

## **EMPLOYEES PERFORMANCE APPRAISAL AS A FACTOR FOR RAISING ENTERPRISES COMPETITIVENESS**

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### **Abstract**

Employees' performance appraisal in enterprises is one of the most complicated stages in the process of performance management. That complexity arises from the fact that the employee's evaluation refers to professional qualification and personal characteristics of individuals, their practical application in the work and the results achieved. The data that is obtained in terms of the quality and effectiveness of employees are the basis for decision-making, motivating, stimulating, rewarding. Employees' performance appraisal is important for every individual person because, on the one hand it indicates the level achieved in terms of their work, and on the other hand it indicates errors, for which the individual is not aware, but with additional effort he can correct them.

In this paper is elaborated the question of employees performance appraisal as a factor for raising the competitiveness of enterprises. This paper recognizes the role and importance of the employees' evaluation and the enterprises competitiveness. The sample in this paper consists of 53 successful small, medium and large enterprises from the private sector who perform an assessment of the performance of their employees. In this study, primary data were obtained using a structured questionnaire, and data analysis was performed using the statistical program SPSS (Statistical Program for Social Sciences).

**Keywords:** human resource, employees' performance appraisal, competitiveness

### **1. Employee performance appraisal - definition**

Performance appraisal is a formal system of review and evaluation of individual or team task performance. A critical point in the definition is the word formal because, in actuality, managers should be reviewing an individual's performance on a continuing basis.<sup>1</sup> Having regard to the enormous significance of assessing employee performance to increase the development potentials of the organizations, we can join to those authors who claim that the assessment of performance is a basis to perform many other activities of human resources, for that reason we should do sistematical and conituous researches. In literature they encountered numerous definitions of what constitutes evaluation of employee performance. Here, we will give some of them:

The evaluation of employee performance is a process that usually is accomplished annually, twice a year or sometimes four times a year, by the supervisors over subordinates to help employees to understand their roles, goals, and expectations and success of performances<sup>2</sup>;

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<sup>1</sup> R.W.Mondy., J.J. Martocchio., Human Resource Management., 14<sup>th</sup> Ed., Pearson Education Limited, 2016, p. 188

<sup>2</sup> G. Bohlander, S. Snell, Managing Human Resources, 16<sup>th</sup> Ed, South-Western, Cengage Learning, 2013, p. 344;

The evaluation of employee performance is a process that assesses the contribution of employees in achieving the organization's objectives in a defined period.<sup>3</sup>;

The evaluation of employee performance can be defined as a formal, structured system for measuring, evaluating and influencing the characteristics, behavior and results of the individuals and who are related to work performed in the organization<sup>4</sup>;

The evaluation of the employee performance is a complex process of collecting and analyzing information about the work of everyone, his behavior and his personal characteristics, in terms of achieving the goals of the organization in a given period<sup>5</sup>.

The process performance appraisal should give clarity to the staff that organizational goals have to be accomplished within a specified period and is often used as a means of increasing the desired organizational values.

## **2. Purposes of performance appraisal**

Evaluating the employee performance contributes to achieving the multiple objectives which allows increasing the effectiveness of the enterprises and the realization of their strategic objectives and interests. Providing job performance feedback is the primary use of appraisal information. Performance appraisal information can indicate that an employee is ready for promotion or that he or she needs additional training to gain experience in another area of company operations. It may also show that a person does not have the skills for a certain job and that another person should be recruited to fill that particular role. The purposes of performance appraisal can be classified as administrative and developmental.<sup>6</sup>

### **2.1 Administrative purposes**

From the administration perspective, contribution of the assessment programs can be used for the full range of activities in the field of human resource management. For example, research has shown that the evaluation of performance is commonly used as a basis for compensation decisions<sup>7</sup>. Also, performance appraisal is directly related to other important human resource functions, such as promotion, transfers and layoff decisions. Performance appraisal data can also be used in human resource planning, in determining the relative value of jobs within a job evaluation program, and as a validation criterion for selection tests.

### **2.2 Developmental purposes**

From the perspective of individual development, appraisal provides feedback that is crucial to discuss the strengths and the weakness and how to improve performance. Independently of the level of performance of an employee, assessment process provides an opportunity to discuss specific issues, to eliminate some potential problems and set new goals for achieving high performance. The more recent appraisal performance approaches emphasize the training as well as plan for employee development. Developmental appraisal approach indicates that the main goal of the manager is to help employees to understand that their evaluations are conducted to enhance their competence and their future careers, and not just conducted to judge employees based on their former performance. One of the greatest benefits obtained from the appraisal program has been receiving a good basis for improving performance.

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<sup>3</sup> B. B. Milikić, Menadžment Ljudskih Resursa, 3ed, Centar za izdavačku delatnost, Ekonomski fakultet, Beograd, 2004, str. 191.

<sup>4</sup>J. Bratton, J. Gold, Human resource Management: Theory and Practice, 5<sup>th</sup> Ed, Palgrave Macmillan, 2012, p. 249;

<sup>5</sup> D. Bojadzioski, Human Resources Management, Faculty of Economics, Skopje, 2009, p. 194;

<sup>6</sup> G. Bohlander, S. Snell, Managing Human Resources, 16<sup>th</sup> Ed, South-Western, Cengage Learning, 2013, p. 347-348.

<sup>7</sup> R. W. Griffin, J.M. Philips, S.M. Gully., Organizational Behavior: Managing People and Organizations, 13<sup>th</sup> Ed, Cengage Learning, 2020, p. 213

### 3. Employee performance appraisers

There are more people, list of candidates for evaluating employee performance in the organization. Given the complexity of the workplaces today, it is often unrealistic to assume that a person can fully monitor and evaluate an employee's performance. . As shown in Figure 1, the appraisers can include supervisors, co-workers, team members, themselves, subordinates, customers, vendors, and suppliers.<sup>8</sup>

**Figure 1. Performance appraisers**



*Извор: G. Bohlander, S. Snell, Managing Human Resources, 16<sup>th</sup> Ed, South-Western, Cengage Learning, 2013, p.355*

During the creation and implementation of the system for assessing employee performance it is necessary to adopt an important decision concerning the choice of assessors, ie the individuals who will perform the evaluation of employee performance. There are numerous opportunities in the organization, but mostly in the role of assessors arise immediate superiors, colleagues and the employees themselves. There is a possibility to choose only one assessor, but may choose more assessors at the same time. Each of the possible choices has its advantages and disadvantages affected by some factors, among which we highlight: the design of the organization, the management style, goals and information that are expected and wanted to gain.

#### 3.1 Immediate superiors

The evaluation by the immediate manager or supervisor is the traditional approach of evaluating employee performance. In most cases, supervisors are in the best position to perform this function, although it is not always possible to fulfill it. Immediate superiors had experience in assessing larger number of employees, they know what should be the result of the work of each job to achieve the defined organizational goals. Because they have a wider perspective, they observe individual performance in the context of the whole organizational unit that they lead<sup>9</sup>. Their place in the hierarchy of the organization gives them the right to take a position with respect to the performance of their subordinates.

However, sometimes immediate superiors are not able to have continuous insight into the work of his subordinates, which have no complete information about their work, and also increasingly targeted administrative aspect of the work (planning, deployment of staff jobs, etc.), which may be questioning the quality and objectivity of the evaluation.

#### 3.2 Employees

<sup>8</sup>G. Bohlander, S. Snell., Managing Human Resources, 16<sup>th</sup> Ed, South-Western, Cengage Learning, 2013, p.355

<sup>9</sup> R. R. Sims, Organizational Success Through Effective Human Resources Management, Greenwood, Publishing Group, 2002, p. 201.

The assessment by the the employees themselves is useful when managers want to increase the involvement of employees in the process of reviewing. The system of self-assessment requires employees to complete an evaluation form before the interview performance. If employees understand their objectives and the criteria used for evaluation, they are in a good position to appraise their own performance. Many people know what they do well on the job and what they need to improve. At least, this makes employees to think about their strengths and weaknesses and can lead to a discussion of barriers to effective performance<sup>10</sup>. During the interview performance, the manager and employee discuss for the performance of the work and agree for the final assessment. Also, this works well when the manager and employee jointly determine future performance goals or plan for employee development. The criticism addressed to self-assessment is that the staff (self - assessors) are more tolerant in their assessment from managers and tend to present themselves in the best possible light. Self-assessment can be a useful source of information if it is used in combination with other methods.

### **3.3 Co-workers and team members**

A major strength of using peers to appraise performance is that they work closely with the evaluated employee and probably have an undistorted perspective on typical performance, especially in team assignments. Problems with peer evaluations include the reluctance of some people who work closely together, especially on teams, to criticize each other. On the other hand, if an employee has been at odds with another worker, he or she might really "unload on the enemy," which results in an unfair evaluation. Another problem concerns peers who interact infrequently and lack the information needed to make an accurate assessment.

Organizations are increasingly using teams, including those that are self-directed. Team members know each other's performance better than anyone and can, therefore, evaluate performance more accurately. Also, peer pressure is a powerful motivator for team members, and members who recognize that peers within the team will be evaluating their work show increased commitment and productivity.<sup>11</sup>

### **3.4 The other appraisers**

In the role of performance appraisers may occur and other stakeholder groups, such as<sup>12</sup>:

The high level of management - occurs as an appraiser employee performance, ie, managers who are above the immediate superior in the hierarchy of the company. Although, in some cases managers have important information of the work of employees whose performance are assessed, in most cases they have no direct insight into the work of employees. Their role is to check whether the procedures are respected and if there are documented reasons for that assessment.

Consumers - lately organizations are increasingly involved consumers in the evaluation process because consumer satisfaction is very important.

External evaluators - some organizations in the process of evaluating employee performance include external evaluators who are trained in performance appraisal. Ratings obtained in this way have limited utility value, as external raters have very little insight into the actual performance of employees, they can only rate what they have seen and observed. In a situation where the employee knows that an external evaluator is present, he feels uncomfortable and may deform the evaluation and increasingly deviate from the actual behavior and performance.

### **3.5 Multiple sources of assessment - the concept of evaluation "360 degrees"**

The concept of evaluation "360 degree feedback" also known as multiplied source of evaluation, a process which evaluated the performance of some staff and feedback obtained from people who are

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<sup>10</sup> R.C. Grote, The Performance Appraisal Question and Answer Book: A Survival Guide for Managers, AMACOM, United States of America, 1996, p. 237.

<sup>11</sup> R.W.Mondy., J.J. Martocchio., Human Resource Management., 14<sup>th</sup> Ed., Pearson Education Limited, 2016, p. 192

<sup>12</sup> B. B. Milikić, Menadžment Ljudskih Resursa, 3ed, Centar za izdavačku delatnost, Ekonomski fakultet, Beograd, 2004, str. 197.

involved in the assessment: managers, superiors, colleagues and customers<sup>13</sup>. The term "360" can sometimes be freely used to describe upward feedback provided by managers to their subordinates. Assessors rate aspects of performance such as leadership, teamwork, communication, organizational skills, decisiveness, drive and adaptability. Questionnaires are normally processed with the help of software developed within the organization or, most commonly, provided by external suppliers. Feedback is presented to individuals, often anonymously but sometimes by their manager.<sup>14</sup>

The advantage of 360-degree feedback is that individuals can get a more rounded view of their performance from different perspectives than they can obtain if their only assessment is by their manager. The disadvantages are that the process can be stressful, people do not necessarily give frank or honest feedback, and it involves quite a lot of administration.

#### **4. Criteria for performance appraisal**

Although people differ about the criteria to use to evaluate performance management systems, we believe that five stand out: strategic congruence, validity, reliability, acceptability, and specificity.<sup>15</sup>

- *Strategic congruence* is the extent to which a performance management system elicits job performance that is congruent with the organization's strategy, goals, and culture. If a company emphasizes customer service, then its performance management system should assess how well its employees are serving the company's customers.
- *Validity* is the extent to which a performance measure assesses all the relevant—and only the relevant—aspects of performance.
- *Reliability*- the consistency of a performance measure; the degree to which a performance measure is free from random error.
- *Acceptability* -the extent to which a performance measure is deemed to be satisfactory or adequate by those who use it.
- *Specificity*- the extent to which a performance measure gives detailed guidance to employees about what is expected of them and how they can meet these expectations.

#### **5. Analysis of the role and importance of performance appraisal process as a factor for raising enterprises competitiveness**

Namely, in this part of the paper is performed checking on theoretical aspects, with particular subject of interest are empirical knowledge and experiences for the connection of multiple factors in the field of human resources, especially employee performance with enterprises competitiveness in the Republic of North Macedonia.

Considering everything mentioned above for the need of analysis was conducted survey of 110 respondents from Macedonian enterprises. Questionnaires were voluntarily filled by staff and they were asked to respond freely to questions, which were guaranteed anonymity. For the data analysis has been used statistical program SPSS (Statistical Program for Social Sciences). By using the  $\chi^2$ - test and Pearson coefficient has been proved our hypothesis, while the correlation analysis shows the strength of the relationship between the independent variable (employee performance appraisal) and the dependent variable (enterprises competitiveness).

#### **4.1 Testing the hypothesis**

**Hypothesis 1:** Employee performance appraisal is in a relationship with enterprises competitiveness.

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<sup>13</sup> S. E. Condrey, Handbook of Human Resource Management in Government, 3<sup>rd</sup> Ed, John Wiley&Sons,Inc, p. 564.

<sup>14</sup> M. Armstrong,S. Taylor., Armstrongs's Handbook of Human Resource Management Practice, 15<sup>th</sup> Ed, Kogan Page, London, 2020, p. 488;

<sup>15</sup> R. Noe., J. Hollenbeck., B. Gerhart., P. Wright., Human Resource Management, Gaining a Competitive Advantage., Mcgraw-Hill, 12<sup>th</sup> Ed, 2020 P. 341-345

**Hypothesis 2:** Employee performance appraisal is not in a relationship with enterprises competitiveness.

Table 1: Empirical and theoretical frequencies of variables: Employee performance appraisal (in rows) and enterprises competitiveness (Column)

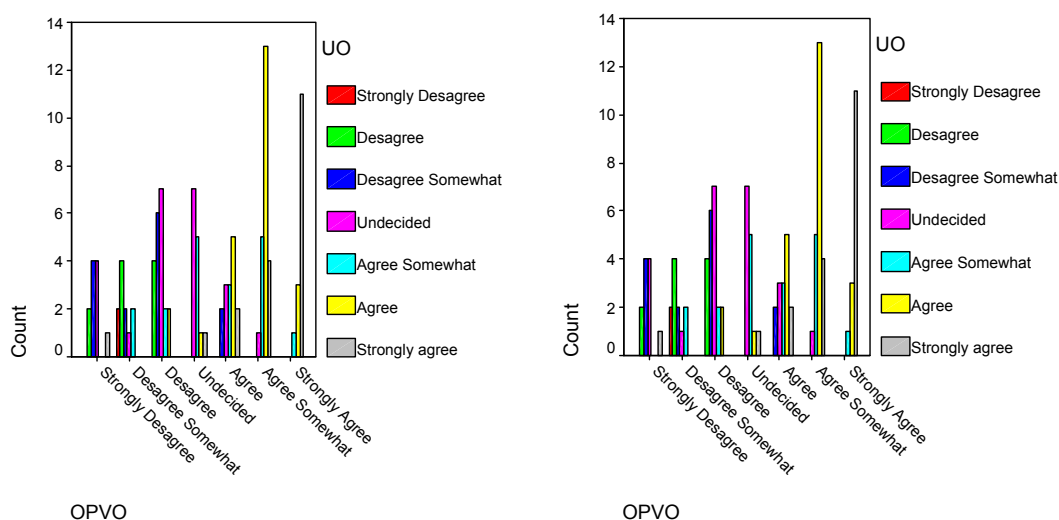
**OPVO \* UO Crosstabulation**

Count		UO						Total	
		Strongly Disagree	Disagree	Disagree Somewhat	Undecided	Agree Somewhat	Agree		Strongly agree
OPVO	Strongly Disagree		2	4	4			1	11
	Disagree Somewhat	2	4	2	1	2			11
	Disagree		4	6	7	2	2		21
	Undecided				7	5	1	1	14
	Agree			2	3	3	5	2	15
	Agree Somewhat				1	5	13	4	23
	Strongly Agree					1	3	11	15
Total		2	10	14	23	18	24	19	110

**OPVO \* UO Crosstabulation**

Expected Count		UO						Total	
		Strongly Disagree	Disagree	Disagree Somewhat	Undecided	Agree Somewhat	Agree		Strongly agree
OPVO	Strongly Disagree	,2	1,0	1,4	2,3	1,8	2,4	1,9	11,0
	Disagree Somewhat	,2	1,0	1,4	2,3	1,8	2,4	1,9	11,0
	Disagree	,4	1,9	2,7	4,4	3,4	4,6	3,6	21,0
	Undecided	,3	1,3	1,8	2,9	2,3	3,1	2,4	14,0
	Agree	,3	1,4	1,9	3,1	2,5	3,3	2,6	15,0
	Agree Somewhat	,4	2,1	2,9	4,8	3,8	5,0	4,0	23,0
	Strongly Agree	,3	1,4	1,9	3,1	2,5	3,3	2,6	15,0
Total		2,0	10,0	14,0	23,0	18,0	24,0	19,0	110,0

**Picture. 1:** Empirical and theoretical frequencies of variables: Employee performance appraisal (in rows) and enterprises competitiveness (Column)



**Table 2: Grouped data for the given variables**

**Case Processing Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
OPVO * U	110	100,0%	0	,0%	110	100,0%

**Table 3: Results of  $\chi^2$  - test**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	130,094 <sup>a</sup>	36	,000
Likelihood Ratio	125,799	36	,000
Linear-by-Linear Association	58,810	1	,000
N of Valid Cases	110		

a. 48 cells (98,0%) have expected count less than 5. The minimum expected count is ,20.

The calculated value of  $\chi^2 = 130,094$

The risk of error from 0.05% and the number of degrees of freedom  $df = 36$  theoretical (critical) value of the test  $\chi^2$  is  $(0.05, 36) = 43.77$ .

Because  $(\chi^2 = 130,094) > (\chi^2 = 43.77)$  hypothesis is accepted and it can be concluded that the employee performance appraisal is in the relationship with enterprises competitiveness. This is confirmed by the fact that the defined risk of error is  $1-\alpha$ , ie 0.05 is greater than the value of the realized level of risk of error, which is  $p = 0,000$ .

The proof of the first hypothesis is rejected the second hypothesis which claims that employee performance appraisal is not in the relationship with enterprises competitiveness.

Using correlation analysis and the coefficient of Spearman we can realize how strong the link between employee performance appraisal and enterprises competitiveness is.

**Table 4. Correlation between employee performance appraisal and enterprises competitiveness**

### Correlations

		OPVO	UO
Spearman's rho	OPVO	Correlation Coefficient	1,000
		Sig. (2-tailed)	,752**
		N	,000
UO	UO	Correlation Coefficient	110
		Sig. (2-tailed)	,752**
		N	,000
			110

\*\* . Correlation is significant at the .01 level (2-tailed).

Correlation analysis shows that there is a strong link between employee performance appraisal (independent variable) and enterprises competitiveness (dependent variable).

### Conclusion

Considering the importance of process of managing employee performance as an important feature in the management of human resources in developed market economies, we are inevitably faced with the challenge of its proper treatment in ours enterprises. Seeing the results of empirical analysis and assessing the need for proper utilization of labor and contribution in improving the conditions of this domain in enterprises in the country, we are obliged to point out that assessing employee performance as part of the performance management positively affects on success organizations in the country.

Following the results that came up in the survey we expect to stir up interest among managers of enterprises to implement an appropriate approach of employee performance appraisal, in the way that it can contribute to raise the enterprises competitiveness they lead and thereby to contribute to raising the effectiveness of national economies where they act.

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