Evaluating and Compensating the General Manager

The end result of an effective performance appraisal process is **GROWTH**

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The Appraisal Goal: Development

• Appraisal is measuring the individual against the job that is to be done for the purpose of development

No Excuses

Many boards find excuses for not appraising their managers...
• The difficulty of being objective
• Aversion to paperwork
• The process tends to be awkward, unpleasant and unproductive if improperly executed

**BUT** to avoid manager evaluation is to neglect one of the most important functions of the board and truly jeopardize the future of the co-op.
Appraising the Manager

- Starts with a strong set of Performance Standards
  - Managers can appraise their own performance accurately knowing these standards.
  - He/She can identify those areas of strength and weakness.
  - This frees the board up and allows them to concentrate on analyzing what can be done to improve the situation.

The Four Questions of the Appraisal Process

1. What is the manager doing really well?
2. Does the manager need help in any area? If so which areas?
3. What is the reason for the failure to meet the standards?
4. What can be done about it?

CEO Appraisal

- Conduct an evaluation discussion with the full board
- Have a special committee do the evaluation or make recommendations to the board
- Work with the regional representative
- Hire an outside consultant
Reaching Consensus in the Appraisal Process

• Performance Appraisal Form is prepared and agreed on beforehand.
• When will the interview be held?
• Where will the interview be held?
• Who will participate in the interview?
These things must be decided with consensus from the entire board before a proper appraisal can take place.

Making the Process Effective

• Should focus on work-related activity
• Should center on the manager’s strengths, not just weaknesses
• Should concentrate on the future
• Should cite specific examples of good and poor performance.
• The manager should be told the truth, even if it hurts.

A Sound Approach

• Each board member reviews the position description and performance standards
• Individually completes the performance appraisal form
• The manager evaluates his/her own performance
• The board reviews this in an executive session
• The actual performance appraisal session is then held
No Surprises

- Ask the manager to present his evaluation first.
- If Performance Standards are well developed, no surprises should be forthcoming.
- The manager will usually bring up areas of weakness first.
- With most if not all problems addressed in this way the board can focus on the future and what can be done differently.

Rating Performance

- Improved Results Needed
  - Generally inconsistent; performance improvement is needed
- Standards Met
  - Consistent achievement
- Standards Exceeded
  - Performance Results usually above standard
- Outstanding
  - Consistently above standard; overall performance markedly surpasses normal level of performance expected.

Compensation Planning

The two edged sword

In the role of stewards of the company's assets, you would like to pay a manager as little as possible.

But...This runs the risk of hiring an unqualified manager or losing your current manager to a higher paying business.
Base Compensation Range

- Use the evaluation system
- Complexity of the job
- Difficulty of the job
- Scope of the job
- Number of Employees Supervised
- Number of branches operated

THE BASE SALARY IS FOR THE POSITION, NOT THE PERSON. IT IS THE SALARY THAT WOULD BE OFFERED IN THE POSITION WERE VACANT.

Salary Survey

- Comparison of labor markets
- Comparison of position
- Total compensation package
- Timing and cost
- Sponsoring organization
- Statistical interpretation
- Professionalism
- Investment
Salary Survey

- Salary Base
- Salary Range
- Equity
- Salary Compensation
- Flexible Compensation

Step 1: Salary Base

- Amount paid for acceptable performance

Step 2: Salary Range

- Flexibility in salary payments associated with levels of performance
  - Maximum amount is for superior performance
  - Minimum amount is for less experience or technical expertise
  - Less than the base amount would be for less than acceptable.
Setting the Salary Range

- Multiply the base by 80% to set the low salary
- Multiply the base by 120% to set the high salary
- Can't be "set in concrete"
- Should be reviewed periodically to assure validity

Considerations in Setting the Salary Range

- Inflation
- Competitive factors
- The job
- Qualifications

Pay for Performance

- Start a manager with a base salary
- Offer additional compensation for the completion of certain goals.
- Allows boards to avoid the situation of offering large compensation plans up front with little knowledge of the potential managers capabilities
Advantages and Disadvantages

- Attracts good managers
- Choice of Quantitative or Qualitative goals and criteria
- Pays for results
- Seems to offer rewards for short term results at the expense of long term success

Issues to consider

- What is the relative balance between the manager’s base salary and performance based pay?
- How will short-range criteria be weighted against long range criteria?
- Will any of the incentive be available if the goal is only partially achieved?
- If qualitative criteria will be used, how will accomplishment be measured for these areas?
- Will any of the bonus be available to be awarded on a discretionary basis?

Pay for Performance

Two absolutes of pay for performance
1. The plan must be motivating to the manager
2. The plan must be clear to all involved
# Keys to a Successful Evaluation

1. It must be candid and honest.
2. The appraisal should be presented in writing.
3. The appraisal form itself should be relatively simple.
4. The comments given should be as specific as possible.

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5. The full board should participate in the appraisal process. (Because the full board is legally accountable and because the manager needs the opinion of the full board)
6. The appraisal should be kept as impersonal as possible.
7. The appraisal of the manager should be separated, to the extent possible, from salary negotiations.
The focus of the appraisal process should be the future, not the past.

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# What not to do

- Don’t get involved in personality discussions.
- Don’t discuss salary and performance at the same meeting.
- Don’t hold a manager accountable for things that are totally beyond his/her control.
- Don’t dwell on isolated incidents at the expense of overall results.
- Don’t make up your mind about the results a manager has achieved until you’ve discussed them.
- Don’t nag.
The Results: Growth!

- Growth for the manager
- Growth for the board
- Growth for the Cooperative