

# Analyzing the Effect of Performance Appraisal Errors on Perceived Organizational Justice

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**Abstract** The aim of this study was to investigate the relationship between performance appraisal errors and perceived organizational justice. The study took place at North East Railways in Iran. A random sample of 200 employees was selected and 200 questionnaires were distributed, of which 163 were yielded completed. This research was conducted using two separate instruments. The reliability of these questionnaires has been found to be satisfactory (0.896 and 0.718). Structural Equation Modeling (SEM) was conducted to test the hypothesis and to examine the relationships between the performance appraisal errors and organizational justice. The result showed performance appraisal errors have a strong influence on perceived organizational justice with a significant path coefficient at -0.68.

**Key words** Performance appraisal errors, distributive justice, procedural justice, interactional justice

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## 1. Introduction

Employees are considered as a strategic asset for the organization, and could determine the organisation's survival (Drucker, 1994). The performance appraisal system (PAS) is important as a management tool to assess employees' efficiency in the workplace (Armstrong and Baron, 1998).

Performance appraisal (PA) forms the core of performance management systems (Bernardin *et al.*, 1998; Palaiologos, *et al.* 2011). According to Swanepoel *et al.* (2000), PA is a formal and systematic process of identifying, observing, measuring, recording and developing the job-relevant strengths and weaknesses of employees. Chen and Kuo (2004) characterize PA as an indispensable process for an organization. Fletcher (2001) posits that the PA has a strategic approach and integrates organizational policies and human resource activities.

An organization's performance appraisal system can be a practical tool for employee motivation and development when employees perceive their performance appraisals as accurate and fair (Ilgen *et al.*, 1979). Justice perceptions are important to employees, so these perceptions should be related to attitudinal and behavioral reactions beyond the effects of the initial discrepancy between expected and actual performance ratings. Employees do not enjoy receiving a poor performance appraisal, but if they perceive that procedures and social interactions are fair, then discrepancies will be less likely to influence their attitudes and behaviors toward their supervisors and their organizations (Thurston and McNall, 2009). Perceived congruency between current and ideal performance appraisal systems predict a variety of relevant performance appraisal attitudinal variables (Whiting *et al.*, 2008).

The purpose of this paper is investigating the relationship between performance appraisal errors and perceived organizational justice.

## 2. Organizational justice

Greenberg (1986) was one of the first authors to apply organizational justice theory to performance evaluation. Organizational justice may be defined as the study of fairness at work (Byrne and Cropanzano,

2001). Furthermore, Greenberg (1990) explains that the term organizational justice implies that fairness is being considered in the organization. According to the literature, human beings are specifically interested in three kinds of justice.

The first one is **distributive justice**, which deals not only with the perceived fairness of the outcomes or allocations that individuals in organizations receive (Folger and Cropanzano, 1998), but also with “what the decisions are” at the end of the appraisal process, or the “content of fairness” (Tang and Sarsfield-Baldwin, 1996). Erdogan (2002) contends that rates compare their efforts with the PA rating they receive and the fairness of the rating establishes distributive justice perceptions in PA. Some studies found that employees expect ratings above average in relation to others (Bartol *et al.*, 2001).

Subsequent to the previously mentioned is the second kind of justice, **procedural justice**, which refers to the fairness of the procedures used to decide outcomes and addresses fairness issues regarding the methods, mechanisms, and processes used to determine those outcomes (Folger and Cropanzano, 1998). Procedural justice is related to the means used to achieve the ends (how decisions are made), or the process of fairness (Tang and Sarsfield-Baldwin, 1996).

Finally, the third kind of justice is **interactional justice**, which clearly establishes that people care about the fairness of the interpersonal treatment and communication that they receive (Ambrose, 2002; Bies, 2001). It is important to mention that interactional justice focuses on how formal agents of the organization treat those who are subject to their authority, decisions and actions (Palaiologos *et al.* 2011).

### 3. Performance appraisal

Employee performance appraisal is a subject of great interest in most Organizations (Armstrong, 1998; Bratton and Gold, 1999; Rusli and Nur, 2004). Performance appraisal can be defined as a periodic evaluation of the output of an individual measured against certain expectations (Yong, 1996). The process involves observing and evaluating staff members’ performance in the workplace with relation to pre-set standards. Conventional approaches to performance appraisal treated it as a measurement exercise, while more contemporary approaches were more concerned with information processing within the performance appraisal decision-making process (Rusli and Nur, 2004).

#### 3.1. Performance appraisal errors

*Halo error:* Halo error occurs when a rater’s general impression of a subordinate blurs true differences in the subordinate’s performance on various dimensions of the job. An unacquainted rater with little direct knowledge about the rate would have no choice but to rely on general impressions in the rating process (James *et al.*, 2007).

In halo error the individual’s performance is completely appraised on the basis of a perceived positive quality, feature or trait. In other words, this is the tendency to rate a man uniformly high or low in other traits if he is extra-ordinarily high or low in one particular trait. If a worker has few absences, his supervisor might give him a high rating in all other areas of work.

*Recency:* Focusing only on recent performance within the evaluation period is a common error in performance evaluations. For example, a manager should not consider only an employee’s performance within the last three months during an annual evaluation. The entire period of employee performance must be evaluated or the evaluation risks inaccuracy.

Rating is influenced by the most recent behavior ignoring the commonly demonstrated behaviors during the entire appraisal period.

*Similarity error:* Managers sometimes rate employees more favorably if the employees consistently perform job functions in the same style or by using the same process as they do.

*First impression:* Raters form an overall impression about the rate on the basis of some particular characteristics of the rate identified by them. The identified qualities and features may not provide adequate base for appraisal.

*Stereotyping:* Managers allow individual differences such as gender, race or age to affect ratings they give. Effects of cultural bias, or stereotyping, can influence appraisals.

*Excessive stiffness or leniency:* Depending upon the raters own standards, values and physical and mental makeup at the time of appraisal, rates may be rated very strictly or leniently. In positive leniency rater want to give everyone high scores.

#### 4. Methodology of research

This paper used an empirical research design by questionnaire survey method to test the research hypothesis. The study took place at North East Railways in Iran. A random sample of 200 employees was selected and 200 questionnaires were distributed, of which 163 were yielded completed. This research was conducted using two separate instruments. The reliability of these questionnaires has been found to be satisfactory (0.896 and 0.718). Structural Equation Modeling (SEM) was conducted to test the hypotheses and to examine the relationships between the performance appraisal errors and organizational justice. The conceptual model has been displayed in Figure 1.

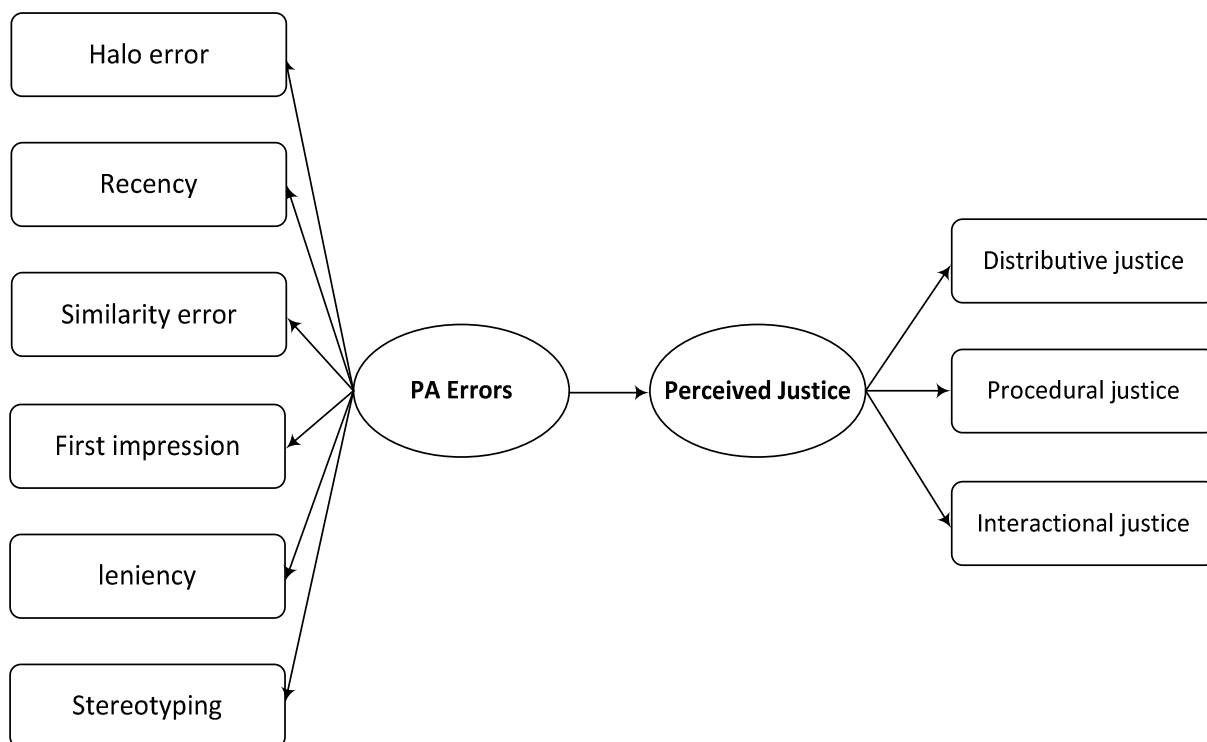


Figure 1. Conceptual framework

The main hypothesis of research is “performance appraisal errors have a negative impact on perceived organizational justice”.

#### 5. Results

First, measurement models were separately analyzed. Indices meet all of the selected criteria and suggest that; overall fit of the measurement models is reasonable and acceptable.

Then SEM has been used for testing the main hypothesis of research. The result showed performance appraisal errors have a strong influence on perceived organizational justice with a significant path coefficient at -0.68. The fit indices of the structural model were reported in Table 1.

Table 3. Fit indices of the structural model

Model	CFI	IFI	NFI
structural	0.920	0.921	0.917
Suitable fit	>90%	>90%	>90%

## 6. Conclusion

The aim of this study was to investigate the relationship between performance appraisal errors and perceived organizational justice. The results show performance appraisal errors have a strong influence on perceived organizational justice with a significant path coefficient at -0.68.

The results show that performance appraisal errors has a negative impact on perceived organizational justice, so this is important for organizations to have a good and fair performance appraisal system without any bias and error.

Employees are satisfied with their performance appraisal systems when there is trust in the supervisor and when supervisors are supportive of their subordinates feedback, particularly in the areas of skill development, pay for performance, and career advancement occurs during the appraisal session, and subordinates feel that they are given enough time to express their perspectives, have opportunity to influence the outcome, and sufficient explanation of their ratings is provided.

If employees had a chance to change outcomes or were simply listened to without affecting the outcome of the interview assessment they perceived their performance appraisal system as more fair. Employees expect to be rewarded and appraised fairly and without hidden agendas.

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