

# Performance Compensation & Appraisal Issues

MDF HR  
Consulting

# Topics for Discussion

- Flaws in Performance Compensation
- Supervisor Bias
- Funding Issues
- Making It Work
- What is Performance
- Plan Philosophy
- Recommended Components
- Skilled Appraisers
- Pitfalls to Avoid



# Performance Comp Flaws

- Creative Writing
- Impervious Supervisors
- The “Curve”
- Setting the Bar too low
- Set in Stone
- Holding Back
- In The Dark
- Conflicting Goals
- Undermining Teams





# Flaws-Creative Writing

- Employee Self Evaluation
  - Good to get employee perceptions
- When self evaluations are given weight
  - Best writers get the best evaluations
  - May not actually be effective employees



# Flaws - Impervious Supervisors

- Supervisors ignore employee self evaluations and feedback
- Write appraisals with no regard for the employees input to the process
- Employees see self evaluation as an exercise in futility



# Flaws - The “Curve”

- Some employers have a forced distribution
- Managers must adhere to quota of the allocation of ratings
  - Results in : sorry not your year to get an exceeds, maybe next year.





# Flaws - Setting the Bar

- Nobody likes failure, especially when income is at stake
  - When creating goals employees and managers reluctant to “stretch”
- Perceived cascading effect
  - If everyone in my department can be rated high
  - I will be rated higher

# Setting the Bar Low- Highway Maintenance





# Setting the Bar Low- Our Industry





# Flaws - Set in Stone

- Jobs can change throughout the year
- Are the goals set in the beginning still relevant
- Employees may
  - miss opportunities because they are working on outdated goals
  - Accomplish significant things that are not recognized, because they were not in the original goals





# Flaws - Holding Back

- Employees may hold back, once objectives have been met
  - Don't want the bar set higher next year
  - Saving performance for next years performance cycle





# Flaws - In the Dark

- SHRM 2005 Comp and Benefits Survey
  - One third of the workforce rarely or never receives a formal performance appraisal
  - One third is unsure of performance standards
  - Majority of employees feel ratings have more to do with tenure than actual performance



# Flaws - Conflicting Goals

- Organizations sometimes have conflicting goals
  - Operations wants to increase reliability
  - Finance wants to reduce cost



# Flaws - Undermining Teams

- Does your appraisal process
  - Recognize teamwork, or only individual performance
  - Pit employee against each other



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# Recognizing Supervisor Bias

- Always will have some subjectivity
  - Supervisor relationship with employee
  - Employee circumstances that may elicit sympathy
  - Inclination to game the system to benefit employee
- Managers should be required to
  - Justify rating differences that result in increase differences

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# Small Pie to Slice

- With smaller and smaller incentive budgets, hard to differentiate star plays
  - Meets gets 3%, Exceeds gets 4%
    - Does that really differentiate
    - Does 1% incentivize employees to go the extra mile
  - Poor performers still get an increase?
    - Takes away \$ from high performers
    - Reinforces bad behavior

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# Making It Work – Employee Perspective

- Employees
  - Value the \$ recognition
  - Understand expectation
  - Believes the Company will follow through





# Making it Work – Employer

- To make it happen
  - Culture supportive of the program
  - Good supervisors
  - Good process
  - Adequate funding
  - Fair Process
  - Training for both Supervisors & Employees
  - Continuing Evaluation of the Process



# MIW – Culture

- Do your managers support the process?
- Do they lead by example?
- What is more important
  - Assessing blame
    - Or
  - Solving problems



# MIW – Supervisors

- Do your supervisors fully understand the importance of the process
- Are they too busy “keeping the lights on” to worry about performance appraisal





# MIW – Process

- Is your process sound
- Is it manageable
  - Electronic tools
  - Monitored
  - Support for supervisors



# MIW – Funding

- Are we funding enough to actually effect behavior
  - Are we just keeping up in with the market
  - Are we really rewarding our star players



# MIW – Fairness

- Is the process being fairly administered
- Are raises handed out disproportionately based on rater differences





# MIW – Training

- Training is the key for both supervisors and employees
  - Supervisors
    - Mechanics of the process
    - Coaching and feedback techniques
    - Reinforce importance in the process
  - Employees
    - Self evaluation process
    - Importance of employee input



# MIW – Continuous Evaluation

- The process that worked five years ago
  - Does it still work the way we want
  - Does it support our current strategic plan
  - Does it support new challenges that may not have been present at implementation

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# Framing the issue

- We pay employees to engage in behaviors that produces a result
- This is the essence of performance
  - When results are not achieved
    - Evidence of performance problems



# Framing – Performance Examples

- Customer service rep posts a payment to the wrong account.
- Lineman disregards cover up, and grounding procedures to get job done faster
- Staking technician grossly underestimates construction costs, and aid to construction



# Framing – How do we deal with it

- How we deal with will determine results
  - Learning and improvement
  - Demoralized employee, who also feels victimized
- Untrained supervisors
  - Chastise in ways perceived as personal attacks





# Framing – How We Deal with it

- Better approach
  - What was the result of the behavior
  - What caused the behavior
  - Plan to improve
- If an employee is performing poorly
  - The supervisor should first look at themselves

# Most Common Causes of Unsatisfactory Performance

- Unclear responsibilities
- Lack of training
- No standards of excellence
- Lack of necessary resources
- Negative attitudes

From “Succeeding as a First-time Manager”



# Framing – Poor Implementation

- Improperly Implemented and Executed Performance appraisal process
  - Could result in litigation
  - Employees feel appraisals unfair
  - Perceptions that it is a worthless process



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# Performance Management Philosophy

- Performance planning key to performance management
  - Sets criteria & expectations
    - Communicates to all parties involved
- Gallup poll of 1 Million Employees and 80,00 Managers –Number one factor in employee satisfaction and effectiveness
  - “knowing what is expected”

# Philosophy – Prerequisites for Effectiveness

- Planning
- Continuous Measurement
- Feedback & Development
- Meaningful appraisal at the end





# Methods & Processes

- Clear Standards
- Adequately Trained Employees
- Continuous Measurement & Feedback
- Developmental Activities
- Appraisal based on results
- Attribution of performance to the correct causes
- Formulation of a plan to correct or build



# MP- Standards

- Are your expectations clear
- Did the employee acknowledge the expectations



# MP – Trained Employees

- Have your supervisors been properly trained
- Have your employees received any training on the process



# MP – Continuous Measurement & Feedback

- Based on data you have personally gathered
- Descriptive of performance observed or outputs produced (separate attitude from behavior)
- Specific, with concrete examples
- Directed at behavior which can be controlled by the employee
- On-going and appropriately-timed
- Communicated clearly and confirmed
- Encouraging



# MP – Developmental Activities

- If a performance issue arises, what are we doing about it
  - Additional training
  - Co-worker mentoring
  - Self directed study



# MP – Appraisal Based on Results

- Appraisal should be based entirely on results
  - What we were paying them to do
- Disregard
  - Personality
  - Personal characteristics





# MP – Attribution of Performance

- What caused the good or bad behavior
  - Lack of training
  - Disregard for instructions
  - Lack of resources



# MP – Improvement Plan

- Establish
  - How are we going to do better next year
  - What went well, and how do we build on that

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# Appraisal Forms- Recommended Components

- Job Summary
- Evaluation Factors
- Rating Scale
- Goal Results compared to objectives
- Overall performance Rating
- Appraiser Review
- Review with Employee
- Establishing next years goals



# Form – Job Summary

- Summary of the critical elements of responsibility
  - Stake new services
  - Maintain mapping system
  - Provide administrative support



# Form – Evaluation Factors

- Factors or competencies relevant to performance
  - Productivity
  - Quality of Work
  - Teamwork
  - Dependability





# Form – Rating Scale

- Recognize 3 to 5 levels of performance
- Less is meaningless (Pass / Fail)
- More overly complicates
  - Micrometer ->>> Chainsaw
- My recommendation 5
  - Outstanding
  - Exceeds
  - Meets
  - Needs Improvement
  - Unsatisfactory



# Form – Goals

- Specific projects or objectives for the employee
- Specific. Exactly what you are expecting to accomplish
- Measurable. What is the end result?
- Action-based. Use verbs and action words
- Realistic. Within your power to do it
- Time-bound. Set a date for when it should be accomplished



# Forms - Goals

- Written for the job not the person
- Expectations should be
  - Realistic
  - Significant
  - Exceedable





# Examples of SMART Goals

- Roll out a Leadership Development program for managers and supervisors by June 30.
- Increase the number of controlled water heaters by 15% by July 31
- Design an efficient filing system by the end of the second quarter that will provide quick access to information required by customers



# Form – Overall Performance

- Supervisors should formulate an assessment of overall performance
- Based on
  - Job Duties
  - Evaluation Factors
  - Goals
- Relative Importance of Each



# Form – Appraiser Review

- Appraisal should be reviewed by next level of management
  - Before meeting with the employee
  - Ensures mutual agreement
  - Helps insure consistent standards across the organization





# Form – Review with Employee

- Recognition/affirmation
- Identification of training/education needs and coaching areas
- Agreement on job priorities
- Clarification of responsibilities
- Suggestions for improvements
- Verifying or correcting rumors
- Better communication
- Agreement on and establishment of personal goals



# Form – Next years Goals

- Establish Objectives for the next year
- Are last years goals still relevant
- What needs to be improved
- What needs to be reinforced

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# Skilled Appraisers

- The best designed program, in the hands of an untrained supervisor
  - Will be misused
  - Expose you to legal liability



# Skilled Appraisers

- Trained Appraisers will be more inclined to:
  - Provide specific, fair and timely feedback
  - Address performance problems in a constructive manner
- Employees will view appraisals as more credible
  - Critical for acceptance of the program



# Skilled Appraisers

- Value to management
  - Performance appraisal is a critical and productive process
  - Executives must lead by example
- A continuous process
  - Continuous process saves time in the end
  - Gen X & Y crave continuous feedback



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# Pitfalls to Avoid

- Subjectivity
  - Non-precise terms
  - Not related to specific observable behavior
- Inadequate documentation
  - Specific occurrences good or bad
  - Inconsistent documentation
- Rating Errors
  - Human Factor
  - Awareness reduces the effect



# Rater Errors

- Distribution
- Central Tendency
- Leniency
- Strictness
- Halo / Horns
- Recency Effect





## Rating Errors

### Distribution Error


- Supervisor wants to see “bell curve” in department
- Consciously or inadvertently distributes scores along curve



## Rating Errors

### Central Tendency

- Everyone is graded about the same
- Scores all either average or slightly above



## Rating Errors

### Leniency Error

- Supervisor does not want to “rock the boat”
- Reluctance to deal with performance issues
  - Uncomfortable to confront employees regarding performance
- Performance scores higher than actual performance





# Rating Errors

## Strictness


- Supervisor hold themselves to very high standards
- Holds subordinates to high standards that may be unrealistic
- “You have to walk on water to meet expectations”



## Rating Errors

### Halo / Horns

- One major aspect of a job done really well or poorly
- Clouds Judgment when rating other aspects of performance.



## Rating Errors

### Recency Effect

- Positive or negative event close to rating time.
- Event may have significant emotional impact
- Emotions regarding event cloud judgment
- Cancels out previous good or bad performance



# Check-List to a Successful Performance Appraisal

- Set clear performance standards at the start of the performance period.
- Provide on-going feedback and communications.
- Don't surprise the employee.
- Be prepared.
- Be objective and fair.
- Make it positive and motivating.