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# The Development of a Pay-for-Performance Appraisal System for Municipal Agencies: A Case Study

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# **The Development of a Pay-for-Performance Appraisal System for Municipal Agencies: A Case Study**

Michael A. Mulvaney, PhD, William R. McKinney, PhD, and Richard Grodsky

**Abstract:** Well-designed employee performance appraisal instruments assume great importance by providing agencies with information that can guide administrative and developmental decision-making about their most important asset—their human resources. Administratively, performance appraisals serve as the formal evaluation tool used by managers when making decisions about the distribution of pay increases and the promotion and demotion of an employee. Developmentally, performance appraisals assist agencies in identifying issues such as employee training needs and cross training opportunities.<sup>1</sup> Despite its importance, both employees and management often view the performance appraisal process as frustrating and unfair. These frustrations are largely attributed to a reliance on performance appraisal instruments that: are not job related; have confusing or unclear rating levels, and; are viewed as subjective and biased by staff.<sup>2</sup> This study was undertaken to identify steps for creating a more effective pay-for-performance system for public agencies. Specifically, this case study: (1) identified a systematic procedure for creating performance appraisal instruments; (2) described the appropriate training for those conducting an appraisal interview; (3) implemented performance reviews using the developed instruments and appraisal interview/review training, and; (4) evaluated employee attitudes toward the newly developed system. Survey results identified significant mean differences between employee attitude toward the original pay-for-performance instrument and appraisal interview process and the newly developed system. Results of the case study are analyzed and discussed.

## **Introduction**

Performance appraisal has become a general heading for a variety of activities through which organizations seek to provide feedback to their employees, develop their competencies, enhance performance, and distribute rewards.<sup>3</sup> An agency's performance appraisal system impacts individual and organizational operations by prompting decisions regarding compensation and merit salary increases, training and development opportunities, performance improvement, promotion, termination, organizational climate, and financial management. Despite expected benefits, poor design often leads both administration and staff to resist the process as a painful annual exercise.

Recognizing that one of the major difficulties with performance appraisal stems from various competing objectives (i.e., development, promotion, termination, staff training, etc.), but that salary decisions account for nearly 80% of its use,<sup>4</sup> this study provides a case study of the collaborative steps involved in

creating a performance appraisal system used for merit salary increase decisions. It then assesses the staff's attitude toward the new vs. the old appraisal system.

## **Review of Related Research**

In describing the cognitive and affective value of employee participation in the development of appraisal systems, research has identified five benefits: (1) employee participation is an effective tool for enhancing job-related autonomy, a necessary precondition for employee growth; (2) appraisal participation provides employees with a voice into the appraisal process. If employees are confident in the fairness of the appraisal process, they are more likely to accept performance ratings, even adverse ones; (3) employees possess valid, unique, and relevant performance information that is unavailable or unobservable by the rater, therefore the quality, quantity, accuracy and validity of performance appraisal information increases; (4) employee ownership in the process provides a personal stake in the success of the system, enhancing employee acceptance; (5) employee participation generates an atmosphere of cooperation and employee support.<sup>5</sup>

This study is situated within a Strategic Human Resource Management (SHRM) framework that places great importance on the employees and managers in the success of agency operations.<sup>6</sup> SHRM is cognizant of the value of an agency's material resources (i.e, financial and physical), but asserts that it is equally, if not more, important to give attention to an agency's human resources. This approach is particularly appropriate within the service fields of municipal government where human resources convert material resources into services and programs, and where labor typically accounts for more than 60% of municipal agencies operational budgets.<sup>7</sup>

A SHRM framework suggests that managers tailor their pay systems to support their agency's strategic objectives. This approach is based on contingency notions, suggesting that differences in an agency's strategy should be supported by corresponding differences in the agency's human resource strategies, including compensation.<sup>8</sup> The underlying premise of SHRM, as it relates to compensation, is that the greater the alignment, or fit, between the agency's objectives and the compensation system, the more effective the agency.<sup>9</sup>

Pay-for-performance systems have been described as one of the most effective methods of motivating and increasing employee performance.<sup>10</sup> These plans theoretically forge a link between pay expenditures and individual productivity.<sup>11</sup> A well-developed pay-for-performance appraisal instrument also addresses the norm of distributive justice, or the commonly held belief that individuals should be rewarded in proportion to their contributions. An adequately developed appraisal instrument potentially diffuses employee concerns about equity and fairness while motivating employees to increase performance.<sup>12</sup>

An agency's appraisal instrument serves as the tool to accurately discriminate

outstanding performers from those who are below average. Likewise, it satisfies the increasing demand for wise fiscal management practices in the public sector.<sup>13</sup> Pay-for-performance plans signal a movement away from an entitlement orientation where all employees receive the same raise annually for simply showing up to work. However, creating a valid and legally defensible pay-for-performance plan requires three things: (1) a definition of job specific performance that leads to the creation of an appraisal instrument that clearly outlines low to high performance measures; (2) a well-conducted performance appraisal interview process, and; (3) equitable decisions regarding the amount of merit increases that will be given for different levels of performance. <sup>14</sup> This research is the first of a two-part study and focuses on the process of creating the performance appraisal instruments and conducting the performance appraisal reviews. The second part of the investigation will address the distribution of merit salary increase monies (see the winter 2012 issue).

Even the most well-developed pay-for-performance system is predisposed to problems, if it is viewed negatively by staff.<sup>15</sup> Researchers assert that perceptions of unfairness and dissatisfaction in the process of evaluations can doom any appraisal system to failure.<sup>16</sup> Thus, it is clear that assessment of reaction to the performance appraisal instrument and interview process is important.<sup>17</sup>

Research on performance appraisal reactions has identified two general areas of interest: First, there is satisfaction with the appraisal instruments and fairness of the appraisal.<sup>18</sup> This is the most widely studied reaction and it has been primarily conceptualized into two subcategories: satisfaction with the appraisal interview and satisfaction with the overall appraisal system.<sup>19</sup> Satisfaction with the appraisal interview refers to the employee's attitudes toward the structure and implementation of the performance review. Satisfaction with the overall appraisal system represents a more global measure of the entire appraisal system, including the interview and subsequent actions following the interview.<sup>20</sup>

Fairness of the appraisal is the second area of interest and it has also been conceptualized into two subcategories: procedural justice and distributive justice. <sup>21</sup> In this case, procedural justice is defined as the perceived fairness of the processes and procedures used in the agency's performance appraisal system. Distributive justice is defined as perceived fairness in the distribution of outcomes (i.e., merit salary increase amounts).

### **Focus of the Study**

A Strategic Human Resource Management framework was applied to the development of a performance appraisal system for the Elmhurst Park District (Elmhurst, Illinois), the municipal agency serving as the representative case study. The Elmhurst Park District sought to accomplish three goals with the development of a new performance appraisal system. First, Elmhurst Park District was interested in improving employee motivation and job performance while controlling costs. By doing this, the Elmhurst Park District hoped to further establish a high performance

culture. Second, Elmhurst Park District sought to increase “employee buy-in” toward their performance appraisal system. Specifically, managers wanted to improve employees’ perceptions of fairness and accuracy, and to increase overall satisfaction with the agency’s appraisal process. Third, managers expressed a need to motivate staff to “keep up” with the highly demanding nature of today’s park and recreation users. A recognized method for inspiring the quick adoption of new technologies and approaches to constituent service is through the establishment of a valid pay-for-performance plan that rewards high performing employees while not rewarding employees whose performance has been less than standard.

Once the pay-for-performance system was implemented, the study assessed the employees’ attitudes toward the newly developed system compared to the agency’s previous system. Specifically, it sought to address the following questions:

1. What are the specific steps involved in developing a pay-for-performance system for a public park and recreation agency?
2. What are the effective procedures for conducting the performance appraisal review?
3. Did employee attitude toward the newly developed system change when compared to the previous system?
4. Did employee perception of procedural justice toward the newly developed system change when compared to the previous system?

Although a case study with a limited number of respondents can’t be widely generalized, the results should be of interest to management researchers and directors of municipal agencies who think critically about ways to increase employee performance and seek methods to improve the management of pay-for-performance dollars available within an agency’s operating budget. The need to develop a pay-for-performance appraisal system that motivates staff, is cost effective, and assists the agency in meeting its goals is arguably a problem, or opportunity, that has applications across the field of municipal management.

## **Methods**

### **Case Study Site**

The Elmhurst Park District was established in 1920 in portions of Cook and Du-Page counties in the state of Illinois; it oversees approximately 460 park acres, 25 buildings, and 27 park sites and serves approximately 44,500 residents. The district employs approximately 70 full-time, 550 part-time and seasonal employees, is governed by seven members of a publicly elected board of commissioners, and has an equalized assessed valuation of approximately 1.8 billion dollars.

Prior to the study, the Elmhurst Park District utilized a generic (agencywide) performance appraisal instrument for all employees of the agency. The instrument was divided into two sections. The first section asked supervisors to evaluate employee skills/capabilities that affected job performance. Each

employee's job performance was evaluated in the following areas: job knowledge, productivity, attendance, planning, communication, attitude, dependability, leadership/subordinate development, creativity, quality of work, and public contact. These skills/capabilities were applied across the agency to every full-time employee. This universal application was problematic as managers were forced to evaluate employees on several non-job specific traits (i.e., overnight facility maintenance staff evaluated on public contact, lower-level employees evaluated on creativity, senior level employees on productivity). These skills/capabilities were evaluated on a six-point scale (1=needs improvement... 6=exceptional). The second section asked the supervisor to identify the level (on a five-point scale) that best represented the employee's overall performance for the year. This single assessment provided the basis for the annual pay-for-performance decision.

### **Data Collection Procedures**

Quantitative data was collected to compare employee attitude between the original performance appraisal system and the newly developed system. Prior to starting the workshops to develop a new pay-for-performance appraisal instrument, every full-time employee completed an existing performance appraisal reaction instrument. Testing was then done to assess attitude toward the existing system.<sup>22</sup> At the completion of the workshops, a "trial run" was conducted using the new system. The "trial run" was conducted instead of an actual live implementation due to the developmental timeline of the new appraisal system.

Following the completion of the "trial run", the employees repeated the Keeping and Levy<sup>23</sup> survey instrument to measure their attitudes toward the newly developed system. Every full-time employee completed the entire Keeping and Levy<sup>24</sup> instrument with two of the four sections (satisfaction with the performance appraisal review session and procedural justice of the performance appraisal system) being evaluated for this portion of the study (the remaining two sections are examined in Part II of this study). Specifically, the two sections of the instrument used were: (1) employee satisfaction with the appraisal interview/session, and; (2) perceptions of procedural justice of the appraisal system. Previous studies in both private and public agencies have supported the construct validity of the items with factor loadings ranging from .76 to .97, with an average loading of .89.<sup>25</sup> In addition, reliability measures for each area have been high, ranging from .91 to .96.<sup>26</sup> The two sections of Keeping and Levy's<sup>27</sup> survey instrument are provided in Figure 1.

### **Data Analysis**

Based upon previous research utilizing Keeping and Levy's performance appraisal reaction instrument, the survey data was analyzed in two ways.<sup>28</sup> The data were first examined descriptively according to the scoring protocol for each item: mean scores and standard deviations were obtained. Next, to assess mean differences, the

data was subjected to dependent samples t-tests.

**Figure 1: Keeping & Levy's (2000) Employee Reactions Performance Appraisal Instrument**

**Satisfaction with the performance review session**

1.) I felt quite satisfied with my last review discussion.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

2.) I feel good about the way the last review discussion was conducted.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

3.) My manager conducts a very effective review discussion with me.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

4.) The performance review system does a good job indicating how an employee has performed in the period covered by the review.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

**Procedural Justice**

5.) The procedures used to evaluate my performance were fair.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

6.) The process used to evaluate my performance was fair.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

7.) The procedures used to evaluate my performance were appropriate.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

8.) The process used to evaluate my performance was appropriate.

1	2	3	4	5	6
Strongly Disagree	Moderately Disagree	Slightly Disagree	Slightly Agree	Moderately Agree	Strongly Agree

## **Outcomes**

### **Defining Job Performance and the Creation of an Appraisal Instrument**

An employee's job description is often used to identify job performance standards.<sup>29</sup> In particular, the job description must clearly identify the major job domains and tasks of a job. Performance standards can flow directly from a job description.<sup>30</sup>

Researchers have suggested conducting a thorough job analysis to define the appropriate content domains and tasks for job descriptions.<sup>31</sup> Thus, conducting job analyses for every full-time position in the Elmhurst Park District appeared to have merit as a starting point in the creation of job specific pay-for-performance appraisal instruments. In describing this initial step (and the subsequent steps), this study provides an overview of the research that guided the step(s), and a description of what occurred during the implementation of each of six steps.

#### **Step #1: Job analysis**

Job analyses are a systematic way to gather and analyze information about the content of jobs.<sup>32</sup> The job analysis process should identify the job under review, the participants involved, existing documentation (including the existing job description), the identification of the major job content domains contained within the job, and a developed list of tasks to be fulfilled under each domain.<sup>33</sup>

In completing job analyses, research has indicated that involvement of employees at all levels facilitates acceptance of the system and increases cooperation.<sup>34</sup> Employee involvement in the performance appraisal and development process is critical. Because it can lower the system's credibility, researchers caution against attempts to save time by bypassing employee and manager input.<sup>35</sup> If managers, acting alone, produce a system that does not meet staff needs, it damages the perceived connection between pay and performance and loses the performance-enhancing effect on employees.

Building upon this argument for employee participation, researchers have suggested that agencies that genuinely respect their employees find ways to involve them—from top to bottom—in decision-making activities that will later affect them. Staff involvement is often an expression of the importance the agency places on its individual members and can be effective in motivating agencies to a higher commitment to and valuation of its employees. Many companies that involve their employees in problem identification and decision making discover that employees become happier, costs decrease, and quality, productivity, and profits increase.<sup>36</sup>

The involvement of staff also provides an opportunity for the employee to know their job better. In particular, the employee is placed into an environment



where he/she must examine the job domains and tasks of their job title in great detail and discuss these roles with their supervisor. Job domains are the major areas of responsibility a job may entail. Tasks are the specific actions an employee completes under each domain. When taken together, the sum of all tasks equal the job domain and the sum of all job domains equal the job title.<sup>37</sup>

Subscribing to this approach, job analyses were completed for every fulltime job title at the Elmhurst Park District.<sup>38</sup> To complete each job analysis, a meeting between the employee and their supervisor was conducted for every full-time position. In conducting the job analyses, the employee and supervisor collectively reviewed the current job description. Job descriptions of similar positions from other agencies were also reviewed to guide the employees in brainstorming a list of job domains and tasks performed. During this meeting, the employee and supervisor collectively identified between six and 10 job domains that represented the job title. Once the general content domains were identified, the employee and supervisor discussed and identified a list of specific tasks within each job domain. On average, 10-15 tasks were identified for each job domain. Consistent with previous research, the tasks: (1) began with an action verb; (2) included only one specific task, and; (3) described what the employee did.<sup>39</sup>

## **Step #2: Rating of tasks**

Once an agreed-upon list of job domains and tasks were developed, “weights” were created for each task to further describe its significance. This procedure followed that advocated by a number of authors as a means of ensuring the validity of job descriptions.<sup>40</sup> The employee and supervisor independently reviewed the list of tasks and rated each on two, seven-point scales. The first scale, “importance” (1=low, 7=high) rated their perception of the importance of each task to overall job performance. The second scale, “time/frequency” (1=low, 7=high) assessed the time/frequency that each task required in comparison to all other tasks. The values from each scale were multiplied and a total “weight” for each task was created. The employee and supervisor each independently completed the task rating form. An example of a portion of a task rating form completed by an employee is provided in Figure 2. This example provides the rating for only one of the seven domains in this job description.

Next, a meeting was scheduled between the employee and supervisor to review the weights. The intent of this discussion was to agree upon the overall importance and the time that should be spent on each task. If the supervisor and employee(s) had any disagreements about the overall weight of a task, the ultimate decision was that of the supervisor. However, the dialog between the supervisor and employee prompted an in-depth discussion about the significance of each task. This discussion was guided by research suggesting that if employees have a clear perception of their tasks, and the importance their managers place on

**Figure 2: Task Statement Rating Form**

<p style="text-align: center;"><b>TASK STATEMENT RATING FORM</b></p> <p><b>Name:</b> _____</p> <p><b>Agency:</b> _____</p> <p><b>Title: Division Manager - Recreation</b></p> <p><b>Date:</b> _____</p> <p><b>Length of time in title:</b> _____</p>	<p style="text-align: center;"><b>IMPORTANCE</b></p> <p>Please rate each task statement on a 0-7 scale that reflects, in your opinion, how important that task statement is to overall job performance. Use the scale below as a guide to help you rate.</p> <p>0 1 of no importance 2 3 moderately important 4 5 very important 6 7 of greatest importance</p>	<p style="text-align: center;"><b>TIME/FREQUENCY</b></p> <p>Please rate each task statement on the 0-7 scale shown below. Looking at the whole job over approximately a one-year period, how would you allocate the task statements in terms of the time/frequency with which each is done?</p> <p>0 1 of no importance 2 3 moderately important 4 5 very important 6 7 of greatest importance</p>	<p style="text-align: center;"><b>TOTAL</b></p>
<b>TASK STATEMENTS</b>			
<b>Programming Domain</b>			
Develops programs that provide for the physical needs of participants	5	4	20
Develops programs that provide for the societal needs of participants	4	5	20
Develops programs that provide for the educational needs of participants	4	5	20
Provides programs according to participants' demographic characteristics	4	5	20
Provides programs according to participants' leisure needs	6	5	30
Provides structured programs	4	4	16
Provides unstructured programs	4	4	16
Plans seasonal programs	6	6	36
Evaluates recreational programs	7	7	49
Utilizes participant groups in program planning and development	3	3	9
Adapts programs to meet ADA needs as requested	5	5	25
Oversees outdoor aquatic operations	6	6	36
Responsible for building rentals	4	6	24

**Figure 3: Task Statement Rating Form**

<b>TASK STATEMENT RATING FORM</b>			
<b>Name:</b> _____			
<b>Agency:</b> _____			
<b>Title:</b> Division Manager - Recreation			
<b>Date:</b> _____			
<b>Length of time in title:</b> _____			
<b>TASK STATEMENTS</b>			
<b>Programming Domain</b>	<b>Supervisor's Rating</b>	<b>Incumbent's Rating</b>	<b>Agreed Rating</b>
Develops programs that provide for the physical needs of participants	25	20	25
Develops programs that provide for the societal needs of participants	25	20	25
Develops programs that provide for the educational needs of participants	25	20	25
Provides programs according to participants' demographic characteristics	12	20	12
Provides programs according to participants' leisure needs	49	30	49
Provides structured programs	42	16	42
Provides unstructured programs	42	16	42
Plans seasonal programs	49	36	36
Evaluates recreational programs	20	49	36
Utilizes participant groups in program planning and development	16	9	16
Adapts programs to meet ADA needs as requested	20	25	25
Oversees outdoor aquatic operations	35	36	36
Responsible for building rentals	24	24	24

those tasks, it's likely the employee's successful accomplishment of the tasks will occur.<sup>41</sup> After discussing any discrepancies in the weight assignments, a final list was completed. Figure 3 provides an example.

### **Step #3: Creation of appraisal instrument**

The information collected during the job analysis provides the content for the appraisal instrument.<sup>42</sup> Performance appraisal instruments are often divided into two general formats: ranking and rating. Ranking formats require the rater to compare employees against each other. Rating formats have two elements: (1) they require raters to evaluate employees on some absolute standard rather than relative to other employees, and; (2) each performance standard is measured on a scale where appraisers can check the point that best represents the employee's performance level.<sup>43</sup>

In deciding which appraisal format is most appropriate for an agency scholars suggest that an understanding of the type of tasks being performed is needed.<sup>44</sup> As the task statements that were developed during the job analyses phase included written statements of what the employee does, the Elmhurst Park District chose to incorporate an "anchored" rating format. An anchored rating format describes performance variation along a continuum from good to bad.<sup>45</sup> It is the type and number of descriptors used in anchoring the continuum that provide the major differences in rating scales. Organizational research has indicated the reliability of a performance appraisal instrument is strongest when using between three and seven descriptive anchors. <sup>46</sup> The Elmhurst Park District selected a three-anchor approach. As a result, each task was evaluated against three anchors on a performance continuum: (1) below standards, (2) meets standards, and (3) exceeds standards. A "not applicable" rating was also included. Figure 4 is the performance appraisal instrument for the Division Manager of Recreation.

### **Step #4: Identifying raters**

Once a performance appraisal instrument has been developed, the agency must identify who will rate the performance (i.e., supervisor, subordinate, coworkers).<sup>47</sup> In particular, the agency must be concerned with improving the accuracy of performance ratings by focusing their attention on who is most likely to be precise. Management research documents a variety of rater methods that have been implemented in organizations, including 360-degree feedback, a system that uses supervisors as raters, peers as raters, self as raters, customers as raters, and subordinates as raters.<sup>48</sup> In deciding which approach to take, research suggests that organizations identify those individuals who possess the most complete information on the performance of the ratee.<sup>49</sup> Research has also found the immediate supervisor to be the most frequently used.<sup>50</sup> In addition, a comparison of the reliability of raters suggests supervisor ratings tend to be more reliable than those from other sources.<sup>51</sup>

**Figure 4: Division Manager of Recreation Performance Appraisal Instrument**

**Response Scale:**

0 = Not Applicable The task is not performed/not observed

1 = Below Standard The performance is below standards

2 = Meets Standard The performance meets standards

3 = Exceeds Standard The performance exceeds standards

<b>Programming</b>	<b>Not Applicable</b>	<b>Below Standard</b>	<b>Meets Standard</b>	<b>Exceeds Standard</b>
Develops programs that provide for the physical needs of participants				
Develops programs that provide for the societal needs of participants				
Develops programs that provide for the educational needs of participants				
Provides programs according to participants' demographic characteristics				
Provides programs according to participants' leisure needs				
Provides structured programs				
Provides unstructured programs				
Plans seasonal programs				
Evaluates recreational programs				
Utilizes participant groups in program planning and development				
Adapts programs to meet ADA needs as requested				
Oversees outdoor aquatic operations				
Responsible for building rentals				
<b>Financial Management</b>	<b>Not Applicable</b>	<b>Below Standard</b>	<b>Meets Standard</b>	<b>Exceeds Standard</b>
Prepare and monitor division budget				
Coordinate purchase of division supplies, materials, and equipment				
Develop and implement program pricing policies				
Manage internal and external assistance payments and delinquent accounts				
Manage bid specs for major purchases				

**Figure 4: Division Manager of Recreation Performance Appraisal Instrument *continued***

<b>Organizational Planning</b>	<b>Not Applicable</b>	<b>Below Standard</b>	<b>Meets Standard</b>	<b>Exceeds Standard</b>
Serve as member of the Parks and Recreation Services Management Team and other appointed committee assignments				
Attend staff meetings				
Prepare annual T-shirt bid				
Develop and implement customer service standards				
<b>Communications/Customer Service</b>	<b>Not Applicable</b>	<b>Below Standard</b>	<b>Meets Standard</b>	<b>Exceeds Standard</b>
Develop and maintain cooperative relationships and effective oral and written communications with internal and external customers				
Promote District programs to patrons, guests, and staff				
Prepare written and verbal bullet points, updates, and reports as required				
Act as a liaison to affiliates, community groups, and governmental units				
Design and distribute information for public distribution				
Coordinate seasonal brochure productions				
<b>Safety</b>	<b>Not Applicable</b>	<b>Below Standard</b>	<b>Meets Standard</b>	<b>Exceeds Standard</b>
Encourage and demonstrate safe work habits through use of established safety program guidelines				
Serve as member of the District's Crisis Management Team				
Maintain CPR and AED certification, and ensure that all staff within supervision do the same				

**Figure 4: Division Manager of Recreation Performance Appraisal Instrument *continued***

<b>Personnel Management</b>	<b>Not Applicable</b>	<b>Below Standard</b>	<b>Meets Standard</b>	<b>Exceeds Standard</b>
Recruit, hire, and train staff				
Manage and evaluate staff				
Provide ongoing direction, foresight, and motivation to staff				
Prepare for and conduct staff meetings and trainings as needed				
<b>Registration</b>	<b>Not Applicable</b>	<b>Below Standard</b>	<b>Meets Standard</b>	<b>Exceeds Standard</b>
Manage program registration process				
Manage program cancellation/expansion/addition process				
Manage permit and rental registrations				

**Step #5: Rater training**

The next step in the construction of a performance appraisal system is to understand how and where raters make mistakes. In describing how raters process information about the performance of employees they rate, scholars identify five stages. First, the rater observes the behavior of the ratee. Second, the rater encodes this behavior as part of a total picture of the ratee. Third, the rater stores this information in memory. Fourth, during the evaluation phase, the rater reviews the performance dimensions and retrieves the stored information (i.e., observations, impressions, etc.) to determine their relevance to the performance dimensions. Finally, the information is reconsidered and integrated with other available information as the rater decides on the final ratings.<sup>52</sup> Quite unintentionally, this process can produce information errors and they can occur at any stage.

One approach to limiting errors is through appraiser rater training.<sup>53</sup> Surprisingly, managers frequently report that they receive little training beyond a description of the rating form.<sup>54</sup> An effective formal performance appraisal system can't exist without the ongoing education of all key appraisers in the appraisal process.<sup>55</sup> Developing the skills necessary to conduct effective performance appraisals, including an understanding of psychometric errors, can be completed through appraiser training.<sup>56</sup>

Training sessions subscribing to the previously mentioned principles were conducted with the employees of the Elmhurst Park District. Integrating the previously mentioned principles, employees were provided with a threehour training session that focused on three error categories: (1) rater-error training; (2) performance dimension training, and; (3) performance standard training. During the rater-error training session, employees were introduced to several psychometric errors (i.e., leniency, halo effect, recency) and offered suggestions for addressing these problematic areas. The performance dimension training session involved a collective discussion on the performance dimensions between the raters and ratees. Finally, the performance standard training focused on providing the raters with a standard of comparison or frame of reference for making appraisal decisions.

### **Step #6: Performance appraisal interview**

There is a large body of research indicating that the level of employee participation in the interview is associated with a variation in various desirable appraisal-related outcomes, including appraisal system fairness, appraisal satisfaction, supervisory support, satisfaction with supervisors, appraisal system acceptance, and greater acceptance of feedback.<sup>57</sup> In particular, self-evaluation provides employees with the opportunity to systematically assess their performance. A common method to facilitate self-evaluation is to require employees to complete their own appraisal and present the draft for discussion with the supervisor. The supervisor can review the draft with the employee and compare the employee's self-appraisal ratings to the supervisor's appraisal ratings of the employee.

Adopting this participative process of self-appraisal, a "trial run" was conducted for the newly developed performance appraisal instruments. The "trial run" allowed the Elmhurst Park District to test the appraisal process and instruments with no consequences assigned to the results. The "trial run" was conducted instead of an actual live implementation due to the developmental timeline of the new appraisal system.

The "trial run" was initiated with the employee and supervisor independently completing the appraisal instrument. To assist in the final calculations, the appraisal instruments were created in a Microsoft Excel format. Paper copies of the spreadsheet-formatted instrument were printed and provided to the employee and supervisor (see Figure 4).

Once the employee and supervisor had independently completed the appraisal instrument they met and discussed the ratings. During this time the employee and supervisor reached an agreed upon rating for each task statement. At this point, the appraisal was completed and signed by both the employee and supervisor. The Elmhurst Park District Human Resource Specialist applied the previously established "weights" for each task statement to determine a final percentile score for each employee (see Figure 5). Statistically, this procedure involved: (1)



multiplying the score of the task (i.e., “1” –below standard, “2” – meets standard, “3” – exceeds standard) by the “weight” of each task (tasks receiving a “not applicable” rating were voided from the computations); (2) determining the total points possible (i.e., the sum of each task’s “weight” multiplied by “3 – exceeds standard”), and; (3) dividing the total possible points by the total points earned by the employee to obtain a final percentile score. For example, in Figure 5, the Division Manager’s final percentile score was 68.42%.

### **Findings with Employee Assessments**

In addition to describing the steps involved in creating a pay-for-performance appraisal system for a municipal agency, this study used Keeping and Levy’s appraisal reaction instrument to assess every full-time employee’s reactions toward the newly developed process.<sup>58</sup>

### **Preliminary Analysis**

Prior to testing the research questions, the data were examined for accuracy of data entry, missing values, and outliers. A review of the raw data entries identified two participants who had not fully completed both the pre and post surveys. Specifically, the two participants had completed the pre survey instrument, but had voluntarily left the agency before completing the workshops and post survey. As a result, these participants were removed from the study, thus yielding a response rate of 97% (n=56).

The instruments used in the study were then examined for internal consistency. In particular, reliability measures were obtained for the satisfaction with the performance review session and procedural justice of the performance appraisal system instruments. The four-item satisfaction with the performance review session yielded an alpha coefficient of .93. The four-item procedural justice of the performance appraisal system instrument was found to have acceptable internal consistency (.97).

### **Satisfaction with the Performance Review Session**

Once the employees completed the workshops and the trial run of the newly developed system, they completed the performance appraisal reaction instrument again to assess their attitudes toward the new system. Four items were used to assess the employees’ satisfaction with the performance review session. Responses were indicated on a six-point Likert scale, with “1” representing strongly disagree and “6” representing strongly agree.<sup>59</sup> Table 1 represents the measures of central tendency and t-test results for the satisfaction with the performance review session measures. Significant mean differences were found for all of the items measuring employees’ satisfaction with the performance review session (p <.05). In particular, significant mean differences were found in favor of the new system for “1

felt quite satisfied with my last review discussion,” “I feel good about the way the last review discussion was conducted,” “My manager conducts a very effective review discussion with me,” and “The performance review system does a good job of indicating how an employee has performed in the period covered by the review.”

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**Figure 5: Finalized Division Manager of Recreation Performance**

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**Response Scale:**

- |                      |                                        |
|----------------------|----------------------------------------|
| 0 = Not Applicable   | The task is not performed/not observed |
| 1 = Below Standard   | The performance is below standards     |
| 2 = Meets Standard   | The performance meets standards        |
| 3 = Exceeds Standard | The performance exceeds standards      |
- 

**Programming**

---

Develops programs that provide for the physical needs of participants

---

Develops programs that provide for the societal needs of participants

---

Develops programs that provide for the educational needs of participants

---

Provides programs according to participants' demographic characteristics

---

Provides programs according to participants' leisure needs

---

Provides structured programs

---

Provides unstructured programs

---

Plans seasonal programs

---

Evaluates recreational programs

---

Utilizes participant groups in program planning and development

---

Adapts programs to meet ADA needs as requested

---

Oversees outdoor aquatic operations

---

Responsible for building rentals

---

**Financial Management**

---

Prepare and monitor division budget

---

Coordinate purchase of division supplies, materials, and equipment

---

Develop and implement program pricing policies

---

Manage internal and external assistance payments and delinquent accounts

---

Manage bid specs for major purchases

---

**Organizational Planning**

---

Establish and monitor division goals and objectives

---

Serve as member of the Parks and Recreation Services Management Team and other appointed committee assignments

---

Attend staff meetings

---

Prepare annual T-shirt bid

---

Develop and implement customer service standards

---

---

**Appraisal Instrument**

---

	Not Applicable	Below Standard	Meets Standard	Exceeds Standard	Score	Weight	Weighed Score	Total Possible
			x		2	25	50	75
		x			1	25	25	75
			x		2	25	50	75
		x			1	12	12	36
				x	3	49	147	147
		x			1	42	42	126
			x		2	42	84	126
			X		2	36	72	108
		X			1	36	36	108
			X		2	16	32	48
				X	3	25	75	75
				X	3	36	108	108
			X		2	24	48	72
	Not Applicable	Below Standard	Meets Standard	Exceeds Standard	Score	Weight	Weighed Score	Total Possible
		x			1	36	36	108
				x	3	25	75	75
				x	3	6	18	18
			x		2	12	24	36
				x	3	5	15	15
	Not Applicable	Below Standard	Meets Standard	Exceeds Standard	Score	Weight	Weighed Score	Total Possible
		x			1	36	36	108
		x			1	49	49	147
			x		2	30	60	90
		x			1	15	15	45
				x	3	25	75	75

**Procedural Justice of Performance Appraisal System**

Employee perceptions of procedural justice were assessed on Keeping and Levy's performance appraisal reaction instrument.<sup>60</sup> Procedural justice was assessed with a four-item measure on a seven-point Likert scale ranging from strongly disagree to strongly agree. Table 2 presents the measures of central tendency and t-test results for the procedural justice measures. Significant mean differences were found for all four items measuring the employees' perceptions of procedural justice toward the performance appraisal ( $p < .05$ ). In particular, significant mean differences between the new and previous performance appraisal instrument were found in favor of the new system for "The procedures used to evaluate my performance were fair," "The process used to evaluate my performance was fair," "The procedures used to evaluate my performance were appropriate," and "The process used to evaluate my performance was appropriate."

**Figure 5: Finalized Division Manager of Recreation Performance**

**Communications/Customer Service**

Develop and maintain cooperative relationships and effective oral and written communications with internal and external customers

Promote District programs to patrons, guests, and staff

Prepare written and verbal bullet points, updates, and reports as required

Act as a liaison to affiliates, community groups, and governmental units

Design and distribute information for public distribution

Coordinate seasonal brochure productions

**Safety**

Encourage and demonstrate safe work habits through use of established safety program guidelines

Serve as member of the District's Crisis Management Team

Maintain CPR and AED certification, and ensure that all staff within supervision do the same

**Personnel Management**

Recruit, hire and train staff

Manage and evaluate staff

Provide ongoing direction, foresight, and motivation to staff

Prepare for and conduct staff meetings and trainings as needed

**Registration**

Manage program registration process

Manage program cancellation/expansion/addition process

Manage permit and rental registrations

**Appraisal Instrument continued**

	Not Applicable	Below Standard	Meets Standard	Exceeds Standard	Score	Weight	Weighed Score	Total Possible
			x		2	49	98	147
			x		2	36	72	108
			x		2	16	32	48
				x	3	16	48	48
				x	3	9	27	27
				x	3	20	60	60
	Not Applicable	Below Standard	Meets Standard	Exceeds Standard	Score	Weight	Weighed Score	Total Possible
			X		2	49	38	147
			X		2	21	42	63
			X		2	49	98	147
	Not Applicable	Below Standard	Meets Standard	Exceeds Standard	Score	Weight	Weighed Score	Total Possible
				X	3	36	108	108
				X	3	15	45	45
				X	3	24	72	72
				X	3	36	108	108
	Not Applicable	Below Standard	Meets Standard	Exceeds Standard	Score	Weight	Weighed Score	Total Possible
			x		2	36	72	108
				x	3	25	75	75
				x	3	16	48	48
<b>TOTALS</b>							<b>2227</b>	<b>3255</b>
<b>TOTAL POSSIBLE</b>							<b>3255</b>	
<b>PERCENT-AGE (%)</b>							<b>68.42</b>	

**Table 1: Satisfaction with the Performance Review Session**

Variable	<i>Original Appraisal System (n=56)</i>		<i>Newly Developed Appraisal System (n=56)</i>		t statistic	p-value
	Mean	S.D.	Mean	S.D.		
I felt quite satisfied with my last review discussion	4.05	1.74	4.81	1.39	2.321	0.023
I feel good about the way the last review discussion was conducted	4.23	1.63	4.92	1.40	2.166	0.033
My manager conducts a very effective review discussion with me	4.21	1.59	5.30	1.024	3.992	0.000
The performance review system does a good job of indicating how an employee has performed in the period covered by the review	3.46	1.34	4.46	1.02	5.458	0.000

## Discussion

Results from the measures of employee reaction to the pay-for-performance system yielded some interesting findings. Significant mean differences between employee attitude toward the original pay-for-performance interview/review sessions and the newly developed sessions were found for all four of the “satisfaction with the performance review session” items. Employee perception of fairness, operationalized as procedural justice, also indicated significant mean differences on all four measures.

**Table 2: Procedural Justice of Performance Appraisal System**

Variable	<i>Original Appraisal System (n=56)</i>		<i>Newly Developed Appraisal System (n=56)</i>		t statistic	p-value
	Mean	S.D.	Mean	S.D.		
The procedures used to evaluate my performance were fair	4.41	1.75	5.43	1.37	3.157	0.002
The process used to evaluate my performance was fair	4.29	1.72	5.51	1.07	4.236	0.000
The procedures used to evaluate my performance were appropriate	4.23	1.72	5.30	1.22	3.494	0.001
The process used to evaluate my performance was appropriate	4.32	1.73	5.05	1.29	2.337	0.022

## **Management Implications, Limitations & Future Research**

These results provide further support to the cognitive and affective value of employee participation in the creation of an agency's pay-for-performance appraisal system. The findings are further supported by a comment obtained from one of the supervisors, stating:

"... it was somewhat difficult to tell Employee 'A' that he is a '1' (below standards performance rating), but it was worth it. I was surprised— Employee 'A' showed little disagreement with the rating (during the performance review session) and I saw immediate and continued improvement in Employee 'A's' attitude and performance."

According to the supervisor, the opportunities for employee voice in the appraisal process resulted in the employee displaying little resistance to his performance ratings. Furthermore, the supervisor's feedback identified very specific, job deficient areas for the employee to improve upon. Taken together, the employee's participation in the appraisal process and the clearly stated areas for employee improvement, led to higher perceptions of fairness and acceptance of the supervisor's ratings. In turn, these high levels of employee acceptance and understanding will likely enhance the employee's motivation and job performance.

This case study of the Elmhurst Park District sought to provide an empirically grounded overview of the steps involved in developing a pay-for-performance system for municipal agencies. Future research with different and larger samples is needed to further understand pay-for-performance appraisal practices in the public sector. Although park districts represent the norm in the state of Illinois, public park and recreation departments housed within municipal or county government represent a predominant type of leisure service organization in the United States. Thus, additional research examining the development of a pay-for-performance system within other municipal or county departments is needed.

In addition, research that examines the social context of performance appraisal development in municipal agencies could provide additional insight into the role of employee participation. As research in the management field has suggested, research efforts examining the effects of the social context of the agency, such as feedback culture, group dynamics, politics, impression management, and other environmental variables, are needed.<sup>61</sup> Future studies examining these issues within municipal agencies are suggested, and could help in providing a richer understanding of important management issues related to performance appraisal.

Another limitation is the "trial run." The "trial run" of the performance appraisal process was implemented similar to a "live performance appraisal" process, but

without the consequences (i.e., using results to make merit salary increase decisions). Employees were aware of the lack of consequences from the “trial run.”

In summary, this study adopted a two-pronged approach to understanding performance appraisal systems in municipal agencies. First, the study sought to identify the steps needed to develop a pay-for-performance appraisal system for a municipal agency. Next, the study was interested in examining employees’ reactions toward a system that adopted these steps. The Elmhurst Park District served as a representative case study for this investigation. The study identified positive employee reactions to a performance appraisal system adopting these steps with strong indicators found of an increased satisfaction and perception of procedural justice in the new system.

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