THE EMPLOYEE APPRAISAL METHOD BASED ON THE AGREEMENT ON OBJECTIVES

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Abstract:
The challenge for companies is to create a useful employee performance appraisal regarding the successful management of employees. Motivated and engaged employees are after all a company’s most valuable asset. In recognition of this, the paper deals with the employee appraisal method based on an agreement on objectives, which has now been established as a modern and important tool for management and appraisal purposes. As a result it can be determined that the objective agreement systems are deservedly one of the most widespread and popular management methods of our time because of their versatile usability and unmistakable advantages. The dynamic alignment with company objectives, the strong and cooperative integration of employees, the objective measurability of the objective agreements as well as the motivational effect are attributes that positively differentiate the procedure from other employee appraisal methods. At the same time, the missing operational feasibility, the lack of some objectives’ controllability, as well as low level objective agreements pose fundamental difficulties. Therefore, comprehensive requirements are necessary on the part of the company as well as on the part of the employees in order to guarantee a successful application of the theory and be able to avoid risks for the most part. Whether the risks or prospects are outweighed in a concrete case depends on the individual, complex organisation factors and conditions.

Keywords: employee appraisal, objective agreement, management by objectives, objective theory.
1. THE MOTIVATION, GOAL AND METHODOICAL APPROACH OF THE PAPER

People make judgements about their fellow humans, regardless of the situation they meet each other in. At every meeting or in every discussion, what the other person says or how they behave is judged, consciously or unconsciously. This assessment process, which to a large extent comes instinctively from the gut, usually occurs automatically and unconsciously. Prejudices, language, gestures and mimics, as well as sympathy and antipathy play a considerable role in this. The appraisal of the employees is one of the firmly anchored human resources tools in many companies. From this comes the challenge to create practical appraisal systems in regard to successful employee management, because it is about creating a motivating appraisal and advancing the potential for achievement of the employees for the optimal fulfilment of the company objectives.

In consideration of this, the agreement on objectives has been established as a modern and important management and evaluation tool. This appraisal method is fundamentally about a mutual agreement on the objectives that the employee commits to strive for. From this, the question arises of how this appraisal system can be applied properly so that all the praised and unmistakable advantages are being brought out for real. In recognition of this, the paper’s target to examine the theory of this appraisal method. Three central questions are explored regarding this:

1. What is exactly “the employee appraisal method based on the agreement of objectives”?
2. How is the appraisal system implemented? What should be taken note of?
3. What are the prospects and risks of the method?

The three core questions will be dealt with one after the other, whereby one chapter is dedicated to each question. In the conclusion the answers will be summarised.

2. EMPLOYEE APPRAISAL METHOD BASED ON THE AGREEMENT OF OBJECTIVES

2.1. Definition of Terms

There are different types known under the name of Employee Appraisal Method based on the agreement of objectives. This paper sees the concept of the agreement on objectives as a management tool and as a basis for the employee appraisal without reference to compensation (Breisig, 2002, p. 106). This objective-oriented process of employee appraisal is defined as a negotiation process, in which the manager and the employee develop a mutual understanding of objectives and reach an agreement, in which the employee commits himself to implement these objectives on the employee’s own responsibility (Breisig, 2007, p. 32). The result of the appraisal is the degree to which the employee actually achieved the objectives that were agreed upon (Scholz, 2009, p. 158). In this, the orientation of employee’s operational activities towards the company’s overall objectives is in the foreground (Breisig, 2007, p. 30).

2.2. Theoretical and Conceptional Backgrounds of the Appraisal Method

Generally, objectives are a vital principle in conjunction with the company management: without the definition and knowledge of objectives, managerial actions are lacking in basis and any supervision, coordination, control, orientation and communication processes come into question (Breisig, 2005, p. 95). Thus objective agreement systems resulted from superior
theoretical approaches which have long since belonged to the knowledge of the management methods. In the meantime, objective agreement systems have become widespread in German companies and other organisations and these can be included in the most widespread and popular management methods of our time (Breisig, 2007, p. 21).

Management by Objectives

First of all, the concept of the objective agreement can be traced back to the management tool “Management by Objectives” that was established by Peter Drucker in the 1960s in the USA. The fundamental idea consisted of developing processes for goods and services being based on previously agreed upon objectives (Breisig, 2007, p. 45). The aim of the process is to implement the strategic objectives for the whole company, in which these objectives become operational for every unit of organisation (Röder, 2007, p. 5).

The process is especially driven by the operative aspect of the mutual objective agreement between senior management and employees (Haitzmann, 1996, p. 478). In this, a strongly motivating effect is attributed to the participation of the employee in the objectives establishing process. This is due to the fact that the employees identify more strongly with the objectives and develop a higher sense of responsibility for achieving the objectives when they are involved in the process (Röder, 2007, p. 5).

The MBO is focused on the most possible quantified, that is numerical, objectives. Since these objectives are sufficiently clear and verifiable after the period of time has elapsed they are considered the best suitable for central supervision of the company’s actions and its employees (Breisig, 2007, p. 53). Since this restriction comes up against application difficulties in practice, qualitative objectives are also agreed on with the attempt to make them as “measurable” as possible (Müller, 2005, p. 45).

A further distinguishing component of the MBO is the hierarchy of objectives. Based on the strategic aims of the whole company, the objectives are broken into in a cascading order on the subordinate hierarchy levels (Kricsfalussy, 2008, p. 40). Thus compatibility in the objectives is ensured: the objectives on the subordinate levels have to harmonise with those on the respective higher levels. Thus the objectives further down in the hierarchy increase in detail, precision and the ability to be operational (Breisig, 2007, p. 47). Therefore the employees automatically coordinate their daily operative work with the whole company’s strategies (Röder, 2007, p. 5).

The goal-setting theory of the work motivation

An additional theory which has significance for the objective agreement concept is the objective theory of the motivation to work. It states that objectives can have a high motivational effect concerning the performance results (Braunschweig, 2001, p. 203). The objective theory is today one of the best secured approaches of motivational psychology (Rosenstiel, 2010, p. 149).

The starting point of this theory is that every human action is goal-oriented. Thus goals are ascribed a certain knock-on effect that leads to the mobilisation of effort, to a focus on attention, and to an increase in endurance (Bungard, 2002, p. 24). This has the result that those concerned strive to get rid of every obstruction with regard to the objective achievement (Braunschweig, 2001, p. 203). Thus creative and efficient business strategies emerge (Breisig, 2007, p. 50). Additionally, objectives make a sense of success possible. The experience of
achieving a goal strengthens self-esteem and the knowledge of one’s own competence (Comelli & Rosenstiel, 2009, p. 87). This experience has a central significance for future behaviour.

In order for objectives to produce these desirable effects in actuality and motivate an increase in performance they must fulfil certain requirements, which are presented in detail in the following chapter.

2.3. Requirements for Successfully Formulating the Objectives

In conjunction with the goal-setting theory of the work motivation, the following conditions are crucial for a stronger motivational effect of objectives (Bungard, 2002, pp. 24–26):

– **Degree of difficulty**
  Demanding objectives lead to better efficiency than easier ones. This means that objectives present a challenge for those concerned, but are still achievable with realistic conditions.

– **Precision of the objectives**
  Clear and specific objectives lead to better results than vague guidelines. This strengthens the determination of the activity and thus the performance outcome. The participants should know what and of which quality is expected of them.

– **Acceptance and commitment of objectives**
  Acceptance of the objectives describes the extent to which those involved have internalised the objective and see it as their own. Those involved should develop a personal interest in achieving the objective as efficiency grows with an increased commitment. With regard to this, the significance of the objective agreement language between management and employees is clear, which is illustrated at later points.

– **Feedback**
  Objectives should be connected with the most regular and prompt feedback on the degree of objective achievement. Only in this way is it guaranteed that a sense of achievement arises, or that in the case of an error it can be corrected.

Because of hands-on experience, the following requirements should also be taken note of:

– **Representation of the overall task**
  Objectives should cover the employees’ entire area of responsibilities, that is, they should be representative of the tasks to be carried out. Often one is restricted to that which appears to be especially essential or easy to quantify. This results in the energy of the employees being especially concentrated where objectives have been established. In contrast, only a little energy is invested when there is nothing to collect (Comelli & Rosenstiel, 2009, p. 91).

– **Measurability of objectives**
  A considerable component of the objective agreement system is the target-performance over the course of the time period. Therefore objectives should be able to be measured in order to check whether and to what extent the objectives can be achieved. Ideally, management and employees mutually establish the inspection criteria (Mentzel, 2005, p. 88).

– **No contradictions between multiple objectives**
  In most cases multiple objectives should be kept in mind at the same time, which are mutually supportive depending on whether they have a neutral relationship to each other or if they may contradict each other (Rosenstiel, 2010, p. 151). Therefore, objectives and their relationship to each other are analysed exactly in order to set priorities in the case of a contradiction.
For the formulation of objectives the SMART rule can be utilised as assistance. According to this, objectives should be (Ege & Ohmann, 2010, p. 216):
\[
S = \text{specific, precise and clear} \\
M = \text{measurable} \\
A = \text{ambitious and motivating} \\
R = \text{realistic and achievable} \\
T = \text{time-phased, that is established for a period of time}
\]

The agreement on objectives can fundamentally include all aspects of the work area. Economic viability, collaboration and efficiency can be implemented as main categories (Müller, 2005, p. 49).

Target figures such as achieving certain turnovers or reducing expenses fall under economic viability. In collaboration, factors such as management quality or qualification as a target figure are agreed upon. Under the aspect of efficiency target figures such as innovation, productivity, quality and quantity are understood. These standard objectives are included in the regular incoming work (Mentzel, 2005, p. 86). Additionally, employee development objectives with the respective employee can be agreed on, such as being trained in a new area or responsibility (Breisig, 2007, p. 38).

In summary, a good objective agreement provides information about the strived for result (target-state), the command variable (factors, data, figures, measurement criteria), and makes the result criteria (verifiability) clear (Esch, 2000, p. 105). In order to be able to keep the strived for objectives in sight it is important that the participants agree on a manageable amount of objectives (for example, 3 to 5.)

2.4. Requirements for a Successful Implementation

In the company, several important requirements should be fulfilled so that the appraisal on the basis of the objective agreement can be successfully applied. First, an omnipresent and accepted company strategy is important. Such a company strategy is generally described in the company vision or the company principles and foundations. It establishes the scope of action for the employees and provides the necessary orientation. If the strategy of the company is not known or not recognised then no compatible objective hierarchy such as is required in the MBO can be established. The objective agreements can lead to confusion and counter productivity (Kricsfalussy, 2008, p. 40).

An additional significant point is the competence of senior management, who carry out the appraisal with the employees concerned. The management of employee discussions for the mutual establishment of objectives can be an unpredictable with regards to conflicting working role expectations. For one, the superior is obligated to the company to handle the agreement on objectives according to the strategic objective direction of the company and to carry out this position to the subordinate employee. For another, the supervisor should lead a constructive dialogue about the objectives. In this regard management must be familiar with the method in order to be able to securely use it in practice (Breisig, 2007, pp. 91–92).

Finally, it is important that clearly definable areas of responsibilities and fields of activity can be carried out by the employees independently and responsibly. It is the nature of the appraisal method that work place related performances are appraised and in this respect these work place related performances must be individually suggestible. For this employees must be given the necessary competence for the responsibilities.
3. THE IMPLEMENTATION

Concerning the implementation of a goal-oriented performance appraisal there are two distinct important phases: the goal setting phase and the performance appraisal phase (Röder, 2007, p. 6). For an overview the approach of a goal-oriented performance appraisal is visually demonstrated in picture 1. The phases will be explained in detail in the following.

Picture 1: The phases of the goal-oriented performance appraisal

Source: Breisig, 2007, p. 49.

3.1. Goal-Setting-Phase

The first phase is considered very demanding and the most time intensive (Röder, 2007, p. 8). In the scope of an especially arranged dialogue oriented discussion, the so-called objective agreement discussion, manager and employee establish the goals for the next period. In consideration of the strategic objectives of the company, the superior decides with his/her employee which operative objectives are to be achieved in the scope of their area of responsibilities (Mentzel, 2005, p. 83).

The objective agreement discussion is the most important building block in the goal setting phase and requires detailed preparation from both parties (Haitzmann, 1996, p. 479). With the concrete formulation of the goals, the job description of each respective position can be utilised as an aid (Müller, 2005, p. 50). The agreed upon objectives apply to an established period of time (usually one year) and are recorded in writing on a form. The psychological effect of the degree of obligation is strengthened by the written form and the value of the objective agreement is recognised (Müller, 2005, p. 59). At the same time, it is clarified and recorded on the form, on the basis of which criteria the performance should be measured and how the established degree of the objective achievement in the target performance comparison should be evaluated (Breisig, 2007, p. 37).

The direct involvement of the employee in the objective agreement process is of considerable importance. For one thing, the employees can contribute valuable information to the objective formulation since they know their area of responsibilities best (Mentzel, 2005, p. 90). For another, the participation causes a strongly motivational effect. In this way the employee develops an increased identification with the objectives, from which a stronger sense of responsibility to achieve them arises. Therefore while discussing the agreement on objectives it is the most important requirement that it is not just a participation in pretence, but rather the employees must be given a real opportunity to influence the agreement on objectives. This means that the personal wishes of the respective employee is taken into consideration for the
goal setting just as much as company objectives brought in by the superior are (Breisig, 2005, p. 314).

3.2. Performance-Appraisal-Phase

The appraisal based on the agreement on objectives can only be successful if the achievement of the objective is also supervised. After the established period of time has occurred (usually after one year) another meeting between the parties concerned takes place, in which the degree of the target achievement is ascertained (Müller, 2005, p. 58). This part serves as an appraisal of the past period and at the same time creates the basis for the objectives of the next period. The results are documented in the objective agreement form. The employee receives an appraisal of his work performance which is based on the individually agreed objectives.

At the same time a variance analysis is carried out in the meeting which clarifies the causes in the case of objectives that have not been achieved. There are both personal factors such as a lack of knowledge or excessive demands, as well as external influences such as a lack of work equipment or altered general requirements to be considered (Mentzel, 2005, p. 84).

This analysis presents the basis for the derivation of advantageous subsequent measures (Siedau, 2009, p. 44). In the case of unsatisfactory results the complete margin of fluctuation can essentially be utilised for employee development measures such as further training measures, participation in projects or representations, for example. Among other things, these can also be incorporated in establishing the new objectives for the upcoming period. With long-term, unsatisfactory results consequences for the employees are of course also possible, such as warnings, transfers, or even dismissal (Müller, 2005, p. 59).

4. PROSPECTS AND RISKS OF THE APPRAISAL METHOD

4.1. Prospects

Motivation and identification

The significant advantage of the motivation and identification effect is substantiated by the objective theory of work motivation, which has already been presented in chapter Objective theory of the work motivation. On the condition that in accordance with this theory an objective agreement with the consequence of the objective acceptance by the employees has taken place, up until now hidden potential in motivation, independent initiative and readiness to take on responsibility on the part of the employee can be activated (Breisig, 2007, p. 72). Thus personal responsibility clearly gains momentum (o. V., 2007, p. 54) and the corporate thinking and actions of the employees can progress effectively (Kohnke, 2002, p. 172). In addition, satisfaction of the employee is increased by the participation in the process of goal setting. This is due to the opportunity that the employees could independently and considerably influence their working conditions (Grund, 2006, p. 12). Because engaged and highly motivated employees stand for the success of the company, goal-oriented procedures carry considerable prospects in the case of successful implementation.

A “better” employee appraisal

Objective inspection of the performance of the employees is made possible by the orientation of the most clear and specific goals (Mentzel, 2005, p. 84). Thus the partially strong disadvantages of other appraisal procedures are overcome. With goal-oriented procedures...
there are real, work place related problems and concrete objectives in focus. The appraisal is oriented more strongly towards somewhat concrete standards.

Thus the margin for arbitrary discipline from the interpretable criteria is reduced for superiors (Breisig, 2005, p. 303).

_Advancement and employee development_

Social and professional further development and advancement goals can also be strived for with objective agreements. Further development can be both the goal as well as the destination there. In the latter case, further development presents a measure for achieving the objective (Müller, 2005, p. 43).

In the scope of the appraisal meeting, achieving the objective and the reason for falling short of the goal is discussed in an open dialogue. The employees’ strengths and weaknesses are discussed constructively, whereby from the diagnosed shortfalls, employee development measures can be directly derived (Breisig, 2007, p. 74).

Employee advancement and development are in many companies included in the management tasks and thus are in the area of responsibility of the respective superior. Since management positions in companies are often filled by employees from their own ranks it is of considerable importance to prepare future management staff for the upcoming requirements in regards to their professional qualifications and leadership behaviour. The goal-oriented procedure can especially be an advantage for the training and further development of future leaders.

_Tool for the grouping of performance_

In consideration of the goal hierarchy a better adjustment of individual areas results in the strategic company plans from the objective agreement processes (Kohnke, 2002, p. 172). This fundamental advantage is based on the presented management approach in the chapter _management by objectives_. Additionally, control of the performance of the employee is reduced by the superior in checking achieving the objective (Mentzel, 2005, p. 84).

If every employee in the company is authorised for that because of the local structure and the flat hierarchy, acting and deciding within their own area of responsibility, clear objectives are necessary in which the employees can develop their activities to make concentration on all activities of the overall objective possible. The use of a goal-oriented appraisal procedure supports this process.

**4.2. Risks**

_Lacking the ability to make objectives operational_

A general and fundamental risk in this procedure is in the nature of tasks in certain fields of activity. There are often difficulties for more complex areas of responsibility to establish clear and operational objectives instead of a mere description of the job content. The achievement of objectives can often not be clearly measurable and attributed to the employee (Breisig 2007, p. 33). This especially applies to social objectives such as the improvement of the office environment or increasing work satisfaction.
If the scope of application is restricted to quantifiable objective criteria then the operational area is in fact strongly restricted (Breisig, 2005, p. 306). Therefore qualitative objective formulations should also be factored in, which then are only defined with difficulty by job descriptions (Breisig, 2007, p. 33). For one, quantitative criteria are available using simple methods, for example the losses in a certain sector, the number of staff away sick, or the personnel expenses. For another, important components can be reproduced with criteria that are difficult to measure, such as the organisation and cleanliness in the production plants or the quality of the training.

*A lacking controllability of the objective achievement by the employee*

The employee and his performance are not solely responsible for achieving or not achieving the objectives. At the time of the objective agreement, future developments can only be predicted to a certain degree. Consequently, the influence of external factors such as marketing problems or business fluctuations can equally be responsible for a good or bad fulfilment of the objective (Siedau, 2009, p. 44). If this is not taken into consideration employees will find this unjust in the case of fluctuations in the system that were not caused by them. Sickness and leaves of absence quotas, for example, are also included in the factors not influenced by them.

For this reason interim meetings in the year are also necessary to adjust where necessary the set objectives to situations that have changed. Therefore after the course of half a year an interim meeting usually takes place in which it is checked whether such an objective adjustment is required. This can however occur at any time on the initiative of the superior or the employee. This circumstance should be taken into consideration with the implementation of the concept, especially if the company concerned is one of the branches which must constantly adapt to changing overall conditions.

*Agreements on objectives at low levels*

If one follows the objective theory of the working motivation, the degree of difficulty of the objectives should be demanding, that is, the objectives should present a challenge for those concerned. The level of the objective should drastically increase in a appraisal period. At the same time one acts on the assumption that a participative objective agreement in which the employee has a real opportunity to be influential on the set objective agreement (Breisig, 2005, p. 314). It must of course be in the own interests of the employee to keep the objective levels as low as possible. Thus fulfilling the objective or even exceeding them becomes comparatively easy. Subsequently, the appraisal of the objective achievement also turns out better. A appraisal on the basis of objective agreements could consequently lead to keeping the objective level as low as possible for those concerned in order to increase personal advantage.

The only logical possibility to eliminate this weakness appears to arise from a “strong hand” from the superior, who is thought to be on an appropriately higher level of objective. This of course comes at the expense of the active participation of employees in the objective agreement process (Breisig, 2007, p. 88).

**5. CONCLUSION**

The employee appraisal is one of the most elementary instruments in personnel work in many companies. Companies pursue various objectives with this. There are many possibilities of
how the appraisal can be arranged. Consequently there are characteristic advantages and disadvantages and not every system is suitable in the same measures to fulfil certain functions. The present paper critically deals with one of these appraisal systems, namely with the appraisal on the basis of objective agreements, and has analysed the prospects and risks of this appraisal method.

As a result it can be determined that objective agreement systems are deservedly one of the most widespread and popular management methods of our time because of their versatile usability and the unmistakable advantages. The method of appraisal offers indisputable prospects and advantages. The dynamic development of company objectives, the stronger and cooperative integration of employees, the objective measurability of the objective agreements as well as the motivational effect are attributes that positively differentiate the procedure from other employee appraisal methods.

At the same time, the missing operational feasibility, the lack of the objectives’ ability to be influential, as well as objectives kept at low levels carry a lot of weight as a fundamental difficulty. Therefore comprehensive requirements are necessary on the part of the company as well as the on part of the employees in order to guarantee a successful application of the theory and be able to avoid risks for the most part. Whether in a concrete case the risks or prospects are outweighed depends on the individual, complex organisation factors and conditions.

In this respect the result of the paper is to be critically viewed since the topic of the employee appraisal is very comprehensive. In a more comprehensive paper additional criteria could be analysed, which are neglected in this paper. Thus not all possible factors have been considered. A further problem has been evident in the discussion of human resources literature, since often there is no universal opinion on the adequacy of the appraisal method. In regards to this a differing analysis would have been necessary. Consequently there is no definitive result.

Generally, the significance of social and individual competence of the management as well as those who give feedback is clear. This aspect can only be considered conditionally in the appraisal system, but it is of distinct importance for the result of the appraisal process. The best appraisal system after all has no effect if management does not understand about communicating feedback in an appropriate manner.

**REFERENCE LIST**