GAINING COMPETITIVE ADVANTAGE THROUGH MULTI-SOURCE FEEDBACK PERFORMANCE APPRAISAL

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Abstract: The article discusses about gaining competitive advantage of a company through multi-source feedback performance appraisal. In a turbulence and high competitive environment, a company will face many obstacles to run its business. In order to be able to sustain its growth, it must have competitive advantages. Through human resource management, a company can have unique, scarce and difficult to imitate competencies. Performance appraisal is one of aspects of human resource management practices. Traditional top-down approach in performing appraisal is not sufficient anymore to accommodate the changes of organizational need (structure, culture, etc). Multi-source feedback if implemented well will be a good alternative to fulfill the need of organization performance appraisal. The success of multi-source feedback implementation will give a company competitive advantage.

Keywords: performance appraisal, multi source feedback, competitive advantage

I. INTRODUCTION

In a global era today, companies face changes and a high turbulence environment. SWOT analysis is questioned its effectively because external factors are difficult to predict. The condition will affect on the success of companies in the future. To be able to face such challenge, companies should develop a new breakthrough by building territory, physical, technological, and social limitation not being able to be detected by new competitors (Chattel, 1995). Management faces such competitive challenge dealing with globalization, profitability increasing through growth, intellectual capital, technology and continuous changes. (Ulrich, 1996 in Nuringsih, 2002).

Moreover, according to Hill and Jones (1998), in facing such challenges, companies try to create advantages through efficiency, innovation quality or response toward customers to create competitive advantages. (Nuringsih, 2002). Djamaludin (2002) stated that to survive in a very competitive era today, a company must adjust all organizational dimensions fitting with changes required. Company’s response can be started by reformulating its vision, mission and corporate values, and then followed by the changes of company strategy, organizational structure, system and producer, staffing, skill and leadership styles and decision making.
To increase efficiency, according to Djamaludin (2002) it is predicted that it will be more companies conducting reengineering to increase efficiency. In doing reengineering, organizational streamlining factor can not often be avoided. Such condition will have great effects on organizational elements. Besides reengineering, companies can also conduct downsizing, delayering. Another alternative is that companies can cooperate with other companies having resource advantage, technology or market by acquisition, alliance, joint venture or merger (Ulrich, 1998 in Nuringsih, 2002).

According to Porter (1985) companies face five competitive strengths. They are threat of new entrants, threat of substitution product, competition in industry, buyer’s bargaining position and supplier’s bargaining position. The five collective strengths of competitive factors determine the capability of companies in an industry to gain return that is higher than its capital cost. Each industry has different strengths and it can change in lining with the development of related industry. More about it, Porter stated that industry profitability does not depend on forms of products resulted or whether the technology used is high-tech or not, instead of industry structure. Some modest companies, for examples: marked tool of stamp cost (in USA) can be very profitable, meanwhile some more attractive industries using high technology, like personal computer and cable television (also in USA) are not profitable for many industries.

The five factors determine profitability of industry because they influence price, cost and investment needed in an industry. The power of customers influences price fixed by a company, like also threat from substitution products. Customer’s strength can also influence cost and investment, because strong customers insist very special service. Supplier’s bargaining position determines overhead cost. Competitive intensity influences price and competitive cost in many sectors. Threat of new entrants limits price and determines investment level needed to prevent new comers into the market. (Porter, 1985).

The strengths support company management to develop intangible advantage or competitive advantage not being easy to imitate by competitors. The competitive advantage is created through efficiency, product quality, innovation or response toward customers (Hill and Jones, 1998 in Nuringsih, 2002). Meanwhile Armstrong (2003) stated that a competitive advantage is gained by developing basic competition in labor through traditional service (recruitment, reward, carrier pattern, employee development) and by overcoming effectively macro problems like: corporate culture, management development, and organizational structure.

II. COMPETITIVE ADVANTAGE

Competitive advantage constitutes a unique position developed by a company in facing competitors and probably a company can exceed them consistently. (Hofer and Schendel, 1978) The definition underlines that such advantage can be just gained by a company by developing clear differentiation from competitors.

According to Coyne (1986), a competitive advantage is meaningful if it has effects in market. In other words, differentiation must be reflected in products/services that constitute key buying criteria. The advantage will be sustainable if competitors can not imitate easily (Barney, 1991). Principally,
gap of capability being basic of differentiation must differentiate or separate one company with its competitors. If not, there is no meaningful advantage. Simply, the most urgent thing to survive a competitive advantage is that existing and also potential competitors are not capable or will not act to bridge the gap. If competitors can be and will eliminate the gap, competitive advantage, according to the definition, will not be sustainable anymore. (Hani Handoko, 2002)

Barney (1991) stated four conditions that must be fulfilled before a resource can be classified as a sustainable competitive advantage. They are 1) constituting a very valuably organizational resource, especially in relating with its capability to explore opportunity and neutralize threats of company environment, 2) relative difficult to be developed so it is scarce in competitive environment, 3) very difficult to be imitated, and 4) not being able to be substituted easily (Hani Handoko, 2002).

Meanwhile, according to Armstrong (2003) competitive advantage concept being able to survive as formulated by Porter (1985) appears when a company creates value for its customers, chooses market where a company can be superior and gives a moveable target to its customers by repairing its position sustainable. According to Porter (1985) in Armstrong (2003) three of the most dominant factors are innovation, quality, and cost leadership, but Porter said that all depend on quality of its human resources.

Hitt and Ireland, (1997) gave criteria of sustainable competitive advantage. For them, a valuable capability, scarce, difficult to imitate perfectly and can not be substituted constituted sustainable competitive advantage resource. Sustainable competitive advantage can be reached if competitors try to imitate but they fail to copy company strategy advantage or they are not sure to do imitation.

III. HUMAN RESOURCE MANAGEMENT AND SUSTAINABLE COMPETITIVE ADVANTAGE

It is a fact that business practices have been triggered by the development of knowledge and technology (knowledge and technology based industry), not just think about the abundance of natural resources and low labor wage. In such position, an organization wanting to sustain its business will depend on its success in managing its human resource. The rationale behind such thinking and how they are managed in such a way to be competitive advantage is that many traditionally competitive success resource, like product technology and process, market protection, access to financial resources and economies of scales, though they still give competitive leverage, are less powerful (Pfeffer, 1994 in Hani Handoko, 2002)

In lining with the less importance of traditionally competitive advantage resource, the crucial factors in such high competition environment are organization, human resource management, and how they are managed. It is more realized that the most difficult to imitate competitive advantage is through human resources management activities. It is because success coming from human resource is often not transparent and invisible. Take for example, computerized information system as competitive advantage resource will be more easily to imitate by competitors if compared with, for example, culture and activities and human resource practices. The development of alternative work
system, reward system based performance; performance appraisal system constitutes many examples of significant aspect in human resources in the future. (Hani Handoko, 2002)

In creating sustainable competitive advantage, a company needs management support and good quality staffs. It is hoped that management can develop competence, innovation, creativity, having role as change agent and seeing human resource function as resource of competitive advantage. With such quality, management can direct staffs as professional ones in trying to gain sustainable competitive advantage (Ulrich, 1996 in Nuringsih)

Supporting statement above, Armstrong (2003) stated that unique capability of staffs, included performance, productivity, flexibility, superior innovation and capability in giving good service to customers constitutes a way where staffs give an important element in developing a competitive position of company. Staffs also give a guide to manage interdependent center across functional activities and importantly external relationship. It can be said that one of benefits of competitive advantage based effective human resource is a very difficult to imitate advantage. The difference can be achieved by having high quality staffs if compared with competitors have, by developing and keeping intellectual capital owned by business and by functioning an organization as a learning one.

Company success to sustain performance management and staffs cannot be separated from performance appraisal system. In process of competitive advantage development, performance management is an important strategy to plan, organize, direct and control performance. The success of performance management is determined by its system. A good performance appraisal is one that can accommodate the need of company in creating competitive advantage. Through an efficient system, a company can minimize mistake, like halo effect, stereotyping, central tendency, leniency errors or strictness errors (Anthony et al, 1996 in Nuringsih)

From this context, an organization needs an objective performance appraisal, not biased and there is feedback as basic to evaluate. In traditional performance, supervisor evaluates performance and subordinate behavior base on one resource without involving other information resource in a company (Edward and Ewen, 1996 in Nuringsih, 2002). The appraisal is based on by hierarchy structure dominated by supreme authority. The result of performance appraisal is often subjective and is politicking (Longenecker, Giola and Sims, 1996). To Lawler III (1994), traditional appraisal did not direct to the development of competence and individual capability. In other side, a company needs a performance appraisal to evaluate, appraise and motivate the increasing of performance. In this context, it is needed a performance appraisal being able to bridge management goals, employees and customers. Performance appraisal intended is multi-source feedback performance appraisal. (Nuringsih, 2002)
Table 1
The difference of Performance Appraisal

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Traditional</th>
<th>360-Degree Feedback</th>
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<tbody>
<tr>
<td>1.</td>
<td>Appraisal focus</td>
<td>Management appraisal</td>
<td>Management appraisal, employees, and customers</td>
</tr>
<tr>
<td>2.</td>
<td>Feedback process</td>
<td>Inter manager cooperation</td>
<td>Done simultaneously among manager, employees, and consumers</td>
</tr>
<tr>
<td>3.</td>
<td>Feedback resource</td>
<td>supreme</td>
<td>Various resource (supreme, subordinate, peer, self, customers and suppliers)</td>
</tr>
<tr>
<td>4.</td>
<td>Appraisal feature</td>
<td>Subjective</td>
<td>Objective</td>
</tr>
<tr>
<td>5.</td>
<td>Appraisal goal</td>
<td>Evaluation</td>
<td>Development</td>
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Source: some articles in Setianingrum, 2004

**IV. MULTI-SOURCE FEEDBACK**

The change in organizational structure, process and culture and limitation of top-down appraisal in traditional style creates certain condition where other feedback sources are needed. First is applied in USA, then UK, since then it is broadly used in many companies in many countries. (Fletcher, 1998)

The performance appraisal is done by relevant stakeholder, internal as well as external customers. Internal customers cover supervisors, subordinates, co-workers, and representatives from other department interacting with side appraised. Meanwhile external customers cover clients, suppliers, consultants, community officials and individual (Kirsey et al). Other term of the appraisal system is 360-degree feedback, 360-degree review, 360 degree, multi-rater feedback, multi-rater assessment, and upward feedback and peer evaluation. (DeBare, 1997, Sullivan, 1997 in Siriyupa, 2002)

Its premise is that performance measurement and behavior achieved from various sources can give more reliable result and valid if it is compared with single source measurement or just few sources. For Sellas (2000), such system has existed since 1980s, but the fact that many users treat it as a more completely new development. (Siriyupa, 2002)

According to Fletcher (1998) the goal of appraisal system is for development. Pollack and Pollack (1996) through their research stated that managers use this system for development purpose. Important criteria of its effectiveness are to what extent the system results planning and development act for appraisee from management.
V. ADVANTAGES AND DISADVANTAGES OF MULTI-SOURCE FEEDBACK

For Bentley (1998), Debare (1997), Kirsey (2001), multi-source feedback practice has many advantages among others:
1. Supported by many sources can minimize mistake and bias in measuring performance.
2. Involved sides, especially employees feel counted in decision making so such condition can create conducive atmosphere of company to work.
3. Input from anonym will give an honest feedback.
4. Communication increasing among individuals in a company can support productivity level.
5. More open communication is provided by top management, in other side open criticism is often more difficult to express.
6. face validity is higher than traditional performance appraisal system
7. baseline data give comparation across elements and years that are more accurate

Antonio (1996) stated that a company in developing multi-source feedback appraisal process gets benefits, such as: increasing individual awareness toward appraiser’s hope, increasing behavior and appraisee’s performance, increasing monitoring informally toward appraisal process, increasing management learning and decreasing bad appraisal or suspicion toward appraiser behavior. (Setiyaningrum, 2004)

Meanwhile, based on Siriyupa (2002), an organization applying this appraisal system will get benefits, such as to broaden perspective from different stakeholder, to increase transparency, to support the appraise to increase his/her performance more efficient and effective, to have opportunity to increase a good input.

From former description, it can be concluded that main advantage of the system is bias decreasing and individual mistake in appraising performance, the increasing of accuration and visibility of performance appraisal and better communication in all level.

Though there are many benefits in the system, there are also many weaknesses among others:
1. There is no proof yet that productivity increases, retention increases because of the system.
2. There is no proof yet that there is relationship between the high point of appraisal and the high performance.
3. It is time consuming to do the process of the system
4. If manager doesn’t want to listen employee’s complain, productivity can decreases when frustrated employees realizes that they have been deceived
5. Questions often relate to attitude and soft skill that is not easy to appraise or observe by employees.
6. The system doesn’t work well without support and participation from top management
7. Managers aren’t often trained how to interpret and use the system
8. Managers feel that they are often evaluated by those who don’t know their acts precisely or don’t know the characteristics of their job.
9. Most of the questions are not adjusted with the need per unit or a whole organization
10. Employees take doubt that the system is really anonymous, thus they are not really honest in their appraisal. Employees think that manager will be able to identify their comment. (Bentley dan Khon-Bentley, 1998-2001, Sellas, 2000, Sullivan, 1977 in Siriyupa, 2002)

Dealing with application of the system, Siriyupa (2002) found some weaknesses, such as: it is time consuming from the process up to the result of appraisal, conflict among stakeholders often happens because of different standard, perception and owned values, certainly cultural values don’t support the success of the application of the system, appraisal from appraisers having no directive relationship with the appraisees often results invalid (bias), appraisers are not qualified because of lack of knowledge, experience, training about the system and its measurement criteria and also appraised sides have high hope that the result of appraisal will be positive.

To minimize the weaknesses, many factors causing the weaknesses must be anticipated by an organization as early possible. According to Kanouse (1998) the failure in applying the system of multi-source feedback performance appraisal is caused by many factors, among others: misuse of the appraisal system, knowledge limitation and skill of appraiser, lack of communication pattern between internal and external sides or timing mistake in applying the system of performance appraisal of 360-degree feedback. Lepsinger and Lucia (1998) added some factors causing the failure of the system: not so clear goal setting, limitation of stakeholder in planning the system of appraisal, negative perception toward the system or attention focus of stakeholders on feedback use. (Setiyaningrum, 2004).

Siriyupa (2002) added that cultural norms and values like patron-client relationship, seniority system, krengjai, henjai and face saving as handicraft to develop an effective performance appraisal. Patron-client relationship refers to relationship between boss (patron) and subordinate (client). In many countries, an ideal boss is a boss protecting, helping and giving reward to his subordinate. Conversely, a subordinate must be loyal, committed to his boss. Seniority system is that the Youngers respect the olders without question, criticism and resistance. Younger employees, low position must respect older employees and higher position. Meanwhile krengjai means thinking other feeling. Krengjai describes a conflict-avoidance value so it possible those having krengjai culture always try to avoid different opinions. Henjai means having empathy toward other difficulties so it can cause bigger lenience. Meanwhile face-saving means surviving self-esteem, self esteem others as well. Many cultures avoid hard criticism, verbally and non verbally

VI. SYSTEM DESIGN OF EFFECTIVE MULTI-SOURCE FEEDBACK PERFORMANCE APPRAISAL

To facilitate the implementation of the system effectively, Kirsey et al (2001) stated steps to do as follows:
1. Top management must start by communicating its goals and needs of the system.
2. employees and managers should participate in developing appraisal
criteria and process
3. Training is necessary to do for involved sides in accepting a constructive
feedback.
4. It is necessary to do pilot test in many elements of organization before
being applied in a whole organization.
5. Continually strengthening the goal of the system and being ready to modify
if needed. (Siriyupa, 2002)

According to Setiyaningrum (2004) there are two alternatives being able
to use by an organization in anticipating the failure of implementation of
performance appraisal system, that are: by designing effective appraisal system
through model suggested by Antonio (1996) and by applying seven successful
guide suggested by Wimer and Nowack (1998)

Model of 360-degree feedback performance appraisal describes a system
consisting of input, process and output. (See figure 1):

1. **Input**
   Input covers activities done before an appraiser accomplishes
   appraisal survey and before they get feedback. Main component of input
   is appraisal goal (for developing), appraisal instruments, feedback,
   appraiser anonymity, selection of peer appraiser, appraisal training, and
   training for coaches and resume report of 360-degree feedback appraisal.

2. **Process**
   Wholly a process should be intended to increase appraisee
   awareness toward other perception and increase commitment to improve
   target area. It means that sides appraised must be trained concerning
   how to share and discuss appraisal with appraiser. Main components in
   process are: self appraisal, feedback reaction, coaching for increasing,
   target increasing area, the development of action planning, report of
   resume to appraiser, goal of increasing specifically and action planning,
   JIT Training, mini-appraisal and follow-up planning, and improvement of
   performance.

3. **Output**
   Process of multi-source feedback performance appraisal gives many
   positive results, that are: increasing individual awareness toward
   appraiser hope through communication process, improvement of
   appraisee in working, dealing with training and directing, decreasing
   things that can not be discussed, especially about behavior that is not
   hoped from appraisers, increasing in monitoring of 360-degree feedback
   performance appraisal informally through feedback resulted, increasing
   in management training through information openness and learning from
   mistake. (Setiyaningrum, 2004)
Table 2
A 360-Degree Feedback Appraisal Process: A Practitioner’s Model

<table>
<thead>
<tr>
<th>Input</th>
<th>Process</th>
<th>Output</th>
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<tbody>
<tr>
<td>appraisal objectives</td>
<td>self appraisal</td>
<td>increase awareness of</td>
</tr>
<tr>
<td>appraisal instruments</td>
<td>reaction to feedback</td>
<td>appraiser’s expectations</td>
</tr>
<tr>
<td>feedback</td>
<td>coaching for improvement</td>
<td>improvement work behavior</td>
</tr>
<tr>
<td>anonymity for appraisers</td>
<td>targeting improvement</td>
<td>and performance</td>
</tr>
<tr>
<td>selection of peer appraisers</td>
<td>areas</td>
<td>reduction of something that</td>
</tr>
<tr>
<td>appraisal training</td>
<td>developing action plans</td>
<td>can not discussed</td>
</tr>
<tr>
<td>training for coaches</td>
<td>reporting result back to</td>
<td>specifically</td>
</tr>
<tr>
<td>feedback report</td>
<td>appraisal</td>
<td>increase in periodic</td>
</tr>
<tr>
<td></td>
<td>communication</td>
<td>informal 360-degree</td>
</tr>
<tr>
<td></td>
<td>specific improvement goal</td>
<td>feedback performance</td>
</tr>
<tr>
<td></td>
<td>and action plans</td>
<td>reviews</td>
</tr>
<tr>
<td></td>
<td>JIT Training</td>
<td>increase in management</td>
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<td></td>
<td>mini appraisal and follow up</td>
<td>training</td>
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<td></td>
<td>recognition for</td>
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<td></td>
<td>improvement</td>
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<td></td>
<td>accountability</td>
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Beside that, seeing guide how the system can be successful is an important thing to do to minimize failure of implementation of the system. The following is seven successful guide suggested by Wimer and Nowack (1998): determining goal clearly, starting implementation of the system from top level, creating openness and sincerity to change, doing pilot project, developing communication continuously, guarantying safety during process of appraisal and doing evaluation of appraisal system.

The guide describes how an organization prepares technology and behavior of human resource needed in multi-source feedback performance appraisal. Appropriate structure for the system is non hierarchy system where all employees have opportunity involved in decision making process. (Setiyaningrum, 2004)

VII. CRITICAL SUCCESS FACTORS OF MULTI-SOURCE FEEDBACK

1. the result has direct effect that can be measured on productivity and value of shareholders
2. anonymity is encouraged
3. the system is integrated with other system
4. There must be good sense of belonging of employees and management.
5. the system is adjusted with the need of company and flexible enough to accommodate the change of company need
6. the system focuses on core competence
7. managers and evaluators is trained how to use the system
8. the focus is on increasing, developing than blaming past events
9. existing responses are analyzed by its source code (not individual)
10. having sequences of targeted goal
11. having JIT capability and worldwide
12. the system can be adjusted in team environment
13. its success is continuously monitored and increased

Most of the literature above is got from western cultures where cultural values and existing values are different from values and cultures owned by other countries, for example: Indonesia, Thailand, Malaysia, and lain-lain. From the context, customization is needed to adjust cultural characteristics and existing values where the system is applied.

VIII. CONCLUSION AND RECOMMENDATION

Recommendation

According to Lepsinger and Lucia (1998), implementation of multi-source feedback performance appraisal can give contribution to the success of company. The main requirement done by company is stakeholder mapping. Through mapping, managers can identify and evaluate competence, talent, skill and behavior of stakeholder. The result of appraisal is used as a basic to adjust position of stakeholder in company.

Some recommendations for the company in implementing the system are given by Nuringsih (2002) in order to be able to give benefits for the company. The recommendations are as follows:
1. developing discussion with stakeholders to evaluate rationale of feedback giving or problems in system implementation
2. developing relationship and benefit of feedback for company
3. describing situation of each unit with stakeholders
4. supporting related sides to implement planning effectively
5. selecting a highly credible person for each unit
6. explaining the difference of action and problems in the future
7. directing capability of stakeholders learning
8. beginning implementation of multi-source feedback performance system for development program
9. depicting data accuracy and integrity of appraisal process
10. directing employees to control feedback

By considering items above, a company is hoped to be able to build conducive environment for implementation of multi-source feedback performance appraisal system. The implementation of the appraisal system successfully gives something different for the company. It is that differentiate with other companies. The company has a unique capability, other companies don’t have. Other companies find difficulties in trying to imitate the specific characteristic owned
by a company applying the appraisal system. Thus, competitive advantage of a company can be gained.

Conclusion

Global era characterized by turbulence environment and highly competitive level forces a company to have superior competence if compared with competitors. Valuable capability, scarce, difficult to imitate perfectly and cannot be substituted constitutes source of sustainable competitive advantage. Capability failing in fulfilling the criteria is not a sustainable competitive advantage.

It is more realized that source of competitive advantage that is difficult to copy and more sustainable is through activities and human resource practices, because success coming from human resources practices is not often transparent and not visible. The development of alternative work systems, reward system based performance, performance appraisal system are some examples of significant aspect in human resource practices in the future.

One of aspects of human resource practices is performance appraisal. A good performance of an organization cannot be separated from performance appraisal system. It means that an effective performance appraisal will be able to give a conducive atmosphere for employees to increase their competence and self development.

Traditional performance appraisal system based top-down approach is not capable anymore to fulfill the need of organization development. It is needed a performance appraisal system being able to accommodate management and employees interest. Multi-Source Feedback is a performance appraisal system if it is applied well can accommodate the interest. It is because the result of system implementation can give higher objectivity and reliability.

In order to be successful, an organization applying the system must prepare things, involved organization structure, organizational culture and support from top management and also all components of organization. An organization succeeding in implementing the system well, meanwhile other companies fail means that the company has a unique superiority, scarce, and difficult to imitate by competitors. The advantage constitutes competitive advantage of company.

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