

THE PRACTICAL MODEL OF EMPLOYEE PERFORMANCE EVALUATION

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Abstract:

There are many scholarly articles in the literature sources that refer to the employee performance evaluation topic. Many scholars, for example, describe relations between employees' job satisfaction, or motivation, and their performance. Others deal with the performance evaluation of the whole organization where they include tangible and intangible metrics. However, only few of them provide with such an employee performance evaluation model that could be practically applied in the companies as a reference. The main purpose of this paper is to explain one such practical model in the form of a standard document procedure which can serve as an example to follow it in the companies of different types. The model incorporates employee performance and compensation policy and is based on the five questions that represent the guiding principles, as well. The practical employee performance evaluation model and standard procedure will be explained based on the information and experience from a middle-sized industrial organization located in the Slovak republic.

Keywords: employee performance evaluation model, performance measurement, performance distribution checking, performance and compensation policy

1. INTRODUCTION

The long-term viability and competitiveness of any organization depends on its ability to evaluate the performance of the employees and to examine their contribution in achieving the goals assigned them by managers. Therefore, to evaluate the performance of employees is always an important management task. The evaluation of employee performance is also a valuable tool and an essential element of the functioning of any company. Evaluations are used by managers as a motivational tool to communicate performance expectations to employees and provide them with feedback. The evaluation process also identifies areas where an employee needs to improve. It can also provide opportunities for recognition, positive reinforcement, and performance improvement of the employees. Employee job satisfaction and decisions to stay with the company are associated with him or her meaningful feedback about performance especially from their direct supervisors.

There are many different models and procedures of the employee performance evaluation that companies have in the form of standard documents. The focus of this paper is to present one such model from a practical viewpoint that could serve other companies as an example that they consider following it. The model is presented in the form of a procedure of how is the employee performance evaluated by the management of an industrial company in the Slovak republic and is written in the form of a standard document.

2. RESEARCH METHODOLOGY

As the main research methodology were chosen a desk research and a case study approach according to the works of Yin (2003), and Borchardt and Göthlich (2009) to conduct research that allows the application of both qualitative and quantitative sources of information.

In order to scope the literature review, we have followed a systematic procedure. Firstly, we used three different electronic databases – ABI-Proquest, EBSCO, and Springer Link – to search for key references on the area of performance measurement using the keyword "employee performance evaluation".

In the ABI-Proquest database, we found 75,041 references; in the EBSCO, 2,939 references, and in the Springer Link database, we found 19,585 references. Secondly, we selected the relevant studies coming from these databases. Relevant studies were those that fulfilled the following selection criteria:

- research published in peer reviewed scholarly journals; and
- post-2000 year research.

This last criterion was included because we wanted to capture the latest perspective on the employee performance evaluation and measurement.

On the other hand, case studies are an interesting research approach, which allows the integration of quantitative and qualitative methods. Yin (2003) differentiates between single case studies and comparative case studies with multiple cases. According to him, a decision is required before any data collection, whether a "single case study", or "multiple cases" are used for the research questions.

Borchardt and Göthlich (2009) explain that case study should be carried out in order to put theoretical knowledge in question or to gain new insights on previously unexplored phenomena. The advantage of comparing single case study with the multiple case studies is that gained knowledge can be illuminated through similarities and differences between these case studies.

Borchardt and Göthlich (2009) point out that case study provides basic answers to exploratory, descriptive or explanative questions which can not all methods. They could help the quantitatively-oriented researchers to generate hypotheses and validate the constructs. The special strengths of case studies, according to them, in comparison to the quantitative surveys, are in the broader and thus better illustration of social reality.

Case studies are not confined to static snapshots as quantitative longitudinal and cross-section analyses, but allow making understand the developments, processes and cause-effect relationships and to make practically relevant, database-based statements.

According to Borchardt and Göthlich (2009), case studies can be used for hypothesis testing as well as hypothesis generating. While with hypothesis-testing case studies the generated hypotheses can be tested based on the empirical results, with the hypothesis-generating case studies the explanation of the studied phenomenon, the discovery of cause-effect chains, and ultimately the derivation of hypotheses are in the foreground.

In the context of case study elaboration, data collection is not connected to any particular survey method. According to Borchardt and Göthlich (2009), the selection of survey methods should be situational to the objectives of the research and should be appropriate to the research subject being examined, to gather relevant data to answer the research questions. However, they call monitoring, content analysis, and the survey or questionnaire as the main methods that are often used collaboratively in case study elaboration.

The case study was conducted in the middle-sized manufacturing company, located in the Slovak republic, involved in the construction industry. In order to disclose full information about in this paper presented model we decided to hide the real company's name since unveiling the identity of the company in which we conducted empirical research was not considered as important as the actual accumulated knowledge. Of course, the practical example of a model presented in this case study, must be translated into specific company conditions with careful attention. The main sources of information were a study of the company documents, talks with respective managers, and employees. The empirical research was conducted in the period of September 2013 until December 2013. We presume that the outcomes of this empirical research can be generally applicable to different companies regardless of their size and branch.

3. THE CONCEPTS OF PERFORMANCE EVALUATION – LITERATURE REVIEW

There are many articles regarding the employee performance evaluation models and procedures described in peer reviewed scholarly journals. Many of them describe this issue from different perspectives, but what we have found as the missing point in these articles that only a few of them provide a practical example of the model of employee performance evaluation that companies could apply as a reference. On the other hand, the scholars provide with additional information that supports and supplements the practical model explained in the following part of this article.

Verweire and Van den Berghe (2004) define organizational performance as "the measurement and reporting system that quantifies the degree to which managers achieve their objectives." It should be noted that this definition regards not only managers, but also other employees that are responsible to achieve the objectives according to the organizational regulations and standards.

Mathis and Jackson (2011) state that an employee evaluation has two general roles in organizations:

- Making administrative decisions about employees (compensation, promotion, dismissal, downsizing, layoffs, etc.).
- Identifying and plan employees' growth opportunities (identify strengths or areas for growth, coach, develop career, etc.).

When developing an employee evaluation system, Grigoroudis and Zopounidis (2011) suggest that the management of the organization should take a series of important decisions:

- Who should design the evaluation process?
- Who should evaluate whom?
- Who should review evaluation results?
- How these results could be exploited?

They also propose the evaluation criteria in developing an employee evaluation management system for a healthcare organization that are grouped into the four main dimensions: 1. Work content; 2. Work practice; 3. Work efficiency; and 4. Work quality/Communication.

The employee performance evaluation is a part of an performance management that according to Mone, et al. (2011) consists of these five activities:

1. Setting performance and development goals
2. Providing ongoing feedback and recognition
3. Managing employee development
4. Conducting mid-year and year-end appraisals

5. Building a climate of trust and empowerment.

Within the employee performance evaluation model, three basic methods can be used and Davi (2011) classifies them into these 3 groups: individual evaluation methods, multiple evaluation methods, and others based on both individual and multi-person methods. The last ones include performance tests and field review. However, all of the methods proposed in the literature by Davi have the disadvantage of subjective evaluations.

Choon Seong and Injoo (2004) deal with the evaluation of the performance model itself that consist of the steps like measurement of the current performance, analysis of the measured data, interpretation of the analysis results, and returning these outcomes to the improvement of the current performance model into the target stage. In short, according to them, the evaluation of the performance model itself consists of the five steps: preparation, measurement, analysis, interpretation, and feedback.

Smith, Gunzenhauser, and Fielding, (2010), state that an effective and fair performance evaluation process is based on key building blocks, which include an agreed-upon set of competencies, accurate duty statements, and consistent standards of practice. According to them, the first component in the evaluation process is a competency, which is a set of complementary skills, knowledge, and attitudes that enable an employee to perform work. Competency is the application of the knowledge and skills necessary for performing the work. The level of competency expected of individual employees is determined by their profession, their supervisor/ management role, and their unit's responsibilities within the organization.

The second component in the evaluation process is standards of practice, also known as performance expectations. A standard is a description of a competent level of performance for a particular employee duty. Standards of practice are essential to reducing subjectivity in the performance evaluation process. Each standard includes measurement criteria. For a standard to be met, all the listed criteria must be met. A standard remains relatively stable over time, but measurement criteria may be revised more frequently to reflect advancement in scientific knowledge and practice expectations. A standard says what is to be performed and how it is to be performed.

The last, third component is a duty statement that is a brief and clear listing of the essential features of the tasks or the areas of work for a given position being performed to a standard. A duty statement says what is to be performed, not how it is to be performed, it describes the work behaviors expected of any employee. Duties are listed in order of importance.

Harbour (2009) made an interesting point about the "performance paradox" that refers to what does and does not drive performance or what does and does not result in result. The performance of any unit or object, including employees in the company, has its realistic limits – it improves in a roughly modified exponential or logistic-based functional manner. So, the performance has its own limits, performance gains eventually approach some limiting threshold or wall. Subsequent improvements efforts, regardless of effort or cost expended, often result in little additional value. The only solution to this problem, according to Harbour (2009), is innovation.

A good functional employee performance evaluation model is also important for building up the companies that want to be based on knowledge management. In companies based on knowledge, managing human resources concentrates on increasing the so-called organization intelligence and developing potential of workers by means such as learning, participation, co-operation and initiative (Volna & Papula & Hulvej, 2013). In today's global markets, to know is an advantage, but to learn is necessity.

4. THE PRACTICAL MODEL OF AN EMPLOYEE PERFORMANCE EVALUATION

For measuring the employee's overall performance, we can use the internal model, where the short explanation of the example of such a model follows taking into account employee's performance and compensation policy. The employee performance and compensation policy is based on the following five questions that represent also the guiding principles:

1. How is the performance evaluated?
2. How is the overall performance measured?
3. How is the distribution of performance checked?

4. How to work with the overall performance results?
5. How is the performance evaluation connected with the compensation policy?

4.1. How is the performance evaluated?

The overall performance evaluation reflects and consists of these four criteria:

1. individual performance,
2. competencies / attitude and behavior,
3. experience in a position, and
4. overall working experience.

The overall performance evaluation is designed in a way that each of these four considered criteria has a given weight in the calculation of the total performance score. For example, the individual performance in fulfilling tasks is given a 30% weight; competencies / attitude and behavior in accordance to the company values another 30% weight; and experience in position, and working experience each 20% weight respectively (see Table 1).

Table 1: Overall Performance Evaluation

Criteria	Weight	Points (1 to 5)
1. Individual performance	30%	
2. Competencies / attitude and behavior	30%	
3. Experience in position	20%	
4. Working experience	20%	
Total score	100%	

Source: Own Description

4.2. How is the overall performance measured?

Now, how exactly are those four criteria measured? In each part, the employee can receive points from 1 to 5 (1 min, 5 max). For the performance criteria, what these points mean is shown in Table 2.

Table 2: Performance Criteria Measurement

	Classification	Evaluation criteria
5	Far beyond the expectation	Extraordinary performance
4	Beyond the expectation	Performance exceeds the standards and expectations
3	Meeting the expectation	Performance meets the standards of the company and manager's expectation
2	Slightly under the expectation	Performance meets only the minimum level of standards and expectations
1	Significantly under the expectation	Performance is unacceptable

Source: Own Description

Competencies are measured against the company competency model, and attitude and behavior in accordance to the company values. Again here, each employee can receive 1-5 points (1 min; 5 max) for his or her level of competencies / attitude and behavior.

The competency model and the company values can be divided up into four areas:

- *Understanding the business of the company and its strategic direction.* This includes also analysis and problem solving issues that have impact on the company's business and financial results.
- *Delivering results.* That means being customer focused, innovative, willing to change things, and performance oriented.
- *Motivating people.* That means being able to engage and inspire the employees cultivates relationships and networks among them, and fostering teamwork, cooperation, and communication.
- *Learning people.* People must be trained to adapt to changes and to cope with the challenges.

Measuring the experience can be divided up into two areas: experience in a position, and overall working experience. Points from 1 to 5 are given according to how many years the employee holds the

position regarding criterion Experience in a position or how many years he or she has worked in the company regardless of the position relating the criterion Overall working experience (see Table 3).

Table 3: Measuring Experience

Overall working experience	Experience in a position
0 to 2 years equals to 1 point	0 to 1 year equals to 1 point
2 to 4 years equals to 2 points	1 to 2 years equals to 2 points
4 to 6 years equals to 3 points	2 to 3 years equals to 3 points
6 to 8 years equals to 4 points	3 to 4 years equals to 4 points
more than 8 years equals to 5 points	more than 4 years equals to 5 points

Source: Own Description

Each four criteria (performance, competencies, working experience, and experience in position) are given the scores (points from 1 to 5), which are then summed up totaling for example to 15.0 points that equals to overall performance evaluation 4 (again the range for the overall performance evaluation is from 1 to 5) for the respective year (see Table 4).

Table 4: Calculation of the Overall Performance Evaluation

Criteria	Weight	Points (1 to 5)
1. Individual performance	30%	4
2. Competencies / attitude and behavior	30%	3.5
3. Experience in position	20%	3
4. Working experience	20%	5
Total score	100%	15.5

Score	Performance Group	Expected Distribution
Above 16 to 20	5	5
Above 12 to 16	4	15
Above 8 to 12	3	60
Above 4 to 8	2	15
Up to including 4	1	5

Performance Evaluation for Year ...					
1	2	3	4	Total	Evaluation
4	3.5	3	4.5	15.0	4

Source: Own Description

4.3. How is the distribution of performance checked?

The overall performance evaluation score (1 to 5) should reflect individual performance, competencies / attitude and behavior in accordance to values, experience in position and working experience in the company. This evaluation is done with many employees each year by their respective supervisors. The individual scores from all evaluated employees are then summed up and statistically evaluated by means of the Gauss distribution curves of the overall performance evaluation. The current distribution of the overall performance evaluation is then compared against the expected one showed in Table 4 above.

Let's say that the result for this year is: 70% of employees' performance is on average, 25% of employees are below or above the average, and the rest 5% is far below or far above the average. There should not be high differences between the expected and actual Gauss distribution curves. The distribution of the overall performance evaluation is further assessed by the panel discussion of top management and the assessment of individual performance of the employees is made mutually between them and their supervisors.

This is important because it brings more clarity and acceptance of performance evaluation, ensures greater objectivity, and sets the criteria applied further in performance evaluation of the employees with lower job grades.

Top management checks the Gauss distribution curve and directs the evaluation of those supervisors who are too strict (prevailing evaluations below 3), too alibistic (vast majority of evaluation = 3) or too positive about his/her subordinates (values close to 4-5). This is important because top management has to be aware of this bias.

4.4. How to work with the overall performance results?

Overall performance evaluation is linked to compensation policy. Each point from 1 to 5 is connected to the salary grade. Point 1 is associated with low-grade salary, point 5 with high-grade salary.

Employees with salary grade that correspond to point 1 to 2 need to:

- improve performance, or
- be downgraded, or
- leave the company themselves or being dismissed.

Managers should carefully consider which alternative to select. However, due to the fact that some newly appointed employees might end up in category 1 or 2 due to lower experience, managers should consider this when deciding about their potential dismissals.

On the other hand, employees with salary grade that correspond to point 5 or near need to or can:

- be promoted,
- have 0% salary increase,
- have salary reduction,
- leave the company.

When the employees that are experienced and have the right attitude are not promoted or their salary is not increased, they can later leave the company as a result of not respecting them by their managers. With these employees, managers have basically three options:

- be promoted hierarchically to a higher, more challenging position,
- be promoted to a more challenging position to another department or project,
- having salary increase.

It should be mentioned here, that the presented model of performance evaluation regards the employee position, the performance of one employee relating to his or her position. When the employee will be moved to another position he or she will start anew and get the experience there, where he or she can get different performance evaluation. The second aspect is that the promotion of an experienced employee is usually accomplished by moving him or her to another position or department within the same company, because the employee is so experienced in a certain position that he or she cannot get higher performance evaluation leading, for example, to higher salary, which could lead to demotivation of this employee.

4.5. How is performance evaluation connected with the compensation policy?

Performance evaluation is then linked to the compensation policy with the levels from 1 to 5 (see Table 5).

Table 5: The Connection of Performance Evaluation and Compensation Levels

Score	Performance Group	Expected Distribution	Compensation Level
Above 16 to 20	5	5	L5
Above 12 to 16	4	15	L4
Above 8 to 12	3	60	L3
Above 4 to 8	2	15	L2
Up to including 4	1	5	L1

Source: Own Description

Employees with salaries below L1 (lowest 5%) need to:

- a) improve their performance when they are able to and willing, or
- b) be downgraded when they are not able to and willing, or
- c) leave the company when there is no chance and willingness for improvement.

Employees with salaries above L5 (top 5%) need to:

- a) be promoted if it is beneficial to both employee and company, or
- b) have 0% salary increase when an employee has reached compensation cap, or
- c) have salary reduction when an employee starts to have lower performance, or
- d) can leave the company when there are not enough suitable promotion opportunities for him, or her.

The compensation system should allocate a proposed salary increase based on performance group, position to market and decided principles (see below). Managers can make individual adjustments to the proposed salary increase. The salaries of all employees below or within L1 score (irrespective of their performance) are automatically summed up to L1. These are mainly newly-hired employees.

Comparison ratio (CR) is a comparison or index of Annual Agreed Salary and the Market:

$$CR = \text{Annual Agreed Salary} / \text{Market (e.g. Average)} \times 100\%$$

Salary increase policy proposes % of salary increase based on the Comparison Ratio and Performance Ranking. The logic of this increase is:

- Higher performance ranking = higher salary increase
- Lower CR = higher salary increase.

When CR is below 80% – requires dynamic salary increase, new salary to reach at least 80% of the market benchmark.

When CR is between 80 - 120% – salary increase based on the performance evaluation is required.

When CR is over 120% – no salary increase is required. Exception can be for the excellent performance only in the way of extra bonus.

5. CONCLUSION

The case study showed a practical example of the employee performance evaluation model from one industrial company located in the Slovak republic that other companies of similar type and branch can take and to use it as a reference. Of course, this should be done after modification in their own business settings. Such a practical model presentation misses in the contemporary scholarly literature sources.

However, when applying such a model in the praxis, we should realize the fact that one thing is how this performance evaluation functions according to the written standard procedure; the other thing is how this standard procedure or model is actually applied in real companies. The range of this gap depends on the managers themselves, how they are actually able to apply standard procedures in a daily business life.

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