

Implications of Performance Appraisal at General Electric Company

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Abstract

In competitive periphery, performance management is considered as essential ingredient for any business's survival. Since 2000, performance management developed itself as a legislative condition for any type of organization all over the world. In management toolbox, very few win-wins strategies are left and performance management is considered as the best strategy. In the light of recent downturn in economy around the globe, performance management and appraisal played a significant role in the effective management for the employees in any viable organization of any industry and enhanced the satisfaction, commitment and organizational performance. Most of the organizations have poor reputation with the implementation of performance management system and performance appraisal process because of non-serious attitude of top management. Accordingly, this study aimed to highlight the importance of performance management system within General Electric Company. Implications for practicing managers are presented.

INTRODUCTION

Performance management defined by Armstrong (2009) as “a means of getting better results from the whole organization or teams or individuals within it, by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements”. DeNisi and Pritchard (2006) defined performance management is set of activities which helps the organizations in improving the performance of individual employees? Briscoe and Claus (2008) defined performance management as the approach how an organization make their goals, evaluate performance standards, work assignment and evaluation, feedback about the performance, conduct training and development analysis and allocate rewards. Armstrong (2009) claimed that first article appeared on performance management was on 1972 and 6607 articles were found on performance management till January 2009 (an EBSCO search).

From all HR practices related to performance management systems, performance appraisal got paramount importance in the studies to increase the productivity or performance of an organization (Fletcher, 2004). To date, because of contextual factors, research reported the practices of performance appraisal implementation in multinational corporations did not attain the expected results (Chen and Eldridge, 2010). For instance, a study conducted by Hempel (2001) and argued that the best performance appraisal practices are not completely full filed when they applied in China. Similarly, Lunnan et al. (2005) suggested that initial barriers or national values may become hindrances in multinational organizations while implementation of “foreign best practices”. Another research conducted by Cheng and Cascio

(2009) who also supported these lines and argued that there is obvious difference in the implementations of performance appraisal in different organizational cultures.

Rater's accountability is considered as significant topic in the literature of performance appraisal. Curtis et al. (2005) argued that accountability consists of two forms: downward from manager to employees and upward from manager to next level of management but in the literature studies were only highlighted the importance and shortfalls in downward accountability. Irrespective of the relationship between accuracy and raters' accountability, employees are mostly held accountable to their supervisors for their ratings. Another important outcome is the security of the ratings. Stone et al. (2008) argued that security of the ratings get partial consideration from the researches from the perspective of employee performance evaluations. He also claimed that performance appraisal documents (complete appraisal form, SOPs, personal development plans etc.) are confidential and it should only accessible to the selective authorities. Redesign of work processes including the method of conducting or evaluating the performance appraisal in the technology-driven context also related to cost reduction and improve the quality of evaluation of performance appraisals (Kavanagh and Thite, 2008). Recently, Beckers and Bsat (2002) identified several importance of HRIS effectiveness includes "collecting appropriate data and converting it to information and knowledge for improved timeliness and quality of decision making".

LITERATURE – PERFORMANCE MANAGEMENT SYSTEM

Neely et al. (2005) defined performance management system (PMS) as the set of metrics which is used to measure the actions' effectiveness and efficiency. PMS also taken as dynamic and balanced system which helps in the process of decision making by collecting, analyzing and monitoring information related to performance (Garengo and Bititci, 2007; Bititci et al., 2000). Furnham (2004) argued that each organization required different management tools but PMS is poorly managed by the managers across the global. The real goals of PMS are consisted of threefold – to correct performance, to sustain the performance and to improve performance (Lee, 2005). Lawler (2003) contended that PMS involved in rewarding, controlling, monitoring and motivating the employees so that they put their best efforts to achieve strategic goals of the organizations. Biron et al. (2011) also explained the significant aim of PMS as the end result of individual and group performance with the ultimate objective of enhancing organizational effectiveness. Since each organization had its strategic direction, hence the best way of aligning the interests of top management and employees is the effectiveness of PMS (Becker et al., 2011). Another key contribution of PMS for the organization is to increase the organizational performance, fixing accountability, modify results and behaviors, helps in execution of organizational strategy and linked the individual employees with the organization's effectiveness (Biron et al., 2011; Bae, 2006).

In management toolbox, very few win-wins strategies are left and performance management is considered as the best strategy (Black and Marshall-Lee, 2011). Performance management is regularly being used by the management for enhancing the overall performance of the organization (Marr, 2004; Davis, 2004; Propper and Wilson, 2003) but, so as to make it successful, the performance-driven behavior and PMS of organization should be premium (Martins, 2000). Researches on PM is unequivocal, it delivers remarkable results related with profitability, revenue growth, employee turnover / retention and return on equity without any investment (Fitz-enz and Berggren, 2006; Mortimer, 2006).

Murphy and Cleveland (1995) explained the performance appraisal as an annual and formal interview based on social interactions among employees and managers to take action on previous individual's performance and planning of future developmental needs. Fletcher

(2004) argued that "... instead of only being a simple tool of recording and documenting employee's performance, performance appraisal is considered as a more strategic and holistic approach to link a headquarters' strategic plan with the subsidiary and individual performances". Employees of any organization also put more emphasis on the fairness of the performance because this practice is directly related to their pay and fringe benefits and increase the acceptance rate and success of appraisal (Kavanagh et al., 2007; Narcisse and Harcourt, 2008; Erdogan et al., 2001). For the success of nay appraisal system, literature proved that empowerment and involvement of lines managers is considered as prerequisite factor because they participate actively in appraisal activities like performance rating and performance interviews (Asmuß, 2008). Another substantial topic of performance appraisal is employee satisfaction with the performance appraisal systems (Giles and Mossholder, 1990) because it's directly related to the motivation, commitment, job satisfaction and employee productivity (Pearce and Porter, 1986; Ilgen et al., 1979; Cook and Crossman, 2004). Utility of performance appraisals is also an important research reaction (Cawley et al., 1998). Greller (1978) defined it as "the extent to which the employee learned valuable information from the evaluation, such as how he/she can do the job better, how to develop his/her skills, and whether he/she met supervisors' expectations". Nathan et al. (1991) claimed that "when the PA review process leads to career discussions, the PA process is also likely to be perceived as having greater utility".

Recency Effects are also played a key role in favorable or unfavorable biasness of the supervisors. In this scenario, recent occasions are observed by the supervisors that they used in the future performance appraisals. Equity and consistency may be distorted by ratings of appraisers, ethnicity and gender etc. The studies of White (1999) and Alimo-Metcalf (1991) forced these lines that the studies in UK and USA highlighted the gender subjectivity in performance appraisals systems. Geddes and Konrad (2003) also questioned the biasness of appraisers and appraisee's ethnicity.

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Since the application and scope of the performance appraisals is increased in the occupations and sectors, critiques on this systems also raised. Bach (2005) argued that "orthodox technique" that strives for remedy that propose and weakness of appraisals systems to enhance the performance is dominant critique in performance management literature. Strebler et al. (2001) called this orthodox approach as the conflicting purposes of the performance appraisals systems. As the performance appraisals enhanced the performance by

favorable motivate the employees to set standards with the prearrangement of trainings. These conflicts raised when the reward distribution is entirely based on past performance (Bach, 2005).

A CASE STUDY – GENERAL ELECTRIC COMPANY:

General Electric Company is well recognized global company operated with head office in Fairfield, Connecticut and multinational conglomerate in New York, United States of America. In 1892, General Electric Company was formed by the mergers of Morgan & Co, Massachusetts – Drexel, Lynn & New York - Thomson-Houston Electric Co. and Schenectady - Edison General Electric Company. Till date, all plants are still working under the supervision of headquarters of General Electric Company. Between this time span, Canadian General Electric, a GE Canadian counterpart, was formed. Currently, the company is operating with four major business units, Consumer & Industrial, Capital Finance, Technology Infrastructure, and Energy. Dow Jones Industrial Average was established in 1896 and General Electric listed its original 12 companies in this list. Despite the fact that the companies were not indexed in DOW continuously, but these are the only original companies which is enlisted in the list even after 116 years. National Electric Lamp Association was absorbed by General Electric Company in 1911 in lighting businesses. In 1960, General Electric Company consisted on eight major companies of computer industry with IBM, UNIVAC, RCA, Honeywell, Control Data Corporation, Burroughs and Seven Dwarfs. General Electric also formed GE Wind Energy after acquiring wind turbine manufacturing company in 2002. Smith Aerospace was bought in 2007 of the worth 4.8 billion dollars. In October 2012, General Electric Company acquired \$7 billion worth of bank deposits from Metlife Inc. General Electric Company achieved numerous international recognitions. Some of them are listed hereunder.

Company Leadership	Diversity	Corporate Social Responsibility
<i>World Most Admired Company</i> No. # 1 (2006-07,2012) No. # 2 (2008)	Top 100 Military Employers <i>G.I. Jobs</i> , 2008 - 2013	Corporate Equality Human Rights Campaign, 2006–2011
<i>Leaders #1 Company</i> <i>Transparency International</i> , <i>2010 Businessweek</i> , 2010 (#1) <i>Fortune/Hewitt Associates</i> , 2007, 2009, 2011	Most Powerful Women <i>Fortune</i> 2007 - 2011	Brand Sustainability Index Survey <i>M&M</i> , 2010 (#2)
<i>Most Respected Company of</i> <i>World</i> <i>Barron's Magazine</i> 2011 (#48), 2012 (#54)	Women Worth Watching <i>Profiles in Diversity Journal</i> , 2011, 2012	100 Best Corporate Citizens <i>CR Magazine</i> 2008 - 2012
<i>Career Launcher</i> <i>Businessweek</i> , 2007 (#13), 2008 (#12), 2009 (#16)	Top 50 Employers for Women <i>The Times</i> (Opportunity Now), 2012	Most Ethical Companies <i>Ethisphere</i> , 2007 - 2012
<i>Global Brand</i> <i>Businessweek</i> , 2008, 2009	Best Companies for Women's Advancement <i>Working Mother</i> magazine, 2011	Climate Innovation Index Maplecroft, 2011 (#1), 2012

HR ISSUE – FORCED DISTRIBUTION RANKING

Cooper and Argyris (1998) argued that forced ranking is considered as an evaluation method where the human resource management give rating to the employees' performance in pre=planned performance distribution ranking systems. Meisler (2003) defines it as "It's a workforce-management tool based on the premise that in order to develop and thrive, a corporation must identify its best and worst performers, then nurture the former and rehabilitate and/or discard the latter. It's an elixir that in these slow-growth times has proved irresistible to scores of desperate corporate chieftains - but indigestible to a good many employees". Forced ranking also explained as"

"Forced ranking, also known as forced distribution, is essentially a performance management mechanism that requires a ranking of all employees to identify the relative performance of each one. Forced ranking's objective is to employ only A players, therefore, B and C players must be coached to become A players or moved into other jobs where they can be A players. Employees who are unable to make this transition might be fired. In many cases, there is a required turnover of the lowest-performing group of employees each year. Typically, when forced-ranking systems are applied, strict percentages (such as top 20 percent, vital 70 percent and bottom 10 percent) are set in a standard bell-curve model to slot the employees as either A, B or C players".

Morrison and Keefe (2003) urged that "forced distribution system approach is dictated to force managers to make the performance evaluation process truly reflect how each team member is performing, relative to others, with the ultimate goal being more productive employees, who perform at levels to make service, revenue, and growth goals attainable. Forced ranking flushes...laggards into the open". Hence, those employees who ranked very low according do this system they are either terminated, or improved or never been coached to increase their performance.

General Electric, Chief Executive Officer John Welch, is associated more strongly with forced distribution ranking because every year the company reduced its 10% manpower due to this performance management systems. Levinson (2003) contended that "Managers would rather have a tooth pulled than have a performance conversation with a subordinate....Dealing with poor performers is probably the most difficult job that anybody with supervisory responsibility has". An international group Development Dimensions International claimed that one-third organization currently focusing on this performance management system to reduce its manpower. Forced distribution ranking is mentioned in Table 1.

PERFORMANCE MANAGEMENT AS BACKBONE OF HUMAN RESOURCE:

Performance management is considered as planned process which consists of five primary factors – dialogue, positive reinforcement, feedback, measurement and agreement (Armstrong, 2009). It is associated with determining the delivered performance as an outcome as compared with the expected results, objectives or goals. He also claimed that performance management provides "the setting for ongoing dialogues about performance that involves the joint and continuing review of achievements against objectives, requirements and plans, feedback, reinforcement and coaching". Performance management should not taken as top-down approach where managers assigned their duties, set priorities, objectives and performance improvement plans because "it is not something that is done to people" (Armstrong, 2009). Buchner (2007) emphasized that performance management is something "that is done for people and in partnership with them".

Table 1: Distribution System

Forced Ranking Type	Working Parameters	Outcomes
Quartile	Employees are ranked in four different quartile but equally	Outcomes of all ranking systems are same: 1. Receive very low compensation or no reward, coaching session will take place or terminate these employees. 2. Received highest rewards and advancement 3. Just increases compensation packages with moderate situation
Totem Pole	Based on previous year performance, one individual ranked at very low and someone else ranked at high peak and remaining employees are ranked in between.	
Bell Curve	1. 10% are not performing as per desired expectations 2. 10% are exceeding from desired expectations. 3. 80% are just meeting expectations	

Bento and Bento (2006) argued that PMS allowed to the businesses to design, quantify and manage the performance so that organizations can take better decision for allocating different resources and activates that can allied with desired results in better way. PMS also helps in developing customer-driven environment and evade ambiguities and goal conflicts by integrating explicit performance standards (Brunetto and Farr-Wharton, 2005). Researchers (Kennerley & Neely, 2002; Atkinson et al., 1997) strongly suggested that for including non-financial and financial measures for the effectiveness of PMS. Kennerley and Neely (2002) contended that “PMS are not only rational frameworks by which to assess many dimensions of organizational performance, but relational tools with which to invigorate the dynamics of organizational and environmental changes”. Hence, PMS convey the micro aspects of different organizational activities converted into more transparent for self-evaluation (Vaivio, 2007).

Johanson et al. (2006) argued that dynamic business environments and technological evolution entirely changed the paradigm of traditional approaches of measuring performance management frameworks. Accordingly, organizations shifted their mindset to integrated viewpoint of organizational performance from solely finance outcomes. This viewpoint holds a significant movement for the PMS’s non-financial position and its theoretical framework. Because of this reason, numerous integrated framework of PMS had been evolved like intangible capital model (CIMA, 2010), balance score card (Kaplan & Norton, 1992), shareholder value analysis (Rappaport, 1998), performance prism (Neely & Adams, 2001) and performance pyramid (Lynch & Cross, 1994).

Despite the importance of PMS for an organization, numerous researchers criticized this mechanism (Pulakos and O’Leary 2011; Jones and Culbertson 2011) by publishing number of books and research studies that suggested to eliminate performance appraisals from the organization or others emphasized on its effective execution for proper results (Grote, 2011; Culbert 2010). To resolve these issues numerous patches and adjustments were offered to fix performance management comprising of cascading goals, adding raters, changing rating scales and so forth (Hantula 2011). Parkman (2002) claimed that the significant concern that PMS can resolve is to create strong linkage between the efforts of individuals’ employees with its consequences like linkage of performance with effective team management, incentives, bonus,

distribution of salary, motivation and reinforcement of individual tasks (Lawler 2008; Lawler 2000).

From the last decade, the need of effective and efficient PMS is increased because it enhances the overall quality and performance of an organization (de Waal and Coevert, 2007). In order to successful implementation of PMS, the structure of PMS itself and performance-driven behaviors of organizations should be of high quality. A well-established and proper implemented PMS system ensured cost-effectiveness, better customer services at organization's end. Numerous authors emphasized on advocating "performance management" rather than on "performance measurement perspective" because of its managerial implications (Dey et al., 2008; Greiling, 2006). Kochanski (2007) reported that Sibson and World at Work conducted a survey and found that high performing organizations have strong leadership support for performance management. In the period Of 2003 – 2005, 64% high performing companies implemented PMS system effectively.

In the organizations with PMS, 85% pay is based on performance and 76% based on rated performance. Additionally, Strack et al. (2010) conducted a survey of 5560 HR and business leaders from 109 countries and concluded that those organizations who were high performer (with respect to profitability growth and revenue) ranked performance management as second highest HR-capability and ninth by low performing organizations. Performance management, at its best, act as viaduct between individual contributions and company's strategy, by ensuring the efforts thousands of employees are harnessed to deliver a few, shared goals. However, most of the organizations have poor reputation with performance management because managers put emphasis on forms, systems, processes and resources but in-return the outcome is very low. Regrettably, failure rate of PMS implementation or its usage in an organization or project is 70% (Neely and Bourne, 2000)

Bourne et al. (2002) argued that structured discussion is missing in the literature why the implementation of PMS is not successfully achieved. Without knowing the SWOT analysis, organizations may confront with these problems again and again which cause inefficiency in the project or terminated systems. De Waal (2002, 2003) claimed that the term successful companies managed and controlled the system effectively through PMS on regular basis. Researchers (e.g. Waal and Count, 2009) argued that the reason behind the failure in implementation of PMS is human element. Ashton (1997) quotes the quotation of *American Productivity & Quality Center's International Bench-marking Clearinghouse* as "...people issues appear to be make or break factors in success – deliberate, targeted and ongoing communication strategies are crucial, along with education and reinforcing a central question: how does individual effort relate and contribute to business strategy?" Performance management is considered as the manifestations and strong instrument to support the work culture of an organization. So, without exploring context / meaning of the organizational culture, every discussion on the failure of PMS implementation is incomplete (Mitchel, 2006).

ACTION PLAN

The main purpose of this report is to understand the performance appraisal system at General Electric and highlights the best practices, pitfalls and shortcomings of appraisal system in the organization. General Electric did not adhere the best practices as suggested by the researchers, practitioners and organizations using themselves. *Pfeffer and Sutton (2006) claimed about forced distribution as "we couldn't find a shred of evidence that it is better to have just a few alpha dogs at the top and treat everyone else as inferior. Rather, the best performance comes in organizations where as many people as possible are treated as top dogs. If you want people to keep working together and keep earning together, it is better to grant*

prestige to many rather than few, and to avoid big gaps between who gets the most rewards and kudos”.

Meisler (2003), in an article, called the forced distribution approach “rand and yank” as “Dead man’s curve” thought that: “For most people – especially those with outmoded concepts of loyalty and job security – the prospect of Darwinian struggle at the work place is not a happy one”. In another article written by O’Malley (2003) explained the forced ranking as a “a gross method of categorizing employees into a few evaluative buckets”. Another survey conducted by Novations Group (2006) on 200 HR professionals and they reported that forced distribution mechanism negatively influences number of critical factors including employee engagement, morale, collaboration / team work and productivity. To avoid this negative factors, a manufacturing company used a diabolical device named *factorizing* for iron out the inconsistencies rating in forced distribution. This meant producing an average score for the whole company and amending the allocation of points in each department to ensure that their scores corresponded with the company average (Armstrong, 2009).

Balance score card (BSC) is considered as the most influential framework of PMS that integrate four diverse perspectives of learning and growth, improvement, customer and finance (Kaplan and Norton, 1996). BSC helps the organization to consider and monitor ongoing structures of intangible facet of organizational performance (Wu, 2005; Lim & Dallimore, 2004; Bose & Thomas, 2007; Arora, 2002; Andriessen, 2004). Researcher (for reference Sánchez-Cañizares et al., 2007; Frost & Cooke, 1999) explained BSC an “enabler revealing intellectual capital”. BSC is also taken as management framework that integrate operational execution and strategic planning throughout the organizations (Kaplan & Norton, 2006, 2008).

Without taking human element into consideration, the designed phase of management control system would be curtailed (Simons, 2000) and successful implementation of PMS is depends on accommodating and understand of human element solely (Holloway et al. 1995) which is beneficial and crucial aspect of using and implementing of PMS (Davenport and Gardiner, 2007). Additionally, regular use of PMS and performance-driven behavior enhanced the performance of an organization as compared to other means (Malina and Selto, 2004). Waal and Count (2009) claimed that “...to test if the combination of structural and behavioral aspects in practice influences the success of implementing and using a PMS, and consequently the performance of an organization. The fact that the academics rate these behavioral problems to be relatively less important than the practitioners serves once again as a wake-up call for researchers to go more deeply in these problems, to come up with solutions how practitioners can deal with them”.

CONCLUDING THOUGHTS

Numerous researchers i.e. Rees and Porter (2004), Piggot-Irvine (2003), Rees and Porter (2003) suggested some recommendations to develop the best performance appraisals system in their organizations which may also be followed in General Electric. Appelbaum et al. (2008) suggested that organization should introduce multi-rater system for performance evaluation to reduce psychometric errors. Another method for overcoming the psychometric errors is self-performance evaluation. Farth et al. (1991) stated that “self-evaluations can increase the effectiveness of the appraisal system and result in a positive impact on an employees’ satisfaction with the evaluation and his/her perception of justice and fairness”. The study of Jackson et al. (2003) also support this notation that employees who rate themselves get more involved in personal goals and committed with their jobs.

Pongatichat and Johnston (2008) concluded that performance management is significant aspect for the management. For any organization, the process working at the workplace

provides the bases to the organization to design and planned their objectives, identify weaknesses and strengths of the systems, and introduce creative initiatives for enhancing business's performance (Purbey et al., 2007) and benchmarking is considered as the best instrument for this purpose (Goncharuk, 2008; Dawkins et al., 2007). Longenecker and Fink (2001) contended that "organizations which fail to make benchmarking as an integral part of their performance management efforts and practices tend to experience lower than expected performance improvements, and higher dissatisfaction and turnover of employees".

As previously stated, performance management is one of the fewest managerial techniques to improve the performance, attain and sustain competitive advantage. Simultaneously, the implementation rate of PMS is alarmingly high. Hence, the organization should put their utmost effort for successfully implementation of PMS either through financial resource or human resources. In short: the research results in reinforcing that important adage: forewarned is forearmed!

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