MANAGEMENT OBJECTIVE

Ensure that the performance appraisal process accurately assesses employee job performance and is used to develop human resources in a way that contributes to the entity's overall mission.

BACKGROUND

Performance appraisal systems have several purposes. Appraisals are often tied to rewards and pay, placement and promotion, and training and development. A system of appraising worker performance can also assist in human resources planning and job definition.

Furthermore, appraisal systems can assist state entities in managing performance and fostering employee perceptions of legitimacy and fairness in entity policies. Performance appraisals become an important legal issue whenever the data compiled are used in human resources decision making.

Currently, no statute requires Texas state entities to develop and implement employee performance appraisal systems. In 1992, the State Agency Coordinating Committee (SACC) proposed legislation designed to improve entity management of human resources which included a provision for job-related performance appraisal systems. However, this was not incorporated into the General Appropriations Act or any other state statute.

DEFINITIONS

Job dimensions are the essential characteristics an employee must fulfill to perform a job well. Job dimensions differ from job duties. For example, the job duties of a receptionist might be to answer the phone and take messages. The related job dimension would be customer service.

Rating errors

Evaluators often make one of five mistakes when rating performance (Texas State Auditor's Office, *Auditing Auditor Performance*, p. 12, 1992):

- rating an employee based on how much they like or dislike him or her
- rating everyone at one level, e.g. high, medium, or low
- rating an employee at the same level on each job dimension
- letting the rating form and reference materials make the judgment instead of taking the time to make actual observations and translate them to the appraisal form
- letting recent performance influence ratings ("halo/horns" effect)

OVERVIEW OF THE PROCESS

The basic phases of a performance appraisal process are:
- **Identify job-related performance measures.**
- **Design a system congruent with entity structure and other human resources systems.**
- **Train the appraisers to administer performance evaluations.**
- **Inform the employees and train them on the appraisal system.**
- **Document the system.**
- **Conduct timely appraisals.**
- **Use assessment information to determine promotion potential, provide feedback on performance, plan performance goals, and develop training needs.**
- **Monitor and reevaluate the system.**

PROCEDURES

Suggested procedures, organized according to the elements of a finding, are listed below. They should be expanded or tailored to fit the specific entity being reviewed.

Review criteria:
General criteria

General criteria applicable to the performance appraisal process are as follows:

Performance appraisals have three important objectives (Bittel, p. 144):
- to encourage good performance and to correct and discourage substandard performance
- to provide a foundation for future human resources decisions
- to provide a basis for the employee's training and future development

Case law also provides important criteria for designing performance appraisal systems which include (American Compensation Association, *Individual Perf. Mgmt.*, p. 2.15, 1992):
- Standards for performance appraisals should be based on an analysis of job requirements. (Records of job analyses should be maintained by the entity).
- Performance standards must be communicated to employees in advance of performance appraisal.
- Employees should be evaluated on specific dimensions of job performance rather than on a single, global, or overall measure.
- Performance should be documented and recorded on an appraisal form.
- Appraisers should be trained to administer performance appraisals.
- Appraisers' ratings and decisions should be audited.
- Human resources decisions should be consistent with appraisals.
- A formal appeal process should be established.

Specific criteria

The criteria related to the basic phases of the performance appraisal process are as follows:

Identify job-related performance measures

Performance appraisals are formal systems that provide feedback to employees. Good feedback should follow as closely as possible on an action, should be specific rather than general, and should be limited to actions that pertain to an employee's responsibilities and that fall within an employee's control (Mohrman, p. 118).

Performance appraisal systems begin with a job analysis to identify important performance characteristics and standards. Performance measures must be well-defined and job-related to attain acceptable levels of reliability and validity (Moore, p. 7). Performance measures must be documented and discussed with employees.

Design a system congruent with entity structure and other human resources systems
Performance appraisal systems should be linked to the entity's strategy, be consistent with the entity's organization culture, effectively evaluate individual performance, facilitate supervisor/subordinate communication, provide for ongoing performance feedback, and reinforce personal development (American Compensation Association, *Individual Perf. Mgmt.*, p. 7.3, 1992). The performance appraisal system must comply with relevant state and case law.

Train the appraisers to administer performance evaluations
The manager must be able to facilitate the exchange of information between the entity and the individual. Performance appraisers who are trained to recognize effective and ineffective performance and are aware of possible system problems will provide more reliable ratings than untrained appraisers. Training helps appraisers develop a common frame of reference for evaluating performance (Moore, p. 5).

Inform the employees, and train them on the appraisal system
Performance standards must be communicated to employees in advance of performance appraisal. Employees are more receptive to a performance appraisal system when open communication and discussion of the system occur between managers and employees. Information about the appraisal process should be presented in a format which allows employees to feel actively involved in the process. Communication about the performance appraisal system should demonstrate the value of the system to the employee. Communication of the system should include written documentation. Training on the performance appraisal system should include the mechanics of the system and the skills needed to operate the system (Mohrman, pp. 135, 138, 139).

The establishment of agreed upon performance standards between employees and managers is crucial to the appraisal process. Care must be taken to reach a consensus on the expectations of both parties <u>before</u> implementing the measures for evaluating worker performance.

Document the system
Policies and procedures for the appraisal system must be written either in policy format or in a manual. Performance should be documented and recorded on an appraisal form. Evaluation criteria should be clearly stated. Evaluations should include supporting documentation and evidence of feedback. The appraisal system should allow for a response from the employee verifying that the results of the appraisal have been communicated to him or her (Pomeranz, p. 136).

Conduct timely appraisals
Although no single rule exists as to how often appraisals should be given, most organizations conduct them annually. This assumes that the performance cycle of the employee matches the annual operating cycle of the entity. The rule of thumb is that appraisals should not be conducted until performance can be reasonably measured (Mohrman, pp. 119-123). Therefore, employees who work on short-term projects should be appraised more frequently than those assigned projects with longer terms. Appraisals should be timely and given as frequently as the stated policy indicates.

Use assessment information to determine promotion potential, provide feedback on performance, plan performance goals, and develop training needs
Organizations should offer rewards and incentives that appeal to the employees, including opportunities for personal and professional development (Mohrman, pp. 199-200).

Human resources decisions should be consistent with appraisals. Feedback should be performance-related, credible, timely, and pertain to performance over which the employee has some control. Feedback should be useful in developing performance goals and evaluating training needs (Moore, p. 3).

Performance appraisal systems should provide a basis for a clear understanding of the relationship between pay and performance. Note, however, that the current trend is to separate performance appraisal systems from compensation systems. Performance appraisals should also provide information that can lead to a sense of accomplishment and should explain to employees which behaviors are appropriate and which are not (National Research Council, p. 146).

Monitor and reevaluate the system
Performance appraisal systems must be continually monitored (Moore, p. 10). Entities should review their performance appraisal system to ensure rating accuracy and system effectiveness. Appraisers' ratings and decisions should be reviewed by the entity. Information needs to be collected on the managers' and employees' reactions to the system and how frequently it is used. Changes in the entity's structure or needs should be reflected in the appraisal system. A performance appraisal system review process emphasizes the organization's commitment to the appraisal system (Mohrman, p. 158).

Some examples of measures that could be used in the monitoring process are:
● performance appraisal timeliness, which measures the average number of days

between appraisals and compares to stated policy
- low rating outcomes, which measure the kind of corrective action taken, such as training, personal counseling, or discipline, when a low rating is received
- high rating outcomes, which measure rewards given, such as merit pay increase, achievement bonus, or other form of recognition, when a high rating is received
- system outcomes, which measure the average rating and the rating spread
- outcome equity comparisons, which compare ratings and/or salary increases by manager, age, organizational group, gender, race, job, family, or other applicable categories to assess the possibility of bias

Assess Condition:
Determine the actual processes used

Conduct interviews, observe operations, and identify and collect available documentation in order to gain an understanding of the entity's actual performance appraisal process and controls. Included in the actual process are both official/unofficial and formal/informal processes and controls. An official process may exist even if it is not documented. Possible procedures include, but are not limited to:
- Determine how the entity plans its performance appraisal system and the relationship of the performance appraisal plan to the strategic plan.
- Obtain and review any manuals, policies, and forms used for the performance appraisal process.
- Determine what type of appraisal information is contained in the employee's personnel file.
- Obtain information about the entity's performance appraisal training, including feedback documentation from training.
- Interview employees about frequency and relevance of performance appraisals and feedback.
- Obtain information on the process the entity uses to review and evaluate its appraisal system.

In addition to gaining an understanding of the actual process, also try to find out:
- how the participants view their own process
- what they think is important and why
This information may help identify causes and barriers.

Determine the strengths and weaknesses of the actual process

Using the tailored criteria, the understanding of the entity's process gained above, and the procedures in this section, analyze the actual process to determine if it:
- is designed to accomplish the management objective (this module, page 1)
- has controls that provide reasonable assurance that the process will work as intended
- is implemented and functioning as designed
- is actually achieving the desired management objective(s)

In executing these procedures, remember to identify and analyze both strengths and weaknesses.

Identify and review the steps in the actual process. Possible procedures include, but are not limited to:
- Determine if all major steps in the criteria are included in the actual process.
- Determine if all the steps in the process appear to add value. If there are steps that do not appear to add value, try to get additional information on why they are included in the process.
- Review the order of the steps in the process to determine if it promotes productivity.
- Review the level of technology used in the process to determine if it is up-to-date and appropriate to the task.

Identify the controls over the process and determine if the controls are appropriate, placed at the right point(s) in the process, timely, and cost effective. Possible procedures include, but are not limited to:
- Draw a picture of the process, the controls, and the control objectives (see the graphic of the procurement process in the Introduction for an example). Determine if the control objectives are in alignment with the overall management objective(s).
- Look at the controls in place for ensuring that the evaluations are done in a timely manner. Determine if they are appropriately placed in the process. (If the control is only at the end of the process, it won't be as effective in ensuring timely evaluations).
- Determine what kinds of controls are in place to make sure evaluation information is used to promote the objectives of the entity and develop employees' careers.

- Identify the controls in place for ensuring evaluation quality. For example, is there a formal appeal process for employees who are not satisfied with their ratings?
- Identify the controls in place for maintaining rating quality. For example, does the monitoring process measure the rating accuracy of the appraisers to ensure maintenance of standards and minimize rater bias?

Review observations, interviews, documentation, and other evidence and design specific audit procedures as needed to determine if the process and/or the controls are functioning as designed. Depending upon the objectives of the project, these procedures may include both tests of controls and substantive tests. Possible procedures include, but are not limited to:

- Review evidence to determine how the performance criteria and evaluations are actually communicated to the employees. Compare with policies and procedures.
- Review personnel files to determine how often appraisals are actually conducted. Compare with standards for frequency.

Analyze process reports over time for trends. Determine whether the information gained from the monitoring process is fed back AND is used to modify the system. Possible procedures include, but are not limited to:

- Review appraisal forms to determine if they identify weaknesses and related training needs. Review personnel files to determine if appropriate training was actually attended and what its impact was on subsequent evaluations.
- Review the reports on entity conducted reviews of the quality of appraisers' evaluations. Determine how the results change over time.

Determine causes

Determine what circumstances, if any, caused the identified weaknesses in the performance appraisal process. Possible procedures include, but are not limited to:

- Determine if the participants in the performance appraisal process understand its relationship to the entity's mission, goals, and values.
- Determine if the participants understand their role in the performance appraisal process.
- If the process occurs at multiple locations, determine the nature and scope of the communication and coordination among them.
- Determine if the relationship between the performance appraisal process and other entity processes is clear. For example, you could compare the recruiting and hiring policies and the appraisal results to determine if it appears that the entity is hiring employees who are unable to perform as expected.
- Determine if the performance appraisal process has adequate human, dollar, time, and asset resources.
- If there are negative trends in the monitoring reports, determine if the reports are communicated to and used by the appropriate parties.

Determine what internal or external constraints or barriers, if any, must be removed in order to successfully overcome these weaknesses. Possible procedures include, but are not limited to:

- Determine if any key employees are unwilling to change the process and why they are unwilling.

- Review the applicable entity, state, or federal laws or regulations to determine if any of them prevent the necessary changes from being made in the process.

Determine effect

Determine the effect of each of the identified weaknesses in terms of dollars, impact on services (either quantity or quality), impact on citizens, impact on the economy, etc. Possible procedures include, but are not limited to:

- Identify benchmarks for the process in question and compare to actual performance. Quantify the difference, if possible.
- Estimate the cost before and after the proposed change and compare.
- Estimate the quantity and/or quality of services before and after the proposed change and compare.
- Identify the risks associated with not making the proposed change and quantify.

Develop recommendations   Use the tailored criteria, references in the resource section, the identified weaknesses, and the identified causes and barriers to develop specific recommendations to address the cause and correct the weaknesses. Possible procedures include, but are not limited to:

- Identify alternative solutions used by other entities.
- Identify solutions for removing barriers.
- Provide general guidelines as to the objectives each solution should meet. Then the entity can tailor the solution to its specific situation.
- Provide specific information, if available, on how each recommendation can be implemented.

RESOURCES   See the document titled "Resources" behind the last human resources module.