

The Performance Appraisal System and Analysis: A Case Study

Barbara A. Alston, Nova Southeastern University
Dr. Eleanor Marschke, Nova Southeastern University

Barbara A. Alston (Contact Person)

H. Wayne Huizenga School of Business and Entrepreneurship
Nova Southeastern University
624 Pensacola Lane
Lake Mary, FL 32746
Email: balston@nova.edu
Phone: (407) 333-1338 x22600

Dr. Eleanor Marschke

H. Wayne Huizenga School of Business and Entrepreneurship
Nova Southeastern University
1470 NW 70th Lane
Margate, FL 33063
Email: spiriteducator1@aol.com
Phone: (954) 979-6993

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Abstract

Researchers, Barbara Alston and Dr. Eleanor Marschke conducted an investigative performance appraisal system audit for the position of Administrative Specialist for EB Payroll and Human Resource Services, Inc.'s (a fictitious name) branch location in Seattle, Washington. The Administrative Supervisor gave oral authorization for this audit team to conduct this research. The current performance appraisal system in the Administrative Department received a grade of "D", below standard, as assessed with the established criteria and compared with other departments within the organization as outlined in the pages to follow.

INTRODUCTION

EB Payroll and Human Resource Services, Inc. is a well run company with management that truly believes that the employees are their most important asset. In order to create a sense of teamwork and commitment as well as maintain a more efficient Administrative Department, this audit includes the following summary of recommendations with explicit details outlined throughout this audit:

1. Ask the Administrative Specialist to provide feedback for their review.
2. Implement and create a 30, 60, 90 day appraisal policy for new hires in the Administrative Department to assess current level of productivity as well as in preparation for their six month and annual appraisal.
3. Administrative personnel should be given the same opportunities as other employees as it relates to internal promotions and transfers.
4. As change occurs within the organization, communication must be swift and effective. System or process changes must be communicated quickly and efficiently to staff.
5. The format of the Administrative Specialist performance review should coincide with the Payroll Specialist review (currently in place), with detailed statistical data measured against specific goals and performance level expectations.
6. An appeals policy must be instated to require every employee, regardless of the position, in the event of an appeal, to bring concerns and or suggestions to the attention of management.

The Importance of Performance Management

Performance Management is an organization's capacity or capability of developing the human resources of an organization to achieve their goals to not only keep up with the competition but to outshine their competitors. Cascio and Aquinis (2005) define performance management as a continuous process of attracting, hiring, motivating and assessing the performance of individuals in an organization in achieving their goals.

Both Cascio and Aquinis (2005) and Grote (2002) state the performance appraisal is defined as the process in which an organization defines responsibilities and assesses the performance of individuals or teams as a measure against performance standards set by the organization. The performance appraisal is a communication device for which managers and or supervisors can assess an employee's performance within the organization towards the organizations mission and goals. The performance appraisal also provides feedback to the employee gauging that employee's performance, communicating that assessment and allowing the opportunity for the employee to communication as well (Kirkpatrick, 2006).

A thorough performance appraisal communicates actual performance, offers the opportunity for employees and employers alike to provide negative/positive feedback to keep employees on track. The performance appraisal is designed to guide promotions, demotions, transfers as well as eliminate poor performers. There are two commonly used performance appraisal methods, forced rating/ranking and managing by objectives. Forced ratings or rankings label individuals into categories. Whereas managing by objectives allows the employee to work towards clear and specific objectives. There are advantages and disadvantages to both such as subjectivity and bias. Forced rankings can improve an organizational performance and eliminate dead wood.

A thorough and complete performance management system would include attracting the right employees, retaining those employees, performance planning, performance assessment, motivating and/or creating conditions that motivate, offering feedback and reviewing performance. All of which assists the employer or organization drive performance which, in turn, has the potential to generate increased profit, higher service levels etc. for the employer (Miller, 2006).

Rater Bias

Rating errors are mistakes in judgment that result from allowing extraneous factors to influence our decisions about the quality of someone's job performance. Sources and implications of rater bias include along with examples are detailed as follows:

- 1) Attractiveness effect – the well documented tendencies for people to assume that people who are physically attractive are also superior performers. EX: Dave, a customer service supervisor rated subordinates who were tall, slender and good looking higher than those who were just average in appearance.
- 2) Attribution bias – the tendency to attribute performance failings to factors under the control of the individual and performance success to external causes. EX: Eleanor has

both excellent and mediocre performers in her group and attributes the success of the first group to the quality of her leadership and the failings of the latter group to their bad attitudes.

- 3) Central Tendency – the inclination to rate people in the middle of the scale even when their performance clearly warrants a substantially higher or lower rating. EX: Out of an erroneous belief the law required companies to treat all employees the same, and a conscious desire to avoid confrontation, Harry rated all seven of his employees as fully successful despite significant differences in their performance.
- 4) First impression error – the tendency of a manager to make initial positive or negative judgment of an employee and allow that first impression to color or distort later information. EX: Rachel, a manager, noticed one employee, who was going through a divorce, performing poorly. Within a month the performance had returned to its previous high level, but the manager's opinion remained the same that the individual's performance was adversely affected by the initial negative impression.
- 5) Halo/Horn effect – Inappropriate generalizations from one aspect of an individual's performance to all areas of that person's performance. EX: Jeff was outstanding in his ability to get delinquent customers to pay. His excellence in this area caused his manager to unthinkingly rate him highly in unrelated areas where his performance was mediocre.
- 6) High potential error – confusing an individual's future potential with his current performance. EX: Luis has a graduate degree from a prestigious university and was selected for the company's fast track training program. As a result, his manager rated his performance as superior when actually it was mediocre.
- 7) Negative and positive skew – the opposite of central tendency. The rating of all individuals as higher or lower than their performance actually warrants. EX: Susan rates all of her employees higher than she feels they actually deserve, in the misguided hope that this will cause them to live up to the high rating.
- 8) Past performance error – permitting an individual's poor or excellent performance in a previous rating period to color the manager's judgment in this rating period. EX: Last year, Judy was a distinguished performer and received the highest possible rating. This year her supervisor rated her same even though her performance was no better than other employees who were rated as successful.
- 9) Recency effect – The tendency for minor events that have happened recently to have more influence on the rating than major events of many months ago. EX: Victoria kept no formal records of the overall performance of her work group of 12 people during the course of the year. When she started writing the reviews, she discovered the only examples she could provide were for only positive or negative performance that happened in the last two months.

- 10) Similar to me effect – the tendency of individuals to rate people who resemble themselves higher than they rate others. EX: Carol, a single mother, was promoted to manager. She unwittingly rated several women who were also single mothers higher than their performance warranted.
- 11) Stereotyping – the tendency to generalize across groups and ignore individual differences. EX: Allen is quiet and reserved as a salesperson. His sales record however, is one of the best in the company. But his boss rated his performance lower than that of other salespeople since he didn't fit the mold, ignoring Allen's results.

In an effort to avoid such errors, managers and raters could ask their manager to review the appraisal before it is given to the employee. Benefits include; error reduction, broader organizational scope, less chance of personality factors playing an inappropriate part in the appraisal, less likelihood of challenge, greater defensibility and a chance to practice (Grote, 2002).

Grote (2002) also stated managers and raters can increase the validity and reliability of a performance assessment by including the following elements into the performance appraisal:

- 1) Organizational core competencies
- 2) Key job responsibilities
- 3) Major achievements
- 4) Attendance record
- 5) Comparison to standard
- 6) Employee comments

Business Strategy/Mission Statement

EB Payroll and Human Resource Services, Inc. is recognized as a top national provider of business solutions, differentiated by the personal attention and commitment given to their clients. A 30+ year old company, EB Payroll and Human Resource Services currently services more than 525,000 businesses.

EB Payroll and Human Resource Services is committed to providing the highest quality service to their clients, their shareholders and to their employees. EB Payroll and Human Resource Services' mission is as follows:

“We will be the leading provider of payroll, human resource, and employee benefit services by being an essential partner with small and medium-sized businesses”.

EB Payroll and Human Resource Services' values are as follows:

- Practice the highest standards of ethics
- Provide outstanding client service
- Develop trusted relationships with clients

Foster teamwork in a safe, open environment
 Drive continuous improvement in our processes

The Reward System

The performance initiative plan is a reward system designed to drive performance to achieve and exceed planned operational goals established for each location, promote employee morale and teamwork and equate individual financial success with cumulative team success. The measurement criteria are as follows: there are two review periods within a fiscal year May through November and December through June. Each location is measured on three separate performance criteria compared to plan as follows: branch revenue (40%), client satisfaction (30%) and new client satisfaction (30%). The reward systems at EB Payroll and Human Resource Services are based on the recognition that every employee, supervisor, manager and top-level executive benefits from an ongoing, open system of communication that directly relates to the overall company goals and objectives (Fiorenze, 2007).

Performance Criteria

Criteria	Weighting
Total Payroll Services Revenue	40%
Current Business Satisfaction Survey 30%	
New Business Satisfaction Survey	30%

If the performance attained is less than the required minimum of a criterion, no bonus will be paid for that criterion. A percentage of each eligible employee’s measurement period earnings will be based on Performance percentages as outlined below.

Performance Percentage

CLASSIFICATION ATTAINMENT		
Minimum	Plan	Maximum
97%	100%	103%

Current Appraisal/Review Process

Under the current appraisal system, Administrative Specialists are not asked to provide feedback for their performance appraisal. An analysis of previous appraisals uncovered the feedback from the supervisor was not specific to the job performed in that role. The position of Administrative Specialist is a production based hourly position. There are output reports that are generated on a daily basis that could be specifically tied back to individual employee performance and used in the employee appraisal.

Previous performance appraisal's focused too heavily on past issues that cannot be changed, feedback was general (not clear and specific) and finally, the feedback did not help the employee move forward. The current review policy states employees can expect a mid year review at six months in addition to an annual review on the employment anniversary date of the employee. The employee would also be given a copy of the completed review. At present, there isn't a review policy in place for the first 30, 60 or 90 days of employment, this will be allowed for however, for future reviews and is included in recommendations.

Pay increases are linked six month reviews for new hires and annual anniversary date reviews thereafter. The approval process for pay increases includes the immediate supervisor recommends the percent of increase as it relates to employee performance and obtains second level approval from a manager. Percentage increases greater than 10% require a Regional Manager's approval and finally, percentage increase greater than 15% require a Vice President's approval.

These auditors randomly sampled 25 completed reviews to determine if reviews were given on time and found, 99% - on time, 1% - late. The current appraisal review for the Administrative Specialist evolved as a result of the need for a review document and review procedures. However, a lack of human resource experience and/or human resource education regarding the process resulted in the current below average system.

At EB Payroll and Human Resource Services, both human resource professionals and supervisors would benefit from a clearer understanding of the style and content of the existing performance management system to maximize effectiveness and make informed choices to achieve corporate goals (Houldsworth, 2007).

Benefits

The suite of benefits at EB Payroll and Human Resource Services include: time-off, financial benefits, income protection, healthcare, wellness, group term life insurance, personal and professional development, additional employer provided programs in addition to internal career opportunities. Employees are eligible for vacation, sick and floating holiday time-off accruals in accordance with position and tenure with the company.

Compensation Structure

According to Ducharme (2005) an organization's compensation and reward system has always been one of the most important determinants of its survival and growth. There are several ways in which organizations can improve the employee pay aspect, such as more effective communications of the pay process, increasing pay levels, providing better working environments and job security. Overall, research indicates that the most effective way is the linkage of an employee's pay to his or her performance (Ducharme, 2005). In the EB Payroll and Human Resource Services organization, all employees are paid bi-weekly on Friday for the period which ended the previous Friday.

Staffing

Analyzing length of service of current staff in the Administrative department at EB Payroll and Human Resource Services, the department consists of:

- 1) 89% >1 year < 3 years
- 2) 7% > 3 years < 5 years
- 3) 4% >5 years < 10 years

Workplace Issues

- 1) The primary method of communicating workplace issues in the Administrative Department from supervisor to employee is written, the secondary method is verbal and in person.
- 2) The dominate style for addressing workplace issues is the supervisor and employees work together to resolution.
- 3) Workplace policy and consistent practice determines how management operates on workplace issues.
- 4) Management responds to Human Resource initiatives with great enthusiasm and support.

Interview Process

Twelve employees and three supervisors from the Administrative Department were interviewed to in an effort to gather specific data and employee preferences to include in the performance review process for this department. The format and survey questions used for these interviews were selected from *The Performance Appraisal Source Book* (Deblieux, 2003). Respondents were asked about the performance appraisal process in previous employment prior to EB Payroll and Human Resource Services, eleven employees stated there wasn't a formal review system at their old job nor was the process consistent. All respondents expressed a preference to a consistent, detailed, statistical review of their progress against previous goals along with recommendations and future goals.

Interviewing the three supervisors, their experiences were limited from a managerial perspective. All three were promoted into supervisory positions through EB Payroll and Human Resource Services and received limited training. The one thing that they would unanimously change about the current system would be the detailed statistical analysis that is available however, not used currently. They preferred a system similar to the current Payroll Specialist and Supervisory appraisal process. Supervisors do not currently ask for feedback from their direct reports to be included in the performance appraisal, however, as supervisors, they have been asked to give input on their own appraisals. The supervisors also indicated they had experience with giving feedback on the job performances of his co-workers.

Professional Report

Twenty-first century organizations and their leaders must understand and realize that their most important asset in achieving long-term success is not necessarily their technologies, but this competitive edge and the key to success lies in their people (Mujtaba, 2008). This is why continuous performance assessment, coaching and developing of each employee in the organization is critical in today's competitive workplace. Performance assessment and developing people are important elements of a holistic paradigm for the growth and development of organizations through effective performance management systems. Professor Herman Aguinis defined performance management as the "continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization" (2007). This definition emphasizes that an effective performance management program requires continuous feedback and improvement processes for the development of people. Aguinis states that "A system that involves employee evaluations once a year without an ongoing effort to provide feedback and coaching so that performance can be improved is not a true performance management system" (2007). Furthermore, according to Aguinis, a performance management program that does not explicitly make clear the employee's contribution to the goals of the organization is not a true performance management system.

EB Payroll and Human Resource Services, Inc. is a well run company with management that truly believes that the employees are their most important asset. In order to create a sense of teamwork and commitment as well as maintain a more efficient Administrative Department, these researchers recommend the following:

1. Ask the Administrative Specialist to provide feedback for their review.

Currently, the Administrative Specialists are not participating in the performance appraisal process and providing feedback and input regarding their performance. This is a critical area for EB Payroll and Human Resource Services. In a study conducted by Elicker (2006) the authors propose that supervisor-subordinate exchange in relationships creates a social context that substantially impacts the performance appraisal discussion and encourages feedback from the employee to the employer.

The Administrative Supervisor interviewed for this audit at EB Payroll and Human Resource Services indicated that change occurs frequently and communication is a key element to communicating that change. If it is done efficiently, employees are satisfied and productive, generating better customer service and potentially increase the bottom-line and positioning EB Payroll and Human Resource Services in a better competitive position against the competition.

According to French (2007) there are certain procedures that have to be followed to obtain information from the employee.

- Prepare the employee by scheduling the session in advance. Both the employee and manager should assess the subordinate's performance in advance and come to the session prepared.
- Establish a fair atmosphere so both individuals can communicate freely. Managers should try to put the employee at ease and make sure there are no interruptions.
- Mention the purpose of the session at the outset of the process.
- Encourage the employee to participate.
- Understand or agree on the assessment of current performance as per the established goals by the organization or manager.
- Agree on a future performance goal or goals. Make sure the standard or performance goals are clear to both the employee and manager.
- Create a development plan.
- Finalize a written formal document that can be used to reach the stated goals and to assess achievement levels in the future appraisal sessions.
- Distribute a copy of the final report to the employee.

Communication is the most critical aspect of the performance management process and the successful implementation of a comprehensive performance management system can provide direction for all the employees when the communication process is effective. Communication serves as important input to the organization's developmental efforts along with providing information for effective workforce planning and compensation projections. There are many current approaches to performance management ranging from balanced scorecard to Six Sigma to an incentive compensation process however, it is critical to implement a single, integrated approach to performance management (Rivenback, 2006).

2. Implement and create a 30, 60, 90 day appraisal policy for new hires in the Administrative Department to assess current level of productivity as well as in preparation for their six month and annual appraisal.

According to Brown (2005) performance appraisals are traditionally seen as tools that can promote productivity and that participation from the employee in setting performance objectives engages the employee to produce effective results. Managers should document and include production based statistics while reviewing employee performance during scheduled one on ones, the interim review, as well as the final review.

Grote (2002) specifies there should be five elements included in performance assessment strategy of an organization:

- 1) Organizational core competencies
- 2) Job family competencies
- 3) Key job responsibilities
- 4) Projects and goals
- 5) Major achievements

When designing a performance appraisal system, the following steps and process for the development should be followed:

- 1) Involve top management
- 2) Establish the criteria for an ideal system
- 3) Appoint an implementation team
- 4) Design the form first
- 5) Build your vision, mission, values and core competencies into the form
- 6) Ensure ongoing communication
- 7) Train all appraisers
- 8) Orient all appraisers
- 9) Use the results
- 10) Monitor and revise the program.

The managers that are conducting these reviews have to remember that an effective performance appraisal process should involve both the supervisor and employee. The outcome of this two-way discussion, interaction, and planning process is to achieve a certain outcome that is beneficial to the employee and the organization. The performance appraisal process can greatly impact the relationship between the manager and his or her employees. Managers must properly prepare and plan for this process in order to create a high level of trust with employees they are developing.

3. Administrative personnel should be given the same opportunities as other employees as it relates to internal promotions and transfers.

Internal job opportunities should be posted either internally or the company based intranet. To be eligible, computer room personnel should be required to meet the same standards as other branch or company personnel:

1. Perform satisfactorily in your current position including acceptable attendance
2. Complete one year of service in your current assignment.
3. Meet the minimum qualifications of the position you are applying.
4. Have approval from your current manager prior to applying.

An employee who has received written warning for poor performance within the past six months should not be eligible to participate in the promotion or transfer process. An employee

may be considered sooner than one year, however, this would require an Operations Manager and the Human Resource's Departmental approval.

4. As change occurs within the organization, communication must be swift and effective. System or process changes must be communicated quickly and efficiently to staff.

System or process changes must be communicated to the Administrative Specialists quickly, and efficiently. The format of this communication should be verbal, in a group setting, with written follow up. In each branch, EB Payroll and Human Resource Services holds weekly staff meetings to ensure consistency that information is communicated to the employees and the employees are engaged in the communication process. To ensure delivery, managers must include a written section in the agenda of these branch meetings that includes process changes with well written instructions and or notes.

5. The format of the Administrative Specialist performance review should coincide with the Payroll Specialist review, with detailed statistical data measured against specific goals and performance level expectations.

Statistical data is a critical output element to performance for the Administrative Specialist.

6. An appeals policy must be instated to require every employee, regardless of the position, in the event of an appeal, to bring concerns and or suggestions to the attention of management.

Employees should talk with their immediate supervisor if they feel there is a concern. If they are not satisfied with their supervisor's response, or if for some reason they would like to override their immediate supervisor completely, they must take the concern to the next level of supervision. If they are not satisfied with the resolution, the employee should discuss the issue with a senior manager. If, after thorough discussion, they feel the concern is not resolved, the employee can refer the situation to human resources.

According to Grote (2002) the performance appraisal system should have an appeal process for employees who do not agree with their assessment:

- 1) Allow employees to openly challenge or discuss their performance with managers without any adverse impact or retaliation.
- 2) Encourage employees to provide a written version of their performance. This should accompany the performance evaluation or appraisal form.
- 3) Provide a formal appeal process for employees to challenge their evaluations through the human resources department.

Finally, Fiorenze (2007) shows us performance evaluations are used in wrongful terminations and employment discrimination cases in court each year in rising numbers. Performance evaluations must be consistent with the rest of the documentation in an employee's personnel file and supervisors must be trained to ensure consistency. With proper documentation and a formal appeals process, organizations are better prepared to defend themselves as these types of situations occur.

EB Payroll and Human Resource Services, Inc. will benefit by implementing the recommended true performance management system for the Administrative Specialist as a result of the following contributions with regard to employee performance, morale and organization (Anguinis, 2005 as cited by Mujtaba, 2008):

1. Motivation for performance increases.
2. Self-esteem of each employee increases.
3. Managers gain more information about their employees on a regular basis.
4. The definition of jobs and various tasks become clearer.
5. Self-insight and growth opportunities are enhanced.
6. Various administrative actions are more fair and relevant.
7. The organization's goals are clear to everyone.
8. Employees are more competent.
9. There is a better protection from lawsuits.
10. There is better and timely differentiation between good and poor performers.
11. The manager's perception of an employee's performance is communicated more clearly on a regular basis.
12. Change is facilitated more effectively.

Questions, comments or suggestions regarding this Audit Project should be directed to Professor Barbara A. Alston or Dr. Eleanor Marschke at Nova Southeastern University.

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Author Biography:

Professor Barbara Alston is currently pursuing a Doctorate in Business Administration with a concentration in Human Resources at Nova Southeastern University. She holds a Master of Business Administration and Bachelor of Business Administration from Averett University in Virginia. Barbara is currently a Branch Manager in Orlando, Florida. In addition, she teaches undergraduate business courses at Nova Southeastern University, College of the Southwest and the University of Phoenix. With over eighteen years of management experience, she brings a wealth of business knowledge and business management skills into the classroom.

Dr. Eleanor Marschke is a graduate from Nova Southeastern University and holds a Doctorate in Business Administration in Human Resource Management. In addition, she holds a Master Degree in Marketing from Nova Southeastern University and a Bachelor of Business Administration from Eastern Michigan University in Ypsilanti, Michigan. With over twenty three years of employment at Thomas & Betts Corporation, Eleanor is the Regional Sales Manager in Ft. Lauderdale, Florida. Eleanor is pursuing a career in academia as well as continued endeavors in publishing. Additional information about Dr. Eleanor Marschke can be found at her website www.spiriteducator.com.