

# The Impact of Performance Evaluation on Employee Performance, Moderating Role of Organizational Standards

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## Abstract

Employees' performance is the key to success of any organization because organizations could not attain their desired goals unless employees are performing well. Employees' increased performance creates competitive edge for organizations thus organizations focus on enhancing performance and implement performance evaluation systems so that discrepancies could be identified and removed for future. Current study investigates the impact of performance evaluation on employees' performance while investigating the moderating role of organizational standards. Collecting data through a structured questionnaire from 130 respondents and Implementing multiple regression analysis it is found that performance evaluation has significant influence on employee performance, but organizational standards moderate this relationship. In fact, organizational standards provide benchmarks for evaluation criteria.

**Keywords:** Performance Evaluation, Employee Performance, Organizational Standards, Improved Performance, Quantitative Analysis.

## 1. Introduction

Organizational competitiveness and success is tightly bound with the performance of their human resource; hence they are considered the assets and benefit generating resources of the organization. this leads to the reequipping of strategies to identify, inspire, measure, appraise, improve and then reward the performance of employees at work (Whiting et al, 2008). Such requirements set the foundation for performance management and evaluation systems that play a vital role in facilitating organizations attaining their goals and enhance productivity. Contemporary era has compelled organizations, either public or private, to have a well-established performance management system to evaluate their employees' performance (Denisi and Pritchard, 2006). Performance appraisal systems are implemented to gain the maximum of their employees but at the same time organizational standards play an important role not only in setting performance evaluation criteria but also influencing employees' outputs, because organizational standards not only provide benchmarks for evaluation criteria but also facilitate employees in setting targets for their outputs (Pulakos, 2004). Hence, employees are not only concerned with the performance evaluation criteria that their performance will be measured by the organization but also are concerned with the organizational standards that how much the organization expect from them (Casico, 2009). Considering all these things current study investigates the impact of performance evaluation on employee performance and how organizational standards impact the relationship of performance evaluation and employee performance. current study will help organizations in understanding the importance of performance evaluation systems as well as the significance of organizational standards in enhancing employees' performance that ultimately leads towards their goal achievement (Brown et al, 2010).

## 2. Literature Review

Performance evaluation system serves as an instrument, utilized to enhance the quality of organization's human resource's performance. organizations' aim at attaining their desired goals that could only be achieved if their work force performs up to mark (Gruman and Saks, 2011). For this they require to set standards for having a benchmark for the performance as well as a performance evaluation system that ensures aligning the actual performance with the benchmarks (Sparrow, 2008).

### 2.1 Performance Evaluation

Performance evaluation is an organized and formal way to quantify and appraise an employee's job specific activities and outcomes to explore how and why he/she is performing currently and how they could perform more efficiently and effectively in future so that employees as well as organizations could get the best (Mone and London, 2010).

Performance evaluation is considered as a significant factor in identifying employee's capacities and talent as well as making them aware of developments, strategies and desired goals (Murphy and DeNisi, 2008). Organizations' require to perceive employees' efficiency to enhance human resource's status for enhancing the volume of production and services (Pulakos et al, 2008). Performance evaluation is important in a way that it facilitates ensuring the understanding of employees for organizations' systems and requirements as well as facilitating managers to get all done effectively. Evaluation systems, if impractical and complex, result in confusion, non-use and frustration. Likewise, the ones not relevant to the jobs leads towards wastage of time and resources (Armstrong, 2000).

## 2.2 Organizational Standards

Organizational standards are the well-defined desired, though achievable, echelons of performance that serve as a benchmark for comparing the actual performance (Casico, 2009). Such standards help to boost public confidence, endorse accountability and transparency, enhance effectiveness and performance and facilitate organizations attaining their mission, improving their activities, and acknowledging good practices to staff and board as well (Liao et al, 2009).

Standards incorporate organization's objectives and goals, managerial prospects for work performance as well as the implicit significance placed on these objectives, goals and performance demands. Standards are a significant part of organization's mission strategy provide the foundation for producing, delivering and evaluating the outcomes (Bijlsma et al, 2008). Organizational standards provide a framework for conducting business activities and governing what is deemed as adequate behavior in the job place. Mostly organizational standards are established and communicated in terms of code of conduct, customer services, human resource issues, legislative issues, quality assurance etc. (Elicker et al, 2006). But it is quite essential that standards are well communicated as well as easily accessible to the employees of organization so that they can ensure their performance as well (Casico, 2009).

## 2.3 Performance Evaluation and Employee Performance

The purpose of performance evaluation is to maintain employees' performance up to anticipated levels by motivating them to work accordingly through providing them a set of rules and regulations to be followed properly (Elicker et al, 2006). Performance evaluation facilitates highlighting the performance gap that requires fulfilment through proper actions of management. When performance gap is identified by the management, they can easily identify the required actions and can implement accordingly (Kuvaas, 2007). Performance evaluation assures the involvement of employees for achieving desired goals of the organization as well as the resulting actual outcomes. It not only facilitates management in aligning the performance to the desired levels but also facilitates employees' in identifying the performance gap, if any, to ensure improvements for future. Hence, performance evaluation helps employees to reach to the targeted levels of their performance (Lawler, 2008).

Performance evaluation significantly gauge the worker's execution and helps organization to appraise the progress towards coveted objectives and goals. Presently associations are utilizing performance evaluation as a key approach by organizing the human asset capacities and business policies (Latham et al, 2005). They are focusing it as a wide term that covers several activities like inspecting workers, enhancing abilities, maintaining performance and allocating rewards (Santon, 2000). Performance evaluation helps aligning individual objectives and goals with organizational goals. Performance evaluation system motivates employees, hence guides them toward accomplishing the vital objectives of the association (Fletcher and Perry, 2001). Performance evaluation sets up remuneration framework that combines the exertion of leaders and their subordinates to the shared objectives of their associations. For accomplishing superior objective of association performance evaluation is imperative part of human resource management (Cardy, 2004). Performance evaluation provides foundation for staffing and selection, training and advancement of existing staff, and inspiring and keeping up a quality human resource through appropriate and legitimate rewarding of their accomplishments. Execution isn't just identified with the actions yet additionally includes judgment and assessment process (Santon, 2000). The actions that can be analyzed and quantifiable are reflected as execution. Associations require superior performance of its employees so that they can meet their objectives and be capable of attaining the competitive advantage (Xanthopoulou et al, 2007).

## 2.4 Performance Evaluation and Organizational Standards

The core purpose of performance evaluation is to highlight the gap between actual and the desired performance, while such gap can only be identified if there is already existing benchmark that could be compared with the actual performance. thus, performance evaluation could only be done in the presence of benchmarks, and organizational standards provide such benchmarks (London et al, 2004).

Organizations are required to set up their mission and objectives, and following these mission and objectives clarifying individual roles, responsibilities and duties. Organization's mission and objectives not only elaborate the reason and purpose of organizational existence but also provide a direction that in which direction all must move to attain certain goals (Casico, 2009). Hence, these provide the basis for setting standards in the organizations for all activities to be performed accordingly. Organizations set individual performance targets as well, relevant to the operational units and broad organizational objectives (Liao et al, 2009). Hence, performance evaluation focusing on these set objectives supports an organization's goal achievement by linking individual jobs to the overall mission of working unit. Individual targets set by the organization provide a direction for employees to be followed and a benchmark for management to have an effective performance evaluation system (Aguinis, 2013).

Organizational standards influence performance evaluation system as evaluation criteria is set according to the defined standards. Management uses these standards to set and communicate targets for individual performance and latterly actual performance is compared with these targets to identify the discrepancies in the performance (Bijlsma et al, 2008). if performance evaluation successfully identifies discrepancies, such standards again facilitate the management to communicate employees' performance discrepancies considering organizational standards. The aim of performance evaluation, to find out discrepancies in actual performance and then enhancing it up to the mark, could only be achieved if organization has successfully established its standards and these are implemented and communicated effectively to the employees of the organization (Denisi and Pritchard, 2006). Hence, performance evaluation system could not be established in an organization, if it lacks organizational standards.

## 2.5 Organizational Standards and Employee Performance

Employees set perceptions of having strong organizational support when they trust that they are being directed by well-established set of standards. Organizational standards not only facilitate the management to set targets and then evaluating performance comparing with the benchmarks, but also provide a guideline and a clear path to be followed by the employees (Denisi and Pritchard, 2006). In the presence of well-established organizational standards, employees are clear about their direction and what, how and when they must achieve. Having a clear path and direction, in the form of established standards (Liao et, 2009), employees feel more confident and such confidence boosts their motivation levels to perform better. Organizational standards thus impact the performance of employees in a positive manner, because motivated towards reaching the target they give more output resulting in enhanced performance of employees and the productivity of organization (Xanthopoulou et al, 2007).

Organizations always require getting the maximum out of their employees, but only those are successful in achieving so, who define the roles, rules and regulations effectively. Thus, for having better performance of their employees, organizations are requiring establishing standards that should be clearly communicated and accessible to the employees of organizations (Bijlsma et al, 2008). organizational standards should not only be accessible by the management to set benchmarks for performance evaluation of employees, but also be accessible and understandable for the employees so that they would be motivated towards achieving the desired targets (Lawler, 2008). When communicated well, organizational standards serve as a motivator for enhancing employees' performance (Casico, 2009).

Performance evaluation measures influence employees' performance not only in manufacturing industries, but these are found to be highly effective for service organizations as well. Performance evaluation approaches when implemented properly highlight deficiencies in effective delivery of services, that facilitate service managers to implement ways for improving employee performance (Hsieh and Lin,2010). Performance estimates and evaluation strategies are also implemented in technology-oriented organizations, where these illuminate performance specifications as well as the need for further advancements. Moreover, performance measures facilitate technology-based organizations to reap benefits like reuse of components and effective division of work. Performance evaluation approaches facilitate practitioners and researchers to focus on key areas of deficiencies and finding effective measures (Koziolek, 2010).

## 3. Conceptual Framework

Based on the review of previous literature, following relationships are established among the variables of study:



Figure 1: Conceptual Framework of Study

The above framework depicts the proposed relationships of variables under study; performance evaluation as an independent variable, employee performance as a dependent one while organizational standards moderating the relationship of independent and dependent variables.

### Hypotheses

Based on the proposed conceptual framework, current study proposes following hypotheses:

H<sub>01</sub>: Performance evaluation has no significant influence on employee performance.

H<sub>02</sub>: Organizational standards has no significant influence on employee performance.

H<sub>03</sub>: Organizational standards do not moderate the relationship between performance evaluation and

employee performance.

While the alternate hypotheses propose the significant impact of variables.

#### 4. Data and Methodology

A survey has been conducted based on a structured questionnaire incorporating three sets of questions. Respondents are asked to respond on a 5-point Likert scale indicating 1 as Strongly Agree to 5 Strongly Disagree. The sample of study includes managers and employees of 10 manufacturing organizations in Jordan. Managers are asked to respond for set 1 and set 2 of questions while employees are asked to respond for set 1 and set 3. The sample incorporates 30 managers and 100 employees, a total of 130 respondents. The questionnaire items are as follows:

<b>Set 1</b>
My organization has established a performance evaluation system.
Performance evaluation system facilitates highlighting discrepancies in employees' performance.
Performance evaluation system helps communicating discrepancies with employees.
Once discrepancies are highlighted, employees are aware of their flaws.
If discrepancies are found, employees become conscious about improving their performance in future.
Employees try to cover up their discrepancies and perform well.
<b>Set 2</b>
After evaluation, employees' performance is found to be enhanced at an effective level.
Organizational standards provide basis for setting a performance evaluation system.
Performance evaluation criteria is set according to the standards of organization.
Performance evaluation system could not be set unless organization has established its standards.
Organizational standards facilitate management in identifying benchmarks for evaluation.
<b>Set 3</b>
Organizational standards provide a direction to be followed to perform well.
Organizational standards serve as a benchmark to have a self-look into my outcomes.
Organizational standards motivate me to work towards targets.
In absence of organizational standards, I have no clear path to be followed.
I work well in the light of organizational standards.
In absence of organizational standards, I could not perform up to the mark.

**Table 1: Questionnaire Items**

Quantitative analysis is performed to test the hypotheses of study, including reliability and validity of questionnaire, descriptive analysis and regression analysis to test the causal relationships among variables. Quantitative data analysis techniques quantify the observations for effective statistical analysis because numeric representation as well as manipulation of observed information facilitates the description and explanation of inherent phenomenon reflected by observations (Babbie, 2010). Moreover, quantitative data analysis techniques like regression analysis helps indicating the casual relationships between variables.

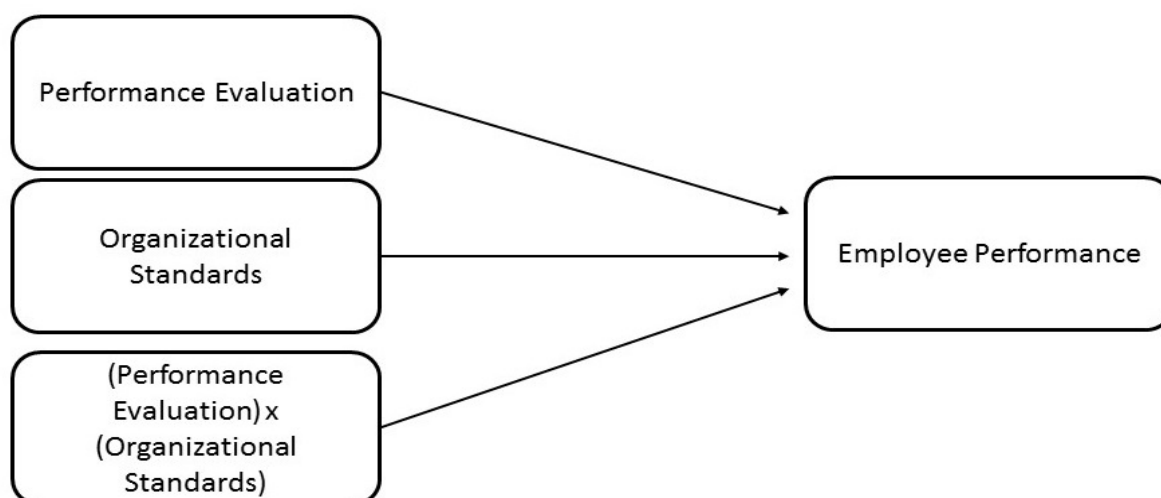
#### 5. Data Analysis and Results

Initially the three measurement scales are tested for their reliability through Cronbach's alpha having a minimum acceptable level of 0.7. The alpha values for performance evaluation, organizational standards and employee performance are 0.89, 0.75 and 0.87 respectively, indicating the internal consistency of the scales. Descriptive statistics of respondents' demographics are as follows:

		Frequency
Gender	Male	57.6%
	Female	42.4%
Age	20-30	23.4%
	30-40	46.5%
	40-50	30.1%
Experience	1-5	21.4%
	5-10	34.7%
	10-15	29.2%
	15+	14.7%

**Table 2: Demographics**

The moderation effect is tested through the product of independent and moderating variable. Thus, the empirically tested model of study is as follows:



**Figure 2: Empirically tested Model of Study**

Based on the above model following regression equation is formed:

$$EP = \alpha + \beta_1 PE + \beta_2 OS + \beta_3 (PE)(OS) + e$$

Where EP indicates employee performance, PE indicates performance evaluation, OS indicates organizational standards.

The regression results are as follows:

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig
	B	Std. Error	Beta	Std. Error		
(Constant)	8.80	.105			85.632	.000
PE	.487	.048	.530	.054	9.814	.000
OS	.376	.003	.516	.047	10.978	.000
(PE)(OS)	.127	.002	.343	.053	6.47	.000

**Table 3: Regression Results** (Dependent Variable: EP)

Multiple regression model is tested to explore the impact of organizational standards on association between performance appraisal and employee performance. After computing the interaction term of performance appraisal and organizational standards, to evaluate the moderating impact of organizational standards, on the relationship of performance evaluation and employee performance, the two predictors along with their interaction term are entered the regression model. The results of model indicate that the three proposed relationships according to the proposed hypothesis of study; impact of performance evaluation on employee performance, impact of organizational standards on employee performance and moderation of organizational standards between performance evaluation and employee performance, are found to be significant. As the p values for these three tested relationships are below 0.01, thus indicating that we can reject the null hypotheses of no significant relationships. Hence, the alternative hypotheses of having significant influence are accepted by the study.

## 6. Key Findings & Conclusion

Current study explored the moderating impact of organizational standards on the relationship between performance appraisal and employee performance. The three proposed hypotheses are tested by developing relationships among variables of study, while the moderating variable is tested by creating an interaction term of independent variable and moderator. The empirical results of study provide evidence that performance evaluation and organizational standards both have significant influence on employee performance. The interaction between performance evaluation and organizational standards is also found to be significant, indicating that the impact of performance evaluation on employee performance depends on the organizational standards. Such findings support the acceptance of alternate hypotheses of study as follows:

Hypothesis	Result
H <sub>1</sub> : Performance evaluation has significant influence on employee performance.	Supported
H <sub>2</sub> : Organizational standards has significant influence on employee performance.	Supported
H <sub>3</sub> : Organizational standards moderate the relationship between performance evaluation and employee performance.	Supported

**Table 4: Alternate Hypotheses**

Thus, the above findings indicate that although performance evaluation significantly influences employee

performance, but their interrelationship is being influenced by the organizational standards. Organizational standards influence the impact of performance evaluation on employees' performance positively. Hence, it is concluded that although organizations could enhance their employees' performance through implementing performance evaluation systems as it highlights the discrepancies and facilitate management as well as employees to perform up to mark in future. But in the presence of organizational standards the impact of performance evaluation on employee performance becomes even more significant as organizational standards provide basis for setting benchmarks to compare the actual performance with the desired outcomes.

To enhance employees' performance, organizations should not only implement performance evaluation systems but also initially set their standards, so that management could have certain benchmarks to set the targets for their employees as well as to highlight their discrepancies and demand improvements for up to the mark performance. Such standards also motivate employees to work towards achieving their goals. Employees, when provided with benchmarks, are aware about organization's expectations about their outputs which play a two-fold role in enhancing their performance. If found with discrepancies, leads them towards improving their performance while if found to meet the targets effectively and appreciated by the organization, are even more motivated to enhance their performance.

Concluding all the findings, current study found that organizational standards moderate the impact of performance evaluation on employee's performance.

### **6.1 Applied Implication**

Current study has significant implications for manufacturing organizations, where employees' productivity is the founding stone for organizational success. Organizations always focus on enhancing employees' performance to achieve their desired goals, but only performance evaluation could not contribute positively in enhancing their performance, rather organizations should focus on their standards as well. If organizations would have well established standards and these are communicated and easily accessed to the employees, then they would have better chances of enhanced employees' performance.

### **6.2 Limitations and Future Recommendations**

Current study is based on a survey that portrays the views of respondent easily accessible by the researcher, adopting a convenient sampling technique, while employees' performance could be evaluated through secondary data collected on certain performance indicators. As well as the impact of organizational standards could be tested by having secondary data on when the organizations set their standards and investigating the post-performance after implementation.

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