Conflicting Messages Create Poor Employee Morale

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It was a typical day at the office when the Vice President of Development stepped in and requested I recruit a programmer. Our busiest time of the year was upon us and we needed to replace a programmer who had resigned. Actually, busy is an understatement. You see, our company produced income tax software and the production time was short with tons of work to do, so work hours were about to jump from forty hours a week to sixty or seventy hours a week.

"Please find me someone who can write code in Fortran, Basic and C+. Also they will need to be high energy to get through the tax season. Oh, also find someone who is a very hard worker and an excellent programmer," he requested. Then, as if awaking from a dream, he simply said "wait, the programmer who is being replaced was average so just hire the most average person you can," and then he left. Of course he did not want to hire the most "average" programmer we could find. He wanted to hire the best programmer we could find. So why did he make this strange request?

A little perspective is needed to understand what he was telling me.

We had just implemented a pay-for-performance program. A merit increase matrix was created and budgets developed from the matrix. We could easily establish, with great precision, where each employee fell in their salary range. The only other factor was planning what their performance evaluation level would be. To do that we utilized everyone's past performance ratings. After all, the company's performance had been pretty constant so it was reasonable to assume overall employee performance (productivity) would be consistent with previous performance. We had a good budget, or so we thought.

What actually happened was quite different from what we planned/budgeted. Within the first quarter we spent most of that year's salary increase budget! The CFO was in a panic since we still had another three quarters to go and salary increase were about to go well beyond budget. "Why are we in this situation?" he asked.

That's when we discovered our assumption about performance ratings was wrong. Employees who had consistently "met expectations" were now "exceeding expectations." As it turns out, managers were rating employees higher to get them a larger merit increase. Their actual performance rating was not so much based on their performance as it was the managers' desire to give as much as they could in merit increase.

We solved the problem by establishing a bell curve requirement. Managers could only have a small percent of their employees appraised above "meets expectations," which is typically considered "average "or a "C" on a 5 point scale. By the way, nobody wants to be considered average.

It worked for the budget. However, it also sent a very bad message to our employees, which was "you are an average employee." The VP of Development was making that crystal clear when he told me to recruit an average programmer because the one that left was rated an average performer.

The problem was that we were sending conflicting messages to our employees and our managers. On the one hand, we seek to hire the best of the best. If we could have our dreams come true, every employee we hire would be a super employee, get the highest possible performance rating. On the other hand, we had a budget to manage. A large part of that budget was in salaries. Forcing our managers and supervisors to rate an employee as "average" was stressful for the manager and sent the wrong message to the employee.

To solve this self-created problem, we developed a degree of separation between the performance review and the merit increase, as follows:

1. We asked our managers to evaluate the employee fairly and objectively. Develop performance plans that are objective and/or observable. Spend time with the employee to help him/her achieve their objectives. At the end of the review period, focus on progress made against their performance plan and not a score.

2. We discontinued giving merit increases at the same time we conducted the performance review. When the merit increase was given as a part of the performance review, the employee tended to center on the merit increase and not the actual performance evaluation and plan for the coming period.

Instead, we gave all merit increases at the same time each year. Performance reviews were conducted on each employee's job anniversary date. We also gave managers a report at the end of the year that identified each of his/her employees' last performance ratings. Managers were allowed to make modifications if they could justify the change.

3. We then built the merit increase matrix and ran the numbers. We could adjust the cells in the matrix to ensure we met our budget for the year.

4. When merit increases were given each employee was told the merit increase was based on three things: 1) the budget, 2) establishing internal equity within the organization (actually their position in range), and 3) the managers' assessment of their contributions for the year.

The results were positive. The stress and negativity associated with performance reviews decreased, both among employees and managers. We even began to get reviews finished and submitted to HR on time! But most of all, we quit sending conflicting messages.

In time we went to the point where we found it totally unnecessary to share the "performance rating" with the employee. Its only purpose was to justify the merit increase and it had been manipulated to justify the merit increase or to manage the budget. Neither of which has anything to do with trying to hire the best and keep them motivated.