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TELL ME HOW YOU MEASURE ME, AND I TELL YOU HOW I AM GOING TO BEHAVE: Experiences of Performance Evaluation Systems Linked To Remuneration

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ABSTRACT

The purpose of this study was to analyse manager's experiences in companies of the metal-mechanical and energy distribution sectors, that used the performance evaluation system linked to remuneration based on competences in Caxias do Sul, Brazil. This study is of qualitative and exploratory nature, relying on a multi-case study method. As technical procedure was used the multi-case study in six companies, and the data collection instrument was given through semi-structured interviews. The research subjects were Human Resources Analysts and Coordinators and General Manager. The results showed that 83,33% of the companies examined abandoned the performance evaluation systems linked to remuneration. Possible causes of the unsuccessful applicability of this system were identified. Recommendations for remuneration based on performance evaluation are therefore highlighted: the level of maturity of the subjects, the existence of objective goals linked to variable compensation, bonuses and non-monetary rewards, and the use of software to support the management – before the system implementation.

Keywords: *Performance Evaluation Systems. Remuneration Based on Performance. Competences.*

1. INTRODUCTION

Experts in remuneration system based on performance, recommend that companies seeking competitive advantage to adopt this form of compensation. Technological innovation and increase in global competitiveness are among the highlighted benefits to be achieved. According to Guimarães et al. (1998), on the last three decades, Brazilian business organizations became aware of the importance of a review in their management models, as a condition to survive and remain competitive in the market.

According to Rodrigues (2006), although growing calls to use performance evaluations linked to remuneration structures, there isn't a clear indication on how it has to be implemented. There is also no consensus in the literature regarding to which kind the remuneration based on performance format should be linked with: whether to a fixed salary or to variable compensation and/or bonuses (HIPÓLITO, 2000; LAWLER III, 1986; RIBEIRO, GUIMARÃES and SOUZA, 2001; WOOD JR., 1997).

In traditional models of performance evaluation, managers and supervisors are responsible for evaluating the performance of employees. To Bateman and Snell (2006) cited in Araújo (2009), the use of such individuals for executing the evaluations is based on their proximity to the subjects being assessed, which would place them in a position of advantage to observe the performance.

In order to successfully apply a performance reward system according to worker's competency, the relationship between remuneration and competency shall be coordinated – which requires an understanding of different elements of organizational dynamics that influence each other. The role of people management is crucial in this process because it enables competency management, from their identification, development, evaluation and subsequent reward.

Appelbaum and Shapiro (1992) affirm that this remuneration system can be used to increase performance and appropriately reward the best, avoiding their underpaid feeling. Even though there is no guarantee that the system will have the desired effect on poor performers, the experience shows that perceived inequality leads to effort and performance reductions amongst the best professionals. "There is a substantial gap between the rhetoric and reality, where specialists point out that the pay for performance may not be so desirable, so easy to implement, or so widely used as commonly believed" (FISHER, SCHOENFELDT and SHAW, 2006, p. 512).

According to Giancola (2011), rewarding employees based on their performance and skills is an idea that arose more than 25 years ago. Despite strong support from leading experts, it did not reach the expected usage levels. Although it continues to be recommended, in reality the use of this method has actually decreased on the last years. A reduction in the use of the tool has been noted in the companies of the mountainous region of Rio Grande do Sul, Brazil.

Semi-structured interviews were conducted with managers and Human Reources professionals of metal-mechanical and energy distribution companies from Caxias do Sul, RS, Brazil, with the intent of analyzing their experiences in relation to the performance based remuneration system. The data collected were analyzed in a descriptive and qualitative way, allowing a comparison of the adopted models, the strategies, the strengths and weaknesses of the system, and the factors that contributed towards alterations and/or extinction of the program in these companies.

The theoretical review will present the concepts and definitions, the importance and the objectives involved in methods of Performance Evaluation and Compensation Systems based on Competency. Which underlies the analysis and discussions of results achieved in this research. After the findings and future research suggestions will be presented.

2 THEORETICAL REVIEW

2.1 Performance Evaluation Systems

Performance evaluation is essential for an effective management of human resources of an organization and helps develop individuals, improve the overall organizational performance and contribute to the business planning (SULTANA et al., 2013; GIBBONS and KLEINER, 1994). Furthermore, according to Sultana et al. (2013), skilled and competent human resources are the key active players in helping organizations to maintain their competitive advantage. Performance evaluation of human resources is a vital issue in this sense.

The importance of evaluating the staff's performance and its relationship with the company's performance is well documented in the literature (LOWE, 1986; KATZENBACH and SMITH, 1993; KILDUFF et al., 2000; HIGGS, 2005). Various evaluation techniques are available for performance measurement (CHANG and HAHN, 2006; JIANG et al., 2001; ARMENTROUT, 1986; ARVEY and MURPHY, 1998; SANCHEZ and DE LA TORRE, 1996; STRONGE, 1991). To Sultana et al. (2013), when an evaluation system is conceived and implemented, management has to determine for which purpose performance assessment system will be used and, subsequently, define the procedure to implement the system. The chosen methods and tools used to implement these methods are crucial in determining how the organization manages its successful performance.

According to Shaout and Yousif (2014), the employee's performance evaluation is built to gain insight and understanding of the employee's contribution to the organization. The main objectives of a performance evaluation are to reward the worker who reaches the organizational goals and to establish which goals were not achieved, maintaining the strategies to ensure they will be reached in the future.

However, much of the performance evaluation related information is not quantifiable and accurate. Rather, this information is presented based on subjective and unquantifiable criteria, such as planning skills, discipline, thought, communication, commitment and teamwork (SHAOUT and YOUSIF, 2014; SULTANA et al., 2013). Many studies showed that an effective evaluation system is directly related to employee motivation and productivity (BARTH *et al.*, 2008; DAONIS, 2012; LAWLER III, 2000; OCHOTI *et al.*, 2012; TOPPO and PRUSTY, 2012).

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For Gibbons and Kleiner (1994), when it comes to evaluating employee's performance it is essential that both, the evaluator and the employee, have the opportunity to express their point of view, in other words, the lens through which they see things. With this in mind, the evaluator will be predisposed to listen to the worker's opinion, as well as recognize that he or she is able to make judgments and take biased decisions towards them. Employees also create false expectations regarding their performance. When employees have false expectations regarding their performance, even in recent tasks, misguided goals, then these expectations have an important impact in their motivation and productivity. Illusory perceptions of performance can damage productivity, preventing people to diagnose and repair errors in their approaches (JOURDEN e HEALTH, 1996).

Implementing an efficient performance measurement program, however, is complicated by the difficult task of getting a truly fair and accurate evaluation of an employee's performance. Much has been written on evaluation of employees, covering a range of topics from the way of supervisors shall be trained, how to avoid legal actions, how to implement an effective program, up to, even, how to conduct a feedback session, and so on (GIBBONS and KLEINER, 1994).

2.2 Competency Remuneration

Sparrow and Bognanno (1944), define competence as a range of attitudes that allow professionals to adapt quickly to an increasingly unstable work environment and have an orientation towards innovation and lifelong learning. It is also necessary to put into practice what is known, in the sense of summoning and applying such skills in specific contexts. Dutra, Hipólito and Silva (1998), for example, conceptualized as the competence of a person the ability to generate results within the organizational objectives.

To distinguish the differences between Competency Management and Performance Management, Brandão and Guimarães (2001), concluded that while the defendants of competency management argue that human competence, combined with other resources, leads and support to organizational competence, the authors who defend performance management claim that work performance is a result not only of the powers inherent to the individual but also of organizational attributes. In this sense, competency management and performance seem to complement each other in a broader context of organizational management.

Thus, companies use these tools to become more competitive, achieving better results and rewarding their professionals for superior results. To Bowman (2009), the compensation is a core function in human resources management, which has important direct or indirect implications for the recruitment, evaluation, training, retention and labor relations. With performance pay, companies explore incentives that are imbued into profit sharing in order to increase effort (BARTH et al., 2008).

People compare their inputs (skills, effort, experience and education) and their results (salary, promotions and other rewards) with the inputs and results of others. If an employee believes that his exchange ratio is equal to that of other comparable employee, the situation is perceived as fair. A perceived imbalance is likely to produce feelings of injustice and dissatisfaction (APPELBAUM and SHAPIRO, 1992). The workers may "eventually come to see merit pay as a kind of punishment" (GABRIS and IHRKE, 2004, p. 540). To Bowman (2009), compensation as an incentive, in theory, could potentially promote high performance, but it is difficult to manage in a way that professionals consider it fair. Based on past experiences, in recent decades, the strategy may or may not be good in principle, but it is certainly difficult to put into practice.

In addition, some other critics argue that: (i) performance very often cannot be measured with sufficient accuracy to justify salary differences; (ii) personal biases often plays a very big role in the evaluation process; (iii) budget constraints make it difficult to give the adequate increases for all who deserve them; (iv) it is difficult to identify value-added rewards; (v) there are difficulties to establish adequate contingencies between reward and performance; (vi) the confidentiality of the remuneration is related to the perceived inequality (APPELBAUM and SHAPIRO,1992).

Individual performance systems researchers have developed and mention the following conditions favoring merit pay: (i) individual differences in work performance are large enough to justify the time and effort it takes for management, to put together a compensation system between performance and salary; (ii) the salary ranges are wide enough (35% or wider) to allow the difference in remuneration be significant between employees on the same work; (iii) the management is capable and reliable to measure individual differences in work performance; (iv) the evaluators are skilled in planning employee performance (defining and communicating expectations) and in evaluating them; (v) organization's culture supports salary based on performance; (vi) compensation technology level in the organization is fairly high - remuneration structures are fair and competitive, and the management knows how to relate to performance pay; (vii) the trust levels between workers and management are high; and (viii) management is "willing to manage" – meaning, they have the desire to establish and communicate the performance criteria and standards, and the will to make difficult staffing decisions (APPELBAUM and SHAPIRO, 1992).

Podsakoff et al. (1987), realizing even further how restrictive the budgets of many meritocracy pay plans are, suggest that the companies: (i) consider alternatives to the current rewards to allow bigger impact at a lower cost; (ii) implement rewards that have visibility for the receiver; (iii) avoid a leverage effect in payroll costs applying rewards that do not represent long term commitment as an answer to today's performance; (iv) increase the use of non-monetary rewards whenever possible and appropriate; and (v) incorporate the use of elements in the job position that offer inherent reward for work performance.

According to Appelbaum and Shapiro (1992), the literature is replete with examples where one or more of the assumptions or conditions necessary for the correct functioning of meritocracy are absent. There are countless scenarios where the differences in work performance are hard to measure or are not worth the effort. Management evaluations involve often significant subjective components that are difficult to assess objectively, such as creativity and interpersonal skills.

3 METHOD

The research used a qualitative approach with exploratory and descriptive purpose, and as a method, the multiple case study. "A case study is an empirical inquiry that investigates a contemporary phenomenon in its real life context, especially when the limits between phenomenon and context are not clearly defined." (YIN, 2005, p. 32).

In order to collect data, semi-structured interviews were conducted, and content analysis was employed as method of data analysis. According to Triviños (2001, p. 174), a "semi-structured interview is the one part of certain basic questions, supported by theories and hypotheses, of interest to research and then offer wide field of interrogative, along with new hypotheses that arise as receiving the informant's responses". Thus the interview enables obtaining various data, which can be obtained in depth (GIL, 2010).

Data analysis and interpretation was based on content analysis, following Bardin (2009) and Flick (2009). According to Franco (2005), content analysis is considered to be a research procedure placed in a broader outline of the theory of communication which has the message as starting point, allowing the researcher to make inferences about any of the communication elements.

To Bardin (2009), the content analysis can be considered as a set of techniques of communication analysis that uses systematic procedures and description of goals of message content, intended to carry the inference of knowledge concerning the conditions of its production and reception. The organization of data content analysis came from three chronological segments: 1) pre-analysis; 2) exploration of the material; and 3) interpretation of the results. In this approach to interpretation is the anchor point for deciding which data should be collected and how to collect (FLICK, 2009).

3.1 Ambience of the Research

The study environments for the development of this research were six companies located in the city of Caxias do Sul, RS, Brazil, as described in Table 1. We aimed to identify and analyze the experiences lived by managers in companies that used the performance evaluation system linked to competency based remuneration. The choice of these companies was made on non-probabilistic sampling, was based on accessibility or convenience: Researchers select the elements they have access to, assuming that they may represent a universe (MORESI, 2003).

Table 1: Profile of the companies surveyed

Company	Number of employees	Sector	Interviewee	Working time in the company
A	1800	Metal-mechanical	Remuneration Analyst	4 years
B	450	Metal-mechanical	HR Coordinator	10 years
C	50	Metal-mechanical	General Manager	9 years
D	490	Metal-mechanical	Remuneration Analyst	7 years
E	2000	Energy distribution	Senior HR Planning Analyst	5 years
F	490	Metal-mechanical	HR Coordinator	7,5 years

Source: Table elaborated by the researchers, 2014.

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Note that, for reasons of confidentiality and academic ethics, the names of the companies involved on the study will not be disclosed. Thus, the search ambience is discussed in a general manner, as described in the table above.

Six interviews were conducted during the months of October and November, 2014, which were then transcribed and analyzed by content analysis. The interviews lasted an average of fifteen minutes and twenty seconds. The initial contact was made through phone calls and e-mails, and then, a meeting for the interview was set. Before the interview was conducted a brief contextualization of research and request authorization for recording was requested.

From the general objective, which intended to identify and analyze management experiences in companies that had made use of a performance evaluation system linked to competency remuneration, three specific objectives were defined: (i) identify management experiences in companies with a performance evaluation system linked to competency remuneration; (ii) identify the positive and negative aspects of the system experienced; and (iii) verify factors that influenced the companies to abandon or modify this evaluation process.

4 RESULTS ANALYZIS AND INTERPRETATION

By adopting the model of performance evaluation linked to remuneration, the company "A" emphasizes that their purpose was to put into practice a complete competency management package. The Company "B", meanwhile, wanted to recognize their professional's performance and set standards of management control. In company "C", the main objective was to retain talents. For companies "D" and "E" it was about professional development and seeking a just and coherent administration format.

Corroborating with the objectives of the companies "D" and "E" follows the speech of the respondent from Company "F":

> *"The main targets were work out feedback: having a formal space for feedback with the employee that had frequency, a script, a structure; being able to recognize the worker, work on prevention. An employee that was not doing well: trying to recover that person as well as work with ways of controlled measuring performance, since in the HR it is all so subjective; with the evaluation you end up having some substance to work with, more numerical substance" (Interviewee F).*

The companies researched had structured their performance evaluation system taking into consideration the job profile. At company "B", the salary increase happened automatically, the score needed to be higher than the latest evaluation. Reaching 60 points in the evaluation had automatically increase of 2,5%, from 70 points the increase was 5,0%, 80 points, adjustment of 7,5%, up 90 points, 10% increase - the raise was inscribed in the nominal salary in addition to the annual category-based increase. In the Company "C", according to the achievement of certain score range was granted a salary increase that could range from 2,5% to 10% annually.

As outlined in Figure 1, four out of the six companies (66,66%) performed annual evaluations using the employee's date of entry in the company as the review anniversary date. Of the six companies surveyed, 50% of the companies interviewed set up an automatic nominal salary adjustment according to the worker's performance, while for the company "F" automatic adjustment was conditioned to positive financial results of the company. In all companies researched, the evaluations were conducted by the line manager. Upon implementation of the system, 66,66% of the managers received some sort of training. In order to communicate the compensation system to the employees, 50% of the subjects interviewed made use of meetings as communication tool. The remnant utilized different methods, such as: internal marketing, whiteboard, role-plays, consultancy, internal campaigns supported by marketing and communication.

Among the negative aspects, the interviewed subjects listed: turnover, manipulation of results by managers, swelling of the payroll without a counterpart in the company's overall performance and financial results, and motivation of employees for not agreeing with the results of the evaluations. These were also the reasons that led 83,33% of the companies researched to abandon the method. On the other hand, the subjects interviewed admitted that the system worked well as a feedback tool, identifying and developing internal opportunities, and in the initial phase, boosted the performance of professionals.

> *"Positive aspects that I can highlight are: from the moment the performance evaluation was conceived, people started getting feedback, a formal moment with their superiors that wasn't happening before. It was a*

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> *moment to chat and really align some behaviors that somehow were not adequate. Another side of it, however, were the negative aspects in which the company realized the model reached the breaking point, where the evaluation was seen as a bargaining chip and some team leaders - under pressure of their teams - saw the performance evaluation exclusively as a pay out, and the meaning of the system was lost because more important than being able to reward someone and give feedback, was to be able to develop a team" (Interviewee D).*

In the companies researched, management started using the evaluations to grant salary raises to the employees without a critical eye for the results achieved. It can be said that because there weren't objective goals, it was also difficult to argue with the employees and justify a bad evaluation. Since the evaluations were based on job description profile (responsibilities, knowledge, education, skills and attitudes) against scoring, there were no specific and objective goals to achieve – the evaluations were based in subjective components. Below an extract from the interview with Company "D":

> *"It is the whole project: we cannot blame only the management, since some used the tool in the correct way, others not. But it was a trial phase and when we started we had no idea that this model was going to be used for totally different purposes. It is therefore the whole project, the culture of the company. It was not the right time, superiors were not adequately prepared, and teams used this tool merely to get a salary raise" (Interviewee D).*

The raise in attrition is owed to several factors: (i) to the criticism of the quality performance evaluation delivered by their superiors; (ii) to the fact that positive evaluations did not trigger an automatic pay raise but simply eligibility for future adjustments that may never occur; (iii) to the mentality of the organization which was not ready for this system; and (iv) to unprepared leaders who produced evaluations seen as unjust by the employees.

The only company that continued with the meritocracy system evaluates performance (objective goals) and behavior. If the workers excel in performance and in behavior they become eligible to a future salary adjustment, promotion or bonus. The company also relies on the support of software to manage the evaluations, avoiding paper and bureaucracy. The statements of the subject interviewed for this company mirror these principles:

> *"I think we have a very good system in place. For me it matters to promote it through our leadership, have the people take it on, succeed with this tool, because that is what it is: a managing tool made by management to assess their teams. Therefore, if the team does not buy into it, we cannot succeed. In the end the principle isn't valid only for this program but rather for any other program. It is the basics, the basics for HR success: the leadership team needs to buy into the idea that HR is about strategy, more then the Personnel Department" (Interviewee E).*

The subject interviewed at Company "B", where the performance evaluation linked to remuneration is no longer in place, makes suggestions for improvement and applicability of the system:

> *"I would implement individual targets for each worker and objective, clear goals. Then link the raise to variable gains; one would have to be able to measure. Today our evaluations are on productivity and quality but still in many sectors it is very subjective; in reality we cannot measure. There are a lot of factors interfering, the atmosphere – it is difficult to measure. We did not have resignations due to change in the system. We disconnected the pay raise but we still raise the pay. From 2009 we set aside a percentage of the payroll for reward payment, when our headquarters give the ok we spread the raise, not to everybody, but for the worker that showed most productivity, effort and performance. Pay raises are there but they are not automatic and they are not for all" (Interviewee B).*

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Figure 1: Summary Table of the interviews

TOPICS	A	B	C	D	E	F
Frequency of evaluations	Annual – on employee's date of entrance anniversary	Half yearly – on employee's date of entrance anniversary where 6 months were for feedback and 1 year for salary raise	Half yearly – on employee anniversary date, where 6 months were for feedback and 1 year for salary raise	Annual – on employee's date of entrance anniversary	Annual	Annual – on employee's date of entrance anniversary
Type of pay raise	Non automatic	Automatic	Automatic	Automatic	Non automatic	Non automatic
Responsible for evaluations	Immediate superior	Immediate superior	Immediate superior	Immediate superior	Immediate superior	Immediate superior
Training provided to the Responsibles	Yes	n/a – subject not part of implementation phase	Yes	n/a – subject not part of implementation phase	Yes	Yes
Training focus	Formal, focusing on leaders' feedback	n/a – subject not part of implementation phase	Informal, outlining the process to the leaders	n/a – subject not part of implementation phase	Formal, focused on feedback, evaluations, how to communicate and the system itself. Besides the technical and behavioral aspects of the leader, usage of SAP software to manage the tool.	Formal, with follow-up every 15 days with the leaders, focus on feedback, communication and conflict resolution. 1 month prior to implementation leaders received specific training on performance evaluation.
Tools of communication to the employees	Internal marketing, notice-board, games	Consulting firm hired to do it	Meetings	Meetings	Internal campaign: marketing and communication	Meetings, where the competency profile was given
Negative points	Turnover - due to feelings of punishment/reward	Leaders tweaked results, swelling payroll	Became a discouraging tool as it started to be perceived as a "right".	Tool was used to negotiate salary raises	Not all workers, even with positive evaluations will be rewarded	Distortion of the tool using it for salary raise negotiations; inflated evaluations to avoid discussions and secure raise
Positive points	Identification of company gaps in relation to the market. Identification of workers that had potential	Good reduction of individual salary raise requests	In the initial phase the program fostered performance	Feedback started to occur.	More than 44% of the workforce benefitted. Leaders understood the tool as a way to develop their teams	Implementation of a feedback culture.
System status	Abandoned	Abandoned	Abandoned	Abandoned	Active	Abandoned
Influential factors on program cessation	Manual tool requiring too much effort from the leaders. Resignations	Swelling of payroll, cost to company burden while growth slacked	Salary raises higher than inflation with difficulty to scale the costs to clients; productivity did not justify the raises	Raise in payroll cost without counterpart in performance, damaging business	Constant alterations are being made in the 13 years this system is applied	Raise in payroll cost without counterpart in performance,
System survival	2 years	5 years	5 years	1,5 years	13 years	5 years

Source: the researchers, 2014.

5 – CONCLUSION

The results show that performance evaluations connected to remuneration were abandoned by 83,33% of the companies analyzed. Possible causes of the failure in implementing the system were identified: (i) lack of training or inadequate training; (ii) the expected company goals were not achieved; (iii) automatic salary raises based on evaluation results which became a burden in terms of cost to the company; and (iv) goals and subjective evaluation factors.

When a company decides for such evaluation system it is necessary to develop leaders and teams maturity to clarify for all what belongs to salary negotiation and what to performance rewards. Working with more objective and less subjective goals, making use of tools which enable an objective measurement of productivity and performance of each worker. Purchase software that helps to manage the tool, and reduces time and effort. Create different options for compensation such as bonus, internal career opportunities and non-monetary rewards (goods and services, tours, travels, club membership, self-managed positions, etc.).

Another possibility for the success of a performance evaluation system that is linked to remuneration would be crossing a two-axis graph, x and y, graphic style dispersion, where technical performance scores and behavior scores can be cross referenced, generating a dispersion graph showing worker's achievement according to their job descriptions. Graph data would then be placed into a nine-box grid. The matrix would generate four quadrants having different performance levels. According to performance review results the workers would be placed in one or other quadrant. Employees categorized in the highest levels in the x and y axis are achievers who reach 100% of required effort, typically improve themselves and start spreading knowledge and technique. To this type of professional a retention and remuneration plan could be developed. To others, the plan should focus on personal development in order to foster progress in areas that need improvement and reinforce areas where they are showing strengths.

Above all, organizations need to do an inside analysis of their culture, maturity and professional profile, financial organization and strength, to assess whether the company can implement a performance reward model. In small businesses where management has full control of worker's performance it may not be worth the time and administrative effort to implement a formal evaluation system linked to remuneration. It would be advisable to reach an agreement on the feasibility of performance rewards on individual or general plans and group incentives, particularly to explore systems designed to reward outstanding performance. Bigger companies need to assess correctly the impact the system may have in costs, effort and employee motivation. Hence the importance of the level of maturity of the people involved in it, the need for clear goals, variable remuneration and non-monetary performance rewards, and software to support the management of the system.

Given that our study involved a specific geographic region, future research could broaden the scope of investigation and analyze experiences of different companies. Research could also develop in two different directions: unsuccessful experiments where the factors involved in the failure of the model can be appropriately compared. Successful experiences with competency performance models to identify similarities in the processes that are in fact applicable. Such research could confirm the suggestions for the system applicability provided in the conclusions reached in this article

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