



FACULTY OF COGNITIVE SCIENCES AND HUMAN DEVELOPMENT

# **THE EFFECT OF RATING ERRORS TOWARDS THE EFFECTIVENESS OF PERFORMANCE APPRAISAL**

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**THE EFFECT OF RATING ERRORS TOWARDS THE  
EFFECTIVENESS OF PERFORMANCE APPRAISAL**

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## **ABSTRACT**

### ***THE EFFECT OF RATING ERRORS TOWARDS THE EFFECTIVENESS OF PERFORMANCE APPRAISAL***

**SABRINA NASEER KHAN**

The aim of this research is to study the effect of rating errors towards the effectiveness of performance appraisal. The organization that is chosen for this study is one of the state secretaries in Malaysia. Interview is used to collect all of the required data. This research studies the informants knowledge on rating errors, the effect of halo effect, leniency and central tendency towards the effectiveness of performance appraisal and ways that could be taken to solve and prevent rating errors. The findings of this study state that rating errors such as halo effect, leniency and central tendency has a negative effect towards the effectiveness of performance appraisal. Some recommendations that have been identified are to conduct training to the raters in the organization so that they would have a full understanding about rating errors and take steps of measurements to avoid rating biases and inaccuracies. Employee feedback is also another way to avoid rating errors because employees can give their opinions and comments on their rating results. The raters can know the reason why the employees perform or not perform a particular act. Future researchers can use the information and findings of the errors mentioned in this study to continue conducting study on those errors for more helpful results. In conclusion, this research would benefit the employees and the organization because rating errors only bring more harm than good. The avoidance of rating errors would lead the employees to increase the organization's productivity because they would be satisfied with their evaluation results, thus increase their effort to bring more benefit to the organization.

## **ABSTRACT**

### ***THE EFFECT OF RATING ERRORS TOWARDS THE EFFECTIVENESS OF PERFORMANCE APPRAISAL***

**SABRINA NASEER KHAN**

Kajian ini memfokuskan kesan kesilapan sewaktu menjalankan penilaian prestasi ke atas keberkesanan penilaian prestasi. Kajian ini dijalankan di salah satu pejabat setiausaha kerajaan di Malaysia. Kaedah temubual digunakan untuk mendapatkan data. 3 jenis kesilapan dikaji iaitu 'halo effect', 'leniency' dan 'central tendency' terhadap keberkesanan penilaian prestasi. Langkah-langkah untuk mengelak dari terjadinya kesilapan sewaktu menjalankan penilaian prestasi turut dikaji. Melalui dapatan kajian, 'halo effect', 'leniency' dan 'central tendency' mempunyai kesan negatif terhadap keberkesanan penilaian prestasi. Antara cadangan yang dikenalpasi ialah untuk menjalankan latihan kepada penilai prestasi pekerja supaya mereka lebih memahami tentang kesilapan sewaktu menjalankan penilaian prestasi dan mengambil langkah untuk menghalang sebarang kesilapan daripada berlaku. Maklum balas dari pekerja merupakan salah satu langkah untuk menghalang terjadinya kesilapan sewaktu penilaian prestasi. Pekerja boleh memberikan komen terhadap keputusan penilaian prestasi mereka. Pengkaji akan datang boleh menggunakan dapatan kajian ini untuk menjalankan kajian yang lebih mendalam. Sebagai kesimpulannya, kajian ini memberi manfaat kepada pekerja serta organisasi kerana kesilapan yang berlaku sewaktu menjalankan penilaian prestasi hanya memberikan keburukan. Langkah pencegahan harus diambil supaya pekerja berpuas hati dengan keputusan penilaian prestasi mereka dan meningkatkan produktiviti organisasi.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Introduction**

This chapter expounds on the effect of rating errors towards the effectiveness of performance appraisal done of the employees in one of the selected state secretary office in Malaysia. This research explains in detail about some important aspects which include background of the study, problem statement, objectives of the study, research question, research framework, significance of the study, definition of terms, and limitations of the study. This chapter is important because it enlightens every aspect of this study so that a holistic research could be done on this topic of study.

## **1.2 Background of the study**

Performance appraisal is a very critical human resource process that takes place in every type of organizations regardless of large or small, public or private, and service or manufacturing. It is an on going process that is done with a varying degree of success. It involves a face-to-face discussion between the employees and their line managers where the employee's work is reviewed and discussed. Performance appraisal is an evaluation and grading exercise undertaken by an organization on all its employees either periodically or annually, on the outcomes of performance based on the job content, job requirement and personal behavior in the organization (Yong, 1996).

Elements in the performance appraisal methods are tailored the employees in the organization, jobs, as well as the structure. This includes the objectives of the criteria for measuring and rating the performance of employees, which sums up how well the employees are doing. Successful appraisal methods have clearly defined and explicitly communicated standards or expectations of employee performance on the job (Allen, 1998).

However, at its core, the performance appraisal process allows an organization to measure and evaluate an individual employee's behavior and accomplishments over a specific period of time (Wiese & Buckley, 1998). Performance appraisal is a vital component of a broader set of human resource practices; it is the mechanism for

evaluating the extent to which each employee's day-to-day performance is linked to the goals established by the organization (Coutts & Schneider, 2004).

Performance appraisals are subject to inaccuracies and biases that are also known as rating errors. Raters' memories are quite fallible, and raters subscribe to their own sets of likes, dislikes, and expectations about people, which may or may not be valid (Ivancevich, 2001). Performance appraisal need to be performed correctly so that it will not affect the assessment results. It is also to ensure that both the organization and the employees will gain benefit from it.

There are a variety of rating errors such as halo effect, leniency, central tendency, attractiveness effect, attribution bias, first impression, high potential error, past performance error, regency effect, similar-to-me effect, and stereotyping. These errors will cause a divergence between the true ratings that an employee should be given and the actual rating assigned. It will also reduce the reliability, validity and utility of performance appraisal. Supervisor ratings are useful criteria for the validation of selection instruments but may be limited because of the presence of rating errors, such as halo, a rater error that occurs when a rater appraises others according to a global, overall impression (Furnham, 2001).

Organizations need to take steps of measure to ensure that their organization's performance appraisal process is free from rating errors. This can ensure that the poorly administered performance appraisal is prevented. Instead, performance appraisal process that is more objective and reliable is used.

Some investigators have focused on the rater to improve the assessment of performance. For example, researches have evaluated Rater Error Training (RET), which concentrates on avoiding the common rating error such as halo, leniency / stringency, and central tendency. The literature frequently cites avoidance of these errors enhances performance rating reliability (Elenbaas, 1995). It is presumed that ratings that are high in these errors have a low level of accuracy.

Rating errors occur because the organization did not put much importance on this issue. This is because this issue is not well communicated among the members of the organization. Therefore, they are not really aware of the detrimental effect that these errors could bring to the organization as well as its employees. All members of the organization need to work hard in order to avoid rating errors from occurring. For example, seminars and talks on zero rating error could be done to give more knowledge, understanding and awareness to all members of the organization. This is essential so that no one will conduct rating error or become a victim of rating error.

### **1.3 Statement of the Problem**

Organizations face a huge challenge in preventing rating errors from occurring. Everyone in the organization should be aware of the errors that could happen due to performance appraisal. This could cause the employees to be rated unfairly which will affect the accuracy of the rating. Research on rating methods by David & Lorne (1995) found that the type of rating method used affects rating accuracy. Although the most common form of performance evaluation, performance ratings are known to be subject to a variety of biases that reduce their reliability and validity (Landy & Farr, 1980). Borman (1978) suggested that the problems inherent in most performance appraisals are partially due to a number of constraining real world conditions common to most rating situations and partially due to limitations in the abilities of raters.

According to Sherman & Bohlander (1992), supervisors always complain that they do not have the time to fully observe the performance of the employees. Thereby, the result produced at the end is less-than-objective appraisal. This causes the raters to rely on the performance records or observations from others in order to complete the appraisal process. The study also found that the raters are reluctant to give up control over the appraisal process. In the meantime, raters who does the appraisal process are based largely on the employees' behavior. This would cause the performance appraisal results to be biased either favorably or unfavorably. In this study, some of the raters or supervisors working in one of the selected state secretary office in Malaysia also encounters with the same problem where they have to rely on others to evaluate the

employees for performance appraisal. This is due to the nature of the appraisal process itself that takes up a lot of time and supervisors effort.

According to Steers & Black (1994), “performance appraisal is one of the most important and often one of the most mishandled aspects of management”. It has also been said to be one of the most problematic components of human resource management and is viewed as either a futile bureaucratic exercise or, worse, a destructive influence on the employee-supervisor relationship (Coutts & Schneider, 2004). A number of studies suggest that managers regularly find the formal appraisal process to be frustrating, political and less than a meaningful experience, which does not bode well for management development. In a survey conducted by Coutts & Schneider (2004) on several police departments in the United States, they concluded that all too often the performance appraisal system of a police department does not constitute an especially effective component of the organization’s human resource system and, therefore represents a poor investment of human, monetary, technological, and material resources.

Personal values and bias can replace organizational standards. Thus, unfairly low ratings may be given to valued subordinate so that they will be promoted out of the rater’s department or outright bias may lead to favor treatment for some employees (Cascio, 1992). Managers may distort rating upward because they desire higher salaries from their employees or because higher subordinates’ ratings make them look good as managers (Sherman & Bohlander, 1992). Performance appraisal need to be done effectively and without any form of bias and inaccuracies for everyone’s best interest.

Meanwhile, in one of the selected state secretary in Malaysia, rating errors such as leniency do exist where those who are favored by the supervisors are given lenient ratings.

In a survey conducted by Longenecker (1997) on 120 managers in five large organizations in the United States, it was revealed that one of the main reasons why performance appraisals failed was because raters do not possess the skills and motivation to conduct appraisals. Over 75% of the companies sampled by Bretz, Milkovich & Read (1992) reported lenient ratings jeopardized the validity of their performance appraisal systems. Thus, it is important that everyone in the organization includes the managers and the employees to understand the factors affecting the accuracy of these ratings.

Wirtz & Bateson (1995) showed empirically that halo effects can be present in satisfaction data and can severely limit the interpretability of such data. These findings were later replicated in a second empirical study by Wirtz (2000). Therefore, the data is corrupted and not valid to be used for performance appraisal.

Organizations use job performance information as the basis for employment decisions including salary administration, performance feedback, promotion, terminations, and setting expectations regarding future performance (Bretz, Milkovich & Read, 1992; Cleveland, Murphy & Williams, 1989). Cleveland *et.al*, (1989) found performance appraisal data were of equal importance for between (e.g., promotion and compensation decisions) and within individual comparisons (e.g., developmental

feedback). Thus, the accuracy of performance appraisals is an important issue. Of more concern are errors and bias due to the rater. Rater errors are the inaccurate or biased ratings that result from the intentional and inadvertent actions in the recall, processing and evaluation of performance related information (Kane *et.al*, 1995).

Numerous variables associated with the relationship between the rater and ratee have been found to affect rater leniency including supervisors' affective response to subordinates, opportunity to observe performance, interpretation of subordinates' self-ratings, demographic similarity and the quality of their working relationship, (Ilgen & Favero, 1985; Judge & Ferris, 1993). Tagger & Brown's (2006) findings supported the positive relationship between leniency and supervisor affect or liking for subordinates. Research has also shown that raters shape their appraisal to fit with their previous decisions regarding the ratee.

Schoorman (1988) found individuals who provided input into the hiring decision or agreed with the hiring decision that was made provided lenient ratings, likely to remain consistent with their initial decision. Similar results were found by Williams, DeNisi, Meglino & Cofferty (1986). Research examining leniency in performance appraisal should take into consideration the ongoing relationship between the rater and ratee.

The past research consistently reveals that humans have tremendous limitations in processing information (Noe, 2003). People sometimes make some errors called “error of leniency”, “error of venter tendency”, and “halo effect” when they evaluate something or make decisions (Bass, 1956). Leniency error is very usual in human’s life and researches of it have been ongoing for more than 50 years. Freeman & Taylor (1950) believed leniency is the most glaring error that raters make.

Performance appraisals are subject to a wide variety of inaccuracies and biases referred to as ‘rating errors’. These errors occur in the rater’s observation; judgment, information procession, and can seriously affect assessment results (Allen, 1998). This research could be added together with the previous research done in order for people to gain more knowledge and understand better about rating errors.

#### **1.4 Objectives of the Study**

Objectives of the study can be divided into two that is general and specific objectives. In this study, there is one general objective and three specific ojectives.

##### **1.4.1 General Objectives**

The main purpose of this research is to study the employees’ perception on the effect of rating errors towards the effectiveness of performance appraisal

### **1.4.1.1 Specific Objectives**

The specific objectives for this study are as shown below.

- a) Determining the informants knowledge of rating errors
- b) Determining the effect of rating errors towards the effectiveness of performance appraisal for three type of rating errors which are:
  - i. Halo effect
  - ii. Leniency
  - iii. Central tendency
- c) Determining the ways that could be taken to prevent and solve rating errors

### **1.5 Research Question**

The research questions involved in this study are as shown below.

- a) What is the informants' knowledge of rating errors?
- b) What are the effects of rating errors (Halo Effect, Leniency, Central Tendency) towards the effectiveness of performance appraisal?
- c) What are the ways to prevent and solve rating errors from occurring?



inaccuracy and misjudgment during the performance appraisal process. This means that an employee is being rated unfairly from what the employee really deserve to be rated.

### **1.7.2 Halo Effect**

Inappropriate generalizations from one aspect of an individual's performance to all areas of that person's performance (John, 2002). Halo effect occurs when a rater put too much importance to one single factor and gives similar ratings on other performance elements. This will make the performance appraisal to be done based on just that single factor. It occurs when the rater makes unsuitable overview from only one aspect of an employee's performance and colors to all other unrelated aspects.

### **1.7.3 Leniency**

Tendency to rate higher than is warranted, usually accompanied by some rationalization as to why this is appropriate (Casselman, 2001). Leniency occurs when a rater rate the employees very generously that even average performers are rated very high and given high scores. In other words, the rater does not deserve the standard of rating which is given to him/her because the performance of the employee does not to the standard being established by the organization.

#### **1.7.4 Central Tendency**

The inclination to rate people in the middle of the scale even when their performance clearly warrants substantially higher or lower rating (John, 2002). Central tendency occurs when the rater rates the employees to be in the golden mean or at a midpoint of a scale that is by rating them as average. The rater is regarded as playing safe because the rater wants to avoid from being questioned about the reason they give too high or too low rating for the employees.

#### **1.7.5 Performance appraisal**

Performance appraisal is a formal, structured system that compares employee performance to established standards. Assessment of job performance is shared with employees being appraised through one of several primary methods of performance appraisals (Allen, 1998). Performance appraisal is a process that takes place between the manager and the employee. The employee's work will be discussed with the employee. This process is usually done once in a year.