire, Garavan, Saha, & O'Donnell, 2006). In term of decision making, many literatures accord that a good decision maker is not just someone who can rationally assess choices, or make the most logical decision given for that moment, but someone who can arrive at a decision through balancing competing values and goals (Hartmann and Patrickson, 1998). In fact, there is an increasing number of literatures suggested that individual will be directly influenced by the values within the organization to behave in a way that support the organization's goal and objectives (Meglino, Ravlin, and Adkins, 1989). A study on 221 employees of industrial product plant has showed that individual employees were more satisfied and committed to the organisation when their values were congruent with that of their supervisors (Meglino, Ravlin & Adkins, 1989).

Although there are several literatures that have provided significant insights at values affect individual's behaviour (McGuire et al., 2006; Zhang et al., 2009; Shimon L. Dolan & Garcia, 2002), there is, however, yet, none of them has done an empirical study to prove the claim. Therefore, this paper is proposing the conceptual framework to be empirically studied. The previous discussions explicitly show support of the relationships of the four constructs that leading to the integrated conceptual framework of values and an effective performance appraisal, as illustrated in Figure 1.

### PROPOSED FRAMEWORK



*Figure. 1. Proposed integrated conceptual framework of values in performance appraisal.* (source: developed by the author on the basis of Marshall & Wood (2000)

### IMPLICATION OF ESTABLISHING THE FRAMEWORK

This framework is expected to represent the overall picture of how values can be included in performance appraisal practices. Empirical findings are expected to prove that values have an influential effect on the development of effective PA. Once the finding shows that values has significant effect on effective performance appraisal, private and public organizations are expected to modify their PA as regards to their measurement elements. The potential results of the proposed framework are hopefully to provide some guidelines for human resources managers in developing more effective and comprehensive performance appraisal system.

### CONCLUSION

Since employees play a vital role in determining an organization's survival (Rusli Ahmad, 2007a), employee's performance is always a great concern in every organization. The changes in term of human attitudes require the organization to evolve in new HRM strategic approach in order to maintain the organization's competitive advantage (Hassan, 2007). In conclusion, values in management could be the new approach to effective performance appraisal. Thus, the proposed of values incorporation in the development of effective performance appraisal would be the comprehensive measurement in term of employees performance.

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