Starting Over

How a state agency built a performance appraisal system that delivers the goods.

By TIMOTHY C. HALL

How often have you wanted to junk your performance appraisal system and start over? At the Colorado Governor's Job Training Office we did just that. And we built a new appraisal system that does exactly what it's supposed to do—define, guide, and reward good performance while discouraging poor performance.

Our appraisal system is called "PACE," or Performance Appraisal for Colorado Employees. It's a hybrid of a forced choice appraisal system and some powerful positive and negative reinforcers. It was

system, there were some important weaknesses.

Perhaps the greatest weakness was the lack of an adequate employee performance appraisal system. Managers and supervisors had no systematic, formal, or written means of communicating performance expectations to staff; and staff weren't getting consistent feedback on their performance. There were no benchmarks for strong performers and no way to identify and correct marginal performance.

By the summer of 1985, GJTO's need for an appraisal system was acute, and

with a difference. We restructured PACE to fit our unique job classifications and requirements, and linked a rather powerful incentive system to performance.

The direct link between performance and incentives is the main difference between our employee appraisal system and traditional merit pay arrangements often found in government where merit pay is synonymous with longevity pay.

Evaluation factors

Managers and supervisors developed custom-tailored PACE plans for each position, consisting of numerous "factors" or classifications such as management and supervision, public/interpersonal relations, and organizational commitment and adaptability. There can be as many factors as the rater and ratee deem appropriate.

In some appraisal systems, such as graphic rating scales, factors are established and then performance is rated along a continuum from high to low. Painless—and superficial.
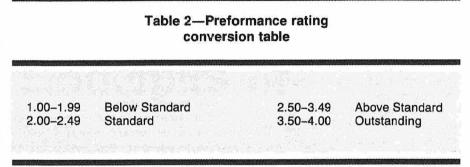
PACE goes further. Within each factor are numerous anchors indicating levels of performance. They are expressed as statements such as "Communications were pertinent and easily understood." Individual performance objectives can be added to each anchor to further define the level of performance required. For example, "effective typing" could be quantified by minimum error rates. As with factors, there can be as many anchors or individual performance objectives as the ratee and the rater deem appropriate.

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designed to work in the unique environment of the Colorado Governor's Job Training Office (GJTO) whose 27 employees serve at the pleasure of Colorado's governor, Richard D. Lamm.

In 1983, GJTO took responsibility for administering most of Colorado's Job Training Partnership Act (JTPA) funds—about $25 million. At the time it didn't have a formal personnel management system. The agency's director did the hiring and firing and set salary levels. While there was a lot of flexibility under the

employees were clamoring for one. However, it was not completely clear whether the employees wanted the appraisal system in order to get recognition for their performance or to ensure periodic salary increases, or both.

We reviewed several kinds of appraisal systems, including graphic rating scales, management by objective, critical incident/narrative methods, and field review techniques. Although some would have been easy to adopt, none of these methods, by itself, was acceptable.

The PACE system that we finally adopted combines the attributes of MBO and critical incident/narrative methods into a detailed forced choice system, but

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For each factor, there are "standard," "above standard," and "outstanding" anchors. An anchor is checked off if the rater and ratee both agree that it has been achieved. One might typically achieve all of the standard anchors, one or two above standard, and one outstanding. Or you could achieve all of the outstanding anchors within one factor such as program/strategic planning and none of the outstanding anchors in another such as program operations.

Table 1 shows the factor "Problem analysis and decision making" and its three anchors.

Blood, sweat, and tears

PACE is completed twice a year, in January and July, based on performance during the preceding six months. It is a rigorous process.

1.00–1.99	Below Standard	2.50–3.49	Above Standard
2.00–2.49	Standard	3.50–4.00	Outstanding

Although there has been preliminary agreement on which factors and anchors best reflect the employee's and the supervisor's performance expectations, and although the supervisor may have ratings in mind, the appraisals can't be completed independently.

Employee and supervisor must go over every anchor together. This requires supervisors to support their ratings and employees their performance, anchor by anchor, factor by factor. If the supervisor doesn't feel the employee met certain standards, both must agree that the employee had the opportunity to do so. Here the appraisal can become a subjective and honest exchange.

When employees feel they are being evaluated fairly and consistently, other interesting things happen. For example, someone will occasionally argue that he or she has not met certain objectives even when a supervisor would give them the benefit of the doubt. Willingness to be honest seems to increase when people feel the appraisal process is honest and credible.

The magic number

When the appraisal is complete, the employee's score for each factor is computed. If the factor "typing skill" had five anchors in the standard category, then the value of each anchor would be .20 (100/5 = .20). If three out of the five standard anchors were achieved, the rating would be .60 (.20x3 = .60). The total score for each factor is the sum of the standard, above standard, and outstanding anchors achieved. Repeat the process for all the factors in an employee's PACE plan.

Factors can be weighted, depending on their importance relative to other areas. For example, if typing makes up only 15 percent of the job, multiply by .15 the score for the typing skills factor. If factor scores aren't weighted, compute the average for all of them. If the scores are weighted, add up the total weighted scores for each factor to get the grand total.

The total score for all factors—either the average or the summed weight—is then compared to the range in Table 2. An overall rating of 2.25 would be standard; 3.6 would be outstanding. Scores in specific areas can help identify employees' strengths and weaknesses.

Table 1—Representative appraisal factor with corresponding anchors

Factor	Anchor		
	Standard	Above Standard	Outstanding
Problem analysis and decision-making	• Generally made good decisions on matters of relevance to the agency.	• Consistently made good decisions on matters of relevance to the agency.	• Was quick to recognize and resolve emerging issues before they became problems.
	• Analyzed information without missing important details and without getting distracted by trivia.	• Made high-quality decisions under adverse conditions.	• Showed extremely strong analytic skills and perspective when interpreting problems and making decisions.
	• Assured that decisions were made at or referred to the appropriate level.	• Solved problems promptly and effectively.	• Made excellent decisions under conditions of extreme stress and pressure.
	• Solved daily problems in a timely, effective manner.	• Anticipated potential problems and took steps to alleviate them.	• Consistently showed extremely strong analytic skills in interpreting and communicating complex information.

Incentive bonuses and non-cash awards

Powerful rewards are built into PACE. Employees can earn two kinds of bonuses, an incentive bonus or a special achievement cash award. The exemplary person can achieve both.

The incentive bonus is a lump-sum payment of a percentage of one's total annual salary. For example, if, in January, you achieved an above-standard rating, you would get a lump-sum payment representing 2.5 percent of your annual salary. On the other hand, if you earned an outstanding rating, you would receive a lump-sum payment representing 5 percent of your annual salary. No bonuses are awarded for standard or below standard performance.

The same procedure is repeated in July. At best, on an annual basis, an employee could receive 10 percent of his base pay for outstanding performance (5 percent in January; 5 percent in July). The maximum that an employee could receive in one year would be 10 percent of base salary, or $3,000, whichever is less. (The $3,000 is a ceiling imposed for budget control.)

Employees may earn any combination of ratings and bonuses—e.g., standard (0) in January; outstanding (5 percent) in July, for an annual incentive bonus of 5 percent.

The second type of incentive bonus is the special achievement cash award. An employee could receive $200 (or some other non-cash award) and other special recognition for making a substantial contribution. This may or may not be an employee who also achieves an outstanding PACE rating. Other non-cash awards built into our appraisal system include free parking, time off, and recognition in front of co-workers.

No salary creep

A strength of PACE is that one good rating does not guarantee another. And bonuses are not added to base salary, creating budget-busting salary creep. Salary increases depend on performance rather than longevity.

There were some initial concerns that a system such as PACE—where rewards and punishments are real and significant—could backfire. Raters might feel pressure to be liberal in their appraisals, resulting in rating creep, excessive costs, and a system without credibility. This didn't happen.

Instead, without a forced distribution system, our PACE ratings approximated the distribution of the state's classified employees who are appraised with a PACE-type system. The classified system uses PACE in the traditional way without the rewards and punishments and without give-and-take between raters and ratees.

GJTO's first ratings were high compared to regular state employees' ratings, but this was probably due to lack of experience with the new system.

Following refinements of the factors and anchors, the second appraisal, in July 1986, produced excellent results. Not only did our distribution approximate the state's, but we no longer had anyone performing below standard. We felt that PACE was doing precisely what a good appraisal system is supposed to do—helping to identify underachievers and allowing corrective action ahead of serious problems.

Costs and benefits

GJTO has been monitoring PACE's costs and benefits carefully. The appraisal system has made a difference in overall productivity and output. Work is more efficient and effective, and in some cases, major tasks take half the time they once did. Contracts are processed more quickly, deadlines are met more frequently, final products are better, and staff morale has improved. Staff are conscious of performance and how it relates to the organization's goals and to their next appraisal.

PACE works, but not without its costs. The amount budgeted for period 1 was $11,000; for period 2 it was $13,000. On an annual basis, PACE awards were projected to add 3.5 percent to the agency's personnel costs and account for slightly over 2 percent of GJTO's annual operating budget.

During Period 1, the actual payout was $11,538—4.8 percent over the original projections. Period 2 costs were $10,175—22 percent *less* than the original projections. The reductions were a result of refinements in the PACE plans, a staff that had grown smarter at doing appraisals, the salary levels on which the awards were based, and the $3,000 ceiling on payouts.

Compatibility

What remains as a considerable deterrent to performance appraisal system effectiveness, however, does not relate to psychometric properties of scales, information-processing characteristics of raters, or clarity of policies governing the system, but rather failure to recognize the realities of managerial work and organizational culture or environment. (C.E. Schneier, et al, Training & Development Journal, May 1986)

Performance appraisals require managers to plan performance objectives, interact with others in formal review sessions, adhere to a prescribed system, and take action—sometimes positive, sometimes negative. In order to accomplish these tasks effectively, managers and supervisors must assume different roles. They must become coaches, advisors, counsellors—a role with which many feel uncomfortable.

Perhaps this is exactly why PACE *does* work at GJTO—it is consistent with the realities of managerial work and the organizational environment. The managers and supervisors do see their roles not just as decision makers, but as coaches, advisors, and counselors. And, they see the performance appraisal process—PACE—as an opportunity to effect positive organizational change rather than just another administrative burden.

PACE is also effective because the results are used for decision-making about jobs, careers, and rewards. It's a basis for rewarding performance and for making systems changes. For example, PACE assisted in identifying weaknesses in technical writing and supervisory skills. These discoveries led the agency to provide special training and development to correct these weaknesses. In some cases, PACE results have enhanced decisions regarding organizational change and staff realignment.

In sum, GJTO recognizes PACE as a management cycle: it enhances supervisor-subordinate relationships by allowing for frequent communication, specification of performance expectations, accurate evaluations, and problem solving. The end result is better staff and a stronger organization.

References

1 Schneier, C.E., Beatty, R.W., and Baird, L. (April, 1986). How to Construct a Successful Performance Appraisal System, *Training & Development Journal*, v. 40, no. 4, pp. 41-4.