

Stream 05 Human Resource Management

Competitive Session

## Performance Appraisal Practices and Enactment of Managerial Values

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### Abstract

*This study explores the role of managerial values in shaping performance appraisal (PA) practices. Managerial values been found to serve as frameworks that guide and determine action, goals, choices, decisions, attitudes, as well as persuading and influencing others; principles that are at the heart of an effective PA. Yet, despite extensive literature on PA, managerial values and PA have not generally been regarded as integrally connected. This study contributes to PA literature by utilising a values-based maturity model to determine the depth of integration of values that encourage effective PA practices. When enacted core values and PA are linked, they are argued to lead to sustained superior financial performance. Theoretical and managerial implications and future directions for research are discussed.*

### Keywords

Managerial values, performance appraisal, maturity model, strategic HRM, performance management, human resource development.

## INTRODUCTION

Strategic Human Resource Management (SHRM) has continued to evolve over the last two decades as a way of managing employees in an increasingly dynamic and uncertain environment. It unmistakably links people management policies and practices to the achievement of firm performance (Chung, Gibbons, & Schoch, 2006; Kramar, 2014). It is well recognised by scholars of human resource (HR) that the performance appraisal (PA) is one of the most pivotal of SHRM processes (DeNisi & Murphy, 2017), which guides employee performance with the ultimate aim to positively affect organisational success (den Hartog, Boselie, & Paauwe, 2004). However, PA has a chequered past and is associated with control and hierarchical management (Adler et al., 2016; Garr, 2013; Pulakos, Hanson, Arad, & Moye, 2015; Pulakos & O’leary, 2011), which is especially found to be prevalent in economic crisis (Maley & Kramer, 2014). Additionally, overt managerial control in PA has been associated with poorly perceived core managerial values among foreign and domestic firms in India (Amba-Rao, Petrick, Gupta, & Embse, 2000).

Managerial values been found to serve as frameworks that guide and determine action, goals, choices, decisions, attitudes, as well as persuading and influencing others (Bamberger, 1986; Westwood & Posner, 1997); principles that are very much at the heart of effectively managing the PA. Furthermore, in a manner similar to the PA, it is these core values (e.g., about how to treat employees, customers, suppliers, and others) and their organisational enactment that in turn are thought to lead to sustained superior financial performance (Barney, 1986; Neher, Jungmeister, Wang, & Burmeister, 2018). Yet, curiously, despite the vast quantity of extant literature on PA over the past 30 years, scholars have paid scant attention to PA practices and managerial values except for Amba-Rao et al. (2000) and Erdogan (2002). Indeed, managerial values and PA have not generally been regarded as integrally connected – an obvious gap in the extant literature.

This study endeavours to build on the early work by Amba-Rao et al. (2000) by exploring the relationship between PA and the firm’s enactment of managerial values. More specifically, the study examines the interactional effects of PA and managerial values to encourage broad-based effective PA practices grounded on a maturity model of managerial values.

The manuscript is divided into five key sections. The first section commences with an overview of managerial values. This section examines the role of personal values and values systems, and managerial values extending to codes of ethics and conduct. The second section introduces PA as a vital HR process and details the characteristics of PA and its effectiveness within a strategic HR framework. In the third section, a maturity model is used to discuss managerial values in relation to PA. The fourth section synthesises a series of propositions presented throughout the theory building within sections one to three. In the fifth section, based upon the synthesis, a framework is presented. Implications for modifying the existing PA approach based on managerial values are then advanced and discussed. This is followed by further directions and the conclusion which succinctly sum-ups the interactional relationship of PA and managerial values.

This paper makes an important and unique contribution to PA literature by utilising a values-based maturity model to help determine the depth of integration of value systems that encourage effective PA practices. When core values and PA are linked, they are argued to lead to sustained superior financial performance.

## **MANAGERIAL VALUES AS A VITAL CONTRIBUTOR TO ORGANISATIONAL ACTIVITIES**

### **Context of values and personal values system**

There is general agreement that culture involves values that are shared by members of a social unit (Kabanoff, 1994; Peltonen, 2017). Whereas values are an attribute of both individuals and groups, culture relates to a given collection of people (Hofstede, 1980) 'which distinguishes the members of one human group from another' (Hofstede, 1984, p. 21). Culture, in the sense of a human group, such as the social system of an organisation, is a 'system of collectively held values' (Hofstede, 1980, p. 24). These understandings correspond with the view that the core of organisational culture is formed by values that are shared across an organisation (Hofstede, Neuijen, Ohayv, & Sanders, 1990; Kotter & Heskett, 1992; Peltonen, 2017).

A comprehensive definition of values may contain five features: (a) concepts or enduring beliefs; (b) pertain to desirable end states or behaviours; (c) transcend specific situations; (d) guide selection or evaluation of behaviour and events; and (e) are ordered by relative importance (Schwartz, 1992; Schwartz & Bilsky, 1987). The last feature of these formal characteristics – (e) – refers to an organised values system in which all learned and integrated values are arranged according to priority (Kluckhohn, 1967; Rokeach, 1973). Generally, this conception of values is fairly stable over time but not static (Allport, 1961; Andrews, 1971; Kotter & Heskett, 1992; Rokeach, 1973) and provides continuity to a person within a society or culture.

Personal values play a central role both in people's everyday lives (Rokeach, 1973; Schwartz & Bilsky, 1987) and in organisations (Hambrick & Mason, 1984; Posner, 2010; Ralston et al., 1993). They are acquired very early in life through parents, teachers and the individual social environment (Guth & Tagiuri, 1965; Rokeach, 1973; Westwood & Posner, 1997). By organising and prioritising acquired values, they emerge to a personal values system or a hierarchy (Rokeach, 1968, 1973). Literature suggests that individuals may have two different hierarchies of values: one that is relevant to personal and family life, and another one that guides judgement and behaviour in work life (Alas, Ennulo, & Törnpuu, 2006; Chusmir & Parker, 1991; Fraedrich, Herndon, Iyer, & Yu, 2000). That is, a personal values system is acquired through the process of socialisation including common core cultural values and personal experiences, as well as through the experiences made in organisations (Alas et al., 2006; Krau, 1987; Westwood & Posner, 1997). National origin is an additional relevant factor shaping values. Nationality creates a subjective cultural foundation that influences the interpretation of stimuli (Whitely & England, 1980) and therefore the formation of personal values system (Ralston et al., 1993). Not surprisingly, it has been found that the values of individuals in management positions differ across countries (e.g. Chhokar, Brodbeck, & House, 2008; Westwood & Posner, 1997).

### **Managerial values and codes of ethics and conduct**

Given this general conceptualisation of a personal values system, it is safe to assume that managers' values comprehend similar patterns. That is, work-related challenges managers have to deal

with are influenced by those elements of their values framework which they judge to be relevant and meaningful (Westwood & Posner, 1997). Managers use their personal and gradually developed work values to make executive decisions, solve problems and set priorities – and to acquire new experiences that may influence their future values development.

Managers' values-based freedom and authority to make decisions may be influencing factors for managerial and corporate success (Whitely & England, 1980). Managers' values affect employees' values and behaviour (Lincoln, Pressley, & Little, 1982) and eventually coordinate and stabilise the behaviour within the organisation. Consequently, firm members' behaviour impacts both internal relationships and external stakeholders such as customers who are crucial for organisational success (Ho & Taylor, 2007; Kotter & Heskett, 1992; Miroshnik & Basu, 2012; Rosenthal & Masarech, 2003). Another reason why values may contribute to the success of a firm is that managerial values are influencing factors in determining corporate policy, strategy and objectives (Bamberger, 1986; England, 1967; Miroshnik & Basu, 2012).

Values also imply codes (Kluckhohn, 1967) and serve as standards or criteria of conduct (Williams, 1979). In the corporate context, codes of ethics and conduct thus intend to capture the managers' key values (Coughlan, 2005). These codes are a manifestation of ensuring appropriate corporate behaviour and conveying values to both internal and external stakeholders (Coughlan, 2005). By means of corporate codes of ethics/conduct, companies voluntarily make commitments which establish principles and standards used to guide employees, their attitude, and thus corporate behaviour (Gordon & Miyake, 2001; Schwartz, 2001; Weaver, 2006). Guidance is largely important in an ambiguous and uncertain environment where stable and enduring ethical values particularly matter (Gehman, Treviño, & Garud, 2013). Whereas codes tend to express negative impressions by defining behaviour likely to incur sanctions, values highlight the positive components of workplace responsibility (Collier & Esteban, 2007). As a result, values and codes are narrowly linked with each other but may be differentiated by a dissimilar connotation.

## **Enacting managerial values**

Senior management publically states its core values in important documents, for instance in vision and mission statements, or as standalone artefacts. In this vein presented values are called espoused values as they are visible and intended to encourage particular behaviours from organisational members (Bourne, Jenkins, & Parry, 2017), and to inform external stakeholders about the behaviour that is aimed at (Argyris & Schön, 1987; Purang & Sharma, 2007). Enacted values, on the other hand, are reflected in an organisation's daily operations (Bourne et al., 2017), that is, they are lived and expressed in employees' behaviour and thus experienced by all stakeholders. Howell, Kirk-Brown, and Cooper (2012) found that organisational commitment increased when members perceived congruence between the organisation's espoused and enacted values. To achieve this fit between espoused and enacted values, the management needs to create a shared understanding of what behaviours are expected in living the core values. For this to happen, the entire staff body must be engaged emotionally and intellectually (Sullivan, Sullivan, & Buffton, 2001). Evidence suggests that values systems are intensely enacted in everyday organisational activities (Weaver, Trevino, & Cochran, 1999). A case in point is the PA system which has been found to be not only one of the most proficient management instruments for building unmitigated employee engagement (Gruman & Saks, 2011; Gupta & Kumar, 2013; Mone, Eisinger, Guggenheim, Price, & Stine, 2011); it has also been found to be instrumental as a channel to convey an organisation values system (Trevino, 1990; Weaver et al., 1999).

*Proposition 1. The more a top management is committed to and aims to enact an ethical values system, the more the PA will incorporate integrated ethical and values practices.*

## **PERFORMANCE APPRAISAL AS A VITAL SHRM PROCESS**

### **The characteristics of PA**

The PA is the process by which a firm sets goals, determines standards, assigns and evaluates work, and distributes rewards. This PA process is now widely and routinely used for many employees. Its use increased through the 1990s as a result of the pressures of globalisation, increased competition

and greater analysis of all characteristics of employee performance (DeNisi & Murphy, 2017). PA systems were originally used for managers, professionals and technical employees, but today they are frequently used to appraise staff at all levels in many parts of the world (Maley & Kramar, 2007). Measuring the performance of individuals and teams has become an important tool to ensure organisational performance and is critical to identify possible gaps between job expectations and the strategic intent of the organisation. Hence, the PA is considered to be a central element of SHRM, and a successful PA process is argued to be vital to implement a firm's strategy into employee action (Cascio, 2006). If the process is conducted appropriately, it can provide a substantial benefit to the firm, the supervisor, and the employee. An effective PA process can help create a sustainable competitive advantage for the firm that is not easy to replicate (Delery & Roumpi, 2017).

PA is the general term for a number of SHRM functions that are concerned with managing performance. It is the systematic process that involves employees, as individuals and members of a group, in improving firm effectiveness in the accomplishment of their mission and goals (Cascio, 2006). The PA is a component of the performance management system, albeit, a major component. However, in research and practice, the two terms are often interchangeable. PA is typically a formal, organisationally sanctioned event, which has clearly stated performance dimensions and criteria that are used in the evaluation process (DeNisi & Pritchard, 2006). Notwithstanding, PA is a contentious tool and has attracted the attention of management researchers for decades. It is viewed by many managers around the world as a pointless annual ritual and the use of, and satisfaction with, PA systems tends to negatively influence the entire SHRM process (Dusterhoff, Cunningham, & MacGregor, 2014). Indeed, as denoted earlier, the PA is a highly controversial and perplexing process. Employees, are often very dissatisfied with, and reject, the performance review process (Elicker, Levy, & Hall, 2006). If done poorly, PA will fail to change how people work. Moreover, a poorly administered PA process will not improve performance, motivate, or guide personal development (Baker, 2013; Keeping & Levy, 2000; Maley & Kramer, 2014). Nor will a poor PA guide ethical managerial values. Weaver et al. (1999, p. 541) illustrate the case of a healthcare company where 'one-third of every manager's pay rise depended on a PA focused on how well the manager carried out

the organisation's ethical ideals (as evaluated by peers and subordinates).' Although such an evaluate practice gives rise to bias, the exercise sets conduct in harmony with ethical values as a discernible part of employees expected behaviour.

*Proposition 2. Concern for ethical values in PA creates accountability to and salience for ethical expectations by linking ethics to important personal consequences.*

The PA can enhance managerial values in several ways. For example, an effective PA process will provide vital evidence for principled pay and promotional decisions (Chiang & Birtch, 2010; Murphy, Cleveland, Skattebo, & Kinney, 2004). It can also help with appropriate decisions related to human resource development (Buchner, 2007). If done well, performance reviews fulfil an important organisational need to improve the quality of decision-making and encourage people to develop their skills toward organisational priorities and objectives (Lawler, 1994). Moreover, an effective PA process be a conduit to strengthen the values and norms that a firm wishes to create guiding ethical behaviour of employees by communicating codes of conducts, training, behavioural guidelines, and monitoring of ethical decision-making (Brown, Treviño, & Harrison, 2005).

### **PA and Communication**

The PA process almost always involves face-to-face contact between the employee and the supervisor (Maley & Moeller, 2014). Face-to-face interaction is becoming increasingly more important in today's digital age as the opportunities for face-to-face communication decline. However, it is vital to balance these online interactions with face-to-face communication. Maley (2012) claims that one of the issues with digital forms of communication between the supervisor and the subordinate is that they tend to be impersonal, and that trying to make digital communications seem personal runs the risk of being misunderstood. One of the key advantages of face-to-face communication is that non-verbal cues can be gauged. Moreover, evidence points to face-to-face meetings foundation for feedback (Kirkman, Rosen, Tesluk, & Gibson, 2004; Sully De Luque & Sommer, 2000) and creating trust (Maley & Moeller, 2014). Face-to-face communication can also be much more effective for those who may struggle with written communication. Some people are much more fluid and clear with



verbal communication. Researchers have identified the importance of face-to-face contact for a positive relationship between the supervisor and the employee, suggesting that a more positive leader-member relationship is more likely to occur when face-to-face communication takes place (Maley & Moeller, 2014). This, in turn, has been found to result in higher employee satisfaction and agreement with the PA process (Elicker et al., 2006).

High employee participation in PA is associated with employee acceptance, satisfaction and motivation (Amba-Rao et al., 2000; Atwater & Brett, 2005; Roberts, 2003; Teo, O'Donohue, & Grimmer, 2009). Roberts (2003) argues that when employees actively participate in face-to-face communication as part of the PA process, they attain a degree of ownership, responsibility, pride, and acceptance; which reinforce the attributes of a participatory empowered work culture. For example, providing more positive and beneficial feedback is seen as one way to improve the performance review process.

*Proposition 3. Face-to-face feedback as part of the PA process acts as a conduit to reinforce managerial values and firm norms.*

### **ORGANISATIONAL ENACTMENT OF MANAGERIAL VALUES AND PA**

To find out how well managerial values are enacted in a firm, a level-based measure needs to be applied (Goodman & Dean, 1982). Dresner (2010) judges maturity modelling as the most comprehensive measure. This concept has increasingly become popular to identify degrees of institutionalisation in general (Harmon, 2009; Pöppelbuss & Röglinger, 2011) and in the field of business in particular (Nesensohn et al., 2014). Maturity levels capture the extent to which a firm has explicitly and consistently developed its proficiencies (Forstner et al., 2014) such as the enactment of managerial values. Therefore, maturity modelling appears to be a suitable concept to be applied to this study.

The capability maturity model (CMM) has served for many maturity models in a variety of areas including culture, knowledge management, business process, supply chain management, energy, and utility management (e.g. Biró, Messnarz, & Davison, 2002; Grundstein, 2008; Lockamy &

McCormack, 2004; Ngai, Chau, Poon, & To, 2013; Paulzen, Doumi, Perc, & Cereijo-Roibas, 2002; Van Looy, 2012). Neher et al. (2018) took a similar approach for the development of their maturity model of managerial values (MM-MV). The MM-MV (Figure 1) measures the extent to which managerial values are enacted in organisations by describing six evolutionary stages. Although developed for and applied to small and medium-sized enterprises (SMEs), the concept of the MM-MV can essentially be utilised in any other organisation as well. The concept follows the view that an organisation becomes sensitised about values, builds knowledge and defines their own values, implement them across the organisation, achieve mastery in their use, and eventually complete enactment (Neher et al., 2018). That is, the practices at each maturity level prepare the organisation to adopt practices at the following level (Curtis, Hefley, & Miller, 2009). At the highest level possible, espoused and enacted values have reached congruence. That is, values dissonance is reduced and the employees' commitment to the organisation increased. As a result, trust to and confidence in the PA process is likely to be enhanced.

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Insert Figure 1 about here

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Neher et al. (2018) in their empirical research found that a higher maturity level of managerial values enactment tends to be related to a higher financial operational performance of an SME.

*Proposition 4. A firm's well-enacted managerial values system contributes to corporate profit and impacts the outcome of the PA process.*

#### **SYNTHESIS OF INTERACTION BETWEEN ENACTED MANAGERIAL VALUES AND EFFECTIVE PA**

This study strives to explore the relationship between PA and the firm's enacted managerial values. So far, this paper has discussed interactional effects of PA and managerial values which resulted in four propositions. The first suggests that top management's walking the talk to enact ethical values system contributes to incorporating integrated ethical values practices into PA. The second proposition puts forward that concern for ethical values in PA produces accountability for ethical

expectations by linking ethics to important personal consequences. Thirdly, direct in-person feedback within the PA process proposes to act as a conduit to reinforce managerial values and firm norms. The last proposition claims that well-enacted managerial values not only contribute to the firm's profit but also impacts the outcome of the PA process.

A critical view of these four propositions reveals a heterogeneous picture in terms of the direction of the interactional effects. The first and the fourth propositions clearly indicate a managerial values–PA direction, whereas proposition three points to a PA–managerial values direction. The second proposition assumes that ethical values are incorporated in the PA process – the experience of the PA process contributes to the managerial values. Depending on the experience, that is, how ethics is perceived, managerial values are either reinforced or dismissed – when dismissed, frequently with a notion of cynicism.

As a result, these propositions mirror a contentious perspective when it comes to determining whether managerial values contribute to PA, or PA contributes to managerial values. In other words, it resembles the philosophical egg or hen question. The following discussion and conclusion section amplifies this question.

## **DISCUSSION AND CONCLUSION**

### **Discussion**

This study's main aim is to explore the role of managerial values in shaping PA practices. This implies that managerial values are one trigger that may affect PA practices; that is, a linear cause–effect relationship. However, in view of the expounded propositions based on extant literature, the question arises whether or not the interaction between managerial values and PA is really linear and one-directional. It is widely acknowledged that values and thus managerial values influence the behaviour of individuals or employees in an organisational setting (e.g. England, 1967; Kluckhohn, 1967; Rokeach, 1973; Schwartz & Bilsky, 1987; Westwood & Posner, 1997). Literature also indicates that employees identifying with the managerial values perceive themselves as part of the firm (Dutton, Dukerich, & Harquail, 1994; Rho, Yun, & Lee, 2015). By thoroughly living the values including

applying ethical codes of conduct across the firm, employees are much more committed, enjoy their work and thus actively contribute to the corporate outcome (Miroshnik & Basu, 2012). Thoroughly lived values are well-enacted within the organisation and are therefore part of the PA process. The degree to which the values are enacted in the firm and thus performed in the PA can be assessed by means of the MM-MV. As a result, it is safe to assume that managerial values shape PA.

Clearly, this is only the one side of the coin. The experience with the PA process and the PA outcome are vital for employees' view and feeling towards the organisation. A positive experience with the PA process helps, on the one hand, reducing employees' anxiety and scepticism (Amba-Rao et al., 2000), and, on the other hand, enhancing trust in the values and management. That is, managerial values are and their enactment is corroborated; employees' commitment to values and the firm is likely to increase. Additionally, the ability and trust to provide input and feedback into the PA process may foster employees' perception of equality, acceptance, sense of ownership and empowerment (Amba-Rao et al., 2000). Feedback of the PA process is instrumental in evaluating the ethical climate and values enactment, and thus potentially to initiate actions to further improve corporate ethics and the maturity of managerial values.

In contrast, a poorly administered PA process does neither motivate employees or guide personal development (Baker, 2013; Keeping & Levy, 2000; Maley & Kramer, 2014), nor will ethical managerial values be perceived as well-enacted. Disappointment and dissatisfaction may not only result in rejecting the performance review process (Elicker et al., 2006), but also create suspicion and cynicism towards the values, and therefore dispirit employees and undermine managerial credibility (Collins & Porras, 1996, p. 71; Lencioni, 2002, p. 113). In conclusion of this alternating perspectives, this study suggests a circular framework be an appropriate way to explain the interaction between managerial values and PA (Figure 2).

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Managerial values, particularly the degree to which the values are enacted in the firm, impacts both corporate financial performance (Neher et al., 2018) and the PA including its process and

outcome. Depending on how the PA process is conducted and the PA experience is perceived by the employees, managerial values are either corroborated or undermined. Feedback from the PA process is highly useful to improve or further develop the maturity process using the MM-MV. As a result, an improved PA process contributes to a positive PA experience that motivates and guides to personal development. In walking the talk, top management sets the precondition for this circular framework and ultimately the firm to be successful.

### **Limitations, future directions, and conclusion**

It is important to note the limitations of this study and the need for further research. The conceptual study is theoretically based and as such all the discussions within this study have centred conceptual and empirical works across the values and PA disciplines. Based on this first theoretical step to close the gap in the literature, it would next be useful to apply these findings to a real life business. For example, a case study research investigating a firm that has incorporated both the PA and the MM-MV appears to be a suitable method. Indeed, future studies that include empirical data and in particular longitudinal data should be considered so as to examine the role of managerial values in shaping PA and ultimately the impact on sustained superior financial performance. In summary, this theory-based research contributes to practitioners by delivering a concrete framework that illustrates interactional effects of enacted managerial values and PA to encourage broad-based effective PA practices based on a maturity model of managerial values. Firms that define, systematically link, measure and continuously optimise their managerial values and values implementation can expect stronger employees' commitment and superior financial outcomes (Neher et al., 2018). This integrated into the PA process aims to guide and support employees' personal development and performance. In turn, an effective PA process be a conduit to strengthen the managerial values and norms that a firm wishes to create guiding ethical behaviour of employees by communicating codes of conducts, training, behavioural guidelines, and monitoring of ethical decision-making (Brown et al., 2005). As a result, it can be expected that this circular interaction between managerial values and PA may lead to even higher corporate financial performance.

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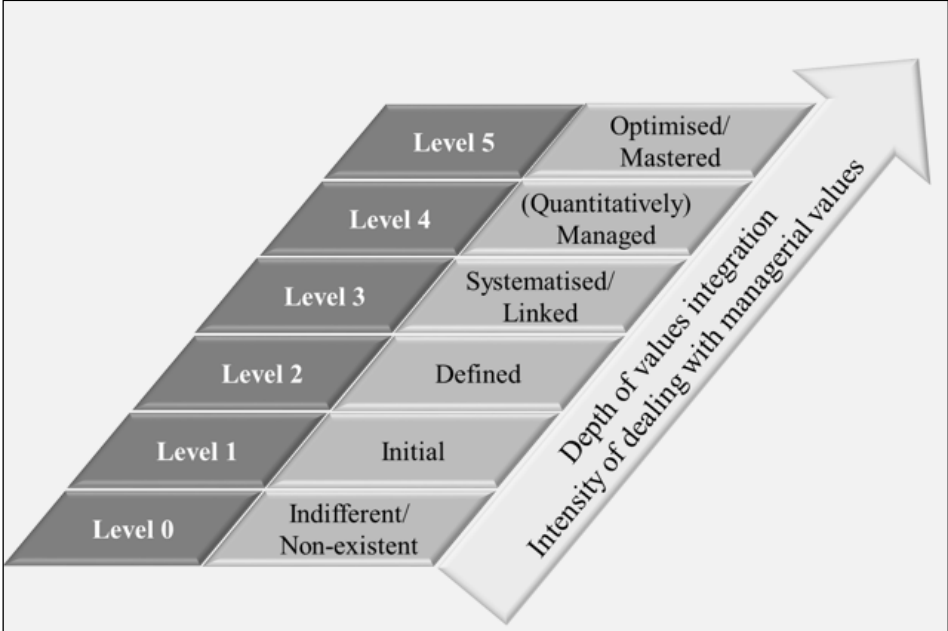
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**FIGURES**

**Figure 1** Maturity model of managerial values (MM-MV)



**Figure 2** Circular framework of interaction between managerial values and PA

