USING THE PERFORMANCE APPRAISAL SYSTEM FOR STRATEGIC ALIGNMENT

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ABSTRACT

Managing change within today’s public water and sewer utility requires clear objectives and alignment among departments and employees. In the Loudoun County Sanitation Authority (LCSA), a company-wide Strategic Plan, departmental Action Plans, and individual Performance Objectives combine to enhance ownership and maintain organizational alignment. Employees work towards advancing the organization through individual efforts that complement the Strategic Plan and improve organizational effectiveness.

This paper presents the LCSA Performance Appraisal System and its relationship to the Strategic Plan. Developed to serve as a component of a new Pay-for-Value System, the Appraisal System represents the vision and values of the utility; supports the Strategic Plan; promotes employee versatility; and fosters skill development and career advancement. The paper discusses the consequences and overall value of Performance Objectives when compared to more traditional Performance Factors (such as dependability, initiative or work quality) that historically have embodied the knowledge, skills and abilities of employees. The energy and desire to achieve individual Performance Objectives is influenced by this Appraisal System.

KEYWORDS

Organizational change, performance appraisal, pay-for-value, high performance, performance objectives

INTRODUCTION

Managing and leading organizational change within today’s public water and sewer utility requires clear objectives and alignment among departments and employees. The foundation for such change is the Strategic Plan, a participatory road map to a certain future. How a utility measures and emphasizes in meeting its Strategic Plan will be a key factor for success. The purpose of this paper is to present the alignment tools used by the LCSA to achieve strategic planning objectives through individual ownership. These tools consist of a business model, a descriptive model of desired employee skills, a financial reward system, and a performance appraisal system, all focused upon organizational and strategic alignment.

Figure 1 presents a simplified cause and effect diagram illustrating how the alignment tools described above complement the Strategic Plan Themes of LCSA as well as parallel the basic framework of the Balanced Scorecard (BSC) resulting from the work of Robert S. Kaplan and
David P. Norton. While BSC is not currently employed at LCSA, existing alignment tools and strategies are creating the platform for future adoption of BSC as a key informational system.

**Figure 1 – Cause and Effect Diagram of Strategy and Alignment Tools versus the Balanced Scorecard Perspectives**

<table>
<thead>
<tr>
<th>Balanced Scorecard Perspectives</th>
<th>Organizational Alignment Tools</th>
<th>LCSA Strategic Plan Themes</th>
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<td>Customer Service</td>
<td>Pay-for-Value</td>
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<td>Performance Appraisal System</td>
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<td>Learning and Growth</td>
<td>Talent Model</td>
<td>Committed to Employees</td>
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<td>Business Process</td>
<td>LCSA Business Model</td>
<td>Technology Driven</td>
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**BUSINESS MODEL**

In 1999, LCSA adopted a high performance organization model which emphasized the use of strategic planning as the springboard for measured performance (see Figure 2, below). This model was developed by John Pickering and Robert E. Matson in collaboration with the Virginia Municipal League and the University of Virginia.

**Figure 2 – The LCSA Business Model**

A DESCRIPTIVE MODEL OF DESIRED EMPLOYEE SKILLS
The Networked Talent Model, also developed by Pickering and Matson, emphasizes the nature of work within the modern organization and is composed of four unique skills and abilities. These skills and abilities are defined as management, leadership, team skills and technical skills. Figure 3 depicts a generalization of this “Networked Talent Model.” Of significant importance to the LCSA organization is the desire to encourage and help develop well rounded employees with both people and technical skills. The LCSA believes well rounded individuals are vital to our success in today’s modern work environment, an environment that requires high levels of communication, collaboration and cooperation.

**Figure 3 – The Networked Talent Model**

In an endeavor to include a reward system that would complement strategic objectives, LCSA developed our own financial reward system based on the works of Berger and Berger; The Hay Group; Zinheim and Schuster; and John Dantico.

**FINANCIAL REWARD SYSTEM**

Figure 4 illustrates the diminishing value of veteran employees who choose not to enhance their skill levels, or move towards more responsible positions within the organization.

**Figure 4 – Employee Value Cycle**

The recently developed LCSA Pay-for-Value system emphasizes the need for developing the “whole” employee through both academic training and on-the-job development. This emphasis
is different from the conventional pay-for-performance system whereby employees are rewarded for technical performance without regard for organizational, bigger-picture, capabilities. Conventional performance systems may work in highly structured, skill-focused, top-down environments, but not in the high performance organization envisioned for the LCSA.

In creating the LCSA’s new Pay-for-Value system, a pricing analysis began with selected pay survey data which represented a composite of several factors and components, and extremes in rates for particular jobs. The job evaluation data is linked with current market salary data to construct the new salary structure or eligible range of compensation for classification and every job. This information provided guidance for setting pay range boundaries. Once pay range boundaries were established, the midpoints were identified.

A pay range midpoint is considered the job’s competitive market rate and represents a level of compensation commensurate for a fully performing incumbent who has all the qualifications for the job and has consistently demonstrated the skill level necessary to fully perform successfully in the job. This midpoint is best described as the journey level (i.e. fully competent) for the position.

The pay range, or classification structure, is the guide to determine the appropriate hiring and salary rates. An individual’s skills are compared to those skills defined in the job description to determine where on the eligible range of compensation that individual should be placed. Consideration of certain attributes and competencies that are unique and have importance to the LCSA are also considered.

An employee with limited skills may be placed at the minimum salary, while another employee may be eligible for a salary closer to mid-point because they have demonstrated their knowledge, skills, and abilities (KSA’s) and have successfully performed the position’s full range of duties and responsibilities.

A rate of pay below the midpoint range represents pay commensurate with lesser qualifications, experience, or demonstrated skill than the journey level performer. As an employee demonstrates the KSA’s for each functional area of their job, acceleration toward the midpoint of the range will naturally occur. This advancement toward the midpoint aligns an employee’s attainment of skill and experience with a commensurate salary and, in general, occurs on a more rapid learning curve for the new employee than the veteran employee.

New hire salary offers at or above the midpoint range are not typical because inexperienced employees will need sufficient time to learn and apply knowledge unique to the position and the LCSA organization. However, there is no pre-determined hiring rate because each situation is unique and experienced veterans may be hired at salaries beyond the midpoint. When hiring, a target hiring salary is identified by evaluating the level of KSA’s required to perform a specific assignments successfully. As such, if the LCSA needs veteran employees to meet mission critical assignments, target salaries may be increased appropriately.
As individuals are retained in the organization and begin to reach and pass midpoint, the rate of progression declines because they are receiving a salary at or above the competitive market rate and no longer require acceleration to midpoint. Figures 5 and 6 depict such progression.

**Figure 5 – The Midpoint of Pay Ranges**

- **Minimum $**
- **Midpoint $$**
- **Maximum $$$**

- Minimal experience
- Consistent demonstration of job performance through KSA’s and experience
- Consistent demonstration of vast KSA’s relative to job, function, and operations

**Figure 6 – Salary Increase and the Midpoint**

- Midpoint (Journey-Level)
- Salary Increase is based on Midpoint

To move beyond the midpoint range or journey level, an employee will demonstrate a solid record of performance, experience and development, yet will be rewarded against the midpoint, or journey level and the salary adjustment will be based on the midpoint salary, not the individual’s current salary.

Employees at the high end of the range who consistently demonstrate exemplary performance, knowledge and experience in their job will receive high ratings on the appraisal but their financial rewards will be focused on their journey level salary. Typically these veteran employees apply specialized skills to the organization and have extensive and diverse experience.
PERFORMANCE APPRAISAL SYSTEM

The new appraisal system was developed in-house by utilizing the work of William S. Swan. The appraisal system endeavors to help immediate supervisors set clear expectations and objectives for the coming appraisal period (one year). The LCSA system is composed of three elements: Performance Factors, Performance Objectives, and Development Objectives.

Performance Factors can be “broadly defined as ways employees handle all on-going job duties” and together represent desired behaviors and abilities to complete work in a competent manner. Performance Factors are “permanent features” and generally consist of behaviors separated into four competencies, each of which complements the Talent Model. These competencies are Technical Skills, Team Skills, Leadership, and Management and are meant to reflect the desired attributes of our employees. Each category has equal weight, thus factors do not have equal weight. The Competencies and factors are presented in Table 1, below.

Table 1 – Talent Model

<table>
<thead>
<tr>
<th>Technical</th>
<th>Teamwork</th>
<th>Leadership</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and Organizing</td>
<td>Participation</td>
<td>Professionalism</td>
<td>Planning and Organizing</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Cooperation</td>
<td>Customer Service</td>
<td>Personnel Delegation</td>
</tr>
<tr>
<td>Quality of Work</td>
<td>Safety and Security</td>
<td>Guidance and Facilitation</td>
<td>Personnel Development</td>
</tr>
<tr>
<td>Productivity</td>
<td></td>
<td></td>
<td>Finance</td>
</tr>
<tr>
<td>Communication</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliability and Dependability</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Initiative</td>
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</tbody>
</table>

Performance Objectives are defined as “specific achievements” accomplished within an agreed upon time frame and motivate the individual to achieve personal objectives in the overall context of the LCSA Strategic Plan. In doing so, employees help move the organization forward. In a manner similar to earlier “management by objectives” methods, departments within LCSA develop Action Plans to meet organizational goals. In doing so, individual employees within the department are given objectives that contribute to meet the LCSA Strategic Plan.

Development Objectives are career oriented in nature and help move the individual forward. The Development Objectives are developed mutually by the employee and the immediate supervisor and serve to help the employee develop KSA’s to prepare him/her for future responsibilities as well as meet his/her career goals. Development Objectives are not rated within the appraisal, but do serve to empower the employee to “skill up.” Both the Performance Objectives and Development Objectives are designed to align with the Strategic Plan.

Near the conclusion of the one-year appraisal cycle, the LCSA supervisors are expected to conduct “pre-appraisal” meetings with each employee. The employee is expected to prepare documentation of all projects, initiatives, educational activities and assignments completed throughout the year. During the meeting, each employee has the opportunity to present his/her results for the year and the supervisor is expected to use the session to listen. By so doing, the supervisor will facilitate developing, with each employee, a plan for the future, not just a report.
card for the past. The results of this meeting can be used to develop the final documentation – the appraisal form.

RESULTS

After two years experience, the 2004 appraisal cycle was successful as it related to the criterion that a rating of “3” is considered competent. The average rating in 2004 was 3.6% and, based on mid-point, resulted in a budget impact of 3.1 percent. This result reflected the fact that many employees are past midpoint salaries. In fact, the average placement among employees is at 50.7% of salary range, slightly past the mid-point. Figure 6 depicts the statistical distribution of the appraisal results in 2004.

Figure 6 – Statistical Distribution of the 2004 Appraisals

Figure 7, below, depicts the statistical distribution of the appraisal results in 2005 and Table 2, following, depicts the average rating for all appraisals compared to the average rating for Performance Factors and Performance Objectives. Of interesting note is the fact that the average Performance Objective rating is 0.7 points below the average rating for Performance Factors. This not only demonstrates how busy the LCSA staff is in the core mission areas, but it also illustrates how difficult it is to complete Performance Objectives; a creative endeavor requiring the full talents prescribed in the Talent Model in order to gain needed problem solving, team involvement and consensus.

Figure 7 - Statistical Distribution of the 2005 Appraisals
Table 2 – 2005 Appraisal Results

<table>
<thead>
<tr>
<th>Number of Appraisals</th>
<th>146</th>
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</thead>
<tbody>
<tr>
<td>Number of Performance Objectives</td>
<td>197</td>
</tr>
<tr>
<td>Average Rating</td>
<td>3.7</td>
</tr>
<tr>
<td>Average Performance Factor Rating</td>
<td>3.7</td>
</tr>
<tr>
<td>Average Performance Objective Rating</td>
<td>3.0</td>
</tr>
<tr>
<td>Average Number of Performance Objectives Rated</td>
<td>1.4</td>
</tr>
</tbody>
</table>

All managers and supervisors who conducted appraisals for calendar year 2005 participated in two “Lessons Learned” workshops in the spring of 2006 for the purpose of critiquing and improving the appraisal process and forms. Numerous suggestions were made and implemented. A focus group from these workshops is in the throes of recommending changes to four components of the appraisal system, changes that were felt to be too detailed for the workshops.

Since the start of the five-year Strategic Plan in January 2002, the LCSA has completed 18 organizational initiatives as well as over 100 departmental initiatives. The future remains hopeful for the LCSA given current enthusiasm for strategic initiatives. During the summer of 2005, the LCSA employees identified 195 initiatives within 13 departmental action plans. Given the current heavy work load of the LCSA, many initiatives were rescheduled to take place beyond 2008. In March 2006, the Strategic Plan was updated with the objective of accomplishing 20 organizational initiatives over the next two years. The interest and ideas generated by the staff in these endeavors bodes well for a bright future.

DISCUSSION

There have been several positive aspects that have resulted from implementation of the performance appraisal system and there have been other items that were identified that needed further evaluation.

On the positive side, the new performance evaluation system facilitated the supervisor’s understanding of an employee’s actions during the previous year, greatly improved a supervisor’s ability to accurately target areas of strength or weakness, and provided incentive for improvement. The new performance evaluation system is a three part process. During the pre-appraisal, the employee discusses his or her performance during the past year using a list of accomplishments prepared by the employee as talking points. Following this, the supervisor prepares the evaluation and provides it to the employee for review. Finally, the supervisor and employee discuss the appraisal and either concur with its assessment or provide written disagreement. The pre-appraisal is a vital communication key that helps keep the supervisor more fully informed, especially when the employee is highly functioning and self-sufficient.

Regarding targeting areas and providing incentives, the new appraisal lists 17 individual factors on which an employee is assessed (as opposed to seven in the old appraisal). Supervisors critically look at each factor and assess how an employee performed with respect to the supporting information presented in the appraisal for that factor. The assessment provides specific information to the employee how the supervisor believes the employee is performing.
with respect to that factor. Each factor is evaluated on a scale of one to five, with three being “fully performing.” Therefore, regardless of whether a factor is an employee’s strength or weakness, he or she usually has the ability to increase the individual rating of a factor.

Another positive of the new evaluation system is it assists the LCSA in completing its strategic objectives by providing those objectives to employees to complete during the year and assessing their performance on their progress. This assignment of strategic objectives to employees in the form of Performance Objectives gives ownership of the strategic objective to a person or team who is committed toward achieving the objective. This commitment arises from the fact that the objective was jointly agreed upon with the supervisor as well as the employee’s financial incentive for completion. A special benefit of assigning objectives to employees is that assigning only a limited number each year helps to lessen the possibility for over-committing resources.

A second issue associated with performance objectives is that some positions within the LCSA are more suited toward allowing an employee to complete objectives than others. For instance, Customer Service staff is usually required to answer phone calls, which prevents them from performing a project as an objective. On the other hand, engineering staff can easily put aside plan review or project engineering for longer periods and work on an objective. The LCSA has attempted to address this concern by assuring that supervisors and employees are both committed to the employees’ objectives. Supervisory commitment includes providing time for employees to work on and complete the projects assigned with the objectives, but this has proven to have its own difficulties.

CONCLUSIONS

As with any appraisal system, it is important to assure uniformity of reviews and rankings within and across departments. It is also important to assure that employees are being assessed appropriately against an accurate job description of the position because the former affects the percentage salary adjustment and the latter affects the salary range and midpoint.

Employee performance appraisal systems are imperfect and require that the supervisor-subordinate relationship be strong regardless of the final documentation for the performance period. Supervisors must not rely solely on the appraisal form, but must maintain a continuous and healthy rapport with each employee throughout the appraisal period.

The LCSA appraisal system serves as a vehicle for improving employee performance, moving strategic initiatives forward and helping career development. Only by proactive year-round activity and dialogue, can supervisors really provide the positive encouragement and support their employees need. The LCSA includes all three components of employee performance and capability (factors, objectives and career development) within the appraisal system as a platform, or springboard, for future success. Use of communication tools, such as the pre-appraisal meeting and mutually developed objectives, certainly can contribute to a proactive rapport. Hopefully, by striving to meet meaningful performance objectives; enhancing one’s strength in performance factor(s) during the appraisal period; and improving one’s skills, employees will have the ambition and opportunities to grow and move their careers forward, while at the same time, help the LCSA become a better utility.
ACKNOWLEDGEMENTS

The initial success of the strategic planning and appraisal systems can be attributed to the pioneering spirit and cooperation of the LCSA employees. The Pay-for-Value program developed by Mary Arnsbarger reflects the concept of General Manager, Dale Hammes, that all employees “skill up” and diversify their knowledge, skills and abilities to meet the demands and needs of the modern organization. Pay-for-Value provides for the acceleration of salaries and fast learning curves.

Comparative Research: Pay plans, classification schedules, jobs, related policies and procedures of related organizations; discussion with their pay plan administrators. Research included benchmarking the following organizations: County of Loudoun, Prince William County Service Authority, Town of Leesburg, Upper Occoquan Sewage Authority and Fairfax County Water Authority.

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