

Measure What You Value: Designing a Values-based Performance Appraisal System

By Greg Wilken

Developing and sustaining a motivated, productive, and highly engaged workforce means your employees must be measured on how they demonstrate the organization's values.

Improve how your nonprofit evaluates, recognizes, and motivates its employees.

How often should they be done? What should be measured? Should they be tied to pay increases? These are just a few of the questions you will need to answer when designing or enhancing your performance appraisal process.

If you would like to significantly improve how your nonprofit evaluates, recognizes, and motivates its employees, there are a few strategies that you might implement to help guarantee success.



Evaluation Systems Are as Varied as They Are Universal

First, a little background: As we all probably know, most organizations have some method of evaluating the performance of their employees. These systems range from the simplest — like providing employees occasional and/or informal feedback about how they are doing — to very complex (and expensive).

While many organizations still conduct annual reviews of their employees in which managers provide feedback about the prior year's performance, the recent trend in human resources has been a shift to less formal, but more frequent, systems for providing employees feedback. According to recent data released by Gallup, 80% of employees who say they have received meaningful feedback in the past week are fully engaged.

Performance appraisal systems can be traced back to the U.S. military's "merit rating" system created during World War II to identify poor performers for discharge or transfer. After WWII, about 60% of U.S. companies were using them (by the 1960s, it was closer to 90%). Many performance appraisal systems evaluate employees based on their job performance. Within this category, a typical appraisal system might break down an employee's job description into "competencies" and evaluate them on how well they performed according to each competency. They might also assign a numerical score to the appraisal.

More sophisticated performance appraisal systems evaluate employees on how well they have achieved their goals. Performance goals differ from competencies in that they are more forward-looking and may be tied to larger organizational or departmental goals. Typically, these systems will require an employee at the beginning of the review period to develop goals, often

based on higher-level departmental or company-wide goals. Employees are then evaluated on the extent to which they achieve their goals.

If you would like to take your performance appraisal process to the next (and highest) level, it is necessary to incorporate your organization's values into the system. It is only by identifying your organizational values, communicating them, and then holding employees accountable for them that you will truly achieve world-class performance.

So How Do We Achieve This Gold Standard of Evaluation?

To develop a value-based performance system — and thereby achieve the gold standard of performance evaluation — follow this simple, four-step process:

Step 1: Identify Your Organizational Values

Every organization has values. In some organizations, the values have developed organically (or even accidentally) with little forethought or strategy. Let's take a look at an unfortunate (but potentially all-too-familiar) example: Have you ever worked in an organization where meetings never start or end on time? By being lackadaisical in their approach to meetings, this organization implicitly says, "We do not value time and are not going to take it seriously." Of course, it is doubtful that the founder or ED has explicitly articulated this value — but it is there, nevertheless.

On the other side of the spectrum are values we signpost with everything we've got. Some organizations spend millions of dollars on outside consultants to develop and publicize their values — you may see them in fancy plaques or posters in the lobbies of their buildings and emblazoned on company literature. And, in some organizations, employees might even be able to list them when asked.

Of course, these are two completely different approaches to developing and understanding values: Those that are unconscious and those that are drilled into us at every turn. But these can actually be found in the same organization. That is, the same organization might be accidentally communicating some values, while very intentionally communicating with others. So, the first step in moving to a values-based performance evaluation system is to **get intentional on identifying all of your organizational values.**

If your organization has not formally developed its values, now is the time to do so. Try to identify four to six of the most important values of your organization. Consider the following questions:

- Do you value creativity, outside-the-box thinking, entrepreneurialism, and innovation?
- Is your organization more rigid and traditional?
- Do you encourage employees to disagree (respectfully) and challenge the status quo?
- What does success or advancement look like in your organization?
- How does the public perceive your organization?
- What is your brand in the marketplace?

The answers to these questions will help you to identify your core values.

Throughout this process, make sure you are engaging your employees. You can even ask them what attracted them to the company in the first place, or for those employees who have been with the organization for a while, ask them why they stay.

Basically, you want to take a close, hard look at your organization to identify what is truly important.

Step 2: Define Clear and Observable Behaviors that Represent These Values

Next, you need to clearly define behaviors that demonstrate your organizational values. Much of the time, we state values in aspirational language. An employee, for example, might have it as a goal to be more efficient in their work.

Aspirational language is great for identifying what the value **is**, but it can be difficult to measure employees against this standard. Let's say one of your organizational values is creativity.

Demonstrated behaviors might include:

- We offer constructive solutions to identified problems.
- We are not constrained by how we have done things in the past.
- We do not criticize ideas because they are new and different.
- We constantly strive to find different (and better) ways of doing things.
- We do not see problems, only opportunities.

The behaviors above are actionable, observable, and easy to measure. If you are evaluating an employee on the above behaviors, you could keep a running list of the specific times they have demonstrated them. Alternatively (or in addition) you could rate them on a scale of 1-5 on the extent to which they demonstrated these behaviors during the review period.

At the end of a review period, a manager could very easily communicate to an employee when and how many times the employee demonstrated these behaviors, including offering examples. The employee thereby has real-time feedback on how well they are doing at exemplifying the core value of the organization.

Take each of your organizational values and go through the process of identifying a list of five to seven identifiable behaviors that demonstrate the value. Engage your leadership team in the process by asking them to articulate the behaviors they consider to be representative of the organization's values. Some of the values most often found in nonprofit organizations include:

- Community commitment
- Equity and inclusion
- Empathy
- Collaboration
- Resilience

Here, you should also conduct meetings with employees to get their buy-in. Ask your employees: "What does *Value X* look like to you on a day-to-day basis?" Admittedly, this is a rigorous process. However, only by developing demonstrable behaviors can you begin to hold employees accountable for your organization's values — and thereby reach that gold standard of performance appraisal.

Step 3: Incorporate the Values and Behaviors into Your Performance Appraisal Process

Once you have developed a quantifiable list of behaviors for each of your organizational values, you are ready to incorporate those behaviors into your performance appraisal process. This can't be done overnight — employees must have time to understand and accept that, going forward, they will be measured on how well they demonstrate the organization's values. But if this is done strategically and deliberately, you will see noticeable improvement in your employees' behavior. To be clear, this doesn't necessarily mean that you scrap your old performance appraisal process. If your current performance appraisal process includes sections on competencies and goals, for example, you can add a new section that lists your organizational values as well as the behaviors that demonstrate these values.

Make sure you frequently remind employees that they will be measured on the extent to which they demonstrate organizational values moving forward. Tell them that you will be holding them accountable not only on *if* they are doing their jobs, but *how* they are doing them.

Here, you will also need to decide the weight to give the values section of your enhanced performance appraisal process. You might decide to use the following scale:

- Competencies: 40%
- Goals: 30%
- Values: 30%
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Alternately, you might place more weight on one of the categories; this will depend on your organizational culture and your openness to change.

At the end of the day, determining the exact percentages is less important than having some quantifiable weight to your values embedded into the performance appraisal system itself. It will also be important to train your managers on the new system. Make sure they have a process for observing and documenting employee behavior as well as providing feedback to their direct reports. Your managers will need to be comfortable having conversations with their employees about values, especially when their employees fall short. For future employees, you can also communicate to potential applicants that they will be held accountable for demonstrating company values.

Step 4: Hold Employees Accountable for Demonstrating Organizational Values

The final, but most important step, in the process is to hold employees accountable for demonstrating behaviors that exemplify your organizational values. If you fail to follow this step, you will undermine the entire system.

When employees clearly act in ways that are consistent with the company's values, it is easy to recognize and reward them. On the other hand, it is much harder when they fall short. Let's say that one of your core values is respect. However, your director of development is demanding, short-tempered, and rude to his subordinates — despite clearly producing results. The director may score high on the competency section of his review, but he causes tension and alienates his coworkers, which is ultimately contrary to an organizational value.

You might be tempted to overlook his shortcomings because he generates significant revenue for the organization. But ignoring *how* he is getting his work done and only focusing on *what* he is doing will ultimately lead to dissatisfaction, low morale, and turnover. It sends the message that your values are not important and will be ignored for the sake of productivity or expediency. This can further lead to a general feeling of staff distrust about what the organization truly stands for.

On the other hand, if you have laid the groundwork in the first three steps — developed shared values, identified demonstrable behaviors, and told employees they will be held accountable — it should not come as a surprise that there will be consequences for not living out the organization's values.

Of course, some employees may not like that they are being held accountable for their behavior (and not just their results). However, they now have a choice: Get on board or find an organization whose culture is a better fit.

Here, it is critically important that senior organizational leaders serve as role models for how to behave by clearly demonstrating the company's values. Leaders set the tone for the entire organization, so they must often be held to a higher standard.

Feedback Helps Us Better Serve Our Communities

Providing employees with feedback is critical to developing an engaged workforce. Of course, employees should have a clear idea about whether they are meeting the performance objectives of their jobs. At the same time, they should also be working towards achieving organizational, departmental, and personal goals.

To develop and sustain a motivated, productive, and highly engaged workforce, employees must also be measured on how they demonstrate the organization's values. Strong, healthy, and successful organizations measure what they value and value what they measure. By following the above steps, you will move your organization to a higher standard of performance, and that is a value that everyone can agree on.