By Dan Apple, Managing Director, The Apple Group LLC

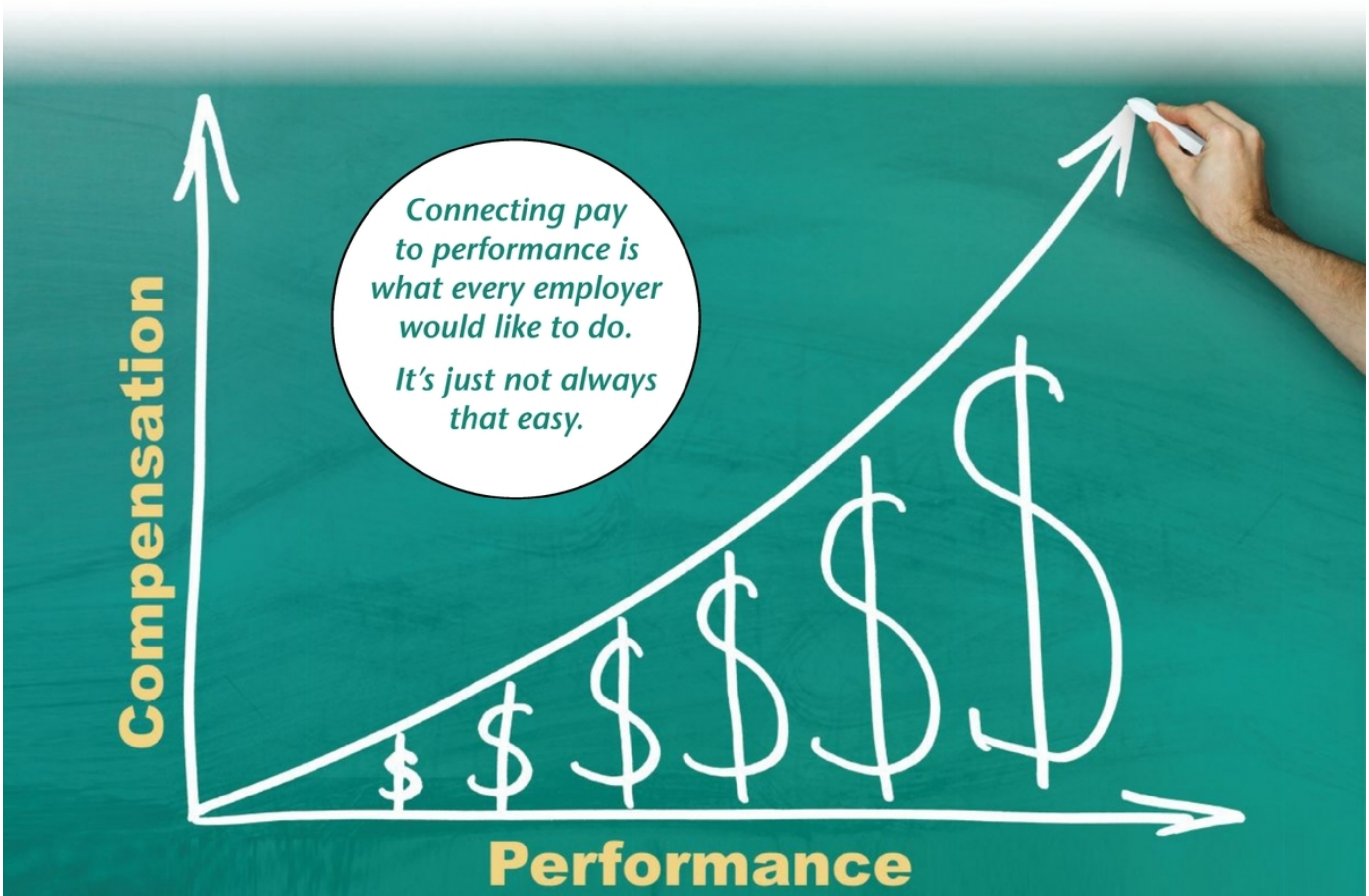
Connecting Pay to Performance

PART 2

Connecting pay to performance is what every employer would like to do. It's just not always that easy. In the last issue of *ID&OI* magazine, part I of this article discussed the merits of documenting employee performance as a means to better evaluate compensation. We outlined the pitfalls of relying on tenure as the sole factor of distributing pay raises and bonuses. We suggested that time in service was important but should only be one of the metrics used to evaluate performance. Some of these might include productivity, attendance, attitude, communication or other categories specific to the employee's position. We suggested a reason many employers in the garage door business don't use written performance reviews was due to the laborious process and offered an example of a faster, simpler way to do effective performance appraisals. In part II, we'll tie it altogether and discuss actually connecting the employee's performance ratings to their compensation.

Doing the Sit-Down

Now that you have the performance appraisal prepared it is time to share it with the employee. We found the most effective way to do this was having a "sit-down" with the person being reviewed. This one-on-one, private meeting allowed for an exchange of information with a candid discussion about how the company feels about the team member and his/her impressions of their own performance, goals, concerns and impressions of their workplace.



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We'd suggest the time be limited to no more than 30 minutes. To keep to this schedule we would give the employee an advance copy of the review so they would have an opportunity to read through the ratings given. Hopefully there would be no surprises but if there were concerns the employee would be better prepared to candidly discuss or challenge the review in a calm and organized manner. This was a far better method than just plunking the employee down and handing them the performance appraisal cold, having him / her read it for the first time on the spot with the owner or manager watching.

During the review discussion the manager would start with asking what the employee thought of the review. That was the ice-breaker that often started the free flow exchange which was the main purpose of doing a review. We would then cover each category with effort made to qualify the mark given, often with examples supporting the grade. A fair amount of the time was dedicated to discussion about the employee's career progress with the company, identifying both short and long term goals. The idea was to mesh the company's plan for the employee with their own. Finally, the employee would be encouraged to share their opinion and feelings about our company. This would include its direction, focus and how it was being managed. This gave the company a chance to be "reviewed" by its employees. This open exchange of thoughts and feelings often led to changes and great ideas being acted upon.

Of course, not all review meetings went smoothly. Sometimes there was a high degree of emotion packed into the employee's impressions of the review. While this was often not based on facts or completely rational, it did serve as a release valve for the employee to let off steam that had been building. After their concerns were aired and emotions calmed, there often was a healthy and productive back and forth that allowed the manager and employee to clear any misunderstandings, incorrect assumptions or conclusions made from the review. In some cases the employee's impressions of their value to the company was completely turned around specifically due to having a venue to voice their concerns. As an employer, it was always my job to listen. Doing periodic performance appraisals afforded me that opportunity.

Tying Compensation to Performance

In order to tie pay to performance, the owner has to create a raise guideline that defines percentages of pay raises based on performance ratings. To do this the owner first has to establish an overall raise budget for the coming year based on the finance performance of the company. Then it is simply a matter of distributing the raises based on performance ratings. As an example, let's say the company has sales of $1.5 million, an overall payroll of $500,000 and a projected net profit of $150,000 for the year. If the owner decides to invest 15 percent of the profit generated into employee compensation, the raise "pool" would be $22,500 or 4.5 percent of total payroll. If spread evenly, each employee would receive a 4.5 percent increase. Or more realistically, assuming not all employees perform at the same level, the owner could opt to vary the increase percentage based on performance rating, say a range of 2 percent to 6 percent. The raise guideline would look something like this.

Performance Rating	% of Salary Increase
3.0 - 3.3	2% - 2.5%
3.4 - 3.6	2.6% - 4%
3.7 - 3.9	4.1% - 5.9%
4.0	6%

The distribution of the "raise pool" may look like the table below. Rather than use our 'A-B-C' ranking, we've just substituted the employee's performance rating. Of course each employee's rating may be different, but this table generally illustrates how the higher performers would receive a larger distribution of the raise budget. As you can see, in this example 'A' players would receive a 6 percent increase while "C" players proportionately less at 2 percent. While this is only an example, you could use it as a basic model and adjust the numbers accordingly.

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Average Rating	Number of Employees	% of Total Employees	Total Current Salaries	Average Raise %	Average Raise Amount	Average per Employee
3.9	3	37.5%	$187,500	6.0%	$11,250	$3,750
3.5	4	50.0%	$250,000	4.0%	$10,000	$2,500
3.0	1	12.5%	$62,500	2.0%	$1,250	$1,250
Totals:	8	100.0%	$500,000	4.5%	$22,500	$2,813

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If your company offers annual bonuses, you could use a similar method to divvy them up. Again, this would tie their bonus amount to performance, not solely based on how long they've been with the company. If time in service is very important to you, as the owner you can always use tenure as an additional criteria in the performance appraisal and weight it accordingly. It's your company's rating system, make it to match the expectations placed on your employees. However you design it, your rating system should be consistent for all employees.

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"What should you…."

1. *Start doing?*
2. *Keep doing?*
3. *Stop doing?*

New Review Methods

Want something even simpler for reviewing employee performance? Consider using a new method of evaluating performance known as "Check-Ins." Jessica Rovello, CEO of Arkadium, which provides interactive content to the world's best known brands and publishers, has scrapped their traditional semi-annual performance reviews and now supports using Check-Ins. These informal meetings are done monthly and asks each employee to answer three simple questions.

"What should you…."

1. Start doing?
2. Keep doing?
3. Stop doing?

The discussion between employee and management is limited to fifteen minutes and is done monthly. Rovello is convinced that these more frequent, quick verbal reviews with management "increases transparency and makes a happier, more winning workplace."

Laura Ransone of ***Associations Now*** described them this way in her October 2016 article, ***Think Check-Ins, Not Performance Reviews:***

> ***"Check-ins are quick and informal, providing employees the opportunity to constantly get feedback and grow. They provide managers the ability to serve as coaches instead of managers, building a deeper connection. I find weekly coaching to be both helpful when I'm being managed and when I'm managing."***

Conclusion

Yes, doing performance reviews is time consuming, and they are seldom perfect and are mostly subjective. However, doing nothing or simply relying on the Old Joe method is unwise and may cause you to lose talented people or at a minimum cause them to not understand the appreciation for their value to your business. It is worth any employer's time to evaluate and give (and get) performance feedback from its team members. Whether you choose a more conventional written performance appraisal system or opt for a more contemporary style of review policy, the bottom line is that door dealer employers need a consistent way of giving and receiving feedback about performance for employees and management.

There are numerous employee evaluation methods used by all size companies. I urge you to spend time researching these on the Internet to find one that best fits your management style and organization structure. The point is to pick one and stick with it. Does it take a while to implement?

Yes, most definitely. But the trick is to start the process, invest the time need and just keep at it. The first year will take the largest amount of time as anything new usually does. Each review cycle should get easier and less time consuming, mostly because it will become part of your company's culture and sets an expectation that both management and employees can anticipate. Once you've adopted your program, then you can link employee compensation, raises and bonuses to an employee's documented performance. This allows you to better explain to employees how raises are given based on performance, now that there is a way to connect the two together. Paying for performance is a win-win for all concerned. IDA

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