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Performance Appraisal: Perspectives on a Quality Management Approach

Fifth in the Theory-to-Practice Monograph Series

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Published by the
University of Minnesota
Training and Development Research Center
and the
American Society for Training and Development
Research Committee

Human Resource Development
Theory-to-Practice Monograph Series

This monograph is a joint project of the Training and Development Research Center of the University of Minnesota and the Research Committee of the American Society for Training and Development. It is the fifth in a series of theory-to-practice symposiums and monographs that involve both distinguished scholars and human resource practitioners. The symposium that led to this monograph was held on the University of Minnesota campus in St. Paul, November, 1988.

The first two symposiums held at the University of Minnesota resulted in the following monographs:

Swanson, R.A., & Gradous, D., Eds. (1987). *Human resources and organizational change.* Alexandria, VA: American Society for Training and Development.

McLean, G.N., & DeVogel, S.H., Eds. (1988). *The role of organizational development in quality management and productivity improvement.* Alexandria, VA: American Society for Training and Development.

Sleezer, C.M. (Eds.). (1988). *The role of organizational development through measurement.* Alexandria, VA: American Society for Training and Development.

Gradous, D.B. (Ed.). (1989). *Systems theory applied to human resource development.* Alexandria, VA: American Society for Training and Development.

Published by:

American Society for Training and Development
1630 Duke Street
Box 1443
Alexandria, VA 22313
703/683-8100

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Introduction

In November, 1988, the Training and Development Research Center of the University of Minnesota, and Process Management Institute of Bloomington, Minnesota, sponsored a one and one-half day invitational theory-to-practice symposium on Dr. W. Edwards Deming's recommendations to abandon annual performance reviews. Practitioners interacted with each other and with distinguished scholars, including Deming, to explore if and how his recommendation should be carried out.

Three papers were written by distinguished scholars: Peter Scholtes of Joiner & Associates in Madison, Wisconsin; Dr. David DeVries of the Center for Creative Leadership in Greensboro, North Carolina; and Dr. Allan M. Mohrman, Jr., of the Center for Effective Organizations at the University of Southern California. Deming opened the symposium with an overview of his philosophy and his recommendations for transformation in the American workforce. Scholtes reiterated the case against performance evaluation, elaborating on Deming's teachings on statistical thinking and the process viewpoint. DeVries opposed that recommendation, recognizing the limitations of performance appraisal as it is currently practiced and advocating the need to strengthen and improve the process. Mohrman presented an overview of the research and proposed an alternative model representing elements of both positions.

Dialogue among practitioners and scholars followed the presentations and culminated in an outline of topics representing the viewpoints of the practitioners. Those views are expanded on and described in chapters written by each participant. While it was our intent as organizers to include both protagonists and antagonists, the resulting chapters do not reflect this balance.

Despite its flaws and the controversy over its use, performance appraisal continues to be almost universally practiced. This publication explores that controversy and describes both improvements to current practices as well as alternative approaches. It will be of value to managers, human resource practitioners, organizational change agents, academicians, and researchers who are concerned about the values and principles underlying the practice of performance appraisal and who are looking for valid and effective means of managing performance.

Focus Papers

Deming Versus Performance Appraisal: Is There a Resolution?

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W. Edwards Deming has taken a strong stance against performance appraisal. His teachings about management have been very influential, especially in those companies embarking on total quality or continuous quality improvement efforts. Frequently, as the concepts and philosophies of total quality improvement take hold in a company, a conflict develops between the more fervent adherents to Deming's philosophy and those who use traditional performance appraisal practices.

This chapter investigates the issues underlying those conflicts and compares them with research and thought in the field of performance appraisal. It shows that each of Deming's problems with appraisal are also recognized by those associated with appraisals and that the trends in appraisal practice and thought are toward more compatibility with Deming's views of management. Finally, the chapter presents a broader approach called performance management that fits with the Deming philosophy.

Deming's famous 14 points (Deming, 1985, 1987a) are really a program of organizational change (Gartner & Naughton, 1988). They start with "1. Create constancy of purpose toward improvement of product and service. . .," and "2. Adopt the new philosophy." They end with "13. Institute a vigorous program of education and retraining," and "14. Put everybody in the company to work in teams to accomplish the transformation."

In between, Deming calls for the institution of several practices and the elimination of several others that he considers barriers to his theory of management. Pertinent to this chapter are the following: "11. Eliminate numerical quotas for the workforce and numerical goals of management." "12. Remove barriers that rob people of pride of workmanship. Eliminate the annual rating or merit system" (Deming, 1987b). Deming's stance is that the changes he advocates are antithetical to the practice of performance appraisal and related practices such as merit pay.

U.S. industry has had difficulty following through on Deming's 11th and 12th points. Eliminating performance appraisal is one step in his program for change that organizations usually resist. Even the literature that supports Deming's stance on this issue has trouble offering cases of organizations actually following through with the elimination of performance appraisal. Walton (1986) and Scherkenbach (1985) describe cases involving companies that started out to revise their appraisal systems to meet Deming's concerns and ended up with systems that looked very similar to many of the systems in use today, although the rhetoric around them may be different.

For instance, Ford Motor Co. approached the development of its new appraisal system with the Deming philosophy in mind, and the rhetoric of the system's description supported many of the Deming points (Scherkenbach, 1985). Nevertheless, the system ended up with a standard-sounding rating scale ("exceeds requirements, fully meets requirements, partially meets requirements, or does not meet minimum requirements"). Ford's experience underscores management's difficulty in discarding the more traditional approaches.

Is it possible that Deming's stance is too extreme—that there is a resolution between the Deming philosophy and the strongly ingrained notions of performance appraisal that permeate U.S. industry? Deming and others, such as Peter Scholtes in his chapter, do not think so. Nevertheless, the task of this chapter is to search for this compatibility.

The Basis for Deming's Stance

What are the tenets on which Deming bases his objections to appraisal? Fundamentally, his objections stem from his views about statistics. Statistics are important to Deming because of his observation that variability is natural to all phenomena and exists everywhere (Gartner & Naughton, 1988). In fact, his entire theory of management stems from his views of statistical practice (Gartner & Naughton, 1988; Tveite, 1988). At the core of these views lies Deming's distinction between enumerative and analytic studies.

Both enumerative and analytic studies are bases for action. *Enumerative studies* focus on enumerative qualities and quantities of some set of tangible units. Deming calls this set a "frame." The purpose of enumeration is to determine what actions are to be taken on the frame or the units in the frame (Deming, 1983; Tveite, 1988). For instance, it might be necessary to determine the value and quality of a shipment of goods in order to determine a price. Often it is prohibitive to describe completely all the contents of a frame, so the task becomes one of sampling units from the frame to get a reasonably accurate description of the entire frame and perhaps to assign a value to it. Thus, one might sample randomly from a shipment of goods to get an idea of the total shipment contents. For statisticians, the issues of enumerative studies concern such things as how to sample from the frame, how various sampling approaches affect the precision of tests, and what the confidence intervals of statistical estimates are.

For managers, there is a corresponding set of practices that assumes the use of enumerative studies. Such practices include setting numerical goals, using inspection to achieve quality, and awarding business on the basis of price (Tveite, 1988). In the special case of performance appraisal, the enumerative approach underlies the use of measures of performance to award pay or to decide promotions. From an enumerative point of view, many of the concerns with performance appraisal relate to the accuracy of measurement, the appropriate sampling of performance to be measured, and other similar issues.

Analytic studies help guide the action that is to be taken on the process (or the cause-and-effect system) that produces the frame being studied and that will continue to produce frames in the future (Deming, 1983; Tveite, 1988).

Analytic studies are problematic for statisticians because statistics about the frame itself and the units in it do not consider the particular set of dynamics that produced the frame in the first place. Statistics about one frame may not necessarily predict statistics about another frame that the same or a similar system may produce in the future. For example, measuring the qualities of a shipment of goods tells nothing about the system that created those goods. If one wants to improve the system that produced the goods, one must look at the system. Analytic studies, therefore, must look at the patterns that seem to relate aspects of the process/system to the particular statistics of a frame. The relationship between process and frame is less statistical and more judgmental, though guided by statistics.

Managing and improving phenomena first require an understanding of them. Variability is omnipresent, so the only way to achieve understanding is through statistical studies—analytic studies in particular. Deming exhorts management to use analytic studies to improve constantly service and production systems. In the particular arena of performance appraisal, the analytic approach means that appraisal should be done as a means to improve continually the processes used to achieve performance. This corresponds to using appraisal for developmental purposes. But it also means it is the process or the system that is being analyzed, not necessarily an individual employee. From this point of view, it is only when the employee embodies the process of production that appraising the person makes sense, and even then only for developmental purposes.

If the process or system of production/service involves more than one person, then an analytic approach to appraisal would need to consider that person in his or her technological and organizational context. Continual improvement would require development of both the context and the individual employee. If the process involves more than one employee, an analytic approach to appraisal would involve the group of employees and their contexts. Continual improvement could potentially involve development of individuals, the group, and their respective contexts.

The distinctions Deming draws between enumerative and analytic studies seem to stem from intent. Many of the data that can be and are gathered for analytic purposes are also usable for enumerative purposes, and vice versa (Deming, 1983). Therein lies the problem for performance appraisal. Even when study of performance variability is undertaken for analytic purposes, it can appear to be enumerative in nature. Whenever management has used appraisal erroneously in an enumerative sense in the past, there will be the fear of its continued use in that fashion in the future. It is not always possible to tell by the data collected whether it will be used enumeratively or analytically.

Essentially, Deming claims that it is best to manage analytically, not enumeratively, that in the vast majority of situations, managing enumeratively is not only inappropriate but destructive. Described below are various problems with performance appraisal that show how enumerative management practices can be destructive (Deming, 1983; Scherkenbach, 1985; Walton, 1986). Performance appraisal

- confounds people with the system and other resources
- destroys teamwork
- fosters mediocrity
- increases variability
- focuses on the short term
- destroys self-esteem, demotivates, builds fear, and lowers productivity.

Performance appraisal confounds people with the system

In many ways, this complaint about appraisal is the most central to the Deming approach. Performance appraisal assumes that the person being evaluated is, by and large, responsible for results. This ignores a basic tenet of the total quality movement: that the system or process is the determinant of performance and the source of variation. The quality improvement approach is to find and correct the defects in the system/process that lead to poor quality at each step. The aim is to improve productivity continuously by decreasing the costs of quality by attending to the sources of those defects.

From the quality improvement perspective, the problem with measuring the performance of individuals is that their performances are inseparable from the system and its processes (Scherkenbach, 1985). Systems are subject to changes and functioning beyond the awareness and prediction of any person, and any assumption of low system variability is liable to be erroneous (Scholtes, 1987). For these reasons, any attempt to measure a person's performance based on the output of the system would be unfair.

When one investigates existing appraisal systems that purport to measure employee performance based on system products (such as whenever evaluation is based on the achievement of quantitative goals), it is common to find that a formal or informal mechanism has evolved that allows for "subjective" tailoring of the final appraisal, reflecting that the system—not the performer—accounts for much of the performance. This is the case when the system results are either high or low, despite employee effort or the lack of it.

For instance, if a person achieved all of his or her goals at a high level, the evaluation may still be low because of a perception that certain systemic events beyond the employee's control accounted for the high performance. Proponents of appraisal have long been aware of this problem. Appraisers and appraisal systems have often been accused of confusing performance deficiencies due to factors in the environment with deficiencies in knowledge and skills (e.g., Rummler, 1972). Goal setting, for instance, does not work if the system controls performance and the individual cannot make a difference (Latham & Wexley, 1981).

This issue is one of the reasons that behaviorally based appraisals have become popular. Presumably, behaviors can be evaluated in terms of how well they are adapted to the environmental contingencies. Further, behaviors are under the control of the performer. The concern managers have about measuring behaviors is the possibility that the means would replace the ends, that behaviors might look fine but in the end not accomplish the organizational task. In the past, management has tended to appraise by results as a way of counteracting this potential problem.

The total quality approach offers continuous improvement of the system as an alternative to management by results. In this case, the system/process comprises the behaviors. From a total quality perspective, instead of worrying about the means replacing the ends, the focus would be to keep changing and improving the means so that the ends would also improve.

Much of Deming's concern with the person versus the system stems from his assumption (always true to some extent) that individuals perform within systems over which they have no control. In many jobs and roles, however, the performer has considerable discretion about choosing behaviors and even technologies. In these cases, evaluating the system for improvement equals evaluating the performance (as a process) of the individual.

Deming is correct to warn about inappropriately focusing on the individual when performance is a result of a system. But we must also not make the opposite mistake: focusing on the system without considering the individual. Although we tend to think of appraisals as serving organizational purposes, it is equally true that they can and do serve individual employee purposes. To avoid confounding the system and the individual, we cannot artificially separate the system and the individual. Employees' needs and desires must be considered in conjunction with where they fit in the system. These include wanting to

- know "where they stand" and "how they are doing"
- improve their capabilities
- contribute better to the system and the organization
- know what kind of career they can expect and plan for
- be fairly remunerated for their contributions.

Those issues are not separable from the system and the organization in which they exist. Some may claim that one does not need a performance appraisal system to handle such issues (as Scholtes suggests in his chapter), but the fact is that they still need to be dealt with. Even if an organization should choose to create separate systems and processes to handle each issue or need, the systems will still have interdependencies and will have to be linked together. Whether or not any of the systems is labeled "performance appraisal" is irrelevant. In addition, organizations must make decisions about individuals, such as what to pay them and what jobs to assign them.

Three components are necessary to handle individual issues properly within organizational issues. In the best of situations, the same processes may do all three. The components are a set of processes

- aimed at furthering organizational needs
- aimed at dealing with individual concerns
- that balances the two sets of needs.

Performance appraisal destroys teamwork

The logic behind this point is compelling. The vast majority of performance appraisal systems focus on the individual's personal performance as judged by the supervisor. Thus, the structure of the process denies the relevance of the team. At best, this can have only a neutral effect on teamwork (Mohrman, Mohrman, & Worley, in press). The reasonable fear is that the focus on individual dimensions of performance will drive out and replace those dimensions pertinent to group performance. This structural aspect of appraisals results in the passive undermining of teamwork simply because of the omission of team considerations.

When individual performance appraisal is combined with individual rewards and bonuses, teamwork is more actively undermined. This is especially true when a budgeted pool of money is doled out based on a relative ranking of employee performances. This practice puts employees directly in competition with one another so that they are more interested in performing *better than* one another than *with* one another. The more tightly individual performance and rewards are linked, the greater this tendency will become.

Luckily, most merit-pay systems fail in this respect. Their motivational potential is almost zero for several reasons (Lawler, 1980). First, most companies make the amount of performance-based rewards too small to matter to most employees. Second, the performance component of rewards is usually lumped together with (and, therefore, indistinguishable from) various general increases, such as cost of living or market adjustments. Finally, the correlations between performance and reward are effectively zero because managers routinely base merit increases and performance appraisals on many factors other than performance, such as the employee's potential and the market worth of the employee.

Of course, most U.S professionals and managers have a cultural expectation, exacerbated by corporate rhetoric, that they will be paid based on their performance. The failure of corporations to deliver pay for performance is an eternal sore point among their employees. There is, therefore, a constant pressure to strengthen pay-for-performance practices.

It is not altogether clear, however, that pay for individual performance is as categorically disruptive of teamwork as argued above. In some settings, when people believe they are paid for performance, they associate that pay with more feedback among workgroup and team members. This in turn contributes positively to teamwork (Mohrman et al., in press). In other words, instead of discouraging working with others, pay for performance can actually encourage performance feedback among team members. The reason for this might be that employees realize the degree to which their performance is interdependent with the performances of others. Rather than compete against their teammates, they choose to cooperate as the more likely road to increased personal and team performance. This logic can only work, however, if people think their performance is being measured and rewarded on some absolute scale and not being compared with their teammates' performances.

Performance appraisal and pay-for-performance practices can also respond to the teamwork issue in other ways. First, companies are increasingly appraising employees on how well they work in teams. The problem with this practice is that it still assumes that the individual's performance is the correct focus, and usually such judgments about teamwork are made by the supervisor, who may not have good information. Nevertheless, appraising individuals on the basis of their teamwork is tacit acknowledgment that the individual's performance needs to be considered within a larger system.

Several other emerging practices reflect the group perspective more strongly. For one thing, companies are more frequently using peer (team member) appraisal (Latham & Wexley, 1981; Edwards & Sproull, 1985; McEvoy & Buller, 1987). A different approach is to shift from individual performance appraisal to group-level appraisal, in which the team's performance as a whole is evaluated. Finally, there is an increase in practices that reward teams for their performance, such as special team awards and gain sharing.

Most of the above practices that take the team into account have been shown to have positive impacts on both individual and team performance and satisfaction (Latham & Wexley, 1981; Ledford, & Deming, 1986; McEvoy & Buller, 1987; Mohrman; Mohrman et al., in press). Interestingly, whenever team performance is measured and rewarded in organizations, it is not usually perceived as performance appraisal, when in fact it is. The only difference is that it is the performance of the team being considered and not that of the individual.

Organizations can therefore combat the destruction of teamwork by managing the performance of the team. Instead of appraising and rewarding individual behavior, for instance, we can appraise and reward the performance of teams.

Performance appraisal fosters mediocrity

The quality improvement adherents claim that using standards and goals as the basis for evaluation fosters mediocrity (Scherkenbach, 1985). Once specific standards are set, even though they may be high standards, they provide stable signposts around which performance clusters. Because it is important that these standards are met (merit pay tends to heighten this importance), employees find themselves less inclined to take risks. They rely instead on tried-and-true ways of achieving performance standards. They are reluctant to try something new that may not work and thereby threaten their ratings and rewards. Such a dynamic is contrary to the principle of continuous improvement that is central to the total quality approach.

Also, when performance standards are described in terms of goals and objectives, and when employees have some influence over those goals, they have an incentive to set goals at safe levels (Scherkenbach, 1985). People are going to make their goals as easily achievable as possible to assure high ratings and rewards.

On the other hand, goal setting has had one of the strongest and most consistent track records as a mechanism that encourages performance beyond mediocrity (Latham & Wexley, 1981). Goals provide challenge. They can motivate performance with nothing more than feedback to the performer about how he or she is doing. High, yet attainable, goals are the most motivating. Mediocrity arises only when goal attainment is the basis for evaluating and rewarding!

When performance is evaluated on something other than goal attainment, the performer will see the setting of high goals as useful for the achievement of high performance and mediocre goals as guideposts toward mediocre performance. Employee participation in setting goals has been found to lead to higher goals than if goals are imposed (Latham & Wexley, 1981). The combination of setting high goals, providing frequent feedback, and discussing problems that may be hampering the achievement of goals have all been found to lead to high performance—and certainly not mediocrity.

Much of what we know about goal setting, therefore, seems compatible with the spirit of Deming's approach, in which goals are used constructively as tools within total quality settings (Tribus, 1984). The major flaw in the use of goals in performance appraisal systems is the tendency to evaluate and reward on the achievement of the goals. This is the practice that leads to mediocrity. It is also an enumerative strategy. It is why Deming objects to the numerical goals set for management. Goals can also be used in an analytic way. To do so requires that goals be set and measured in order to plan, understand, and improve the system that leads to achieving those goals. This is precisely the way goal setting is used in some appraisal systems.

Measuring performance using numerical standards is equivalent to measuring by goal attainment. Numerical standards are nothing more than goals set by someone on the basis of history or engineered expectations. Standards do not necessarily foster mediocrity if they are used as baselines against which improvement can be judged. But sooner or later, any standard will have a freezing effect on improvement when it is based on an assumption that the work will be done in a certain way. Standards are based on assumptions about what is possible, given the known ways of performing tasks. Improvements that question those assumptions are often tacitly ruled out as possibilities because of the standards that exist. In the same way, any appraisal approach that grounds its measures of performance in the job as defined runs the risk of ruling out ways of improving performance that require redefining the job. The antidote to these tendencies is to ground performance assessments in the context of the overall mission of the organizational system and in the criteria by which the customers judge the output of the system. In other words, we should judge performance by how well it fits into its context rather than by how well it accomplishes predetermined standards.

In summary, then, we can overcome the tendencies of appraisal to foster mediocrity by doing a number of things:

- We can manage by goal setting rather than through goal attainment.
- We can set goals that call for continuing improvement and measure those things that indicate ways the system can improve.
- We can use criteria based on customer needs and the mission of the organizational system rather than on standards based on the job as predefined.

Performance appraisal focuses on the short term

Quality improvement advocates have claimed that appraisal systems often encourage short-term gains at the expense of long-term planning (Walton, 1986). Presumably, once short-term gains are emphasized or short-term goals formulated, they will necessarily drive out consideration of the long term. This will clearly happen if long-term goals are not made at all, but it can also happen even if long-term goals are present. People will simply attend most to the goal and reward that has the most immediacy.

On the face of it, the claim that a yearly appraisal leads to short-term thinking seems questionable. Even though a year may not be long enough to evaluate long-term accomplishments properly, for many jobs in an organization a year is much longer than the natural time span of the work cycle. But it is not the timing of appraisals that is the issue, rather it is their focus. Whenever appraisals take an enumerative look at a frame of performance, they focus attention on that frame and on the particular aspects of the frame that are measured. From this point of view, the long-term/short-term distinction is just a special case of local versus more general performance. Enumerative appraisal, by definition, focuses people on the local and immediate aspects of performance, the ones that are measured. This is a well-known problem with appraisals.

The way to avoid the local, short-term perspective, it would seem, is not to appraise performance enumeratively, not to set short-term goals, and not to reward on performance. It is precisely on this point that U.S. management stumbles. Everyone can agree that broader, longer-term perspectives are necessary, but management is at a loss about how and what to manage unless there are measures of performance as indicators. To this, Deming would reply that performance should be measured analytically—not to compare it to standards and evaluate it, but to understand how to improve it. This means that performance must be understood and measured in the context and terms of the long-term mission of the organization.

Few managers are comfortable doing away with rewarding for performance, and many employees seem to demand pay for performance. One type of practice that allows performance-based pay and keeps the focus from being fixed on local and immediate performance is to base rewards on the performance of higher-level units. This practice encourages employees to subordinate their immediate interests to those of the larger system. Part of the problem is that individual goals tend to be shorter term than team or organizational goals because individual goal achievement is instrumental to achieving group goals. One way to counteract short-term tendencies is to manage by group, system, and organizational goals, so that performance is evaluated by its overall contribution to higher-level results.

Performance appraisal increases variability

This is an interesting claim against appraisal because we often think of appraisals as control mechanisms that are meant to reduce variation and keep performance in line with what is desired (Eisenhardt, 1985; Lawler & Rhode, 1976; Taylor, Fisher, & Ilgen, 1984). The literature on quality describes several ways in which appraisals increase variability.

■ First, appraisals may tend to increase variability because they are overly precise; that is, they tend to measure the performance of people using gradations that demand distinctions that cannot be operationally defined (Scherkenbach, 1985). Thus, the number of levels of ratings creates variation that is not there. These inappropriately varying labels can have a pygmalion effect and may function as a self-fulfilling prophecy of subsequent performance (Eden, 1988), That is, if a person becomes labeled as a low (or high) performer, the treatment and expectations of others toward that person will be affected, and the resulting performance will reflect the original labeling. The same pygmalion effect is one of the reasons that setting high goals results in better performance (Eden, 1988).

■ Second, ranking and forced distribution approaches may set up a series of bizarre variations. Ranking, for instance, results in one-half of the performers being ranked in the lower half. At the same time, 80 to 90 percent of people think they are ranked in the top 50 percent (Hamner, 1982). Because of this, there is built-in dissatisfaction with the results, and 30 to 40 percent will be disappointed to be labeled "lower half." Some may react by giving up or scaling down their performance to match what they think the organization thinks of them. Others may begin to behave like those who they believe got the higher ratings, which would be desirable if, in fact, those with the higher ratings are actually better performers. That they are the better performers is by no means certain if we accept the earlier argument that the system (not the people) is accountable for a large variation in performance. All of these dynamics may result in an increased variation in performance (Scherkenbach, 1985).

■ Third, there is variation that may sneak into the appraisal because of the differential biases and skills of the supervisors who do the evaluation (Walton, 1986).

■ Fourth, variation can crop up in the system because employees will begin to use it as a mechanism for their further gain. They may change parts of the system to make themselves look better, but worsen the quality and productivity of the system. They may resist changes in the system, because, as presently constituted, the system makes them look good. In neither case is the employee working for a collective gain by working continuously to improve the system.

■ Finally, variation can be increased by a feedback loop that amplifies deviations (Weick, 1979). This can happen when employees receive unfavorable performance feedback. This can deject or demotivate them so that their performance worsens, resulting in even lower ratings and subsequently worse dejection. This can also happen when a person is praised for a behavior that is not important to the organization (Scherkenbach, 1985), especially if the system and not the behavior is responsible for the ultimate performance. Managers often offer inappropriate praise just to counteract the negativity of other feedback or to keep from stirring up trouble.

The solution Deming and others have sometimes offered—to remove contributors to variability—stems from the notion of the system discussed above. All ratings should be based on the performance attributable to the system, whatever it is. All systems can be expected to exhibit variations in performance. People working within the system will show those variations in what appears to be their performance. Because their performance hinges largely on the system, and as long as their performance is within the limits expected from the system, there should be no further attempt to measure personal performance. They are "within the system." Any variation in performance cannot be further defined into which parts hinge on the system and which hinge on personal performance.

It is possible that some employees' performances will be "outside the system." Employees who perform outside the system on the high side should be considered special talents and handled accordingly. Of special interest are the procedures used to achieve outstanding results. Those who perform outside on the low side should be attended to immediately and constructively through developmental efforts, career counseling, and so forth (Deming, 1987b; Scherkenbach, 1985).

Some students of appraisal, independent of the quality movement, have come to similar conclusions about measuring performance (Fox, 1987–88), as have some companies that have recently revised their appraisal processes. The rationale set forth is based entirely on measurement theory and the notion of a normal distribution of performance and talent. Most people, this argument goes, will occupy the central regions of the distribution—the regions where it is hardest to get reliable measures. The most reliable measures are of the few who occupy the tails of the distribution; thus, it is only these few that we can hope to measure reliably.

This measurement takes an enumerative approach. It seems to arrive at the same point as Deming, but for the wrong reasons. Deming considers the nonreliability of measures of the central group to be a function of the work system. Thus, he puts the issue into an analytic framework. For him the issue is not a matter of describing the normal distribution of individual abilities and picking out the highs and the lows. Rather it is a matter of statistically determining the high and low limits of the system in which people work and finding people that for some reason perform at a level that the nature of the system cannot explain.

Performance appraisal destroys self-esteem, demotivates, builds fear, and lowers productivity

The above reactions are some of the potential results of appraisal and merit-pay processes. Rewards often carry messages that an employee is above or below average because average merit raises are often published or otherwise known in an organization. Merit raises always seem too low to many employees because 90 percent consider themselves in the top half of performers (Hamner, 1982). Whenever a person receives feedback that falls short of expectations or is punished for not meeting goals, the result can be demotivation, lowered self-esteem, and other negative reactions. Criticism is usually received with defensiveness (Latham & Wexley, 1981) and rationalization (Klein & Mohrman, 1987) and rarely results in a constructive response (Meyer, Kay, & French, 1965). For these reasons, many performance appraisal experts call for the abolition of appraisals.

Despite the above, there are other indications that appraisal and merit pay can be turned into positive results. Rewarding good performance can lead good performers to feel valued, whereas not having a system for rewarding good performance can lead good performers to feel undervalued (Latham & Wexley, 1981).

Also, it has long been believed that evaluating performance-for-pay during an appraisal session interferes with constructively discussing and planning developmental activities for the employee (Meyer et al., 1965). This is entirely consistent with Deming's stance against enumerative approaches and in favor of analytic approaches. More recent evidence

(Landy, Barnes, & Murphy, 1978; Prince & Lawler, 1986) has indicated just the opposite—that discussing how appraisal will affect salary actually facilitates discussion of development. The reason for this may stem from the fact that, in most organizations, most employees (especially non-hourlies) expect to be paid for performance. Performance appraisal, therefore, raises subordinate expectations about its consequences for pay. If the supervisor avoids talking about the pay issue and focuses only on development needs, this actually impedes the developmental discussion, because the subordinate is waiting for the pay message. In short, it is often the appraisee who forces appraisals to be used enumeratively. Research suggests that doing so actually contributes to appraisals being used in an analytic way. This is an example of a point made earlier—that appraisal needs to serve individual purposes as well as system purposes. Appraisal systems work best when they serve both sets of purposes.

In another study, we have found that the constructiveness of the appraisal process can be quite independent of the rating. Deming and others tend to assume that low ratings will lead to the various negative outcomes listed at the beginning of this section. This is true when the appraisal is held for the sole purpose of delivering the rating message. Our research shows that, regardless of the rating, an appraisal discussion can be quite constructive. The determinant of whether or not the outcomes are constructive is not the appraisal message, but the process used. In general, participative processes that involve a mutuality between the supervisor and employee result in higher job involvement, trust, and satisfaction and result in increased performance (Mohrman, 1981).

Our findings are not inconsistent with Deming's goals. Deming also wants involvement, trust, satisfaction, and increased performance. He feels, however, that they are not achievable as long as evaluation is allowed to exist as a barrier—that is, when evaluation is used enumeratively. Our findings indicate that, even though low performance evaluations tend to lead to negative responses from the evaluatee, this does not necessarily mean they will. Indeed, the appropriate processes, such as increasing the mutuality and participativeness of the appraisal experience, can successfully preempt this tendency. Put another way, unlike Deming's assumptions, it does appear possible to use simultaneous enumerative and analytic appraisals. In fact, a mutual process allows this to happen and helps both approaches to coexist.

Performance appraisal is not the only practice that can create negative consequences. The team concept and the total quality process itself, with its focus on continuous improvement, have also been accused of putting workers into a pressure-cooker, fear-inducing environment (Parker & Slaughter, 1988). Some total quality approaches may have negative consequences because they are implemented in a way more congruent with traditional management than with Deming's 14 points. Certainly it is not fair to judge all total quality efforts on the basis of problem implementations. Likewise, it is unwise to throw out all performance appraisal or performance management practices because of their labels. Unfortunately, this is the stance often taken by those who interpret Deming too literally.

Conflicting Paradigms or a Search for a New Paradigm?

It seems unarguable that the total quality movement represents a major shift in management style (Cole, 1989). Deming certainly agrees (1985). Characterizations of major shifts in management style are coming from several quarters these days: the information society, quality of work life, sociotechnical systems, high involvement work organizations, world class organizations, as well as the total quality movement. Sometimes these transitions in management style have themselves been called paradigm shifts, but it seems more likely that they are the piecemeal beginnings of an overall shift in the management paradigm (Mohrman & Lawler, 1985). It is only a matter of time until each intersects with the others. Inconsistencies and differences among them will need to be confronted and resolved. This monograph is a case in point.

Even the total quality movement has its inconsistencies. Deming is not the only spokesperson for the quality movement; there are many others. U.S. industry has generally made it a habit to meld the various approaches (Cole, 1989). The adoption of a total quality approach in any organization has its own idiosyncratic look and feel, because organizational change is not simply a matter of imposing a new world view in an organization. It is a more complex matter of resolving the differences between that new worldview and the organizational status quo. It is also a matter of building a new and successful view of management. Performance appraisal is one arena in which the changes demanded by the total quality movement are working toward resolving their inconsistencies with established organizational practices.

But the quality movement is not the sole source of change in performance appraisal. Deming's case against performance appraisal is aimed at a set of practices and underlying philosophies that, while still dominant, are already undergoing major transition. While criticisms from the quality framework often add unique wrinkles and insights, the same points have been made frequently against appraisals and merit pay from other quarters. At the present time, innumerable organizations are questioning their appraisal practices for many of these same reasons. New appraisal practices are being experimented with, new philosophies are being formed, and old assumptions are being questioned (Bernardin, 1986; Mohrman, Resnick-West, & Lawler, 1989, Mohrman et al., in press).

A Performance Management Response

As this chapter considers the claims against performance appraisal, it also suggests practices that respond to these claims. Table 1 summarizes these responses. Rather than use the value-ladened term, "performance appraisal," which does not begin to capture the breadth of emerging practices, we use the term "performance management."

Table 1—Deming's problems with performance appraisal and performance management resolutions

Problems with Performance Management	Performance Management Responses
Confounds people with systems	Manage performance of system and team, not individual, unless appropriate. Focus on behaviors of individual to improve system. Also attend to needs of individual. Mutually work out individual and organizational needs.
Destroys teamwork	Manage performance of system and team that works within it and manages it. Reward for team/system performance.
Fosters mediocrity	Manage through goal setting not goal attainment. Use measures that indicate ways system can be improved. Do not use numerical standards nor job-defined criteria. Use customer- and mission-related criteria.
Short term not long term focus (local, not general)	Make purposes of performance improvement consistent within long term mission. Define criteria in terms of business, mission, customer, situation.
Increases variability	Make only gross comparative judgments about individual performance, i.e., within or outside the system. Establish consensus about performance management. Work continually to improve the system.
Decreases self-esteem, increases fear, reduces productivity and motivation	Use a mutual, open, participative process. Consider employee needs and purposes. Balance multiple purposes.

While Table 1 summarizes the performance management response to each of Deming's problems with performance appraisal, Table 2 describes what the elements of a new performance management system might be and compares and contrasts them to the elements of the more traditional performance appraisal systems to which Deming so strenuously objects.

Table 2—The new performance management

	From Performance Appraisal	To Performance Management
Appraisees/ Performers	Individual	Individual, group/team, system
Appraisers/ Performers Managers	Supervisor	Performer, supervisor, coworkers, team, customers, others
Basis	Job-defined criteria Goals and standards	Nature and strategy of performance defined by business, team mission, customers, situation, nature of system, and roles
Process	Validated measurement of "objective performance" (enumerative)	Negotiation of "subjective" reality based on multiple judgments (analytic)
	Focus on review of past performance	Focus on entire performance management process: defining, developing, and reviewing
	One-way	Mutual
	Training of rater	Training for all participants
Timing	Annual, administratively-driven	Initiated by performers, periodic, driven by natural performance cycles as well as administrative purposes
Purposes	Separate systems for a few purposes: pay, development, human resource planning, etc.	Balancing of multiple purposes: individual, team, organizational (often conflicting)

The most fundamental aspect of emerging performance management systems is that they recognize that individuals are not the only organizational entities capable of performance. Performance can and should be managed at the individual, team, and system/process levels. These performers are not just appraisees but active participants in the entire performance management process. Those who manage performance do more than just appraise performance and are not just supervisors. They are also the performers themselves and other significant parties of the performer's environment, such as customers. Performance management is not just based on pre-established job criteria, goals, and other standards. The basis for performance management starts with organizational goals, the mission of the group or team, and the needs of customers. It includes the nature of the system employed and the roles of the group and individual within it.

Whereas traditional appraisal focuses on one-way reviews of past performance based on predetermined measures of performance, performance management is a mutual process involving several people. It focuses on negotiating a reality by defining what performance should be, by developing skills and resources to accomplish performance, and by reviewing performance so it can be redefined and developed accordingly. Performance appraisals are typically annual or semiannual, driven by administrative necessities such as pay decisions. Performance management must be frequent, as natural performance cycles of the situation dictate. Performers should do the initiating to meet their own needs and to fit with the administrative purposes connected with it.

Finally, the new performance management recognizes that people and organizations have many purposes for its use. Some are enumerative in nature, such as pay decisions, and some are analytic. It is not possible to rule out one type of purpose, nor is it true that one purpose necessarily serves at the expense of the other. Performance management systems must balance the various purposes and make sure their participants understand them in their right contexts.

The various levels at which performance management takes place are directly interrelated (see Table 3 on page 20). For instance, business strategies and plans are a way of defining performance at the organizational level. Once defined, these provide a context in which various organizational units and groups can define their own missions, set goals, and plan performance strategies. Similarly, the goals and responsibilities of individuals within the group are a natural and necessary part of group-level planning.

At each level of performance management (organization, group, individual), the same stages of the performance management process apply. Not only can performance be defined at each level, but performance can be developed, reviewed, and rewarded at each level.

All of this is much more compatible with the tenets of total quality than with traditional appraisal.

Table 3—Levels of performance management

Organization	Group	Individual
DEFINING PERFORMANCE		
Strategy Business plan	Mission Goal setting Performance strategies	Goals, responsibilities, and work planning
DEVELOPING PERFORMANCE		
Organizational design and development	Group development	Development of skills and understanding
	Team building	
	Communication, coordination, and adjustment	Feedback and adjustment
REVIEWING PERFORMANCE		
Review	Review, analyze, and evaluate	Review, analyze, and evaluate
REWARDING PERFORMANCE		
Financial organizational performance	Team rewards commensurate with value of organizational performance and team contribution	Rewards commensurate with value of organizational and team performance and individual contribution
REDEFINING PERFORMANCE		
Strategic planning	Improvement strategies	Goals, responsibilities, and work planning

Conclusion

Yes, there are major differences between the quality movement as Deming exemplifies and the traditional practice of performance appraisal. But appraisal practices are already changing, and the change is toward many of Deming's points. The final resolution will not be a compromise between the two, as we tend to see developing now, but rather a quite different paradigm of performance management.

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An Elaboration on Deming's Teachings on Performance Appraisal

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Opposition to performance evaluation is not new. Seventeen hundred years ago, the following observation was recorded about a man appointed to evaluate the performance of the imperial family in China's Wei dynasty. "The Imperial Rater seldom rates men according to their merits, but always according to his likes and dislikes." Though criticism of performance evaluation is not new, there is a new background for the current assault: the new international marketplace and the new quality-dominated competitive world.

The patriarch of this new economic world is W. Edwards Deming. Perhaps the most controversial of Deming's teachings is his strong stand against performance standards and evaluation. In the 11th and 12th of his famous 14 points, Deming (1986) urges the elimination of such practices as supervision by numbers, work standards, quotas, management by objectives, and annual merit ratings. Furthermore, Deming cites as a "Deadly Disease" the evaluation of performance, merit ratings, and annual reviews. There is no question about Deming's stand on performance evaluation. He considers it a plague, an affliction to be purged from the earth.

Deming's view fights the current of mainstream managerial practice. Most managers believe they can continue to pursue quality and productivity along with the practice of performance appraisal. They treat Deming's point as an aberration, a bit of bad advice from an old scholar who may know statistics but does not understand how to manage an American business.

This is a tragic misunderstanding of Deming's message. At the peril of their businesses, managers fail to see the foundation on which Deming bases his teaching. The 14 points are not a loose collection of adages or independent rules of thumb for managers. The 14 points are conclusions that flow inexorably from two key insights: a statistical understanding of the nature of work and a view of work as a dynamic process. To disregard one or two of the 14 points is to disregard the theory and logic that support and interconnect all 14 points.

My case against performance evaluation will be based on statistical thinking and a process viewpoint as well as on concepts originating in psychology and organizational science.

What Do We Mean by Performance Appraisal?

When a group of people convenes for any reason, it seems obvious that the success of that occasion depends on the contributions of individuals and the collective effort of the group. Observing these get-togethers, we can conclude that some people seem to contribute more—or more effectively—and others seem to contribute less to the success of the group's effort. Sometimes we cannot be sure whether these differences are real or only perceived.

In a work setting, we are even more intensely aware of real or perceived differences of individual contributions to the tasks at hand. Differences in performance become a topic of informal conversations. People commonly complain that they work harder or get more done than someone else without commensurate pay or recognition. Supervisors have decided that they can rely on some workers to accomplish tasks that others seem unable to accomplish.

Such comparisons and judgments are common, perhaps inevitable, though they seem more prevalent in some organizations than in others. Chronic comparison and complaints about performance can become an unhealthy part of a company's culture.

Performance evaluation is a formalized, legitimized process of observation and judgment. It is formalized in that it uses records and documentation, legitimized in that it is an act of people in official positions of authority.

Performance evaluation, therefore, takes on a burden of objectivity and fairness not required of everyday informal complaining. (For this same reason, performance evaluation is not as enjoyable a pastime as complaining and gossiping.) Performance appraisal necessarily takes on a quasi-legal bearing with the workplace equivalent of legitimate evidence and due process.

The typical performance appraisal system consists of these elements.

■ **A standard of measurement.** To avoid arbitrary evaluations, a manager seeks to establish a measurement standard against which he or she judges employees' performances.

- In areas of production or direct service, operators and supervisors are judged on some unit of output over some unit of time, such as tons per day, calls per week.
- Managers and professionals are involved in less routine activities and, therefore, have standards tailored to their work, such as completion of this project or successfully solving that problem.

■ **A method for establishing the standard.** There are many ways to establish a standard. They can be based on

- inescapable facts of life
  - — budgetary limits ("Will not exceed expenditures of $X per month.")
  - — laws of nature ("Will not allow temperature to go below 33 degrees F.")

—regulations and specifications imposed from some outside, currently uncontrollable agent (government regulations or customer specifications)

- budgeted projections ("Will produce X sellable tons per month.")
- past performance
- national or industry standards
- machine capabilities specified by the equipment manufacturer
- orders from on high. This is more often true of standards applied to operators and supervisors.
- negotiations and mutual agreements between supervisor and subordinate. This is more frequent among managers and professionals.

■ **A period of performance.** A performance evaluation system specifies a period of time over which the accomplishments are to take place before the activities are reviewed and evaluated. For managers and professionals, the period is normally one year, sometimes six months.

■ **A performance interview.** At the end of the time period, the person's performance is usually discussed at one or more meetings. How did he or she do during this period of time relative to the established standards of performance?

■ **The rating.** Finally, there is some form of rating. These ratings vary widely from company to company. Sometimes there are only a few categories ("superior performance, acceptable performance, below standard performance"). Some ratings are on a point scale ("You rate 6 on a 10-point scale"). Often there are scales attached to categories of behavior (Courtesy: 1 2 3 4 5). Sometimes the rating is in the form of a narrative that describes the employee's level of performance and makes recommendations for improvement. Some ratings are done verbally, with no "report card"—that is, nothing in writing.

Performance evaluation has its own internal logic: A manager is aware of what his or her division must accomplish, what goals and objectives have been determined for the division as its contribution to the progress of the whole enterprise. The manager, therefore, makes sure that the sum of all the standards and objectives of employees equal or exceed the performance expected of the entire division.

Performance standards and performance appraisal seem logical, straightforward, and fair. Why do Deming and others oppose them?

The Case Against Performance Evaluation

Despite their apparent reasonableness, performance evaluations are not reasonable. They suffer from one flaw after another. Some performance evaluations may avoid some of the objections described below, but none avoids them all.

Any employee's work, including the work of managers, is tied to many systems and processes

But performance evaluations focus on individuals—as if they can be appraised apart from the systems in which they work. Performance evaluation does not make sense if individuals or groups are held responsible for events, behaviors, circumstances, and outcomes over which they have no control. Yet any individual's performance almost invariably depends on many external factors. Managers depend on the state of the economy; sales people depend on the economy plus the quality of the product; line workers depend on the state of the machinery; word processing operators depend on the state of someone's penmanship; and so on.

We all inherit elements of our work from those who precede us in the process. On what, then, should I be evaluated? On the value I add to the work before I pass it on? If so, how will the success of my contribution be differentiated from all the contributions—positive and negative—that precede and follow me? The fact is, those who feel they can make such differentiations are often simply guessing.

Most work is the product of a group of people

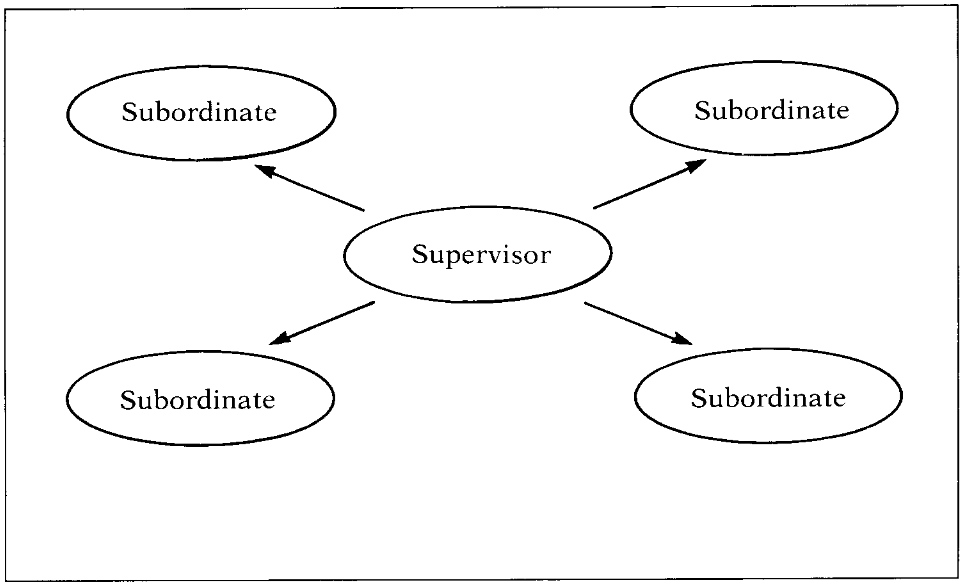
But a process of evaluating an individual requires a pretense that the individual is working alone. As a result, performance evaluation encourages "lone rangers" and is a divisive influence.

Almost nothing is accomplished by an individual operating alone. Most work is obviously a collective effort. Yet even workers who seem quite independent depend on others for ideas, stimulation, feedback, moral support, and administrative services. When an individual makes some heroic effort and accomplishes an extraordinary task, often he or she can take the time to do that work only because others have filled in on the less heroic parts of the job. When someone is credited with a success, he or she is individually honored for what was most likely the work of many. It is not only praise that is distributed this unevenly. Just as success is a group effort, so is failure.

Having a system where individuals are rewarded or recognized may force workers to choose between the reward and recognition or the teamwork. But such a choice is naturally divisive and will never reinforce teamwork. An abundance of evidence shows that teams perform most activities more effectively than individuals engaged in the same task. The evaluation of individual performance undermines this teamwork.

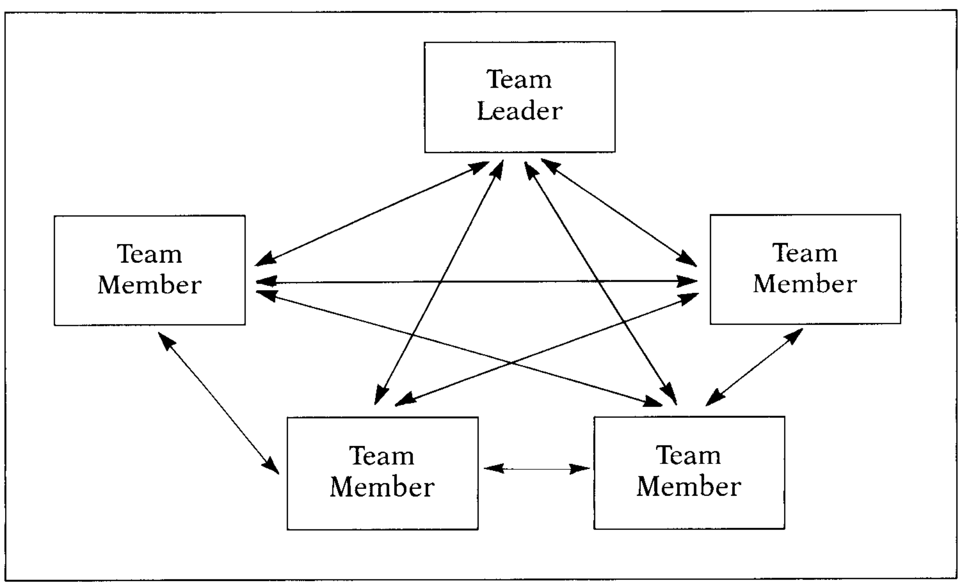
Performance evaluation subverts teamwork in another way. Performance evaluation systems are a one-to-one interchange from supervisor to subordinate, which can be pictured with a wheel (see Figure 1 on page 28). The supervisor is at the hub, with spokes reaching out to each subordinate. The wheel also shows direction and control emanating from the hub—the style of organization and manner of supervision and communication that will prevail in the unit.

Figure 1—Typical relationships between a supervisor and subordinates



This style is contrary to the fostering of teamwork. Leadership in a teamwork organization does not place the supervisor or manager at the hub. Rather this person is the coach, facilitator, and leader among "equals." Feedback should not be a top down activity, but a lateral, circular, mutual team activity. (See Figure 2.)

Figure 2—Relationships fostered in a company run by quality management



It is true that each member of the team, as well as its leader, has different experience, expertise, and areas of competence. The leader has additional responsibilities to maintain links to other parts of the system. But members of the team share a mutual responsibility for the successful operation of the process and the resulting service to the customers. There is no basis for establishing the group leader as the only person in the group capable of giving useful feedback on the team's efforts. To reserve evaluation exclusively to the leader deprives group members of the diversity and richness of feedback that could be available to them in a mutual evaluation process.

In short, the conventional supervisor to subordinate performance evaluation system reinforces an obsolete style of management. It asserts the supervisor's role as the person in control at the expense of the group's effectiveness.

Performance evaluation presumes consistent, predictable systems

But systems and processes are subject to constant changes, often beyond anyone's awareness or ability to predict.

The premise behind performance evaluation is that the system is well planned and designed. Therefore, the system will consistently accomplish what it is designed to accomplish, if each worker would only do what he or she is supposed to do. Performance evaluation is based on the pretense that the primary source of breakdown, error, defect, or any other problem is the individual employee. The predicted performance of any operation provides the basis for individual objectives, standards, and quotas of those who work in that operation. In turn, annual forecasts and budgets are based on these predictions.

Unfortunately, real systems and processes are much more elusive and complex than the simple models on which budgets and evaluation standards are based. Managers are usually too far removed from the work to comprehend what the system is really capable or incapable of doing.

Forecasting production presumes a stability in the system that seldom exists. It also requires an omniscience by mangers that is even less probable. But without such omniscience, how can a manager stipulate a goal, quota, or standard to which the employees must conform? Therefore, we have a whole system of pretenses, from top to bottom, built on uninformed and unrealistic expectations.

Performance evaluation requires a process of appraisal that is objective, consistent, dependable, and fair

Otherwise, the evaluations will be seen as capricious and based on favoritism. But such objectivity and consistency simply do not exist. ("The Imperial Rater . . . rates according to his likes and dislikes.")

In any conventional organization, when the annual performance evaluation is completed and everyone has received an appraisal and rating, what really has taken place? What accounts for some people receiving high ratings and others low ratings? Would any of those with a low rating have been rated differently had the evaluator been someone else? When conducting laboratory tests, we expect our measuring instruments to be accurate, consistent, and reliable. Is the same true of the "instruments" that measure performance? Is there considerable evaluator error, or discrepancy between one evaluator and the next or the same evaluator from day-to-day or person-to-person? If such exists, the evaluators and the whole appraisal system will be held in contempt by those who are its victims.

A number of factors distort evaluators' perceptions.

■ **General perception.** When an evaluator makes a formal judgment on an employee's performance, there is a tendency to react to or anticipate the informal judgment—or general perception—among other managers. Evaluators are not likely to rate positively those employees who are discredited by the general perception. Employees who have a reputation of good performance and also have a base of support among a critical mass of supervisors and managers are not likely to receive a negative evaluation, regardless of their performance. These general perceptions are often based on little data and on superficial first impressions.

One source of common perception is how an employee is perceived relative to his or her particular job. We have stereotypes of how certain personnel should behave (e.g., sales representatives should be fast-talking go-getters). Some employees are commonly perceived to be good (or bad) because they conform (or not) to the common stereotype for their particular job.

■ **Evaluator perception.** Along with being influenced by the common beliefs shared in the organization, the evaluator is influenced by his or her own stereotypes and biases.

Such categorizing is often unconscious and acts as a filter, affecting both observation and memory. An evaluator tends to notice and remember behavior that confirms previous opinions of an employee, screening out anything contrary to it. Employees get irremediably "typed." If they are typed as good performers, the "halo effect" helps them through difficult times. In contrast, difficult times for those typed as problem employees confirm the negative judgments previously made of them.

Each evaluator reacts personally to such characteristics as age, race, sex, sexual preference, religious preference, attractiveness, or education credentials. These reactions can all work to the advantage or disadvantage of the employee evaluated. Any one of them can skew the evaluator's judgment.

■ **Central tendency.** To give an employee an "average" rating involves little risk by the evaluator. No justification is expected. But going much above or below average becomes almost a political act. Most managers or supervisors will not rate anyone's performance as exceptionally good or bad unless there is a common perception of the employee that supports such a rating. Therefore, ratings tend to cluster around the midpoint, regardless of any individual employee's performance.

■ **Evaluator self-image.** Some evaluators view themselves as generous and supportive and give the benefit of the doubt to the employee when appraising performance. Other evaluators feel it is important to be tough and demanding, making the employees "earn" positive ratings. Such benevolence or skepticism skews an evaluator's perception of an employee's performance. This makes the employee's rating dependent on a factor totally unrelated to his or her work. Lucky employees get generous evaluators; unlucky employees get skeptical evaluators. Evaluation takes on the characteristics of a lottery.

- **Scrutiny-shy evaluation.** Evaluators tend to grade higher when the evaluation is going to be shared with the employees being evaluated. Anticipating any defense of evaluations reinforces the central tendency: Don't make any evaluations that will attract a reviewer's attention!

Would Performance Evaluations Work If We Solved the Problems?

No one expects to find a system that is totally free from error and bias. Suppose we could find ways to make sure performance evaluation incorporated some aspect of looking at "systems" and was as objective as it could possibly be. Would it then be worth using? No, for the following reasons:

Performance evaluation encourages mediocrity by rewarding those who set safe goals

If employees fail to meet their standards or objectives, they are vulnerable to action by the evaluator. Rather than risk losing a job or pay increase, a worker will try to assure that the objectives are easily attainable. Imagine the future of an organization where most employees below the top manager have safe ambitions for their part of the system, where no one takes risks or challenges. Most standards are not in this "sure bet" category. However, some are reasonably attainable with normal effort—in which case, why is a standard necessary?

Performance evaluation puts pressure on employees to work around systems rather than improve them

Some standards are not easily attainable. In order to meet challenging standards, employees may put pressure on the system, which creates distortions somewhere else. Pushing to meet this quarter's sales quota may play havoc with future sales performance. Pushing the word processing staff to get a report out by the deadline can create a typing backup that delays other work.

By rewarding everyone whose performance is above average, management sends a message to those below average: "Improve your performance." Therefore, half the workforce is pressuring the system to improve their performance. Meanwhile, those above average have gotten the message, "Keep up the good work." So they continue to pressure the system to maintain their above average evaluation.

Everyone is pressuring the system for individual gain. No one is improving the system for collective gain. The system will inevitably crash.

Performance evaluation inevitably demoralizes employees, creating either losers or cynics

Most of us feel pretty good about ourselves. We may not think we're the absolute best, but most of us would place ourselves in the top third relative to our peers. ("Well yes, I put myself in the top third, too. But I deserve to be in the top third.") Even when it is obvious to someone that he or she simply does not measure up, the employee usually finds ways to feel OK and optimistic.

Performance evaluators are not so forgiving. They most likely will inform half of the people that their performance is below average and, even worse, two-thirds that they are not in the upper third.

Those in the upper third may feel pleased with their evaluation, but only if they are convinced that the whole appraisal system is fair, objective, and consistent.

For almost all of those judged to be in the lower two-thirds or lower half, the evaluation will probably come as a shock. The news from the evaluator will be disillusioning and depressing, especially if the one evaluated believes that the appraisal system is fair, objective, and consistent. Of course, if he or she does not see the evaluation process as fair, the worker will be bitter and cynical about the judgment.

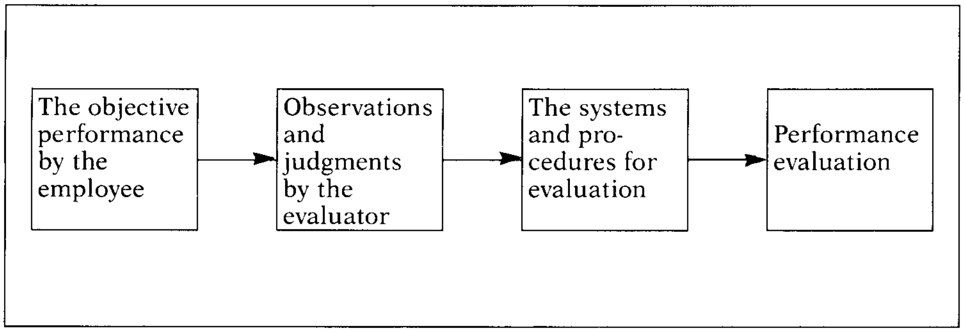
Such disillusionment can be devastating. Drained of self-esteem and a good self-image, workers' performances may get worse. They will feel less self-confident and grow more dependent on supervision. They will be fearful, trying to second guess what the supervisor is thinking. This leads to even worse performance, fulfilling the evaluator's prophecy.

What, therefore, does performance evaluation leave in its wake? People who feel that they are losers, who are disillusioned and disheartened, and who are feeling down on themselves. Or, people who are bitter and resentful toward the system, feeling misunderstood and misjudged. Neither is an attractive option.

Performance Appraisal: Factors and False Assumptions

The basic steps in the evaluation of an employee's performance are described in Figure 3. The employee's performance cannot be said to include bias and in that way is objective. The evaluator watching the employee will make observations and judgments about the performance, usually within the context of some system or procedure the organization has set up. The result is a formal performance evaluation or appraisal.

Figure 3—Basic steps in evaluating an employee's performance



Within these steps are several variable factors. The evaluation of performance is the net outcome of these factors. The fishbone diagram (see Figure 4 on page 34) summarizes the major factors that affect the evaluation of an employee's performance. Each of these factors is discussed below.

Behind each factor is an assumption made by those who support conventional performance evaluation. (I am indebted to personal communication with Spencer Graves for the ideas and framework outlined in the next several pages.)

■ **Native ability.** Conventional management practice seems to be based on the belief that there is a wide distribution of native ability among employees. Conventional managers, seeing an apparent diversity in employee performance, tend to attribute some of the difference to different levels of native ability among employees, as depicted in Figure 5 on page 35.

In fact, the differences among individual employees are probably much less than commonly believed. I suggest that the real distribution looks more like that shown in Figure 6 on page 35. In this figure, the narrower peak indicates that there is little disparity in natural ability.

Several conditions may explain why the range of native ability is fairly narrow: The organization's reputation tends to attract people with similar levels of ability. Its recruitment processes appeal to people of comparable ability. And its screening and hiring process will tend to narrow the range of people who finally become employees.

Even after the person is hired, there is a two or three month shakedown period or formal probation period that tends to screen out those remaining recruits who are far off the average level of ability. All of these conditions tend to homogenize the employees into a reasonably similar group regarding native ability.

The differences in native ability are thus probably within a much narrower band of variation. The implication of this more narrow distribution is, therefore, that most diversity of employee performance must be explained by something other than native ability.

Perhaps it is explained by differences in the personal efforts of diverse workers.

■ **Personal efforts.** This may be the heart of performance evaluation. Of all the factors, this is the factor over which employees seem to have the most control. It is their main contribution to their performance and the means by which they can most influence their evaluations. Conventional management practice is based on the belief that personal effort is also widely distributed among employees.

Figure 4—Elements that influence a performance evaluation or appraisal

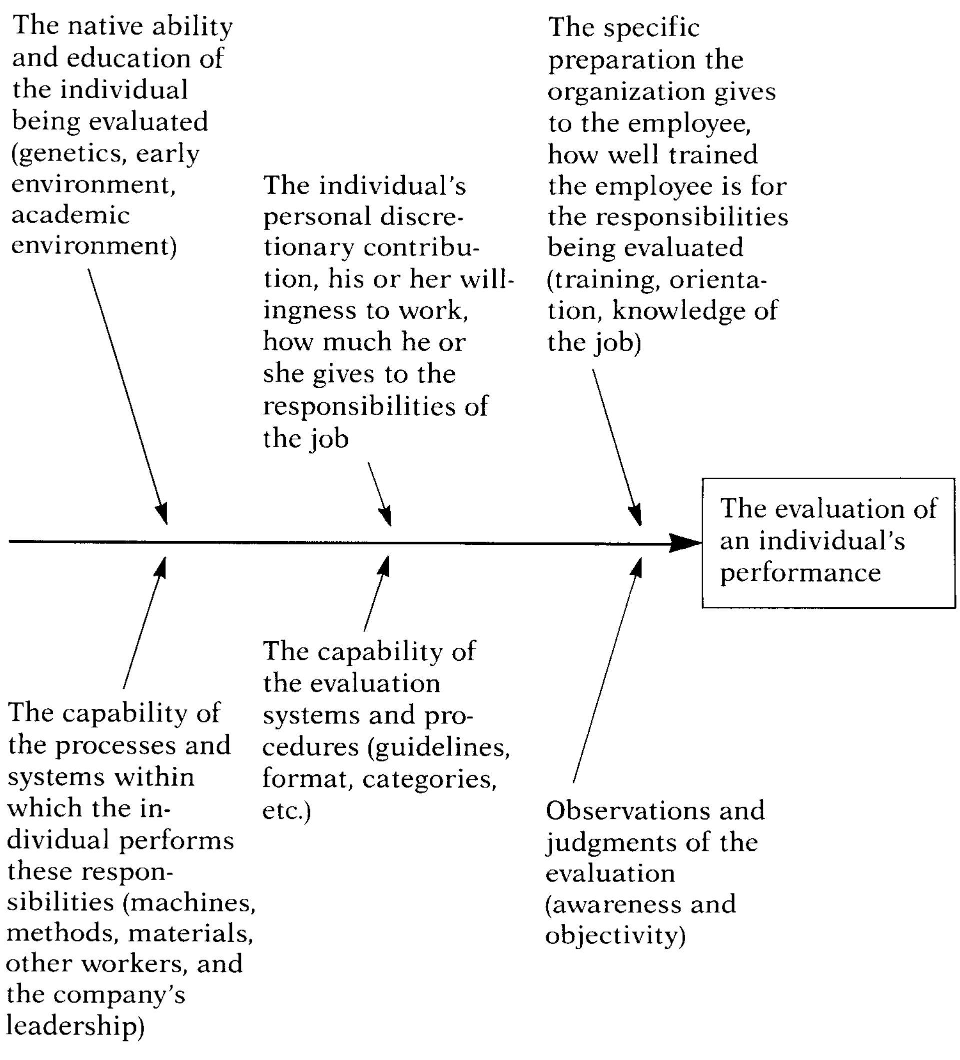


Figure 5—Level of native ability

Historically, we have been conditioned to believe that there is a wide disparity among people's native abilities. We usually attribute the difference between someone who excels at a job and someone who fails to live up to expectations to each person's innate capabilities.

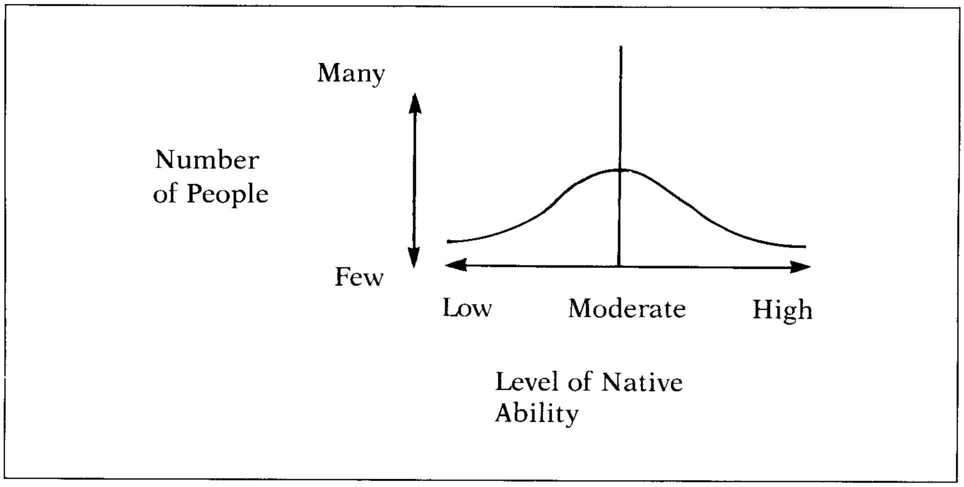


Figure 6—Level of native ability

In reality, people's native abilities are probably much more alike than we think. The differences we perceive arise from other factors, as discussed in this chapter.

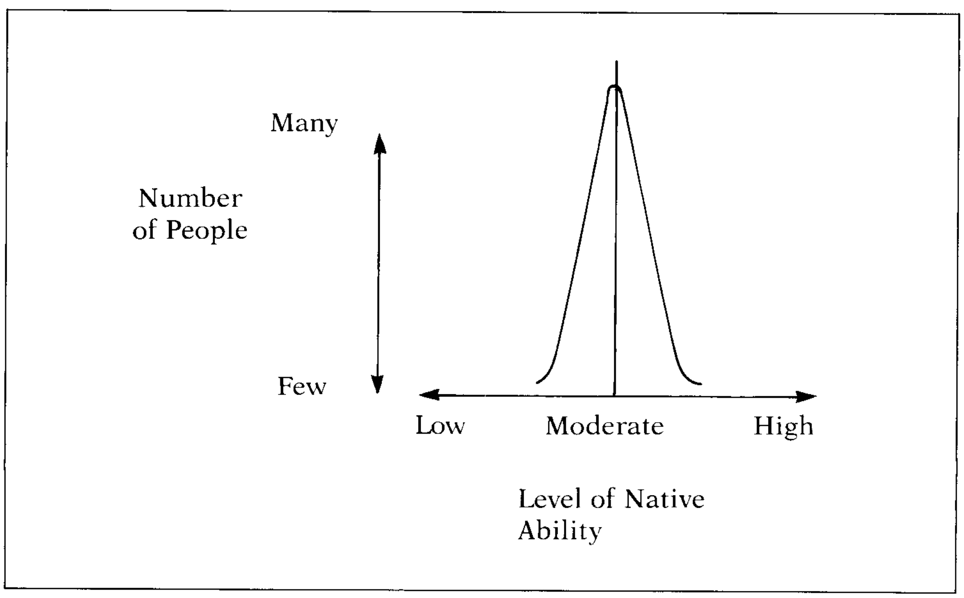
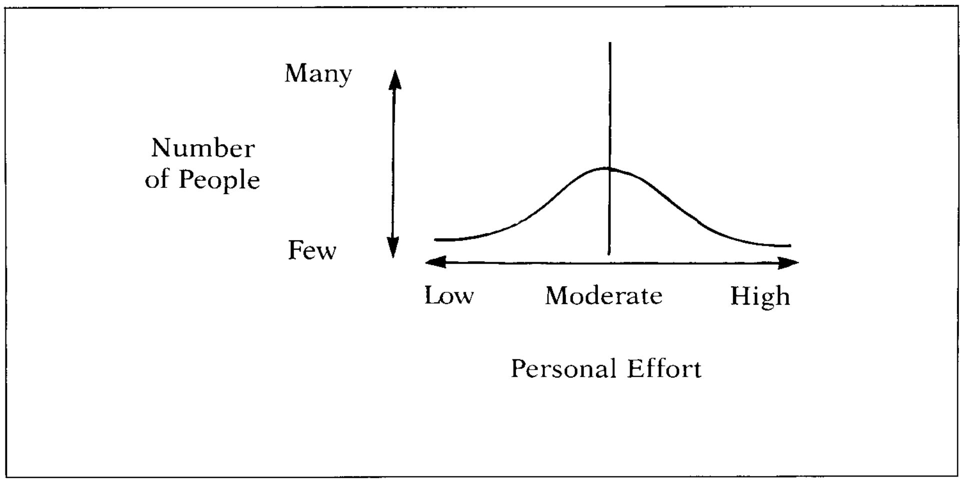


Figure 7 reflects a typical perception of how much effort people put forth. As indicated, most people think a few employees really extend themselves, a few give virtually no effort, and the vast bulk of employees fall somewhere not too far from the average.

But individual effort is often given or withheld, even unconsciously, in response to organizational conditions that foster or discourage it. In a poorly managed company, there is little motivation for employees to extend themselves. The opposite is true, however, in well managed companies—those managed with a focus on ever improved quality, a concern for pleasing the customers, and a commitment to treating employees with care and respect.

Figure 7—Personal effort

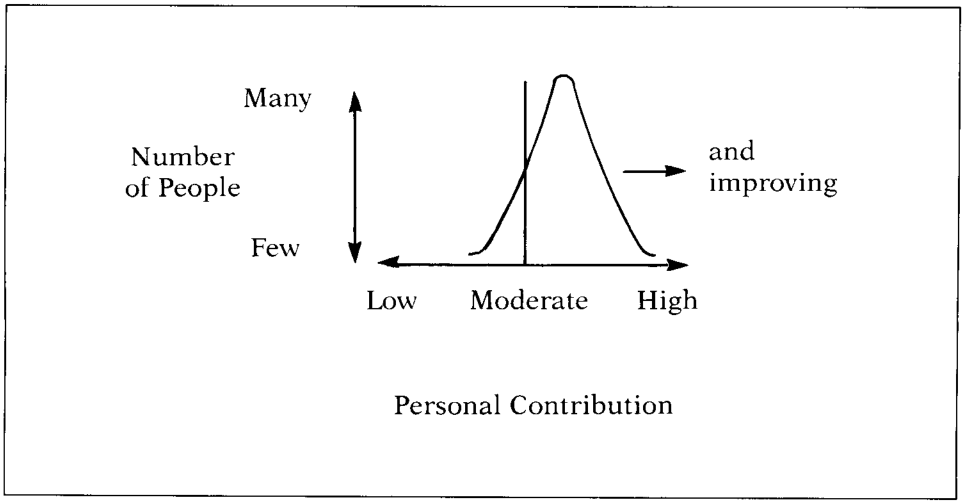
As with perceived differences in native abilities, most people would probably say there is a broad range in the amount of effort different employees put forth.



Therefore, in the proper environment, the distribution of employee effort could look like Figure 8, with a much narrower band of variation than most people would predict.

Figure 8—Personal contribution of effort of individual workers in a well managed, quality organization

If given the chance to contribute fully, to study and improve their jobs, most people will not only put forth their best efforts but will also take every opportunity to improve their skills.

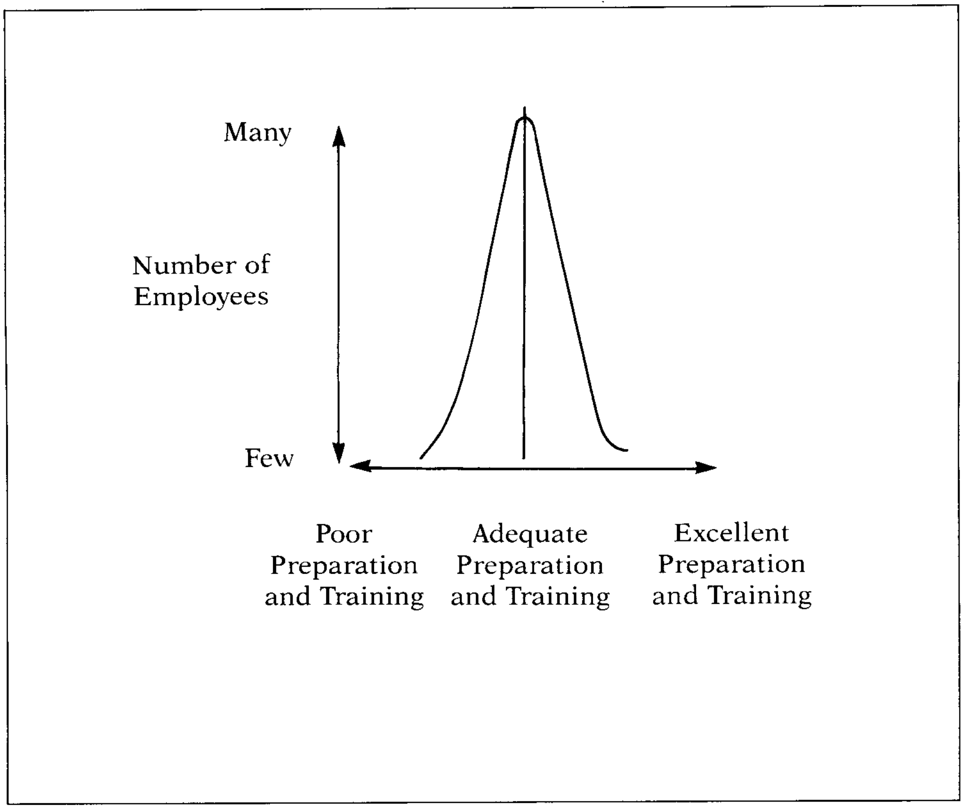


If this is true—and it has been demonstrated in quality organizations—then how much should "employee effort" be considered a factor in performance evaluation? When the system greatly influences individual employee effort, for how much of it should the employee be held accountable?

■ **Orientation, training, and general preparation of the employee for his or her job.** Conventional performance evaluation is based on the belief that employee orientation and training are not significant factors in the differences among employees' performance. The rationale is that the orientation and training are at least adequate for all employees and therefore cannot account for why some employees perform better and others worse. The distribution of differences among employees based on orientation and training would, according to the traditional perspective, look like the graph in Figure 9 on page 38.

Figure 9—Conventional view of orientation and training

The conventional view of the impact of orientation and training is that they result in a group of people whose skills and understanding are quite similar.

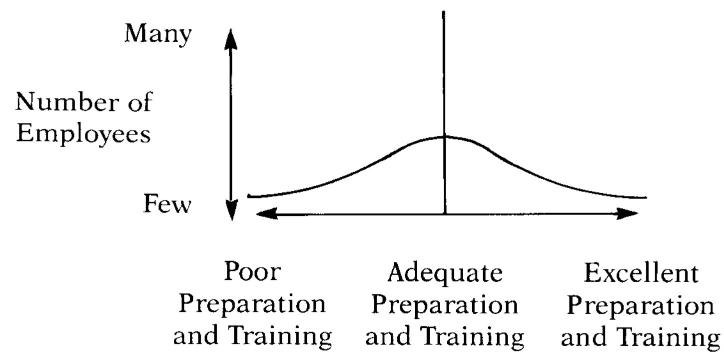


Traditional managers tend to view orientation and training as fairly good and very uniform among employees. They are not likely to consider them factors in employee performance evaluations. I suggest, however, that there is considerably more variation in the quality of most orientation and training: good instructors, mediocre instructors, the same instructor having good days and bad days.

When this is combined with the receptiveness of the students, there is even less uniformity. Students, too, have good days and bad days. And students have different ways of learning. The same explanation will not have the same impact on different learners or on the same learner at different times. Therefore, the distribution based on employee orientation and training might look more like Figure 10 on page 39.

Figure 10—Impact of employee orientation and training

Because there are variations in teaching methods and instructors and differences in learning styles, the actual results from orientation and training are probably much more diverse than we would predict.



The implication of widespread diversity in training is that many employees are well prepared for the jobs on which their performance will be evaluated, and many others are poorly prepared. The rest of the employees are distributed around "average preparation." Therefore, training and preparation—over which employees have little control—may have considerable influence in the differences among employee performances and their performance evaluations.

So far, I have proposed that the performance of individual employees is based on different factors than those assumed by traditional evaluators.

- There are some differences from worker to worker, based on native ability and individual effort, but these are probably not as great as is commonly assumed.
- There are differences from worker to worker based on individual effort. But often an individual's effort is responsive to the organization's environment—a factor the employee cannot control.
- There is more diversity than traditionally assumed in the impact from learner to learner based on the orientation, training, and general preparation given to employees regarding their jobs.

What else accounts for differences in employee performance and, therefore, performance evaluation?

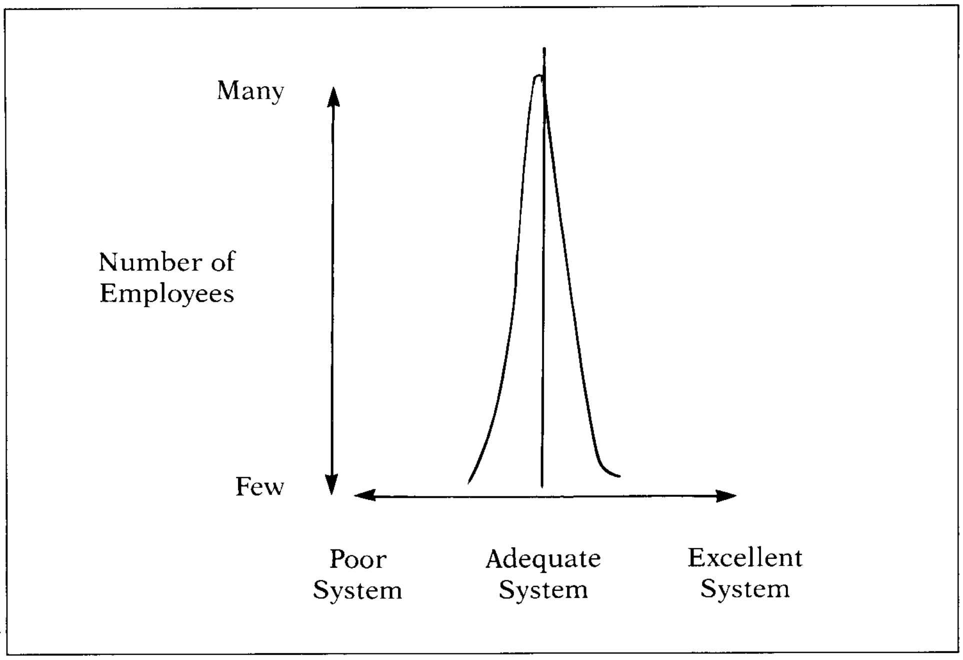
The capability and variation of the systems and processes

As described earlier in this chapter, workers operate within an environment and a system, and evaluations must take these factors into account. The workers can use only the materials, machines, or methods provided for them. Usually they depend on the products of the work of others: instructions, information, unfinished goods, components, etc. The quality of an employee's performance, therefore, depends on how good, how reliable, and how consistent these necessities are.

In the conventional view, employees work within a system that is stable, reliable, and provides them with all they need to do a good job. Figure 11 depicts such a view in a graph with very little variation in how the processes operate.

Figure 11—Conventional view of system variation

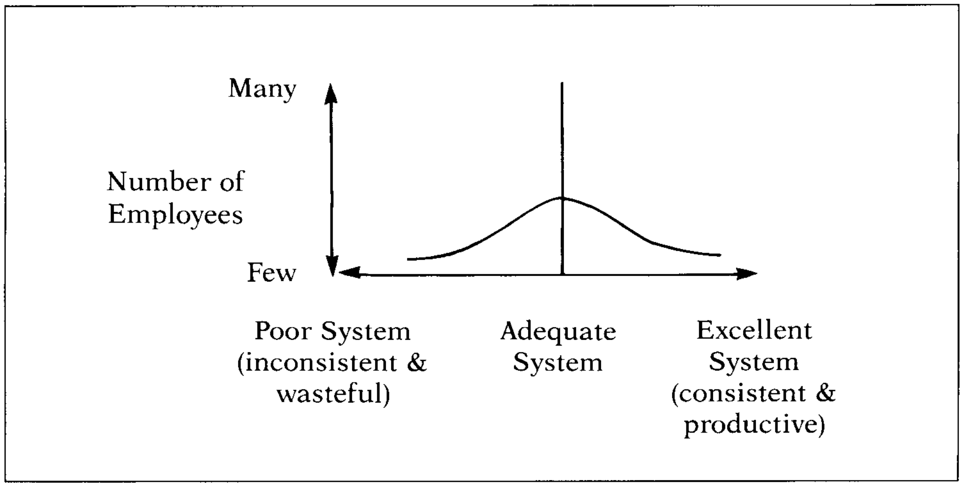
The conventional view of system variation is that there is very little of it; that is, the processes operate much the same.



Most managers are inclined to see their systems as above average and consistent in performance. Those less modest see their processes as constantly excellent. But, in reality, conventional systems are not nearly so consistent. Most workers find themselves working on processes that vary widely and within systems that are erratic and unpredictable. They seldom have much control over the quality and quantity of work, despite a sincere desire to do a good job. Figure 12 shows a more accurate picture of the capabilities of the system. As shown, when you first start measuring the variation in a process, you will undoubtedly see great variability in the output and key indicators.

Figure 12—Realistic view of system variation

As more people are coming to realize, variation is an ever-present part of all systems and processes. We must learn to recognize and track variation and to take into account how it affects our perceptions of how well people do their work.



The factor of system capability must be considered carefully to understand its implications for performance evaluation. Consider a group of workers whose jobs involve producing some similar type of output, such as typing by a pool of word processing personnel. The output of such a group may vary from day to day, from week to week, and even from typist to typist. If the outputs were charted over time, they might look like Figure 13 on page 42.

What we see are indications of variation in production from one week to the next and from one worker to another. Assume, for the moment, that the purpose of this work group is to turn out as much typing as possible. On what do you base your evaluation of an individual worker?

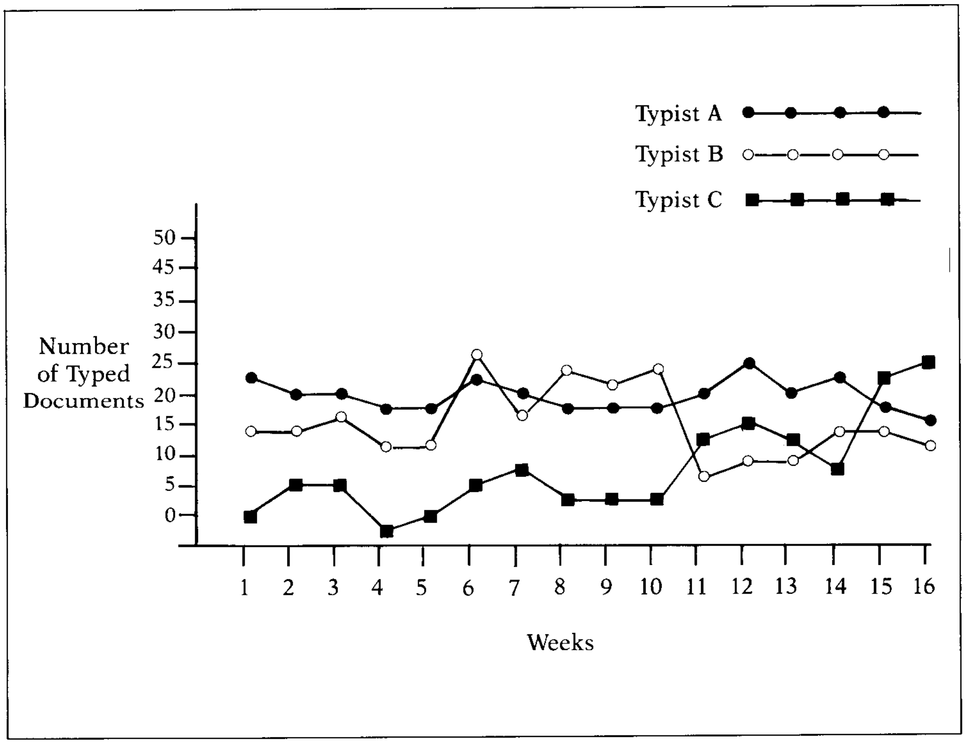
- On the number of documents?
- On the total number of documents after 16 weeks?
- On the average number per week?
- Do you rank typist A, B, and C based on who gets out the most?

Even assuming, unrealistically, that all documents were the same length and that the finished documents were all equally free of errors, there are other causes of variation and limited output:

- different machines with different capacities
- different ways of receiving work (handwritten, live dictation, taped dictation, etc.)
- other disruptions, breakdowns, distractions, demands
- different levels of technical complexity in the typing (complex, obscure language, graphics, etc.).

Figure 13—Typing output from three employees in a word processing pool

The number of documents each employee typed in a week varied considerably from week to week. The perceptions of these employees' performances depended on which week they were evaluated. For instance, if their output was measured during week 6, Typist B would get the top rating; during week 16, Typist B would get the worst rating.



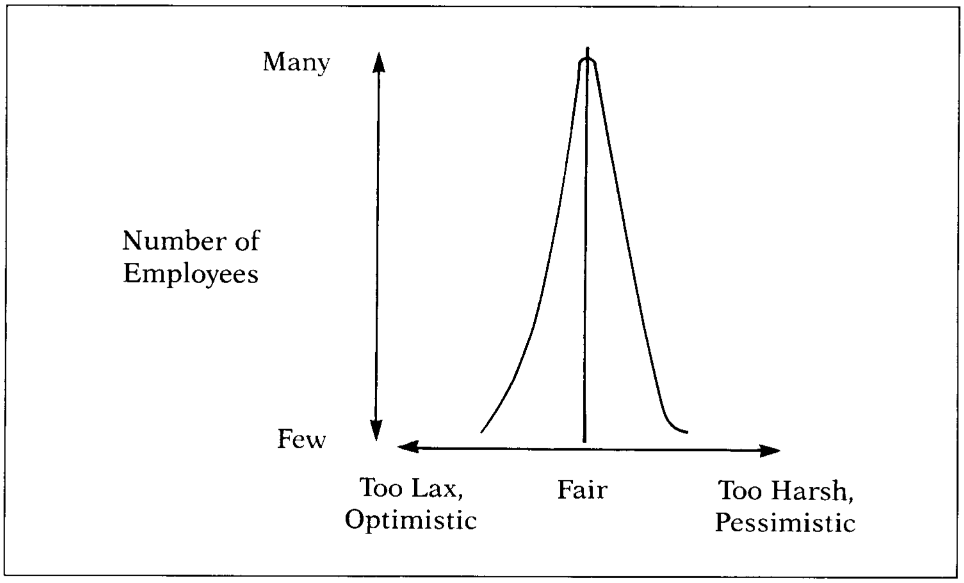
So, on what basis does one evaluate any of these typists? How much margin of error is there in the evaluation? Conventional managers tend to overestimate the ability to evaluate, and they underestimate the margin of error that is always inherent in observations of performance.

The capabilities of the evaluator and the adequacy of the evaluation process

Conventional performance evaluation is based on the belief that there is little variation in method from one evaluator to another or among the many evaluations conducted by a single person. Most people, especially if asked to judge their own abilities as evaluators of others' performances, would say that most of the evaluations would come out fair to the person being judged. Figure 14 reflects this view by showing a narrow range of variation.

Figure 14—Conventional view of variation in method of evaluation

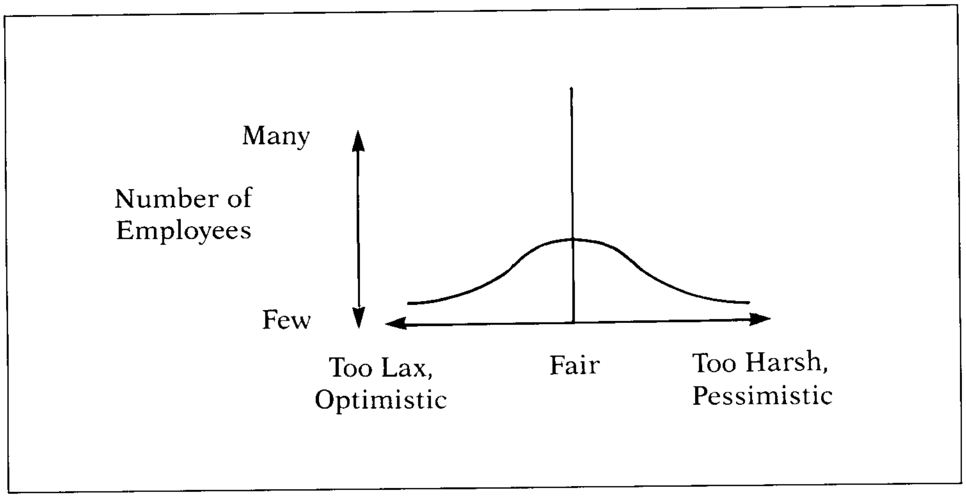
Our systems of rewards and promotions are based on the conventional view that the systems we use to evaluate people are fair, overall. This view does not account for variation in methods, interpretation of criteria, or evaluators.



In reality, as we have discussed, there is far more variation than commonly believed from one person to the next, and even from a person on one day to the same person on another day. The real state of affairs, as shown in Figure 15 on page 44, is that the variation in the evaluator's moods, biases in attitudes (however small), and his or her relationship with the person being judged results in a wide disparity in performance appraisals.

Figure 15—Realistic view of variation in method of evaluation

The difficulty in interpreting some evaluation criteria, coupled with natural variation in the attitudes, knowledge, and experience of the evaluators, leads to more variable results than usually acknowledged.



It is further assumed that the methods, procedures, and forms involved in the formal evaluation process provide a workable, effective system for employee evaluation. This is seldom borne out in the experience of supervisors. Most systems are cumbersome, with simplistic rating categories, useless numeric scales, and bureaucracy and paper work that make the whole effort an ordeal.

A Summary of Conventional Performance Evaluation

When all is said and done, the conventional performance evaluation system is more like a lottery than an objective observation process. It is distorted by evaluator bias and more often reflects the unpredictability and instability of the organization's systems. And those who promote such activities labor under the mistaken belief that they are achieving a true discernment of an employee's achievement. Meanwhile, low rated employees, sharing in this mistaken belief, feel disheartened and bear undeserved personal guilt. Those rated high, also sharing the same belief, take undeserved personal credit. Many employees are skeptical of the evaluation results and even more skeptical of the competence of those managers who indulge in such futilities.

Alternatives to Performance Appraisal

Before getting into what to do instead of performance appraisals, consider one overall suggestion: Just stop doing them.

Why such a terse recommendation? Because, like drugs, performance appraisals or evaluations are demonstrably the wrong thing to do. Just saying "no" to them will rid your organization of a time consuming, demoralizing exercise in pretense and folly. People can stop smoking without finding a replacement for cigarettes. You do not need a substitute for performance appraisal to discontinue it.

There are some much more effective alternatives to performance evaluation. In looking for an alternative, ask this question: "What do we currently expect performance appraisal to accomplish for our organization?"

Here are the usual responses to that question: Performance appraisal

- provides feedback to the employee on his or her work.
- provides a basis for salary increases and bonuses.
- identifies candidates for promotion.
- gives periodic direction to an employee's work.
- provides an opportunity to give recognition, direction, and feedback to an employee regarding his or her work on special projects.
- identifies an employee's needs for training, education, and career development.
- provides an equitable, objective, defensible system that satisfies the requirements of the 1964 Civil Rights Act and the Equal Opportunity Commission Guidelines of 1966 and 1970.
- provides a channel for communication that otherwise probably would not occur.

One of the many problems with conventional performance evaluation is that it is a fragile vehicle expected to carry too many heavy burdens. In fact, performance evaluation is incapable of doing any of the jobs listed above.

The alternative to performance evaluation, therefore, must be a series of activities that accomplishes the expectations listed above. The alternative will not be a single effort conducted once or twice per year. The alternative will involve several ongoing, new initiatives, each better suited to fit the need that performance appraisals were supposed to address.

Performance appraisal provides feedback to employees

As we have seen, performance appraisals and evaluations provide feedback that is distorted by evaluator bias on events that are usually beyond the employee's ability to control. Whatever credible feedback an employee receives is usually too little, too late.

To work with an employee to help him or her get regular feedback, you must do the following:

■ **Identify the major processes in which each employee is involved.** Everyone works on dozens of processes in one way or another. For each employee, identify the two or three processes that constitute the major part of his or her job.

■ **Identify the major work group or groups to which the employee belongs.** Most likely these groups share in the work processes identified above; otherwise, it is legitimate to question the need for being part of that group.

■ **Develop lists of major feedback resources for each employee.** The list should be of reasonable length—perhaps 10-15 items for each employee. The list should include the following.

- **Peer feedback.** Among those who work in the same process. If the supervisor is part of this group, the supervisor gives and receives feedback on others' contributions to the process, just as every other group member does.
- **Key customer feedback.** Each process an employee or a group of employees performs has a customer, usually someone inside the organization who inherits his or her work from the employee or the employee's group. A supervisor or manager may be a customer but not by virtue of any hierarchical role. Managers are customers when they are part of a process that receives work from another part of the process. As customers, they should give feedback to their supplier.
- **Key supplier feedback.** Each employee depends on others for materials, ideas, direction, etc. In this sense, each of those is a supplier to the employee, and the employee should develop good working relationships with his or her suppliers. Customers should elicit feedback from suppliers: "What can I do to make it easier for you to be an effective supplier to me?"

■ **Develop for each feedback resource an agenda or method for obtaining feedback.**

- **The agenda.** What are the key items of feedback to receive from this resource? What is of particular concern to this customer, group member, or supplier?
- **The method.** What method will get me the kind of feedback I need to improve my work? Written or verbal or both? Formal or conversational? How often? How can this be made a dependable routine in our working relationship?

What are the biggest differences between this feedback and conventional feedback?

- The sole purpose of this feedback is improvement. In the conventional system it is also a form of managerial control.
- Feedback in this new way comes from all those who are involved directly in the employee's work. In the old way, feedback is strictly from the superior to the subordinate.

Performance appraisal provides a basis for salary increases and bonuses

Using performance appraisal of any kind as a basis for reward is a flat out catastrophic mistake. It is a sure road to demoralizing your workforce. Employees' income becomes dependent on capricious factors well beyond their abilities to influence. Just don't do it. Base your organization's salaries, wages, and bonuses on other things:

- **Market rate.** What would it cost to hire someone on the open market at this employee's current level of capability?
- **Seniority.** Recognize that with years in the company comes an expanded sense of how and through whom things can be made to happen—more contacts and networks, more business savvy and clout.
- **Prosperity.** Share in the welfare of the entire organization (not just one division, product, or operation). Don't give preference to certain groups or individuals.

Using performance evaluation to direct a system of monetary rewards will have the opposite effect: Concern for monetary rewards will inevitably contaminate the feedback and evaluation system. The whole activity will become a charade. What should companies do when they already pay employees on the basis of performance and output? How can an organization move away from sales commissions, production bonuses, or piecework pay? The issue here is not, "What is the best policy?" The dilemma is strategic.

Companies that have constructed a system of bonuses and rewards based on output have a difficult job of disassembly ahead of them and must ask, "How can we move gracefully from our present policy to the best policy?" To be honest, it probably cannot be done without some awkwardness.

It would certainly be important to plot data for each employee whose current income is related to performance. The data would tell the range within which an employee's income varies. This would provide a basis with which to establish an equitable income, with no loss to the employee or the company. Actual negotiating strategies will vary from company to company and perhaps from employee to employee.

Performance appraisal identifies candidates for promotion

When performance appraisal is used as a pathway to promotion, the almost inevitable result is distortion of the evaluation system. The evaluation system is thus made to work on behalf of those marked for promotion and against those deemed unpromotable. Even assuming that a performance evaluation system can maintain its objectivity, good performance in the present position by no means indicates competence in the next position.

How then can candidates be identified for promotion?

■ **Special assignments that contain elements of the promotion job.** Various employees will have opportunities to test new levels of leadership or technical ability. Such assignments should last long enough and include sufficient coaching to allow—even ensure—success. Performance can be monitored carefully using methods similar to those described above in the section on employee feedback.

■ **Assessment centers.** These involve specially designed activities used to observe candidates exercising the skills needed in the new position under conditions that simulate the actual situations of the new job.

■ **Involve the customers.** Find ways to involve those who will be the team members, customers, or subordinates of whoever gets promoted. Involve them in developing criteria, in designing methods of selection, and in the selection process itself.

■ **Develop an organizational culture and system that are less dependent on promotions.** An organization can grow to a stage where leadership is sufficiently shared and where the power and trappings of the hierarchy are minimized. People should not need to climb the promotion ladder to exercise leadership and influence, to get rewards and recognition, or to stretch and challenge themselves in their jobs and careers.

Performance appraisal gives periodic direction to an employee's work

Performance evaluation is an inadequate vehicle for giving directions to an employee, and here's why:

- Once or twice a year is too little contact for giving direction to anyone.
- The evaluation session itself reviews the past. Like looking in a rear view mirror, it is too late for giving direction about activities that lie ahead.
- Conventional performance evaluation involves too much posturing and game playing to provide any reliable basis for examining the future.
- In a conventional performance evaluation process the objective setting sessions focus on goals that are short term and measurable. Often the most important activities are long term and unmeasurable.

To give direction to the work of employees use:

■ **Mission and operating philosophy.** Managers should develop and communicate statements that define the organization's purpose and direction, that guide and define everyone's work.

■ **Planning.** Managers should spend extensive amounts of time with their employees planning for the next project, the next year, the next three years, the next five to ten years. Planning describes how to get to some desired point. Conventional performance evaluation, on the other hand, focuses on the goal to be accomplished and neglects the "how," the method.

■ **Communication.** This should be a constant part of the work relationship between employees and their supervisors. The supervisor should have an ongoing sense of what is going on and how any undertaking is doing—no surprises for the supervisor, none for the employee. Everyday communication is when many mid-course corrections can take place—another important part of direction setting.

Performance appraisal provides an opportunity to give an employee recognition, direction, and feedback

The previous points refer to the evaluation of an employee's everyday work. However, some managers use a performance evaluation system only to address special projects or a few selected areas of employee performance—areas that may constitute only 10 or 15 percent of the job.

Such narrowly focused performance evaluation suffers from the same inadequacies as conventional performance evaluation.

- It ignores the system and the group, giving credit or blame to individuals for results beyond their contribution or control.
- It is subjective and bias ridden, though it pretends not to be.
- Whatever feedback and direction occurs is too little, too late.

The alternatives have been described already: teamwork, planning, getting feedback from customers and other key resources, communication, communication, and more communication.

Performance appraisal identifies an employee's need for training, education, and career development

Because of the posturing and subjectivity that affect so much of performance evaluation, it is unlikely that any real needs for employee development will ever be accurately identified.

What can be done about assessing an employee's needs for training?

■ The starting point is the job and its requirements. When these are accurately defined, then an expert can help design methods to determine people's capabilities for each of the necessary competencies. The expert can then help design training and educational experiences that address the needs.

■ An education minded manager or supervisor will use casual communication during informal contacts to identify and explore educational opportunities for the employee.

■ Most U.S. businesses are exceedingly pinch-penny when it comes to employee development. In companies that out-compete us in the world market, education is almost a corporate obsession.

Defining an employee's need for training may not be the first challenge an organization faces. The first challenge more likely will be fostering management's commitment to comprehensive, ongoing training and education for themselves and other employees. When this is clear and unshakable, the rest will follow.

Performance appraisal provides an equitable, objective, defensible promotion system

Performance appraisal satisfies the requirements of the 1964 Civil Rights Act and the Equal Opportunity Commission Guidelines of 1966 and 1970. Conventional performance appraisal gives only the appearance of an equitable and objective system. It is neither; therefore, it is indefensible.

The issue of substance here is not just conformance to the laws, but commitment to the values enscribed in the laws. An organization must ask: Are we committed to the spirit and ideals of equal rights and equal opportunity? Are we committed to helping improve the job and career accomplishments of those groups who in our society have been the victims of discrimination?

If there is no commitment to this philosophy and set of values, then the company will strive for conformance—or the appearance of conformance—to the law. If there is commitment to the philosophy and values, the company will then engage in a system of well planned initiatives to accomplish these goals.

Conventional performance evaluation may appear equitable to someone who is uninformed, but to members of the "protected classes"—the customers of an equal opportunity or affirmative action effort—conventional performance evaluation will be yet another capricious judgment of their ability to perform a job. Even when people benefit from a capricious judgment, they know that the system can turn against them without warning.

I won't describe alternative methods for maintaining the appearance of equity. It's an unworthy issue. An alternative for accomplishing genuine equity is complex and requires many efforts in many directions over a prolonged time period. The general alternatives described above will provide a good foundation for this undertaking: a common vision, true teamwork, participative planning, constant communication, genuine feedback from customers and peers, more communication, and still more communication. These efforts will benefit every worker.

Performance appraisal provides a channel for communication that otherwise probably would not occur

As we have discussed, performance evaluation is an unreliable channel for communication. But there is another issue here: Why would the communication not have otherwise occurred? This suggests a question of priorities, as though to say, "Communication is not high enough in our priorities for us to foster communication independent of performance evaluation."

Effective Communication Alternatives

Each manager, supervisor, and employee who truly seeks effective communication should ask and answer these questions: "With whom is it important to maintain communication? For what purpose? With what frequency? What kind of setting, format or agenda? One-to-one or group meeting? What groups, if any, are appropriate?" The answers to these questions should begin to identify individual needs for communication. The next step is to work with the other party or group to develop the communication format.

Some possible communication media are:

■ **Meetings.** Many people, it seems, would rather complain about meetings than change their behavior to improve meetings. Meetings are a process, and, like any process, they can be studied and improved.

■ **Focus groups, feedback groups.** An ad hoc meeting with a specific purpose can help you collect data from employees, using specific interviewing and opinion soliciting approaches.

■ **M.B.W.A./M.B.S.A.** ("Management by Wandering Around" or "Standing Around.") This is not aimless, unguided meddling. There are specific guidelines for what to do (observe and listen; ask people to talk about what they are doing and what keeps them from doing their best work) and what not to do (judge, argue, correct, talk too much). Whatever formats for communication a manager selects, the secret for success is consistency, persistence, and follow through.

■ **Consistency.** If the format for communication constantly changes, those involved won't have a chance either to get used to it or to "own" the process and improve it. Participants will forever feel like visitors at someone else's communication session.

■ **Persistence.** The first few sessions may be awkward. Participants' reactions may range from being overly reserved to abusive. The manager or supervisor conducting the communication session may be tempted to call it off—an experiment that failed. But he or she must stick with it, making only obvious improvements. After the awkwardness, the sessions will settle down to a more straightforward, less artifical interchange.

■ **Follow through.** Managers should enter the communication session prepared to answer questions candidly and should quickly follow through on any agreements made. If visible changes do not begin to result from such communication, employees will conclude that the sessions are a waste of time and that speaking out will serve no useful purpose.

Summary and Conclusion

Bill Scherkenbach of General Motors (personal communication) summarizes the difficulty with performance evaluation this way. If you know that $A + B + C = 19$, you still will not know the value of C. The sum is known, but each part is unknown. With performance appraisal, you may know the sum of the output (tons per day, sales, profits, machine up-time, etc.), but you do not know the value of any part of that sum. Individual performance is *not* the sum. It is only one part, and it is unknown, as are most of the other known parts.

Performance evaluation is an exercise in futility. It is an activity that lulls us into a belief that we understand something, when all we have accomplished is to create an oversimplified illusion about something that is very complex. When we act as though our evaluations are accurate, when we reward, punish, promote, commend, or retrain people based on our evaluations, we are making adjustments to a system about which we know very little. Adjusting the unknown is called "tampering." We would never consider indulging in this kind of blind tampering with our prized possessions, our bodies, or even our electronic gadgets. (Would you mess around inside your VCR?) Yet, without any hesitation, we tamper with the performance of our workforce.

The evaluation of employee performance is usually conducted with good intentions. Managers are motivated by a desire to improve the business and the performance of employees in the organization. Such ideals should not go to waste. It is the challenge of the new quality era to find more effective ways to improve business and employee performance. I hope this chapter has contributed to those worthy purposes.

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Performance Appraisal: Throw It Overboard?

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> It completely refused to run a) when the waves were high, b) when the wind blew, c) at night, early morning, and evening, d) in rain, dew, or fog, e) when the distance to be covered was more than 200 yards. But on warm, sunny days when the weather was calm and the white beach close by—in a word, on days when it would have been a pleasure to row—the (outboard motor) started at a touch and would not stop (Steinbeck, 1962, pp. 21–22).

A colleague and I (McCall & DeVries, 1977) used this wonderful quote from *The log from the Sea of Cortez* as a metaphor of our reactions to performance appraisal (PA) as it is often practiced. We challenged our fellow PA researchers to recognize that PA practices seldom meet expectations and that optional managerial practices should be examined. I was delighted to see that Peter Scholtes in his chapter is taking an equally hard look at PA. I agree that PA has great limits, but instead of being dropped, it should be strengthened and supplemented by other devices that help individuals understand how they are doing in their jobs.

To pursue this theme, I have structured this chapter as follows.

- What is PA anyway?
- Is PA uniquely flawed?
- Is PA consistently useless? Can it be improved?
- Can we put PA in its place?

What Is Performance Appraisal Anyway?

Before we proceed, let's define our terms. As Elliott Jaques (1987) reminds us so eloquently, one indicator of our immaturity as a science is that we often disagree on even the meaning of the terms we use. I define PA (DeVries, Morrison, Shullman, & Gerlach, 1986) as a process by which an organization establishes measures and evaluates an individual employee's behavior and accomplishments for a finite period. A human resource department typically administers the process, with the employee's immediate manager completing the appraisals annually. The judgments are often used subsequently to make administrative decisions (e.g., for salary) that directly affect the employee. As a process between manager and employee, PA takes the following form.

- Step 1: Manager establishes expectations with employee.
- Step 2: Manager observes/evaluates/shapes employee's performance.
- Step 3: Manager documents employee's performance.

- Step 4: Manager shares evaluation with employee.
- Step 5: Manager recommends administrative action.
- Step 6: Manager announces administrative decisions.

Though this may be a typical scenario, remember that the ways U.S. organizations do PA vary tremendously. Some skip Step 1, some leave out Steps 5 and 6. My sense is that if any one or more of the six steps is omitted, we may be talking about a qualitatively different process.

But why do organizations do PA? The most frequently cited reasons, in order of magnitude are:

- to give feedback to the employee (designed to shape performance)
- to help in salary decisions
- to handle promotions/demotions
- to identify training and development needs
- to plan human resource needs.

Perhaps the most discouraging aspect of organizations doing PA is the difference in answers one gets when talking to human resource professionals versus line managers. Human resource people responsible for PA systems will focus on PA as a tool to help them make decisions regarding pay, promotion, and training needs. Most managers see it as a tool to direct and motivate the employee to get the product out the door. It is difficult to get line managers interested in investing such energy in a process that primarily serves staff needs.

One of the best spokespersons for PA is Andrew Grove, president of Intel Corp. In his book, *High output management* (1983), Grove argues for PA, despite its many vagaries, considerable subjectivity, and the fact that it is often subject to favoritism and other issues. He says in a *Wall Street Journal* summary of his book, "Assessing performance is not an *act* but a *process*; even if the opening barrage is off the mark, the resulting exchange is likely to tune and perfect the work performed." He concludes, "We are paid to manage our organizations. To manage means to elicit better performance from members of our organization. We managers need to stop rationalizing and stiffen our resolve to do what we are paid to do" (Grove, 1985). In his book, Grove describes real business reasons to do PA, arguing from his extensive Intel experience managing knowledge generators, often the toughest group with which to conduct PA.

Is Performance Appraisal Uniquely Flawed?

In my role as executive vice president at the Center for Creative Leadership, I have had since 1982 the privilege of helping launch the annual planning and budgeting process. In fact, this month I have 13 direct reports submitting plans for 1989, complete with estimated income and expenditures. We do this every autumn, and I am regularly struck by the frailties of the exercise (yes, even at the Center for Creative Leadership). Some examples are:

■ The difficulty of predicting market response to our programs. In 1988 we planned for a major increase in demand for our programs in the field of innovation and creativity, building directly on a high growth in 1987. This anticipated growth vanished, for reasons we still cannot fathom. In other words, we could not accurately predict the market systems outside the Center.

■ Each operating group develops its own plans and budgets. In reality, our groups are highly interdependent. The plans of our marketing and registration groups, for example, are determined largely by the particular mix of public and contract programs we will conduct during the next year. These training plans flow primarily from talks between myself and individual directors of our training groups. Our "unit of analysis" in planning has come under attack—many different operating groups contribute to the successful running of a public leadership training program. How can meaningful planning occur at the individual training group level? Doesn't this stifle teamwork within my team?

■ I remain amazed at how differently my 13 direct reports attack planning. Some see it as an annual chore, others use it as a way of focusing and rejuvenating their teams. I see three very different strategies that our managers use.

The Conservative. These people plan for an annual pleasant surprise by overestimating expenditures 5 to 10 percent and underestimating income 10 to 30 percent. They build in generous deadlines for new projects. Because of this, other people perceive these managers as tending a "land of pleasant surprises."

The Scientist. Some managers treat planning and budgeting as an exercise in exact prediction. They build plans inductively—begin with great attention to detail, pour over prior years' data, and come up with remarkably accurate work and budget predictions. Deviation in either direction from planned performance is to be avoided at all costs. These managers are rare in my experience.

Mission Impossible. If you've ever listened to Peter Drucker, you've heard his oft-repeated maxim: To succeed in today's competitive world, each year you must do 20 percent more with 10 percent less. Some of my managers (I put myself in this category) pursue this "mission impossible" when planning and budgeting. Groups with this mentality create unrealistic goals and budgets, yielding less-than-expected year-end outcomes and midyear budget corrections. It flows from a larger strategy of how to lead: Place seemingly impossible goals in front of your group, hoping this will create unprecedented performance.

One of several reasons I enjoy managing is to experience how an individual manager's style influences his or her use of such management systems as planning and budgeting. Yes, it introduces "noise." I do not look for a perfect planning process that obliterates those differences in managerial strategies. And I certainly don't plan to eliminate planning and budgeting. They remain valuable tools in guiding us over the next year or two. Though the crystal balls we gaze into are cloudy, they are better than not looking at all.

The reason I take your time to cite some of my own managerial chores is to draw a parallel to Scholtes' case against performance appraisal (Scholtes, 1987). He makes four points that are all present in strategic planning and budgeting (another fallible management system), at least as my team at the Center for Creative Leadership does it. While Scholtes concludes that the flaws in PA should result in its being banished from the managerial landscape, I suggest that many of our management systems, though imperfect, can be useful if invested in and should be banished only as a last resort.

One final word about the Center's planning and budgeting process. I wouldn't hold it up as an ideal practice but would say proudly that our managers' use of it as a way to guide our collective performance has improved greatly over the years. Each year we make modest changes that tackle the three problems cited above. Ironically, the more we understand the limits of our planning/budgeting system, the more useful it becomes in helping us manage the Center.

Is Performance Appraisal Hopeless? Can It Be Improved?

At one point in my career I shared Scholtes' despair about PA. I felt that there were no meaningful innovations in the field; all PA systems appeared equally inept. That led my colleagues and myself to research the PA literature in depth, asking, "Does any system work at all?" One discouraging aspect of the research on PA is that there are remarkably few studies directly addressing that question. We divided the extant PA systems into three categories:

- behavior-based (e.g., behavior expectation systems)
- effectiveness (e.g., MBO)
- hybrid (typically both behaviors and outcomes measured).

We then asked how the categories were evaluated in the research literature against nine cost-effectiveness criteria (DeVries et al., 1986). Though we feared finding no differences, we actually found patterns showing that behavior-based systems have hope of meeting administrative goals often assigned to PA (see Table 1 on page 57). Effectiveness-based systems, on the other hand, are more likely to affect job performance through a focused, job-specific feedback process. A few studies focused on the hybrid PA system and appeared to meet a variety of administrative and employee feedback goals but at a considerable cost.

Had PA been ineffectual and miscast as an organizational tool, would we have found these differences in effectiveness? I doubt it. Though the data from the survey are tentative, the patterns indicate to me that PA can be done in better and worse fashion. I assume that these variations reflect the viability of PA as an organizational tool, one that advances one or more of the purposes assigned to it.

We then asked, "What are the qualities of an outstanding PA system, given both what the 'PA scholars' and 'informed practice' suggest?" Such a system should yield affirmative answers to these questions: "Is performance

Table 1—Cost-effectiveness of three principle PA systems in the literature*

	Behavior Based	Effectiveness Based	Hybrid
Costs			
Develop the system (e.g., create the form)	High*	Low	High
Introduce the system (e.g., train managers)	Moderate	High	High
Maintain the system (e.g., time of managers required; amount of paperwork)	Low	High*	High
Outcomes			
Chance of fulfilling purposes:			
Input to administrative decisions (e.g., pay)	Moderate*	Low	Moderate
Develop employee (e.g., improve performance)	Low	Moderate*	Moderate
Indentify training needs of employees	Moderate	Low	Moderate
Help human resource planning	Low	Low	Moderate
Give legal documentation	High*	Moderate	High
Organizational acceptance	Low*	Moderate	Low

*Indicates judgments for which the literature provides direct evidence.

appraisal sound? Is it useful?" The following four qualities are tests of how well PA systems do against those questions.

1. Meets minimal legal guidelines established by the 1964 Civil Rights Act and subsequent federal government guidelines:

- Person is evaluated on *explicit* dimensions relevant to doing well at the job.
- Ratings are unbiased by prejudice (race, sex, etc.). For example, a group of female workers would be expected to have comparable PA ratings to their male counterparts.

2. Meets key psychometric criteria. PA forms are psychological tests as defined by federal law. Consequently they should meet criteria set by the American Psychological Association:
- A distinction is made between good and mediocre performers, differentiating an employee's performance across several dimensions.
- There is reasonable agreement among several raters (manager, manager's manager, and employee).

3. Is carried out as prescribed:
- PA system is used in prescribed format for all employees; this means 90–95 percent of employees receive PA as scheduled.
- Participants find appraisals to be accurate and complete reflections of the employee's performance.
- PA process gives participants basis for concrete planning for future performance.
- Participants are *regularly* given help in understanding the importance and mechanics of PAs, and the skills required to do PAs well.

4. Fulfills organizational needs:
- Is cost-effective; direct and indirect costs for developing, using, and evaluating PA system are proportional to outcomes.
- Yields information that top management believes in and finds useful in making people decisions.

In our work with organizations, we have found PA systems that get passing and even exceptional grades on all 10 criteria. Interestingly, this sample includes as many "homegrown" PA systems as those created by Ph.D. psychologists such as myself. In fact, it seems to me that for PA to give any added value to the running of a business, there must be a partnership of experts in the business and experts at PA, with the former group firmly in control of the process.

Let's Put Performance Appraisal in Its Place

Part of the value of Deming's and Scholtes' challenge to PA is that they force us to question the added value of long-standing management systems such as PA. Even if we conclude that PA should remain, we should, at a minimum, be prompted to redefine its role. As Scholtes suggests in his chapter, behavioral science has generated other devices to help us define and develop an individual's contribution toward a corporate mission. Since I started working with PA in 1976, I have seen notable changes in corporations, which we should incorporate into our PA prescriptions. These include more participative corporate cultures, reduction of managerial levels, expanding of managerial jobs, and more "second guessing" of managerial personnel decisions. These changes lead me to the following "second thoughts" about PA.

■ One role of a human resource expert is to help give courage to the organization to make tough personnel decisions. This includes terminating a marginal employee. Defending that decision before third parties requires the kind of documentation that a conscientiously used PA system can give.

It is the responsibility of human resources to help the corporation prepare for such eventualities. I'm not sure we have the luxury to drop PA, because we have not found a perfect system.

■ Where PA systems often go wrong is in our asking too much of them. We try to create our own PA system "for all seasons." The forms require a variety of judgments of both past behaviors and future capabilities. Scholtes is correct in reciting the various goals set for PA and in asking if other systems can meet those goals. A prime candidate for exclusion in my mind is "estimate of promotability," which is a one-of-a-kind glimpse into the crystal ball.

■ Many of our PA systems were conceptualized in the 1970s, when most managers had four to six direct reports. These systems are currently used by managers in "leaner" organizations with six to twelve direct reports. PA systems of the seventies sought to be all-inclusive; we need to revise them and create shorter systems that focus on the subset of a person's performance that is most critical to success. This represents a kind of flexibility that needs to characterize our field. We would be wise to keep our ears to the ground by regularly asking line managers what we can do to make PA more useful.

■ Some PA systems are driven totally by the need for summary, corporative ratings of employees' performance to plug into a salary matrix. Such appraisal systems, which masquerade as a feedback tool but provide little more than a summary rating, might do more harm than good. Every PA system should provide a forum for the planning and evaluation of key components of a person's performance.

In short, PA is an imperfect managerial tool, but not one deserving to be thrown overboard. We do have a basis for identifying what PA systems work and in what ways. PA has become more, not less, relevant to the managing of a productive organization.

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A New Paradigm

Process Evaluation: A New Paradigm for Managing Organizational Performance

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Many organizations have recognized the futility of individual performance evaluations, but few have been willing to discard them without replacing them with something else. Managers have correctly realized that running an organization requires some means of providing for individual feedback, salary increases, promotions, and compliance with EEO law. Even managers who agree that performance evaluations unfairly hold employees responsible for processes over which they have little control continue to ask for some alternate means of managing.

Deming (1986) counsels managers to substitute leadership for performance evaluation, but managers do not seem to understand how to translate leadership into some substantive means of providing feedback on a regular basis. This problem is compounded by the need to document personnel actions or potentially face an unfair labor practice charge.

Theory of Process Evaluation

The solution to the problem of managing organizations lies in a change of focus. If people in an organization are responsible for only 6 percent of the problems, and the system is responsible for 94 percent of the problems (Deming, 1986), then primary attention should be placed on evaluating the system and not the individual. A system encompasses a set of processes. Each process is defined by its inputs, transformation steps, and outcomes. Most processes include people, machines, methods, materials, information, and the environment. Process management is a strategy for managing an organization that focuses on control of the process and not solely on control of the employee.

Process evaluation means that we evaluate the process and not the individual. Process evaluation is to process management as performance evaluation is to performance management. Table 1 summarizes the differences.

Table 1—Process management versus performance management

Process Management	Performance Management
Manage processes	Manage people
Focus on variation in the process	Focus on variation in people
Improve processes	Motivate people
Evaluate processes	Evaluate people
View union as partner	View union as adversary
Manage with statistics	Manage with intuition
Manage for long term	Manage for short term
Process capability	Numerical goals
Focus on quality	Focus on costs
Flexible ranges and standards	Fixed work standards
Worker is customer	Boss is customer
Information user	Information generator
Management responsible for QWL	Worker responsible for QWL
Model effort	Direct effort
View people as worthwhile investment	View people as replaceable

Before managers can move toward evaluating processes, they must first understand the processes for which they are responsible. Unfortunately, much more attention has been directed to describing how to conduct performance evaluations (Heneman, Schwab, Fossum, & Dyer, 1980) than how to understand processes.

Three major sets of characteristics must be identified to understand a process fully. The first set includes the physical characteristics of the process. These are elements of the process that can be observed or visually described. *A process flow chart* is one method of summarizing some of these characteristics.

The second set includes the *statistical characteristics of the process.* These are derived properties that provide a pictorial and numerical summation of the process capability. They also describe the physical and dynamic characteristics of the process (Grant & Leavenworth, 1980). A control chart or process capability index is an example of this set.

The third set includes the *dynamic characteristics of the process.* We cannot assume that all processes are the same. The dynamic characteristics help to further differentiate processes. They concern the status of the process in real time. Process elasticity and process stability are two examples of this set. Process elasticity can be described as the amount that process outcomes can be altered by some added quantity of a significant process factor—for example, adding more of a catalyst to speed reaction time.

provides an organization with the means for continuous improvement. Managers who understand their processes have the knowledge to take substantive action on primary factors that will affect the overall system. Without such knowledge, managers can deal only with the problems and outcomes generated by a faulty system over which they have little or no understanding of how to control. The result is usually constant tampering and over- or under-adjustments to the system. Improvements in such systems are random and often transitory, as managers seldom know what really caused the improvement.

Managers who do not understand their processes fall back on exhortations and "motivation" to improve the system. Performance evaluations are a direct outcome of this type of management. Performance evaluations rest on the erroneous belief that worker motivation is the primary factor in process control and improvement. The new paradigm calls for evaluating the process and not the employee. The employee is recognized as part of the process. Nevertheless, it is not assumed that motivation or employee morale is sufficient for process control and improvement.

Applications of Process Evaluation

To create a fuller understanding of how process evaluation can work, this chapter will examine its application to the following issues:

- individual employee feedback
- salary increases
- promotions
- EEO compliance.

Some applications of the paradigm to these issues are described. These descriptions, however, represent only the tip of the iceberg. As managers gain greater understanding of their processes, many more ways of dealing with these issues no doubt will be discovered.

Individual employee feedback

All employees want to know how they are doing. However, to rank or rate them against others ignores the impact of the system on their work efforts. Even worse is that such a system offers them little or no help in improving their processes. It assumes that motivation and worker performance are the key variables in the process. The result of such an assumption is to penalize all employees who "perform" at a level that is less than average.

Employees need to know on a regular basis not how they are performing but how their process is performing. For this kind of feedback, systems must be in place to describe, measure, and control key process characteristics. At the very minimum, this means analyzing process steps, key process factors, and key outcome factors, and identifying expected customer requirements.

The advantages of managing with this system are many. There is increased understanding of key process factors that affect outcome variables.

There is better communication with all customers and suppliers, including internal customers and suppliers. Workers have a better understanding of their roles in the process. Managers and employees communicate better because they now understand and can operationally define key processes. Workers have an opportunity to offer meaningful suggestions for process improvement because the process is now measured and understood.

The increased use of flow charts and operational definitions facilitates better communication between employees and managers and among departments. Terms used in performance evaluations—such as help, support, teamwork, precise, accurate, red, etc.—are useless. Process evaluation calls for operational definitions of all key variables and characteristics. Managers will never understand these characteristics if they are focusing only on individual worker performance.

In the system of process management, morale will increase as workers better understand their processes and have more control over them. By contrast, in a system of performance management, the elusive goal of increased morale becomes even more elusive. Holding workers responsible for unknown and unmeasured factors of production is at best demoralizing and at worse a source of worker resentment and anger.

Process evaluation should be conducted on real time and on an ongoing basis instead of once a quarter and retroactively. It is a continual dialogue between the employee, the process, and the supervisor responsible for the process. Furthermore, because process evaluations are statistically measurable, they give the employee a precise analysis of what the process is doing. This is much more useful to the employee than the subjective opinion of a supervisor or manager concerning the employee's perceived performance.

Salary increases

All organizations must provide a means for equitably compensating employees for services rendered. Failure to do so can lead to decreased morale and increased variation in job behavior (Opsahl & Dunnette, 1966). Given the mistaken premises underlying performance evaluations, tying salary increases to them is highly questionable. The evidence and facts concerning performance evaluations (Landy & Farr, 1980) argue for their uselessness as a means of distributing compensation. Furthermore, the organization relying on such an ineffective measure of performance is leaving itself open for legal repercussions. A lawyer astute in statistics would have little trouble destroying the validity and reliability of a performance evaluation in court.

There is no single solution to salary increases. The first step, however, is to divorce such increases from any link to subjective measures of performance or any measures that are not demonstrably under the individual's control. Thus, one employee should not be paid more for a process that is "superior" to another employee's process unless the organization can first measure the difference and demonstrate that it is not due to random variation. Second, the organization would have to demonstrate that both processes are identical.

It would be much simpler to pay employees for criteria that are easier to define and have some expected return to the organization. Such measures as seniority, education, number of process improvement ideas submitted, papers published, professional awards, and status in the organization—though not without some element of imprecision—are much easier to defend and use as a basis of compensation than performance evaluation.

A second criterion for remunerating employees could be based on organizational performance and profits. Such compensation schemes as Improshare, Rucker, Scanlon, and profit sharing can—if not based on arbitrary and unreliable measures—help employees feel that their contributions to the organization will be rewarded (Siegel & Weinberg, 1982). In effect, employees become more successful if the organization becomes more successful. If employees feel that their ideas are valued in the organization and that they can make a major contribution to the success of the organization, it is difficult to imagine a system with more potential for creating employee loyalty than profit sharing.

A third and often-used measure of handling compensation is based on status in the organization. This measure is fairly precise and equitable (if promotions and status are not seen as political decisions). Nevertheless, many organizations are now creating multiple career ladders in an effort to overcome "career dead-ends." The creation of multiple career ladders offers yet another opportunity to compensate employees in an organization. Compensation need not be based only on progression up the management ladder but can also be tied to career progression within a given field.

Promotions

Three basic questions must be answered to make an intelligent decision for a promotion:

- What are the processes that need to be managed in the new position?
- What are the skills, knowledge, and abilities needed to manage these processes?
- Who has these skills?

The decision on who gets promoted will always entail some element of subjectivity. However, the framework for making a fair, equitable, and correct decision must be based as much as possible on the answers to the first question stated above. Only if the processes that need to be managed are correctly understood can the organization find an intelligent answer to the last two questions.

If the first two questions can be correctly answered, then the organization can devise methods of testing employees to demonstrate that they have the required skills (Stockard, 1977). The successful organization will not put seniority on a pedestal and may even opt to promote the best-qualified candidate regardless of seniority. Undoubtedly, those candidates passed over will feel resentful unless the organization takes steps to help them be better prepared for the next opportunity (Pinto, 1983). With a clear understanding of the processes for which they could be responsible, the potential candidate will be in a better position to discuss remedial actions with the organization.

EEO compliance

The federal government has issued specific regulations regarding the responsibilities of employers to women and minorities (Federal Register, 1971; Federal Register, 1978). These regulations specify fair standards in terms of promotion, evaluation, and development of employees. The chief objective of these requirements is to redress past discrimination and to ensure that all employees are treated with equality.

Performance evaluations have consistently been shown to be biased against women and minorities (White, Crino, & DeSanctis, 1981). Nevertheless, past practice and ignorance have combined so that performance evaluations are explicitly permitted by the law, as long as they are "bona fide." This means that

- The performance rating method is demonstrably job-related.
- The rating system is developed through job analysis.
- Raters are consistently able to observe employees.
- Ratings are not based on subjective or vague factors.
- Rater biases against sex or race are not a factor.
- Ratings are collected and scored using valid and reliable procedures (Holley & Field, 1975).

In practice, those conditions are rarely if ever met. Indeed, the evidence shows that it would be impossible to meet such conditions, given the erroneous assumptions on which performance evaluations are based. Employers lacking any real knowledge of performance evaluations are thus lulled into a false sense of security.

How then do organizations satisfy EEO objectives? There are no easy answers to this question. Certainly, however, they will never be able to find an answer as long as managers continue to stick their collective necks in the sands of performance evaluation. The focus must shift from evaluating the person to evaluating the process. The process data will not be racially, sexually, or attitudinally biased. Judgments made on this basis will go a long way in overcoming the prejudice and discrimination that characterize many workplaces.

Conclusion

Because process evaluation is an entirely new way of looking at organizations, the ideas offered in this chapter are intended to suggest only a few of the possible strategies that could be taken. As the new paradigm is further developed, potential strategies yet unthought of should emerge.

The new paradigm will give all employees—blue collar as well as managers—more control over the organization. The result will be unlimited opportunities for constant improvement of products and services.

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Performance Appraisal: Fact or Fancy?

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One of the most potentially promising areas of conventional management approaches has been that of performance appraisal. Whether driven by the classical scientific management approach of the early 1900s or the later approaches of Odiorne (1965, 1984), Herzberg (1966), or the Federal Merit Pay System among the general manager personnel (Title VI, 1978 Civil Service Reform Act), the basic concept has sounded good. As Deming (1986) has noted:

> The idea of a merit system is alluring. The sound of the words captivates the imagination: pay for what you get; get what you pay for; motivate people to do their best, for their own good (p. 102).

The attempts to implement merit systems, however, have not delivered the promised benefits. To the contrary, study after study, in both private and public sectors, has noted the great problems involved with designing any appraisal system. These have included both the failure to improve performance or motivation and the actually negative impact on the morale and performance of those in the various systems. Journals from many major universities and professional societies have regularly published articles documenting the existence and nature of these "appraisal problems." The problems range from "halo error" to "horns error" (the natural complement to the halo effect) (e.g., Saal, Downey, & Lakey, 1980), to control of variances between raters (Freeburg, 1969; Saal et al., 1980), to measurement errors, to format standardization and change, to correlation between actual, observed, and rated behavior, to continued ethnic and sexual biases (despite efforts to control them), to methods of observation validation (Landy & Farr, 1983).

Landy and Farr's *The measurement of work performance: Methods, theory, and applications* (1983) is a comprehensive study that examines the problems in the present approaches to performance appraisal. After an in-depth examination of the various theories and practices of performance

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The views expressed herein are those of the author and do not necessarily reflect the views of the United States Air Force, the Department of Defense, or the Office of Personnel Management.

ratings, the authors note that it

> . . . is ironic that of all the performance that has been appraised in the past several decades, the one performance area that has received least attention is "performance appraising" itself (p. 281).

They conclude that we do not even know the most important and most frequently required behaviors needed to appraise performance or the knowledge, skills, and abilities needed to be able to do a valid appraisal. We don't even know with any degree of certainty what we are trying to measure.

A recent study on the effectiveness of the Federal Merit Pay System validates those conclusions in the public and the private management sectors (Pearce, Stevenson, & Perry, 1985). Landy and Farr (1983) note this comment by Pearce et al.:

> The assumption that performance-contingent pay should result in enhanced organizational performance is widespread. . . [and] there is a lack of conclusive empirical support for this assumption (p. 264).

The researchers claim that their study is the "first systematic attempt" to validate such a connection. But instead of validating the connection, the study concludes that, for the Federal Merit Pay System, "neither the implementation of merit pay as a system, nor . . . rewarding managers with merit pay had any additional effects" and that that overall, "positive effects of the implementation of merit pay . . . were not supported by the data" (p. 271).

Even controlled tests of appraisal systems—tests that purportedly support the system—produce results that should shake any observer. One of the best documented studies to date is that of Huber, Neal, and Northcraft (1987). They showed that, even in controlled conditions, actual objective performance accounted for less than 40 percent of performance ratings, less than 31 percent of promotion actions, less than 23 percent of training recommendations, and only 16.8 percent of compensation recommendations.

These data support Deming's (1986) comments on annual performance appraisal:

> It nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, nourishes rivalry and politics. It leaves people bitter, others despondent and dejected, some even depressed, unfit for work weeks after receipt of rating, unable to comprehend why they are inferior. It is unfair, as it ascribes to people in a group differences that may be caused totally by the system they work in.
>
> The effect is exactly the opposite of what the words promise. Everyone propels himself forward, or tries to, for his own good, on his own life preserver. The organization is the loser (p. 102).

Why? What is the problem? What is wrong with the current approach to performance appraisal? What might be a solution?

Formulating a Solution

Analysis of the situation indicates that a solution for the problems related to performance appraisal goes much deeper than focusing on which system we use, or what changes we make in the appraisal system to correct the situation/effect to which Deming and others refer.

The root cause of the problem deals with the question of why we are doing this in the first place. The solution does *not* lie in developing a "new" or "changed" approach to performance appraisal. Both Deming (1986) and Juran (1988) have shown in their well-documented mathematical/statistical proofs that any such appraisal system only winds up showing the systems at work, rather than the individuals in the system.

The solution lies in a fundamental re-examination of the purpose of management itself and in a new answer that eliminates, not changes, performance appraisal—one that eliminates the very need for an appraisal system by recognizing that there was no actual need for it in the first place.

The problem begins with the question, "How do we improve the appraisal system?" But that is the wrong question! A solution based on that question will not solve the problem but will merely cosmetically rearrange its symptoms.

The New System

Where, then, do we begin to seek a solution? Based on the work of both system analysts and management analysts/consultants, such as Drucker (1985) and Peters (1982, 1985), we must return to the roots and re-examine the basic reasons for the organization's existence and the relationship of the organization to its employees.

The solution lies in exploring the answers to the questions, "What must the objective be of every person in the organization?" and "How do we accomplish that objective?" And we begin our exploration with analysis.

Organizational objectives

Most organizations have objectives, purposes, and missions. However, in spite of the conventionally accepted approach that effective management requires organizational objectives compatible with those of the manager, our analysis concludes that the organization's objectives, purposes, and missions are not necessarily those of the people who make up that organization. It is in confusing that issue, in not seeing the essential distinction between organizational objectives and the objectives of those in the organization, that the current system went awry, gave rise to all the present problems Deming and many others speak of, and gave birth to the need for an appraisal system. For if we accept the organization's purpose as our own (management's), then our task is to make or produce something (product or service). And the only way to produce something is with tools and resources.

The question then follows, "Do I have a good tool/resource, a bad one, or an average one?" And immediately we find ourselves in an evaluation or appraisal mode—judging the fitness, goodness, superiority versus inferiority versus acceptability, and usefulness of the tools we have to do our job, such as perform the organization's mission. And people become just another tool to the manager or supervisor—a resource to be used and evaluated like any other tool or resource.

This approach influences much more than the performance evaluation system. The assumption that the organization's objectives are the objectives of the people in the organization drives everything from training to compensation rights, to productivity, to the roles of management, supervisors, and labor, to the basic treatment of people in the workplace. Even slogans ("People are our most important resource") and position titles (Human Resources Specialist) are driven by this assumption of goal identity. The latest management approaches affected by this concept go so far as to speak of "human capital" (e.g., Odiorne, 1984), thus completing the dehumanization process. No longer do we have to recognize that we deal with flesh and blood; we can now conveniently use people as capital assets to be placed in equations, invested, depreciated, and spent. There is simply no possibility of accepting such a view while even pretending to understand the principles of freedom, individual dignity, and equality on which the fabric of our society depends. The people know that. It's time all the experts, consultants, academicians, and managers woke up to it, too.

If this identity of objectives is not the correct starting point, what is? If the organization's objectives are not the objectives of the people in the organization, then what are the proper objectives of the people? Simply, in Deming's terms, "never-ending improvement." And it makes little difference if we listen to Deming— who is but reiterating the message of Juran (1988) and Shewhart (1980)—or to Crosby (1979) or Peters (Peters & Waterman, 1982; Peters & Austin, 1985) or Drucker (1985). The basic message is the same from all: The objective of everyone in the organization, from top to bottom, is to make it better— a never-ending dedication to constant improvement, to excellence, in every process.

Accomplishing the objectives

Now we can examine the second question, "How do we do that?" What steps do we take to accomplish this objective of never ending improvement, of constant performance enhancement?

One of the first answers is that management must accept that it is management's responsibility to:

1. Identify the organization's objectives.

2. Identify the organizational system's essential outputs that satisfy those objectives.

3. Identify the specific system processes by which those outputs (services or products) will be produced.

4. Be certain that all employees in the organization know those objectives and outputs and their relation to their jobs, and that employees adopt and follow the philosophy of constant improvement, of not accepting current levels of delays, mistakes, errors, or defects in the processes they perform.

5. Identify and accept responsibility for performance problems and variances due to the system itself versus individual efforts.

6. Focus management and supervisory attention on helping people do a better job at every level by

- eliminating the barriers to communication
- eliminating fear
- ensuring immediate corrective action on all reports regarding quality defects and problems in product, service, systems, operations or tools
- providing the training and participative environment necessary to mobilize the entire workforce to engage in problem solving, teamwork, and improved quality of output.

7. Dedicate management to organizing and managing for dignity, respect, meaning, and community.

Next, to allow every person the opportunity to participate in overall organizational performance improvement and enhancement, implement the procedures of statistical process control (SPC). This technique is based on the statistical techniques developed mainly by Shewhart (1980), Juran (1988), Deming (1986), and Ishikawa (1972). The technique of essential process management (EPM) was developed to ensure that the maximum benefits are obtained from SPC.

The EPM technique combines the following into a single, unified approach to process analysis

- the best elements of socio-technical analysis (Davis & Taylor, 1979; Davis & Wacker, 1982; Pasmore & Sherwood, 1978),
- the far more developed tools and processes of essential analysis (McMenamin & Palmer, 1984)
- a modification of the Shewhart Cycle approach (1980) (famous in Japan as the P-D-C-A technique)
- a standardized approach to the cause and effect diagram (the "fishbone" or "Ishikawa" diagram) (Ishikawa, 1972)
- Deming's SPC procedures (1986).

EPM is a structured, scientific way of both understanding and improving existing systems, as well as analyzing the need for, designing, testing, and creating new systems in a manner that incorporates the principles of never ending improvement. EPM will allow management to accomplish its next tasks:

1. Identify whose responsibility it is to "make it better." For example, SPC differentiates system problems (management's responsibility) from problems with unique and "assignable" causes that do not require changes to the system itself.

2. Involve every person in the effort. This allows management to focus on overall mission accomplishment and to recognize the contribution of each process in attaining organizational goals. Involvement forms the basis for valid, organization wide decisions regarding customer service, quality of output product and services, training needs, personal assignment and development needs, and improvement opportunities. Involvement also enhances clear communication among all levels of the organization and is the tool—that is, the operational process—by which most of management objectives 5 and 6 above can be completely satisfied.

3. Establish the foundation for a valid pay system, without a need for so-called "merit awards" or annual appraisals. In identifying the performance variances based on system problems (which can only be corrected by changing the system and have nothing to do with the people working in the system), we also identify, as assignable cause problems, any training or potential reassignment problems related to specific individuals. (Remember that these problems were management's in the first place; after all, who hired and did not train or misassigned the person in the first place?) Once training and assignment problems have been resolved, if errors or poor quality product or service continue, we must face the issue squarely: We are no longer dealing with a performance problem—a person who *can't*—but a discipline problem—a person who *won't*. And to resolve that problem, I do not need a performance appraisal; I only need to exercise the organization's disciplinary process. In fact, this should result in a faster, less complex, corrective action (even separation if needed) than the long, convoluted, and frequently frustrating performance appraisal chain.

Benefits of the new system

Eliminating the entire appraisal system government wide will take us out of the fuzzy area of personal opinion and judgment and will focus the attention of all involved on facts. Managers will have more time to plan, to develop people, and to coach, without the need for the hours of work and worry, the stacks of paper and documentation to justify appraisals they never really believed in anyway.

It will free the employees from the demotivation of an appraisal they cannot understand—one that contradicts their perceptions of self-worth and value and has built unhealthy competition into the system, making it impossible to function as a team member.

It will free the resources of the people who make the appraisals, justify the appraisals, log the appraisals, get demotivated by the appraisals, compare the appraisals, study the appraisals, write up the studies of the appraisals, write regulations on the appraisal system, maintain the regulations on the appraisal system, develop a procedure to appeal the appraisal, appeal the appraisals, adjudicate the appeals of the appraisals, develop new appraisal systems (the life span of most seems to be three to five years maximum), print the appraisal forms, stock and issue the appraisal forms, review the appraisals, approve the reviewed appraisals, type the appraisals. . . . Eliminating the appraisal system will free up a "whole heap of folks" who will be available for real work—work that results in real value-added service/product to the organization's customers.

Summary

We need nothing short of a major revolution in U.S. management thinking and practice regarding performance, its measurement and value. The rationale for this need is based on

- the needs of line management versus the needs and/or opinions of personnel specialists
- the complete failure of current and past approaches to performance appraisal
- the mathematical demonstration that upward of 85 to 95 percent of supposed performance differences are not that at all
- the basic unacceptability of continuing to treat and rate people as things.

I have presented the specific reasoning process that has lead me, as a member of the workforce, as an instructor in management at both undergraduate and graduate levels, and as a member of management, to the inescapable conclusion that performance appraisal itself, independent of its implementation, is a "bad thing," an impossible task, a chimera hunting expedition, as it were, and a practice that needs to be dropped from future management practices.

As a federal manager I am aware that this might give the impression of disagreeing with the current presidential administration's "pay for performance" plans. However, the end objective of the administration's plan is to increase productivity within the federal sector. And, that goal is only attainable if the "pay for performance" is at the organizational level and at a high enough level of organization to prevent suboptimization within and between suborganizations. Many times the administration has sought to capitalize on the accomplishments of the private sector. One of the definite lessons we have learned from that sector is that individual merit pay and pay for performance do not work.

Despite all the literature claims, individual merit pay is only another euphemism for agricultural type "piece rates" and leads directly to increased labor/management tension, decreased morale and productivity, and a complete destruction of internal teamwork. Placing it at lower levels of the organization only results in suboptimizations and "gaming" of the system as one unit works to gain at the expense of other units and the organization as a whole. As such, I believe that totally eliminating individual ratings and reward systems, and placing a reward or gain sharing system at a sufficiently high organizational level to prevent sub-optimization, is actually the best means of attaining the administration's goals of improved management and increased productivity.

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Helping People Do a Better Job: The Case Against Present Performance Appraisal Practices

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In the videotape, "Roadmap for Change" (Encyclopaedia Britannica, 1983) Deming reveals his aim: "to transform the style of American management." I believe that discussing performance appraisal outside this context is inappropriate. Deming's 14 Principles for Management (Deming, 1986) ably describe the attributes of a transformed management style. Principle 7, for example—"Adopt and institute leadership" (p. 54)—urges a major shift in management style from supervision to leadership. One of the clearly articulated tasks of a leader is to "find out which, if any, of his people are in need of individual help or deserve recognition in some form" (p. 248).

Leaders as Helpers

Focusing on just the *help* aspect of this role directs us to one of the common purposes of performance appraisal—that is, *to provide employee feedback*. This parallels Deming's belief that the "aim of leadership should be to improve the performance of man and machine, to improve quality, to increase output, and simultaneously to bring pride of workmanship to people" (Deming, 1986, p. 248).

In its best form, present practice purports to enable a manager to give individuals feedback on their behavior relative to the achievement of previously negotiated operational goals. These techniques are akin to quality assurance inspection precedures, which observe a finished product to make a judgment of acceptability against a standard. The individual (piece part) can be given a rating based on this inspection, but the only options for action are to accept, scrap, or rework the finished goods. Because this sort of inspection gives no insight into *what caused* the result to be what it is, it negates positive action toward improving the production process or the person's future behavior.

Individual action options are also negative. No matter what rating an employee receives, he or she does not clearly know how to behave in the future to achieve the same or a higher rating.

Is it any wonder that people within such a system do not view the feedback as helpful? Clearly, this is an area where transformation must start.

It is a fundamental obstacle to changing the style of management to leadership. Until we eliminate present performance appraisal practice, we will not be able to advance beyond our supervisory "inspect and sort" style.

Performance Improvement: An Objective of Performance Appraisal?

As a unit manager in an organization committed to performance appraisal in its present form, how does one go about creating a top performing unit? Even if one were able to go out and find true "top performers" to bring into the unit, how does one then handle the ongoing distributed ranking? Suddenly, some of the previous "top performers" fall below average, experience reduced merit adjustments, and start polishing up their resumes in self-defense.

Work with the below average performers to bring them up to standard?

Even if a unit manager were able to improve the performance of every person within the unit, he or she still faces the same administrative problem as long as the appraisal system requires forced ranking. Half the people must always be ranked "below average." In fact, present performance appraisal practice acts forcefully *against* performance improvement and forcefully *for* the status quo, while creating confusion within the organization. We must start to view the present practice in this light and realize the destructiveness of these systems relative to people and performances in our organizations.

The Leader as Improver

Many sources of guidance are available on how to effect real improvement, including Deming's (1986) *Out of the crisis.* One essential element is for an organization to convert the role of management to leadership. Another is for individual managers to develop a "system view," in the context of "constant systems of chance causes," as Shewhart has defined (1980, p. 12). Once the new leadership role is inculcated into the culture, investigation into meaningful improvements can begin with the necessary involvement of all workers. In this environment, everyone learns when and how to act relative to the present system's capability. The new leadership can then give real guidance about how to act in the future, as well as how to create improved, more capable systems. Creating this environment is obviously management's responsibility and can most probably be accomplished through leadership.

Summary

Deming has clearly pointed the way and described many of the obstacles we face if we accept the challenge of transforming our organizations. Present practice in performance appraisal represents a fundamental barrier to transformation and must be eliminated if we are to get on with the necessary change to effective leadership: helping people to do a better job.

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Compensation in a Collaborative Society

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Discussions on performance appraisal would not be complete without some review of how compensation is handled in Japan. Though their actions should not be duplicated in their entirety—just as the Japanese should not copy all that we do—we should examine their compensation process to determine whether selected characteristics might improve our own processes.

Japan exemplifies collaboration between management and labor. The success of its products and services in the worldwide market is the result of teamwork by all employees in a united effort aimed at the success of the enterprise.

Lifetime employment and seniority-based wages, systems believed to have begun in the 1910s, are the fundamental factors in the educational and training activities of Japanese industry. Especially in larger companies, these systems have helped build unique labor-management relationships, with labor (males under age 60 for the most part) usually represented by enterprise-based trade unions.

Lifetime Employment

A labor market, in the western sense, is virtually nonexistent in Japan. Recruitment practices focus on students leaving high schools and colleges, and it is a generally accepted practice for both the employer and the employee to guarantee employment until retirement. There is no formal contract, but the moral obligation is assumed on both sides. In the past, this applied only to full-time male employees, but that is changing as women in Japan begin to benefit from an equal opportunity law. Further, 58 percent of Japanese companies employ part-time employees, which provides some flexibility in adjusting the workforce for uneven workloads.

In recent years, lifetime employment has involved a longer period of time because retirement age, which varies from company to company, is climbing as Japan becomes increasingly aware that older people today are more physically and mentally active than they were a generation ago. The Japanese population over age 65 increased from 6.3 percent in 1965 to 11.2 percent in 1988. The Ministry of Health and Welfare estimates that it will increase to 23.5 percent by the year 2020. There are two reasons for this increase: a lower birth rate and an improvement in life expectancy. The average number of births in the lifespan of Japanese women decreased from 2.7 in 1955 to 2.17 in 1987. At the same time, the average life expectancy of men and women has increased more than 10 years from 1955 levels, giving Japan the world's longest life expectancy (79.8 years for women and 74.2 years for men) (Tsuneta Yano Memorial Society, 1989).

A sizeable elderly population, of course, means more expenses for social welfare. Corrective actions now being taken include inflation control, reduced health care expenses, and allowing older people to continue contributing in the workplace.

Seniority Pay

In Japan, regular employees are recruited out of school with no experience. Employers assume the responsibility of educating and training their employees. Job rotation is part of career development. For the first 10 to 12 years of working, an employee gains experience in many different work areas, but always in an open area under the supervision of several layers of management. During those first years, management identifies the leaders and determines whom to promote.

Because the only labor market to speak of in Japan is the "fresh school leaves," the key factor is starting salary. A Nikkeiren (1985) survey found average starting salaries in 1985 to be as follows:

- University graduate (age 22) $685/month
- Junior college graduate (age 20) $590/month
- Senior high school graduate (age 18) $555/month
- Junior high school graduate (age 15) $485/month

This pay structure is designed to meet the needs of the employee over the long term. The needs are categorized by employee age groups:

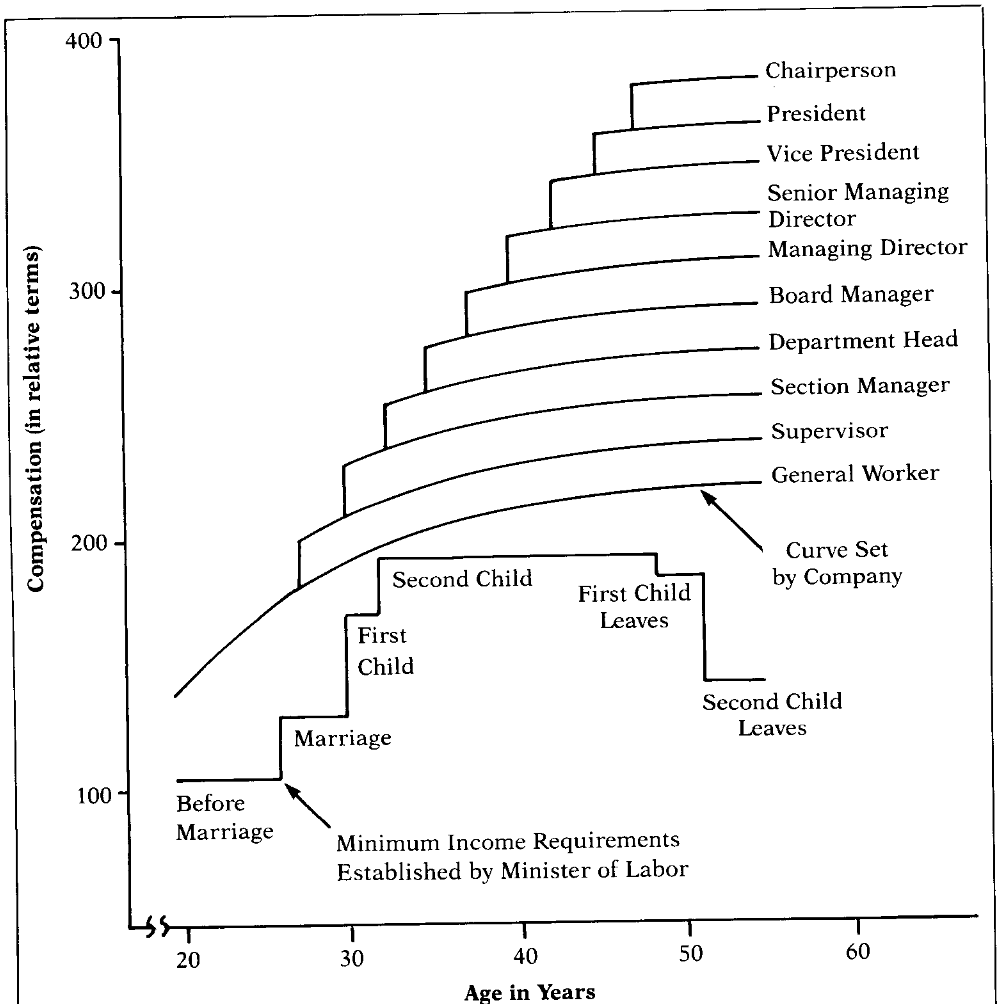
- 15–22 New hire joining company, single, no dependents
- 26–28 Married, one dependent
- 28–30 One child, two dependents
- 30–32 Two children, three dependents
- 48–50 First child becomes independent, two dependents
- 50–52 Second child becomes independent, one dependent

The Ministry of Labor uses this information to compile statistics on salary level by age group. Organizations then use the statistics to determine age-based pay. Built-in increments, which increase by length of service, are called seniority-based salaries. Blue collar workers have been paid on a salary basis since 1946, when blue and white collar employees were consolidated into one enterprise union.

Individual enterprises also use this information in calculating pay raises. A curve fitted to the data becomes the unique salary scale for each enterprise (see Figure 1 on page 82).

The curves do not go down in the later years to reflect lower costs of living, which indicates that younger employees subsidize older employees. Because the enterprise has an obligation to provide job security for the older employees, it must maintain a balance with younger employees to remain competitive. The number of new employees recruited is arbitrary,

Figure 1—Compensation guidelines for Japanese employees



because their role is not to fill vacancies, but to maintain a balance in the workforce structure.

The pay level for regular employees is altered every year to take into account market level, living costs, and the company's ability to pay. Various allowances are also added: meals, dependents, commuting costs, etc. Seniority pay is independent of the job value performed and the work done. For differentiation purposes, job evaluation (the estimate of the value of the position) and merit rating systems, plus bonuses, are added to seniority pay.

Japanese business regards labor costs in total as "quasi-fixed" costs and negotiates distribution with labor representatives. The pay levels are usually revised once each year based on collective bargaining. This is done automatically in the spring, giving rise to the term "spring wage offensive." (See Table 1 for increases over a 10-year period.)

Table 1—Results of "Spring Wage Offensive"

Year	Revision Percentage
1975	12.80
1976	8.73
1977	8.71
1978	5.48
1979	5.48
1980	6.58
1981	7.51
1982	6.91
1983	4.36
1984	4.42

Table 2 on page 84 outlines the elements that determine the makeup of the annual revision of the pay increase. For example, based on a survey by Nikkeiren (1984), the increment for salary adjustments other than "base-up" is usually 2.3 to 2.4 percent. Immediate supervisors and their managers usually conduct ability appraisals and performance appraisals annually. The appraisal is responsible for only 5 percent of the 2.4 percent increase other than base-up, or 0.12 percent of the employee's salary increase for the year.

Table 2—Considerations in annual pay increases

Annual Pay Increase	Regular increment	Automatic increment	(Age, length of service—increment based on built-in systems)
		Increment based on appraisal	(Ability, performance—appraisal based increment
	Increment at the time of meeting criteria	Internal qualification and promotion to higher post	(Line promotion—internal qualification promotion based on built-in system
		At the time of meeting criteria	(Family allowance, housing allowance, commuting allowance, etc.)
	Increment at the time of adjustment	"Base-up"	(Negotiated with trade unions)

Table 3 presents data from the survey showing the increases for blue collar workers employed by companies responding to the survey. This is also typical for white collar workers.

Table 3—Increases for blue collar workers

Year	Increase (other than base-up)		Base-up		Total	
	$	%	$	%	$	%
1980	19.30	2.4	40.59	4.9	59.89	7.3
1981	20.48	2.4	47.27	5.5	67.75	7.9
1982	22.00	2.4	44.33	4.8	66.33	7.2
1983	21.38	2.4	25.09	2.5	46.47	4.8
1984	23.27	2.4	23.55	2.4	46.82	4.8

Bonuses

In addition to seniority pay, employees typically receive substantial bonuses twice each year: once in August as they go on holiday and need extra money, and again at the first of the year when they have New Year's gifts to buy. Management describes the bonus as a paternalistic gift, rather than a reward or buffer. The unions, however, say that it is deferred compensation. On this point, management and union are in a stalemate. The company personnel department and the union negotiate the bonus. The average annual bonus is about 4.7 months' salary, or about 39 percent of the total income for the worker. Some companies, like Sony, might pay eight months' salary in bonuses, while others pay none. Managers' bonuses could be affected up to 20 percent above or below the average employee bonus, depending on the results of their appraisals.

Promotions

Because the only available labor market is within the enterprise, the commitment to education, training, job rotation, and career development is of paramount importance. Figure 2 shows a typical organization chart.

Figure 2—A typical organization chart

Chairperson

President

Vice President

Senior Managing Director

Managing Director

Board Manager (Torishi Mariya Ku)

Department Head (Bucho)

Section Manager (Kacho)

Foreman or Supervisor

General Worker

A senior high school graduate will spend about 10 years as a general worker before becoming a supervisor. The university graduate will work for 12 to 13 years before he or she can expect to become a section manager. With the aging society, these time periods are being extended, although in later years, the chairperson often steps aside to a position of counselor or advisor to the board.

Because the decision for promotion is subjective, personnel appraisal systems have been brought in from the United States. Once a year, the immediate supervisor and his or her manager conduct the ability appraisal; they do the performance appraisal twice a year. The major factors considered in priority order are

- ability appraisal (present abilities: what and to what extent)
- performance appraisal (present performance: what and to what degree)
- length of service
- educational background
- tests (sometimes).

A growing number of companies are adopting the "test method" to measure whether the promotion is adequate, objective, and equitable (fair). Table 4 presents the key points covered in the ability appraisal.

Table 4—Key points in ability appraisal

Conceptual skill	Planning Decision making Problem solving Implementation
Human skill	Leadership Control Negotiation Cooperation
Technical skill	Knowledge Experience
Sense of responsibility	
Will	
Positive intention	

Only 25 percent of the companies surveyed use a performance appraisal. Of those that do, Nikkeiren (1984) showed the precautionary steps they take to achieve objectivity and fairness. Table 5 shows the percent of respondents using each of the techniques.

Table 5—Precautionary steps in using performance appraisal

Techniques	Percent of Users
Both primary and secondary appraisals	84.1
Education and training for appraisers	38.4
Self-appraisal to be added	35.4
Both primary supervisor and supervisors in related sections	28.6
Cross check by interviewer and interviewee	25.6

The same survey noted some of the major problems with the appraisal of department managers, as presented in Table 6.

Table 6—Problems with appraisal

Problems	Percent of Responders
Problems arising from design	
How to combine results and education plan	40.9
Too small a reflection on pay and bonus	29.2
Problems related to criteria	
Too abstract, involving subjective judgment	57.8
No clear objective set at performance appraisal	33.4
Problems arising from adjustment to appraisal	
No rational method available to combine severe and loose appraisals	59.4
No systems available to feed back results of appraisal	51.3

Opportunities for promotion to higher posts are open to all employees, but only recently have they been available to women. After recruitment, each employee is observed for his or her adaptability through rotation among different occupations and functions.

By using the long term observations, random variations in an employee's performance are leveled out, and decisions on promotion can be made more objectively. A Japanese philosophy, which calls for critical thinking on the part of personnel management or human resource developers, states: "A job must be made to suit the available person, rather than the person made to fit the job."

Because of changes in the business environment, Japanese companies try to diversify their managerial posts. Of the companies surveyed, only 18.5 percent limited managerial posts to line-manager functions. Eighty percent adopted specialist/staff function posts on the same pay scale as line managers. Specialists/staff are selected for knowledge in very narrow or specialized fields, such as research and development and planning positions. Such positions are considered distinguished in Japanese companies and, in some cases, are given to older employees to maintain a balance in the workforce.

Summary

The norm in Japan is to design performance appraisal actions to reinforce collaborative behavior. Japanese organizations do not rank employees or force "win-lose" situations, as is common in the United States. The lesson to be learned from Japan is to use compensation systems to ensure teamwork and collaborative behavior, which will improve performance throughout the entire organization.

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Getting to the New Paradigm

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Most U.S. organizations use a performance review process in which they establish measures and evaluate an employee's behavior and accomplishments over a period of time. In theory, the employee's immediate manager completes the appraisal annually and then uses his or her judgments on performance to make salary and promotion decisions. The degree of employee input on establishing objectives may vary, but the result is the same: managers tend to judge an employee's knowledge, skills, and contribution based on their beliefs, values, and biases about how that job should be done. Many managers would say, "What's wrong with that? You've got to evaluate employees somehow, and no system will be perfect, so what's all the fuss about? Anyway, unless you've got a better idea of some tangible method to implement it that isn't time-consuming, we don't want to get rid of what we've got."

The purpose of this chapter is to describe an alternative approach to the performance review process as we now know it. I believe that the importance of making this shift is clear: we are placing too much emphasis on measuring and evaluating the wrong things. Instead of attempting to measure the employee's knowledge, skill level, and contribution to the organization, we ought to be evaluating whether or not we are satisfying customer needs and requirements. An information exchange between managers and employees is crucial, but the current feedback process has many flaws. It is often

- judgmental (with arbitrary rights and wrongs)
- too general to provide clarity on how the employee should change
- based on circumstances over which the employee has little or no control
- given by managers whose skills in assessing performance have not been well developed.

We need to revisit our thinking about what we are evaluating, who is doing the evaluating, and if they are equipped to do it. We need to eliminate the current performance appraisal process and establish alternative approaches to measure our objective of meeting customer needs. I agree with Deming (1987) when he says:

> The most powerful inhibitor to quality and productivity in the Western world is the so-called merit system or annual appraisal of people. What it does is to destroy people. Destruction of the people in a company leads to destruction of the company (p. 2).

What Is the Alternative Approach?

Because so much has been written about current performance review practices, in which the focus is on evaluating the individual's contribution to the organization, there is no need to rehash that information here. Suffice it to say that by fixing our attention on constantly trying to improve current performance review practices, our focus is much too narrow. Therefore, in an effort to contrast the steps in an alternative approach, I have simply listed the steps of the current practice as they are most likely to occur in organizations. Table 1 outlines the focus and steps of the current performance review practices and an alternative approach that places the focus on customer needs.

Table 1—Performance appraisal versus the customer focus approach

Performance Appraisal Current Practice	Customer Focus Alternative Approach
The focus is on evaluating the individual's contribution to the organization by:	The focus is on evaluating whether the organization is meeting customer needs and requirements by:
1. The manager establishing objectives/expectations with the employee (who may or may not have input on shaping the objectives).	1. The decision maker in the organization meeting with the staff (as a team) to determine who the customer is.
2. The manager observing/ evaluating the employee's performance.	2. The team meeting with the customer to determine customer needs and requirements.
3. The manager providing feedback on an ongoing basis.	3. The team developing a strategy to meet customer requirements by:
4. The manager evaluating/rating the employee and communicating the rating to the employee.	a. Meeting with employees to discuss customer requirements.
5. The manager recommending administrative actions (promotions, salary actions).	b. Outlining the processes in place and eliminating any unnecessary steps.
6. The manager and employee outlining a development plan to increase the employee's knowledge and skill level.	c. Learning how to utilize statistical calculation and statistical thinking to strive for ongoing improvement of the system.

continued on next page

continued **Table 1—Performance appraisal versus the customer focus approach**

Performance Appraisal Current Practice	Customer Focus Alternative Approach
7. The manager establishing a new set of objectives/expectations with the employee for the next performance cycle.	d. Establishing ongoing information exchange between the management/employee team and the customer.
	4. The manager and employees maintaining an open and ongoing information exchange with each other, with a focus on improving processes.

What are the considerations we must address to make the "customer focus" approach a viable alternative? They include
- a management/leadership style
- a collaborative, team approach to working
- feedback to employees and an information exchange
- career planning
- reward systems.

A management/leadership style

The first consideration is: "Are managers equipped to manage or lead employees in the customer focus approach?" To answer this, managers need to assess their readiness and practices honestly to determine if they are committed to the style required to implement a customer service approach effectively. According to Robert B. Reich, "American management is today following principles that are a legacy of a different era" (Deming, 1987, p. 2).

What then are the key qualities of the transformed manager/leader? The leader must be committed to
- lifelong learning
- a customer focus approach
- fostering innovation
- high ethical standards
- empowering others
- statistical thinking
- long-term rather than short-term thinking.

Lifelong learning. The leader/manager must take the time to conduct a self-inventory to determine his or her true current beliefs and practices.

This assessment needs to occur within the manager's work environment in conjunction with the manager's peers, manager, employees, and an organization development consultant. In addition, assessment services, such as National Training Labs workshops, are helpful for providing interpersonal skills assessment and in-depth personalized information on beliefs, values, and biases, and their impact on interactions.

The commitment to lifelong learning is a mind-set that says, "I don't have all the answers, and that's OK." It also says, "The need to control others comes from insecurity, and others don't want to be controlled anyway." The goals of lifelong learning include being open to change, learning how to learn, and listening in an effort to achieve understanding. In this information age, we cannot know it all; we must rely on input from others to keep us current.

A customer focus approach. The manager/leader must be able to identify and understand the customer requirements and to include employees when discussing those requirements. The manager should then work with employees to examine the processes in place, to obtain ongoing customer input, and to allow for feedback between employees and between employees and managers. The team's goals (manager and employees) would be to improve processes continuously by being open, flexible, and adaptable to change.

Fostering innovation. The manager would tolerate or expect mistakes when they occur rather than blaming and downgrading employees. The manager would encourage risk taking and continuous improvement in an effort to improve processes and to provide the customer with a quality product.

High ethical standards. The manager would deal honestly with employees, peers, other managers, and the customer. This would entail complying with laws and regulations, using company resources judiciously, and treating others with respect and dignity. To achieve this, managers first must assess their goals, values, and beliefs related to their own management/leadership style and then determine areas for improvement.

Empowering others. The manager must have a positive self-regard in order to express that same positive regard for others. Managers' expectations and treatment of their subordinates play a significant role in subordinates' performance and career progress (the pygmalion effect). The manager must express confidence in the employee, while demonstrating the skills and knowledge the employee needs to do the job effectively. The manager must be willing to share power by giving the employee the necessary information required to perform the job effectively and be willing to accept input from the employee as well. The manager needs to recognize diversity with employees and to accept each contribution as unique and valuable to the overall team effort.

Statistical thinking. To keep processes within control limits, the manager needs to recognize the importance of statistical tools and statistical thinking. Statistical thinking requires the manager to step back from a linear approach to problem solving and to adopt a conceptual approach of looking at all variables affecting the process.

Long-term rather than short-term thinking.

> "Inhibitors to quality and productivity have crept in, amongst which are emphasis on the quarterly dividend, short-term planning, creative accounting, manipulation of assets, management by the numbers, business on price tag with short-term relationships, and unfriendly take-overs (Deming, 1987).

U.S. management needs to do some long range strategic planning if we are to survive in the long run.

A collaborative, team approach to working

The second consideration in the customer focus approach is that employees work as a team rather than as individuals. Managing a team requires special skills and considerations, and managers need to encourage team members to collaborate rather than compete. Thus, there should be no practices in place, such as individual employee recognition awards or rating systems, that can sabotage team cohesiveness. A climate of trust can be created by sharing information openly within the team setting.

Team members should be instructed on how to give feedback to one another that emphasizes improving processes, not attacking individuals. The manager also should be open to receiving feedback from members of the team and be willing to make adjustments to improve the team's efforts. The team is not simply a collection of people; it is a collection of people who actively care about their team's well-being, are interested in producing outstanding results, feel responsible for the output of their team, and act together to clear difficulties standing in their way.

To develop a team effort, managers must understand group dynamics. This includes understanding task and maintenance issues in a group, the stages of group development, roles and responsibilities in group interactions, and how to lead and process group dynamics.

Feedback to employees

The third consideration is feedback. The idea of receiving feedback from one's manager too often bears a negative connotation or conjures up a feeling of dread. Most feedback currently is given by the manager in a one-on-one format. The manager may observe the employee only sporadically, does not observe the behavior in a way that will give the employee new insights on what to do differently, and may observe in a judgmental way, labeling the behavior as positive or negative. In addition, the manager may have difficulty observing the behavior in the context of the employee's knowledge or skill level because the manager may not know what that level is.

In this alternative approach, the manager must be able to

- observe the employee
- pay attention to his or her own self-talk about the observation
- sort out the self-talk to work toward a positive pygmalion effect
- give feedback to the employee in a manner that incorporates listening as well as talking.

The feedback should be given within the context of the team and should describe the specific details of what was observed and the impact of the activity on the overall team effort. Team members should have a chance to give their perceptions and to discuss changes that should occur.

Examples of feedback managers currently give to employees are: "The employee isn't a team player," "The employee is too defensive," "The employee has a good/bad attitude," and "The employee does a good/poor/above average job." The obvious flaws in such feedback are that it is judgmental, denoting either a good or bad contribution, and it is too general.

Feedback should be specific, utilizing specific data with the aim of helping employees work within the system and the defined processes. Also, feedback given to the entire team could lessen some of the problems of mistrust and confused messages surrounding current feedback processes. We no longer can afford the "air of secrecy" that individual feedback via performance reviews has perpetuated. Managers can open up the system by telling all employees the same information at the same time and by allowing for clarification in a team setting. In this manner, the manager moves toward information exchange rather than just feedback.

Career planning

Another consideration in the customer focus approach is career planning. Management should assess the organization's human resource needs on an ongoing basis. To accomplish this, managers need to be aware of the knowledge and skills their employees would like to develop and, when possible, try to match those interests with the organization's needs. Too often the organization ignores its employees' career interests and pays attention only to the "super-star" employees. Career considerations must be a responsibility of both the employee and the manager, with the goal of recognizing and developing growth potential in all employees.

Reward systems

The last consideration is rewarding employees for their contributions. Reward systems consistent with the customer focus approach include profit sharing or gain sharing as a means of rewarding employees. In these systems, employees receive a base pay determined by their job seniority and job function and by a percentage of the profits. Overall team efforts are rewarded rather than individual efforts. In addition, team members recognized by the team as major contributors or innovators often receive promotions.

Summary

By redefining the processes used to measure performance and by developing alternative strategies and approaches for managing, I believe we will be able to meet customer needs better and maintain more productive and effective work environments.

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Performance Appraisal: What Do We Do Instead?

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Few people would argue with Deming's recommendation that U.S. business should eliminate barriers that rob people of pride in workmanship (Deming, 1986). However, his specific recommendations about certain "barriers" are more controversial. In particular, many U.S. companies have difficulty accepting Deming's recommendation to eliminate annual performance reviews for managers and people on salary.

In my experience, however, Deming is right. Performance appraisals can do great damage to supervisor/subordinate relationships and can destroy teamwork, especially when they involve competitive ranking for merit increases. The exceptional company may have developed an effective appraisal process, but most U.S. companies would be better off simply to end their performance appraisal programs and turn their attention elsewhere.

Deming (1988) makes another interesting observation about U.S. business that relates to our reluctance to discard performance appraisals. He suggests that the usual mistake made by U.S. business is to suppose that quality is ensured only by the fourth prong in his "four prongs of quality":

- innovation in product and service
- innovation in process
- improvement of existing product and service
- improvement of existing process.

Perhaps many people make the same mistake when they offer suggestions on improving the performance appraisal process. A more effective alternative may be to consider innovation in other management processes, rather than continue efforts to improve the appraisal process.

As DeVries and Scholtes point out in their chapters, we may simply have expected too much from such systems. According to Scholtes, performance appraisals serve many purposes, including salary administration, feedback, employee development, etc. Perhaps our reliance on performance appraisals for so many functions explains both our reluctance simply to discard them, as well as why we have such a strong tendency to try to improve the performance appraisal process. A simple appraisal process may have benefits, but most companies can achieve greater gains by innovation and refinement of existing systems to accomplish performance appraisal functions.

Scholtes identifies several of the functions that performance appraisals often fill. If we address the key functions of performance appraisals, the primary questions are:

- How can we best provide feedback to our employees?

- How do we motivate employees and administer compensation in a fair and equitable way?
- How can we promote the personal growth and development of our employees?

The systems that answer those questions are, as Deming (1986) suggests, the responsibility of management. The systems, together with the actual practices of managers and supervisors, are key elements in the management process. Furthermore, performance appraisals do not effectively address those questions. Though Deming suggests that companies stop conducting annual performance reviews, I suggest, as an alternative to performance appraisals, that companies refine their management processes to address these issues. With respect to management systems, they are the critical few among the trivial many.

The Management Process

Managers must create an appropriate work environment for employees by creating a consistent management process. In effective organizations, the manager might more appropriately be thought of as a "designer of the culture," rather than "the boss." The position is one of ensuring that

- the members of the culture have the appropriate values and skills
- the environment provides both formal and informal systems to support those values and skills.

In part, the question becomes, "How does the management team create a system that develops and maintains pride in workmanship?" To achieve this end, the organization must establish two-way communication about performance (as well as other issues) and encourage its members to identify, analyze, and ultimately control both special causes and the sources of routine variation systematically.

The following systems deal with many of the functions expected of performance appraisals. I have presented them in the order with which I believe they need attention in the typical American business.

Measurement and feedback

Managers must arrange for appropriate data collection and distribution within the organization. Employees at all levels of the organization need good information to make informed, scientific decisions. Empirical evidence on the importance of well-designed feedback systems is simply too overwhelming to leave these issues to chance. Yet measurement and feedback systems are key components of the management process that continue to need attention in most companies.

Managers need information that they can review with their teams on all key aspects of the team's performance, including safety, quality, schedule, and cost. Such feedback must be essentially continuous, not simply once or twice a year. A quality management process establishes ongoing evaluation of the opportunities for improvement in all areas.

Safety as part of the process. Many industrial companies involved in quality improvement programs are overemphasizing outcome measures, particularly in the area of safety. U.S. companies that are reducing the layers of management and pushing product responsibility down to the lowest level must take special care to create a process for managing safety. Management must ensure that safety is integrated into quality improvement efforts with regular audits of safety practices, whether the audits are conducted by management, staff, or the production teams. Specifically, the audits must collect data on the safety process and the actual, on-the-job performance of employees, not just unsafe environmental conditions.

Customer feedback. In addition to other performance measures, managers must ensure regular communication with and feedback from customers (whether those customers are internal or external). This customer feedback loop should identify the customer's needs and expectations (which are operationally defined as requirements or standards), as well as information on how well those expectations are being met. Such feedback loops provide the data necessary for evaluating the adequacy of the process and internal targets.

Good process measures and customer feedback are of particular importance in service businesses. Internal service organizations and staff groups, such as training and maintenance organizations, also need effective service measures. Without such information, such business teams cannot effectively improve their customer relationships.

White collar environments. Managers and professional personnel often have special information needs that get neglected in quality improvement efforts. The difficulty in providing ongoing feedback to professional personnel is yet another factor that leads to a reliance on performance appraisals. While managers are responsible for the performance of their teams, they also have other responsibilities that should be part of an effective communication and feedback system. Their feedback should not simply be data on the performance of their areas. The performance tracking and feedback process for most white collar employees should emphasize planning, customer contact, and project management and should look less like traditional production measurement.

Motivation and compensation

Perhaps as much as 80 percent of employee motivation is a function of an organization's social culture. Even providing feedback will only be effective if the environment is one in which employees can take pride in their performance. Many managers have great difficulty controlling this part of the management process. It requires three things:

- great self-control in the manager's *social interactions* with others
- creating an *employee involvement* process that values improvement

- a *pay-for-performance* program that provides longer term consequences and supports safety, quality, and customer service.

Social interactions. An important part of an ongoing feedback process is social. Maintaining employee motivation requires more than simple data feedback and regular meetings with employees. It requires relationships that are developed through individual contact and information gathering, often established during informal tours of the organization, such as management by walking around (Peters & Waterman, 1982). Managers must actively contribute to motivation through the use of positive verbal feedback, teaching, and effective listening.

Some forms of social interaction seriously detract from employee motivation. Among the primary culprits are nagging and criticism. Managers need to stop or severely limit such counter-productive activities in order to cultivate a positive community.

Employee involvement. Establishing an effective feedback process requires more than simply posting charts or distributing the appropriate information. Ensuring an effective feedback process requires that managers conduct short, small group meetings with employees on a regular basis to review and analyze such information. In general, this process should involve employees in analyzing data from their functional areas, with occasional participation in special cross-functional teams. Such small group meetings are the most effective method for enhancing communication with all employees.

Some companies also are fostering involvement in white collar employees through a policy deployment process. Policy deployment is a planning and review process that coordinates the objectives of managers and professionals at different levels of the organization. The process is similar to management by objectives except that the emphasis is on developing a coordinated plan for implementing company policy rather than on numerical goals or quotas.

Pay for performance. Performance appraisals are often part of an existing compensation system. Compensation is an area in need of great innovation. Traditional merit systems and incentive programs destroy motivation, emphasize short-term results, and often generate competition that destroys teamwork.

Today's innovative incentive programs have little in common with traditional piecework programs or merit systems. Well-designed incentive compensation programs share the economic rewards of success. Such programs often divide the economic benefit resulting from improved performance equally among owners, managers, and employees. Importantly, they do so in a way that reinforces performance that contributes to safety, quality and teamwork. They present a win-win situation for all involved. In the ideal program, employees have a relatively low base salary and a potentially large monthly bonus based on two factors: their individual performance and the economic success of their organization. The employees benefit when they perform well and the organization is successful. In addition, the employees share the risk when the company enters a down market but benefit from the job security that comes with lower labor costs.

Employee training and development

As mentioned earlier, Scholtes points out in his chapter that performance appraisals are often expected to contribute to employee development. Again, my belief is that companies will get a greater return by devoting their resources directly to their training and development activities and systems rather than devoting resources to refining the performance appraisal process. Three training and development areas often need attention:

- safety training
- ongoing education and training
- career development interviews.

Safety training. Safety training in many U.S. companies has room for improvement. Most safety training does not effectively involve employees and is not developed on the basis of systematic analysis of safety data. A simple solution is to integrate safety into quality improvement programs, to involve employees in the analysis of safety data and development of training programs, and to follow through by involving teams in the design and implementation of regular safety audits.

Ongoing education and training for all employees. Excellent companies, such as DuPont, Yellow Freight, and Frito-Lay, invest a great deal in training for all employees. Deming (1986) is correct when he calls for companies to develop "profound knowledge" in the areas of statistical process control and psychology. Managers and employees need practical skills for working as a team and for communicating effectively. Specifically, behavioral psychology has a great deal to offer in better understanding of motivational issues and how to design effective work environments.

Though the overall training process is a long-term, ongoing commitment, it should begin the day an employee joins the company. In many companies, new hire orientation refers to the time a new employee spends filling out tax, payroll, and insurance forms. The employee is then turned over to the supervisor who shows the employee where to work and what to do and makes a few introductions. The orientation period should be a formal part of an employee's training process. It should communicate the company's values and establish a basis for future communication. Orientation should be a well-orchestrated and controlled process, not a haphazard introduction left to chance. A simple "welcome aboard" letter or brochure and standardized agenda for the first couple of days go a long way toward creating a positive first impression and creating an expectation of a well-run organization.

Career development interviews. One of the primary reasons for having performance appraisals is to contribute to employee development.

Successful companies involve employees in planning and arranging continual training and education. A career development interview can augment the above systems by providing a formal time to plan and discuss social and technical skills that might not get discussed in the daily routine. These sessions may look much like traditional performance appraisals, except that employees evaluate themselves and then discuss their evaluations with their supervisors, peers, and/or customers. These discussions should focus on specific behaviors, often social behaviors conducive to teamwork and communication, rather than on results that have many influences. The discussions should identify relative strengths and weaknesses without comparison to other employees and should not be tied to salary. Such discussions may be conducted both ways, with subordinates also evaluating their supervisors. Upon completion of the discussion, any written comments are given to the employee, rather than placed in a personnel file (the supervisor may or may not keep a copy for review at the next discussion). To reiterate, such career development discussions are only a small part of an ongoing feedback process.

Conclusions

In summary, I believe that an investment in refining the process of management is more cost effective than developing improved performance appraisal systems. This perspective clearly aligns with, and perhaps expands, Deming's recommendation that companies stop conducting performance appraisals.

Our views diverge, however, on the issue of compensation. Clearly Deming has identified some of the major failings of merit pay and many incentive compensation programs. Just as clearly, we cannot simply do away with compensation and, therefore, must refine compensation systems in ways that contribute to safety, quality, teamwork, and long-term perspectives.

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Barriers to Change

Performance Appraisal: Impediments to Moving to a New Paradigm

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The debate over performance appraisal is a long and heated one. As is evident from the works in this volume, there is a core of believers who contend that we should eliminate the practice because of the many problems performance appraisal allegedly causes, including demotivation and worker discontent. But there is another group of believers who argue that performance appraisal is the most important system for managing human resources within an organization (Latham & Wexley, 1981). Their argument is that performance appraisal ties together all the factors key to managing people—motivation, productivity, the work ethic, feedback, and evaluation.

Given these contrasting views, the thrust of this chapter is that any attempt to eliminate the practice of performance appraisal without establishing an effective substitute is fraught with risks. This cautious note, which operates on two fronts, hopes to expand the debate and move the argument forward through a reasoned approach to solutions to the problems raised, rather than through an emotional attack on a process that admittedly is controversial and difficult to operationalize. The crucial issues raised and the importance of the debate demand that progress be organized and rational.

What Is Performance Appraisal?

The definitions and the described purposes of performance appraisal vary:

> The interpretation of a performance measurement in terms of relative or absolute levels of effectiveness and/or the standards of performance met (Bernardin & Beatty, 1984, p. 13).

[A] . . . formal, structured system of measuring, evaluating, and influencing an employee's job-related attributes, behaviors, and outcomes, as well as level of absenteeism, to discover how productive the employee is and whether he or she can perform as or more effectively in the future so that the employee, the organization, and society all benefit (Schuler, 1987, pp. 212–213).

Performance assessment is the process that measures employee performance. It involves deciding (1) what to assess, (2) which assessment procedure to use, (3) who should make the assessments, and (4) how to communicate assessment results (Milkovich & Boudreau, 1988, p. 185).

Performance management and control refer to the task of ensuring that human resource policies and programs are producing the desired results. . . . The major purposes of performance evaluation are to ensure objective and fair administrative decisions, assess the competency of employees on their current jobs, correct performance deficiencies, and develop employees for performance of future jobs (Scarpello & Ledvinka, 1988, pp. 645–646).

Implicitly, the above examples set the stage for what is at the root of much of the debate over performance appraisal: What is it and what is it to be used for in the organization? The various aspects of "definition" and "purpose" help fuel the controversy. Indeed, when debates over performance appraisal and its use arise, the debaters often are talking at cross purposes, because one side is looking at the process and the other at the outcomes of the process. This points to a distinction that needs to be made in any such debate.

- What is performance appraisal?
- In the absence of performance appraisal, how will the tasks typically assigned to or based on PA (feedback, pay for performance, promotions, discipline, organizational development) be managed?

It is my contention that only when the debate is grounded on such a similar comparison will progress be made. At present, the argument rages—"Eliminate performance appraisal!" . . . "Keep performance appraisal for all that it can do!"—but the debaters are like ships passing in the night.

To allow the discussion to proceed, it may be best to offer a set of definitions that will form the basis for what follows. These definitions, which may vary slightly from those used by other authors in this volume, should not be viewed as absolutes but rather as illustrative of the issues that will allow a better focus on the problem.

Performance appraisal is the systematic assessment of worker behavior on the job and in job-related matters. Performance appraisal is used to

- counsel and coach
- discipline
- motivate
- set pay

- determine training needs
- assess potential for promotion and/or transfer
- facilitate career planning
- determine candidates for termination/layoff
- increase productivity
- improve communication between supervisor and subordinate
- facilitate organizational development
- reinforce organizational culture.

This definition is sufficient for our discussion in that it highlights a necessary relationship: Worker performance must be appraised/assessed by the organization, and certain types of decisions will follow from such an appraisal/assessment.

The overwhelming feeling is that a great many things are expected from performance appraisal. Indeed, this leads to one of the major complaints about performance appraisal: We expect so much from it that there is no possibility of meeting the expectations; we are overworking performance appraisal in terms of what it can accomplish.

The other conclusion is that the items listed above are tasks that the organization *must* perform if it is to be successful. The top of the list includes tasks that may be termed feedback—feedback the organization must provide to the individual employee to ensure success on the job. The second part of the list encompasses tasks that are necessary for the organization's ongoing success. Although the line between the items is somewhat fuzzy, the necessity of performing those or similar tasks abides with the organization, and *casting aside performance appraisal will not eliminate the need for discharging them.*

This sets the stage for the dilemma that confronts those who advocate the disposal of performance appraisal: What do you use to replace it?

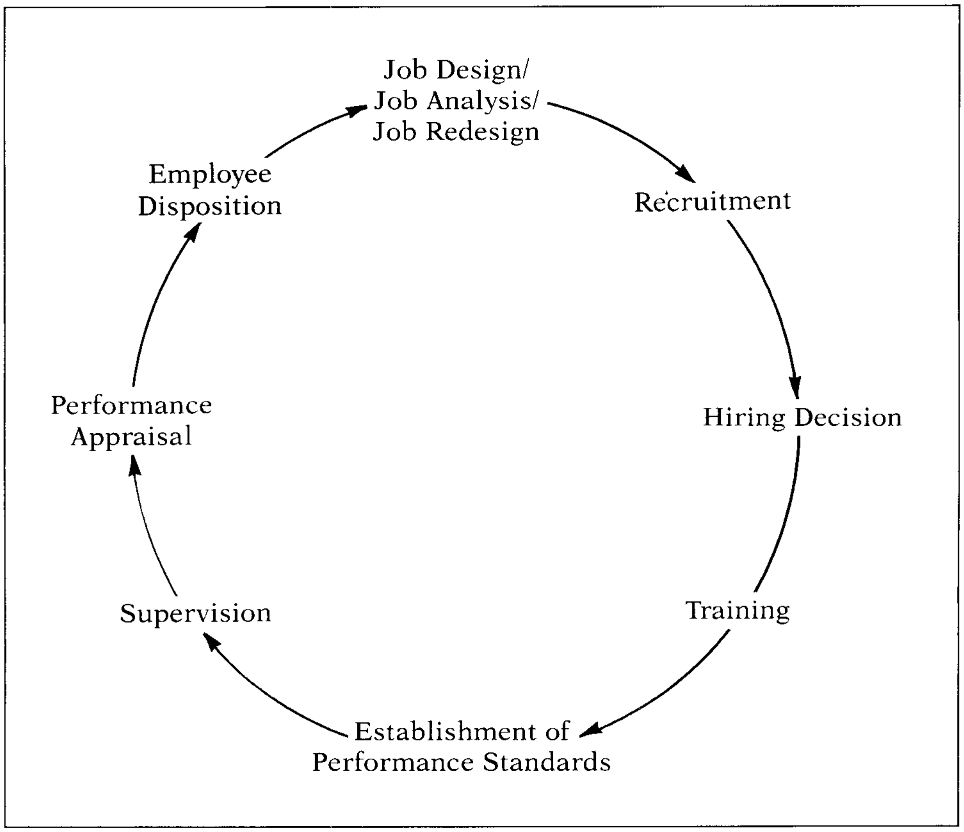
Asking this apparently simple question raises the larger problem facing the debate over performance appraisal: How will U.S. management conduct business into the future? It should be evident that the management of human resources is crucial to the operation of any organization (public or private) that delivers goods and/or services (priced or not) to the market. To discard a key process in managing those human resources without providing an effective substitute involves putting management at substantial risk *or* calling for an entirely different system of management that reflects a different set of societal norms. Either outcome demands careful attention.

The Risk to Casting Aside Performance Appraisal

Performance appraisal is but one of the major links between employer and employee. Recruitment, hiring, training, supervision, employee disposition, and compensation also represent links in that they bring the worker and the organization together. But there is a slight difference here.

In many respects, performance appraisal serves to evaluate all of the above functions, as well as what the worker does on the job. In a sense, the functions listed constitute part of the "system" that those who criticize performance appraisal attack. Deming (1988) and Scholtes in his chapter support this view. Figure 1 diagrams this relationship.

Figure 1—Position of performance appraisal in the overall human resources function



Starting at the top of Figure 1, we see that the processes of job design/job analysis/job redesign establish the content of the job and the skills and abilities necessary to perform that job. These standards establish the criteria for recruitment that are announced publicly to attract job applicants. Next, selection and hiring decisions are made from among the job applicants, and the new hires are brought into the organization. Once workers are in the firm, they receive some form of training (albeit slight in many cases) and are turned over to supervisors to begin work. The supervision, together with the training, establish the performance standards the worker is expected to meet.

Following a period of work performance, the worker is appraised and given the results of that appraisal. Good or bad, high or low, the worker is told how he or she is performing on the job after this process of performance appraisal. After the appraisal, there is some form of employee disposition. It may be additional training, more pay, a promotion or transfer, an exhortation to improve, or, at the very worst, the news of termination.

But now the crucial question arises: Where does the blame (or credit) lie when a worker is denied the transfer, or receives the promotion, or is laid off or discharged because of his or her performance? The obvious answers are, "We do not know" or "How can you tell?" The real issue is that the cause of the employee disposition can lie in any of the operating subfunctions of the human resource function shown in Figure 1.

A failure to be promoted, for example, can be the result of bad job analysis, poor recruitment practices, an improper hiring decision, ineffective training, or inadequate supervision. But the blame, as well as the ultimate impact of the decision, typically falls on the employee. It is the employee who bears the brunt of the ineffectual subfunctions that truly are *management's* responsibility and not the worker's. This again is a reflection of the "system" to which Deming refers (1988).

But does this imply that performance appraisal should be cast aside? Not really. What it calls for is a better, more thorough approach to performance appraisal. Only then can we determine *where* the blame/credit lies and, thus, correct or praise the subfunction involved so that the results of the *next* round of performance appraisals will more accurately reflect employee performance and subfunction effectiveness. This iterative process can then be repeated in subsequent rounds.

Regardless of whether or not the organization attempts to assess and act upon the effectiveness of its performance appraisal process, and even in the absence of a performance appraisal system, the same types of decisions noted earlier will continue to be made. The risk is that making such decisions without a proper record of performance appraisal results (and what they mean) can lead to a *prima facie* argument that the organization discriminates in its personnel practices, engages in unfair treatment among employees, or wrongfully discharges or demotes workers. The following discussion on this topic is based on the work of Schuler (1987).

The question of discrimination based on actions taken as a result of performance appraisal flows from the logic of using tests in personnel and human resources management. What this means is that because performance appraisal is a mechanism that leads to employment decisions, it is subject to the court imposed standards of validity which have been applied to interviews and other tests for employment applicants. From the time of *Stringfellow v. Monsanto Corp.* (1970) and *Willie Griggs et al. v. Duke Power* (1971), management's ability to make unfettered employment decisions has become progressively more constrained.

In *Stringfellow v. Monsanto Corp.*, the court ruled that when companies make performance based decisions, they must base their decisions on identifiable job related criteria. The implication of this decision is that companies must use more than one criterion to ensure that job performance is truly captured. In turn, a standard should be defined for each criterion.

Court decisions have gone further in positing that the criteria need to be "objective" rather than "subjective." In cases like *Rowe v. General Motors* (1972), *Baxter v. Savannah Sugar Refining Corp.* (1974), and *Albemarle Paper Co. v. Moody* (1975), the courts have argued against the use of subjective standards because they may fail to provide fair, accurate, and unbiased employment decisions. This does not mean that subjective standards are not allowed to operate in certain circumstances (*Roger v. International Paper Co.*, 1975), but that they should be made as objective as possible through fair, thorough, and accurate use of the performance appraisal system (*Mastie v. Great Lakes Steel Corp.*, 1976).

The courts have argued further that employment decisions are suspect when they have as their foundation only the opinions and best judgments of the appraisers, rather than objective and identifiable criteria derived from a measured quantity or quality of work or other specific performance that is supported by documentation (*Mistretta v. Sandia Corp.*, 1977). This approach has been carried still further through the determination that without objective or documented evidence of poor performance that has been carefully developed, an employment decision is suspect if it is claimed to be based on "poor performance" (*Oshiver v. Court of Common Pleas*, 1979). Recently, the U.S. Supreme Court decided that if employers make employment decisions based on subjective criteria, they must be able to demonstrate the validity of those criteria (*Watson v. Fort Worth Bank & Trust*, 1988).

These principles have been applied to matters and cases involving

- the communication of performance standards (*Patterson v. American Tobacco Co.*, 1976, 1978; *Donaldson v. Pillsbury Co.*, 1977; and *Sledge v. J. P. Stevens & Co.*, 1978)
- acceptance to apprenticeship programs (*James v. Stockman Valves and Fittings Co.*, 1977)
- promotion (*Gilmore v. Kansas City Terminal Railway Co.*, 1975; *Robinson v. Union Carbide Corp.*, 1976; *Meyer v. Missouri State Highway Commission*, 1977; and *United States v. City of Chicago*, 1978).

The courts have also imposed these standards on performance appraisal systems to set pay (*Wade v. Mississippi Cooperative Extension Service*, 1976) and reductions in force caused by budgetary restrictions (*Brito v. Zia Co.*, 1973; and *EEOC v. Sandia Corp.*, 1980).

The upshot of this chain of court decisions is that management's ability to act based on performance appraisal (or "performance appraisal-like") results has been substantially circumscribed. The courts have called for objective standards where measurable contributions to the organization are assessed for their value and where decisions are made based on fair, unbiased comparisons of individual results. The courts generally require that the appraisal system limit the manager's discretion and demand a review process that prevents a manager from acting alone to control an employee's career (Mathis & Jackson, 1985).

These provisions apply whether the appraisal deals with promotions, pay, demotions, transfers, or terminations. The appraisers must be trained in appraisal, must be provided clear and unambiguous instructions, and must provide complete feedback through discussion with employees (Milkovich & Boudreau, 1988).

Given this context, the prescriptions of Deming (1987) and others to cast aside performance appraisal and substitute frequent feedback must be taken with a large degree of caution. To have supervisors give feedback on a frequent and regular basis is obviously acceptable; but if that is all the supervisor does, there is a substantial potential for liability when employment decisions are made. Employees who are not promoted, who feel their pay increases are not as large as they should have been, or who are being laid off are free to seek a remedy to this perceived inequity through the courts or human rights agencies.

And what defense does the organization have? None at all. The organization that goes to court and tries to defend its actions as the result of counseling, feedback, and supervisory judgment will find acceptance of its position difficult if the actions taken have had a discriminatory impact—regardless of the actual intent of the decision makers. The courts demand a standard of proof that is greater than simply saying, "We were fair." or "We provided frequent feedback."

The legal process typically requires performance data, not only on the person who is the subject of any court action, but also on others who could be characterized as similarly situated. The court's interest is in the extent of uniformity of treatment across coworkers in relation to performance and usually demands evidence from the employer as to the extent of such treatment. Failure to provide such evidence seriously jeopardizes the employer's position in any court matter.

The issues also tie into the U.S. constitutional concept of *due process*. This means giving advance notice of the consequences—both good and bad—arising out of any actions. On the one hand, it gives performance appraisal the role of serving as notice of future disciplinary actions if performance is not improved *and* as evidence of warning should subsequent personnel decisions have to be made. Otherwise, how does the worker know to improve his or her performance if he or she does not know what acceptable performance is and what is necessary to improve? On the other hand, performance appraisal sets the stage for promotions and other favorable personnel actions when performance is more than satisfactory.

The upshot of this discussion is that people advocating the casting aside of performance appraisal are implicitly advising those who do so to leave themselves unprotected from the potential consequences of their personnel actions. Many may argue that it should be unnecessary for the organization to be prepared to justify every human resource decision, but the reality of our litigious society is that often such decisions must be justified, and at incredible expense. Akin to going "bare" in the language of the insurance industry, the risk certainly may be as great.

An Entirely Different System of Management and Societal Norms

The above discussion stems from a practical perspective, but what follows is a more general concern about moving to a world without performance appraisal. The core of this discussion focuses on the system of management used in the United States and how it reflects the larger social norms in this country. Obviously, such a focus must use a broad brush to cover much in a relatively limited space.

U.S. management, in many respects, comes out of the rugged individualist tradition that has been said to characterize this country (Deming, 1988; Commons, 1935). The managerial function that has evolved as "business" in the United States has developed from the guilds of the eighteenth century to the mammoth corporations of the late twentieth century. This evolution has been characterized as the separation of the "managers" from the "managed," the "employers" from the "employees," and the "boss" from the "bossed." But the issue is far more than a situation of separation.

As the United States has evolved, it has changed from an industrial society to an information society—one of the Megatrends identified by Naisbitt (1984). But has this concern with information become obsessive? As computer technology has advanced, the ability to collect, store, and review data has grown exponentially. Managers can peruse visual display terminal (VDT) screens to survey the performance of production lines and sales districts and service operations and cash flows and . . . the list can go on indefinitely. The point is that, without concern for the people involved, the manager of an organization can monitor a vast array of numbers about how the organization is performing and can judge whether those numbers are "good" or "bad" and what should be done about them. As noted as early as 1935 by Lescohier, these decisions can be made in the confines of a "mahogany-paneled" office, with little or no contact with the outside world.

The ability to collect and analyze data, when taken together with the computer's proclivity for creating the impression of precision by carrying numbers out to four or more decimal places, has enabled management to focus on the measurable—to the potential exclusion of the unmeasurable (or at least the difficult to measure). It has created, in many organizations, an impersonal world where management is conducted by memo, FAX, and local area network (LAN). In turn, the incidents of face-to-face contact have shrunk, while the distance between manager and the managed has grown.

It is important to note that it is not appropriate to blame management for this situation, although there is enough blame to go around for everybody. The issue here is, "What do we expect from our managers?" Society has put a very specific demand on management: Make money, and make it quickly! One need only look at the literature of management to see this requirement as indicative of what management is to do. For example, in speaking of the efforts of C. Robert Powell to turn Reichhold Chemicals around, Aguilar (1988) says:

> The principal objective was to achieve a 20 percent return on shareholder's equity. This figure was compared in the annual report with a 14 percent average ROE [return on equity] for all U.S. manufacturing in 1982 and with Reichhold's historical return of 6 percent to 7 percent (p. 6).

Indeed, this is the measure, the holy grail, of a manager's success in U.S. society—how profitable the organization is (Schmidt, 1983). The manager who succeeds is the one who keeps the profits positive and rising quarter after quarter until something goes wrong. Then management is replaced with "new, forward-looking officers," who also are expected to turn profitability around in upcoming quarters. There often is too little concern about the longer run prospects of the organization.

Though this example may seem a bit overstated, it reflects a significant characteristic that distinguishes U.S. managers from other managers around the world—an abiding concern with the bottom line. This search for profits is consistent with the movement to an information society, for it is a *measurable* assessment of what happened to the organization over a *measured* period of time during a well-quantified state of economic activity. In turn, it sets the stage for all the other measurements management uses to assess organizational performance.

Note that it is this concentration on the bottom line in the short run that has been the cause of much economic disruption, market chaos, and pain in the long run. In 1988, an article in the *Minneapolis Star Tribune* reported that 215 savings and loans—most of which once had a bright period of strong profitability—had been dissolved or taken over and that probably another 150 were on the brink of disaster (U.S. completes, 1989). The takeover mania was running strong, with the leveraged buyout (LBO) entering everyday language, as managers sought to merge, buy, and sell companies to improve their profit pictures, with the hope that current profitability would continue into the future. Today, those mergers and buyouts, financed through incredible debt packages, have done nothing to provide the real capital investment that will lead to a larger stock of productive plant and equipment.

What about the longer run? We see the S&L problems becoming an increasing threat to the very stability of the financial sector. Not to sound a note of gloom and doom, but we find economic prognosticators speaking of the possibility of massive defaults and bankruptcies resulting from the LBOs, should we enter a recession (St. Anthony, 1989).

But note that the managers of those organizations likely were given outstanding performance appraisals at one time. They increased the *measurables*—that is, profits (at least temporarily), return on equity, return on investment, stock price, and assets, and doubtless were rewarded for their successes. Never assessed were the managers' performances on the *unmeasurables*, the long-term success of the organization, their impact on employees, their relationships with customers, the stability of financial markets, or the company's investment for true economic growth. The ultimate course of those outcomes had no impact on the managers' performance appraisals. Yet it is those outcomes that have significant importance for U.S. society at large and for our role in the world economy.

As Ouchi (1981) has pointed out, the need of U.S. managers to have the measurables—both as objectives and standards against which to compare performance, often ignoring other targets—forms a constant line of conflict between U.S. and Japanese managers when they are in the same organization. Consider the comments of American vice-presidents in a Japanese-American firm about their Japanese president: ". . . we simply cannot get him to specify a performance target for us. We have all the necessary reports and numbers, but we can't get specific targets from him. . . . How can we know whether we're performing well without specific targets to shoot for?" The concern is somewhat different for the Japanese president, who contends that the American subordinate managers do not understand that management involves ". . . how we feel we should deal with our customers and our employees. . . . How we should deal with our competitors, and what our role should be in the world at large" Ouchi, 1981, p. 34).

In the context above, it is difficult to understand why some people argue that performance appraisal in the United States is demotivating, as Deming (1987) and Scholtes have suggested. After all, the managers who put together the leveraged buyouts and engineered the explosive growth, and ultimate demise, of the savings and loans were amply rewarded for their efforts. Certainly they were motivated by the potential reward they would receive if successful. Top managers were made millionaires many times over in the RJR Nabisco buyout of late 1988 (St. Anthony, 1989). And other examples, such as the famous Lincoln Welding Company incentive plan and the Scanlon Plan in other organizations, have existed for many years with ongoing reports of success (Lesieur & Puckett, 1969; White, 1979).

It is appropriate in this setting to ask whether incentives tied to performance appraisal are demotivating as a general class of activity, or because management has failed to implement the appraisal process correctly. There are many stories of management giving performance rewards to those it favors, not necessarily to those who made the greatest contribution to the organization. In one horror story, management made up lies about a sales manager's performance and dismissed him because he had done so well his earnings would exceed those of the CEO (*David Frankson v. Design Space International*, Mn. App., 1986). Obviously, this is a clear-cut case of performance appraisal results having a demotivating influence.

Another complaint is that management does not set aside enough money to reward adequately the efficient, productive employee. Take the case of the organization that gives the "outstanding" employee a 5.5 percent wage increase while the "average" employee gets 5.0 percent. How can we call such a "reward" motivating?

A similar complaint arises when management designs a reward system that rewards the wrong thing. A classic example was a company that designed a system to pay workers an incentive based on how fast they returned a disabled production line to operation (Kleingartner & Azevedo, 1975). An imaginative reader can guess what happened to preventative maintenance under this incentive scheme. Yet the workers received positive performance reviews because they operated as the system demanded. This case shows how the appraisal system can positively motivate behavior and how important it is that management select the appropriate goals to be rewarded. Workers were "demotivated" with respect to the behavior managers actually wanted to see exhibited.

Another problem that reflects U.S management's attitude toward the *measurables* is its commitment to use "head counts" for controlling costs of production. The manager is assigned a "head count" and is told to run the operation without exceeding this magic number. Of course, rewards are based on the results of a performance appraisal indicating how well the manager has stayed within the head count guideline.

Managers do stay within the head count; they do so by using temporaries, detailees, consultants, and contractors or leased workers who do not "count" against the head count. Indeed, the actual cost of such workers may be greater than the cost of regular employees. The process of "managing" by employee count rather than by realistic analysis and management of work load can be so costly that some managers (in certain firms operating in the Twin Cities) are spending more than *twice* as much on contractors and temporary workers as they are on the workforce they are authorized to employ. Is this good management? Is rewarding a manager's favorable appraisal results because of compliance with the head count truly contributing to the best interests of the organization? Apparently some organizations think it is in their best interests, so much so that their managers continue the process unabated.

However, an unexpected force has been moving to limit this approach—the Internal Revenue Service (IRS). The IRS has issued rulings and regulations (26 C.F.R., Sec. 31.3121; Rev. Rul. 87–41) that restrict, regulate, and in certain cases eliminate employer's ability to evade head count limits by using contract workers (Edgar, 1988) and other substitutes for regular employees. The IRS policies arise out of a concern over income taxes that are not withheld and the lack of comparable fringe benefits, but these actions are forcing managers to perform their jobs differently (that is, "manage") because of the agency's requirements to use regular full-time employees rather than "irregular" workers. In this way, the IRS may make managers out of the head-counters and require them to treat irregular workers as any others, including giving them performance appraisals.

One should get the hint here that perhaps the problem with performance appraisal is not the performance appraisal itself, but rather the manner in which management implements it. The manager is not trained or prepared to deal with performance appraisal; nor is the manager trained or prepared to deal with *people*. Anyone questioning the validity of those propositions need only consider the MBA curriculum at any major business school in this country. Though most MBAs-to-be take from 16 to 24 courses, only one or two courses at most deal with issues involving the management of people. Future managers typically learn accounting practices, financial management, marketing strategies, production processes, management information systems, quantitative methods, and inventory control, but little or nothing about how to manage people, and certainly no instruction in how to conduct a performance appraisal. It is as if managers somehow could spend their entire careers without dealing with the workers in the organization. But that is where this discussion began—with the manager in front of the VDT dealing with everything but people.

The problem is that the manager as appraiser must make judgments about how people are performing. That, indeed, is a difficult task. But in reality, that is what management is, or should be, about. The role of managers is to take capital, raw materials, and *people* and produce a mix of goods and/or services to meet the needs of the market.

Alan Smith, executive vice president of General Motors, made the point well in a speech to the University Club of Chicago (1988):

> Now, what is the *winning* ingredient? Technology? Very important. Capital? You've got to have it, and there's a lot around. Good plant and equipment? They're also important. But it's the *people* that will make the difference.

That is what the managers are to do, and if they cannot do it, they should not be managers.

Comparison of U.S. and Japanese Approaches

It is easy to contend that the Japanese model is more effective than the U.S. model, given the "economic miracle" that has taken place there since the end of World War II. But, as Schultz writes in his chapter, "Compensation in a Collaborative Society," the Japanese economic sector is also based on three pillars that are anathema to most U.S. businesses:

- lifetime employment
- seniority-based pay
- enterprise-based trade unions.

In Japan, those practices virtually eliminate the labor market as we know it, and in its place is a structured relationship between employer and employee. The Japanese structure starts when the prospective employee leaves school (junior high, high school, junior college, or university) and enters employment. The structure continues through to retirement.

Job discrimination *does* exist in Japan. Job preference is given to Japanese males, although there is increasing entry of women into employment. In his chapter, Schultz writes that pay rates are established primarily on the basis of age and to some extent on marital status and family size, as pay is tied to cost-of-living considerations—practices that are illegal in the United States. Some organizations do use inputs to determine pay, such as performance appraisal and ability appraisal, but these typically account for less than five percent of any pay adjustment.

Schultz notes that promotion or other movement up through the organization is slow, as workers are acculturated to the organization and learn to fit into the decision-making process. This process involves intense discussion of potential decisions, with memoranda circulated and initialed by every associated person so that all involved agree to the ultimate decision (Ouchi, 1981). Open dissension does not exist! Given appropriate acculturation and available promotional opportunities, workers can move up in the organization. Schultz notes that such promotions are possible until a specific age (which varies by organization) when the workers are obligated to retire. There is little or no opportunity to move laterally between organizations along the way; to do so would cause the worker's family to lose face.

It is clear that Japanese practices are not consistent with those of U.S. business. They may even be in conflict with U.S. employment law, although Japan is beginning to pass employment legislation, according to Schultz. But those practices can work in a country with homogeneity of population and labor force, where access to education and the identification of jobs is managed in a traditional manner, where channels of promotion are specified almost from entry into the job, and where societal norms constrain the individual and allow little divergence from the role identified for workers at a very tender age.

The United States' cultural "melting pot" tradition is vastly different. This country has a diverse population with relatively broad access to education and relatively unlimited opportunity to achieve. The "rags to riches" story is a U.S. story in the eyes of many, with the name Horatio Alger symbolizing the opportunity facing the individual in this country, regardless of background. This is not meant to ignore the problems with discrimination against minorities and women that have plagued us; much work still needs to be done in this arena. But it is meant to reflect the U.S.

view and other views of the United States: that hard work and diligence will be rewarded, perhaps beyond one's wildest dreams.

Cultural differences permeate life and business in both countries and characterize the way each operates in many ways. While it is a simplification, we see that U.S. business has worked to generate rapid and substantial change, while Japanese business has worked for incremental change and improvement. U.S. science developed the transistor, and Japanese science refined it. U.S. technology launched satellites into space, and Japanese technology improved our ability to communicate with them. U.S. research developed the television, while Japanese research allows us to carry TVs in our pockets and hang them on the wall. Both approaches are honorable and productive.

One gross measure of these differences in approach is the recognition given by the scientific community. As a simple comparison according to *The world almanac and book of facts, 1988,* from the inception of Nobel Peace Prizes until 1986, 144 prizes in physics, chemistry, physiology, and medicine were awarded to U.S. scientists. Two were awarded to Japanese scientists (Hoffman, 1987). Recognizing that these awards lag the creative efforts of their winners by a substantial period of time, and that there is the possibility of some form of discrimination in the voting for the Nobel, we still must view the difference in numbers as reflecting differences in focus and orientation in the two countries.

But does this mean that one nation's approach is better than the other's? Certainly the evidence suggests that both approaches can lead nations to roles of economic power in the world. The issue is that we must recognize these differences and operate within the bounds, both cultural and economic, that each approach provides. The same is true of performance appraisal, for we have to recognize how it works in different cultures.

In fact, generally available commentary seems to indicate that the two countries are approaching each other (Taira & Levine, 1985). That is, Japan is becoming more like the United States, and U.S. business is being run more like Japanese business. Perhaps that is as it should be!

Conclusions

It is not difficult to understand the general support for Deming's call to reject performance appraisal as a managerial tool. It seems that everybody hates appraisals, worker and manager alike. And it, therefore, would be great if we could eliminate it; it would eliminate a thorn in the side of all concerned. But more may be lost from such a move than is gained.

There are significant risks in discarding the performance appraisal process and in moving to a new, unstructured or subjective paradigm. There are both the risks associated with not having the documentation or evidence to support personnel decisions made in an organization, as well as the substantial difficulty associated with turning around the culture of the United States and U.S. management. Both efforts fly in the face of tradition in this country, even if some may argue that this tradition is wrong.

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What Is So Frightening About "Driving Out Fear?" An Analysis of One Organization's Attempts to Redesign Its Annual Performance Appraisal System

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Those who argue against performance appraisal—at this symposium, Deming and Scholtes—do so on the grounds that performance appraisal

- is based on an erroneous assumption that human performance is measurable apart from the system in which it operates
- doesn't, indeed can't, measure what it claims to measure
- sets up conditions of fear, demotivation, and competition that encourage low productivity and poor quality.

The tasks undertaken through the annual performance review may be necessary, but, if they are to be accomplished, they must be done some other way by some other procedures. DeVries and those who support performance appraisal claim that it is a system well entrenched in business practice and that, though it may not be perfect, it is the only economical and time-efficient way we have to carry out the functions required of it. Human resource professionals should attempt to improve performance appraisal systems by developing ever-more reliable and valid ways of measuring job performance by

- increasing the frequency of interview and feedback opportunities
- using multiple raters
- encouraging employee involvement in system design.

Mohrman represents a group that attempts a synthesis of what seems valid in each view and finds a solution to the dilemma by proposing an alternative system—in this case, a performance management model.

Writers on performance appraisal appear to accept as truisms the following assumptions.

- The things that are standardly done through performance appraisal (documenting, motivating, judging, justifying) must be done.
- In organizations that use performance appraisal systems, the system is responsible for the results—good or bad—when tasks are done poorly or well.

What is striking here is the power that is given to performance appraisal as a tool for making organizational interventions. The effectiveness of the performance appraisal system is causally linked to and explains low or high productivity, good or bad morale, team spirit or the lack of it.

There is no doubt that thoughtless or incompetent appraisal interviews can wreak havoc in an organization. People may approach their annual interviews with fear and trepidation—so much so that their productivity is lower for weeks afterward. However, that fear will not necessarily decrease, even if performance appraisal is abandoned or radically changed.

I came to this understanding as a result of working, over a period of four years, to improve a performance appraisal system in a state agency. This agency is widely viewed as providing exceptional service to the residents of the state. With an annual employee turnover rate of less than 2 percent, and employee benefits that are second to none, there is cause for pride. Nevertheless, neither morale nor productivity was always as high as it could be. There was much "turfism" and interdepartmental rivalry. Management knew that things could be better and, in an effort to improve the working atmosphere, had endorsed a general re-evaluation of a number of practices, among them the annual performance appraisal.

Employees were given virtual "carte blanche" to make any changes they wished in the existing system. Participation at all levels was encouraged. The performance appraisal "experts" clearly laid out for them the issues and alternatives.

After a great deal of sometimes agonized discussion, the employees developed a system that was essentially the same as the one they had originally rejected. In the end, they chose what they knew. It looked like they were too frightened to "drive out fear."

In this chapter, I will describe the process the state agency went through and attempt an analysis of what was happening. The analysis will show how trying to "fix" the performance appraisal system, to change it to something else, or to do away with it altogether in an attempt to drive fear out of the organization can be misguided, extremely frustrating, and ultimately a wasted effort—much like trying to cure a disease by masking the symptoms. This is because performance appraisal systems that rank individuals against each other with the intent of motivating people, spurring increased productivity, and, where necessary, justifying disciplinary action usually exist in organizations that are hierarchically structured and that use "rank" to distribute rewards and responsibilities to employees. They generally have a "chain of command" orientation, rather than a collaborative one and, as such, use fear as a means of control. In this context, improvements to the performance appraisal system, no matter how well intentioned, will generally lead to failure unless the organization can begin to question the assumptions under which it operates as a whole.

Redesigning the Performance Appraisal System

The performance appraisal system at the state agency had been under attack for some years. The system was fairly typical. Performance appraisal forms were sent to all supervisors in January. They were expected to hold the interview and return the completed form to the employee's personnel file by April. The form itself was a blend of the behavior-based (BARS—behaviorly anchored rating scales) and outcome-based (goal setting) approaches.

Each employee's position description was written in terms of tasks to be accomplished and/or goals to be reached. Every year, the supervisor and the employee reviewed the position description. Each had to agree that the description was an accurate depiction of the job. The performance appraisal form rated the past year's job performance of each person on each of the tasks/goals listed in the position description.

Supervisors rated performance along a five-point scale, indicating whether the employee had not met the standards for the specific task, had minimally met the standards, had fully met the standards, occasionally exceeded the standards, or consistently exceeded the standards. Toward the bottom of the form, there was room for the supervisor's comments and a place where the employee could request career development counseling. The employee had to sign the form, indicating that the supervisor had explained the appraisal ratings and that he or she understood the comments. There was additional room for employee remarks.

Employees, supervisors, and managers alike viewed the system as problematic. Employees hated the appraisal interviews and complained about the way they were rated. They noted supervisors' tendencies to rate everyone the same—usually somewhere in the middle. Where ratings did differ within a work group, employees did not generally understand the basis on which distinctions were made. Because there was no official channel for career development, their requests in that area went unheeded year after year. To the employees, the annual performance appraisal was at best meaningless and at worst demoralizing. Nonetheless, no matter how badly employees fared in an appraisal interview, very seldom did they ever comment on their dissatifaction on the appraisal form or refuse to sign the form. Employees greeted appraisal time with cynical resignation.

The supervisors disliked the system because most of them found the interview agonizing. They feared conflict above all. They claimed that they could not rate the employee in the categories listed because they had no idea what it meant to meet or not meet standards for a given task. Those who did complete the appraisal process within the time lines usually did so by interviewing employees in an assembly-line fashion and by rating everyone at the middle to avoid conflict. Many supervisors put off the ordeal as long as they could. Some were as much as two years behind on their appraisals.

Managers were no less dissatisfied with the system. They had to nag their subordinates from January to April to get the appraisals finished. Once they were complete, the appraisals proved to be a poor source of documentation. Employees commonly known as poor producers were often consistently rated as meeting standards or exceeding them. Managers viewed this as making employee discipline impossible.

When the human resource department suggested that it was time to take a fresh look at the performance appraisal system, there was unanimous agreement. Because everyone realized that problems with the system were attributable to more than simply the design of the form itself, they decided to look at related issues. Management also agreed that no satisfactory system could be designed without input and "buy-in" from supervisors and employees. Therefore, they took a participative, four-step approach.

- First, small groups of employees and supervisors worked with human resource personnel to develop a new appraisal format. Team members were shown many examples of alternative appraisal forms. They explored the possibility of abandoning the formal appraisal process altogether and replacing it with more frequent, less formal, "feedback" sessions. The groups generated long lists of grievances against the old system. But when given a free hand to make the changes they wanted, the people rejected a radical break with the system they claimed to despise. They unanimously opposed the idea of frequent, informal sessions, claiming it was bad enough to have to go through the ordeal annually. They made almost no changes to the form itself, merely replacing the original five-point scale with one that read "needs development," "doing just fine," and "excellent work." They provided space for supervisory comments beside the rating for each task, in addition to the general comment space at the end.
- Second, an awareness that poor communication skills often made for unsatisfactory appraisal interviews led managers to approve a comprehensive training program. First-line supervisors and middle managers went through workshops on coaching and motivating, conflict management, and listening. Small groups met to examine their leadership skills and preferred working styles. Employees received instructions on how to participate in the appraisal process and learned about their rights and obligations. A workbook-type, self-assessment tool was developed for use as preparation for the appraisal and as a discussion aid during the interview. Individual work groups did team building sessions with their immediate supervisors.
- Third, management instituted a career development program that placed responsibility for employee development in the hands of the first-line supervisors. At a minimum, supervisors were to work with each employee to produce a training plan for the coming year. This could be done as part of the appraisal interview or at some other time, but it had to be completed annually. The human resource department used the plans to justify training programs and to allocate resources. In addition, employees could request ongoing counseling in career development options. At their request, supervisors would work with them to set career goals and to

determine long and short range plans for accomplishing them. Supervisors were given the training to enable them to do this, and human resource personnel made themselves available as "key experts."

■ Fourth, there was general, though not unanimous, agreement that more opportunities for employee input should exist. Some work groups started quality circles. Others, resisting the name "quality circle" and the formal, problem solving and data collection process, opted for weekly, informal discussions with their supervisors. Small group facilitators were trained and made available to assist groups with process issues.

The immediate results of these initiatives were flurries of excited activity and a great deal of fanfare about the new direction in which things were going. When the dust settled, however, it was not clear how the optimism was justified. The performance appraisal form itself changed very little, substantively not at all. Many supervisors, including some of the most outspoken against the old system, chose to continue to use the old appraisal form. The basic premise that the employee was to sit passively and be rated was unchallenged.

Evaluation sessions in the years following indicated that supervisors were having just as much difficulty doing appraisals with the new form as with the old. The appraisals were often done superficially or not done at all. Forms came in late with little in the way of documentation. Everyone was "doing just fine." The "smile sheet" evaluations that participants submitted at the various communications workshops were almost unanimously glowing. However, there was little noticeable change in the way communications happened.

Employees and supervisors alike showed reluctance to prepare for the appraisal interview, which remained, for the most part, agonizing and filled with awkward silences. Many of the quality circles worked hard to clear up nuisance value problems in their work areas and then lost their momentum. Some doggedly soldiered on, but it was usually as a result of the efforts of one or two die hard individuals. The informal, weekly work group discussions fared better, but most of them were devoted to handing down information from the top, rather than genuine discussion. Contentious issues certainly did not disappear; as in the past, however, they were not discussed openly even though opportunities to do so existed.

Employees genuinely and enthusiastically praised the career development program. It was something that had been needed and was, therefore, well received. However, it soon became clear that most employees would rather talk about their aspirations with a counselor from the human resource department than with the supervisor, even though the supervisor was better able to offer assistance. When the counselor refused to take the responsibility, it was common for the employee to abandon career development, rather than face the ordeal of having to discuss work related issues with the supervisor.

Analysis

In the four years since moves were made either to remove or radically redesign the existing performance appraisal system, it is been clear that very little real change has occurred. Employees and supervisors still hate doing performance reviews. Managers spend much time making sure the appraisals are done, only to receive information that, for the most part, is useless in making personnel decisions. A few employees have used career development counseling as a way to strategize for upward mobility, but they are often the sort of people who would rise in any system. In general, the task forces, feedback sessions, and training programs aimed at improving communications have served only to make everyone self-conscious and defensive. It seems as if all the effort was a waste of time and money.

The question is, of course, why did this happen? The impetus for change was genuine. The organization is not unenlightened—in fact, it serves as a model for other state agencies in the area of human resource development.

Management was not being duplicitous. The staff did want to change the performance appraisal system and did accept that broad participation would be both necessary and desirable. Furthermore, the organization was not failing at challenges that most others would rise to meet. In fact, since I have been working with performance appraisal systems, I have had many occasions to discuss these occurrences with representatives from other organizations that have attempted similar changes. It seems failure is more often the rule than the exception.

We may find insight into the causes of this dilemma by looking at the context in which the annual performance appraisal approach to motivation and control often flourishes. Typically, people's feelings about performance appraisal and the necessity for doing it stem from common beliefs about the way the organization works, or should work. The natural human tendency to judge a person's worth based on his or her observable behavior, without much regard to context, is often accepted as a valid and reliable decision-making strategy in and of itself. In addition, because people are not the same, it is deemed legitimate to use judgments for ranking people and as a basis for distributing all sorts of rewards and punishments. Such beliefs provide a foundation for the hierarchical model of an organization, which most people accept without question. However, any real move away from traditional performance appraisal systems depends on challenging these beliefs and, consequently, challenging the hierarchical model itself.

Deming is right. Performance appraisal often causes people to be fearful because it validates them by external criteria and ranks employees against each other. But doing away with performance appraisal will not remove the conditions that make fear a part of the workplace, as long as we all accept that judging and ranking are permissible, necessary, or even unavoidable facts of organizational life. Performance appraisal may cause fear, but it is also symptomatic of an organization that runs on fear. It is not possible to drive out fear by masking the symptoms or calling them something else. Feedback only works between equal partners in a collaborative endeavor. In a "one-up, one-down" situation, it is only judgment by another name. The employees at the state agency under discussion, in rejecting an alternative appraisal system, showed a caution that stemmed from long years of survival. They preferred the fear they knew to one they didn't.

In their book, *The addictive organization*, Schaef and Fassel (1988) examine recent developments in understanding the way dysfunctional, addictive family systems operate and claim that similar patterns can be observed in organizational systems. They identify the following four patterns that have proven useful and relevant to my understanding of why it was so difficult for the state agency to abandon performance appraisal:

- scarcity
- perfectionism
- control
- frozen feelings.

In the agency, all these patterns generally were observable, and because the assumptions on which they were based were never questioned, generating any real alternative course of action became impossible. Thus, I will examine each pattern and show how it operated in this case.

Scarcity

Organizations manifesting scarcity patterns operate under the assumption that there is not enough to go around—not only money, but time, resources, energy, rewards, and, in the case of performance appraisal, praise.

In this instance, managers deplored the supervisors' tendency to rate the majority of employees as "meeting standards" or "doing just fine," partly because it represented to them a refusal on the part of supervisors to manage their employees, but also because they assumed it was impossible for everyone to be doing just fine. Though they were often vocal in their appreciation of the high quality workforce ("Our people are our greatest asset"), it was clear from their actions that they valued individual employees according to their place on a continuum that allowed no room for clusters and that determined entitlements. Team identification and, therefore, genuine teamwork were rare.

For their part, supervisors chose to rank their people in the middle, not out of wisdom (most employees are, in fact, doing just fine), but fear. They, too, held the view that employee performance can and should be ranked. They were simply afraid to do it in case it would generate conflict within the group. Employees concurred. They had successfully blocked instituting an expanded employee recognition program for years, on the grounds that praise is meaningless if everyone gets it.

Scarcity was the justification for many decisions in that organization. Despite rhetoric to the contrary, training and development opportunities were given out as rewards. Managers and supervisors could attend longer, more expensive training programs than line employees. Similarly, though everyone claimed to dislike meetings, the opportunity to attend them was also a privilege of office. One of the most frequent objections to the quality circle program was that the problem solving sessions were too time consuming. Employees were allowed one hour once a week to discuss ways to do their jobs better. Typically, managers and supervisors spent at least as much time each day in meetings, the reasons for which were not always clear.

Perfectionism

Performance appraisal systems seem to be premised on the belief that it is possible to be perfect. That was true in this case, and it reflected a more general belief that organizational perfection was also possible. The vision of perfection was not, and rarely is, clearly delineated. Consequently, people spent a great deal of time trying to capture perfection in words. Here, most of the controversy regarding the system of rankings centered around just what it meant to be "exceeding standards" or "doing excellent work."

The problem with this attitude is that it focuses people's attention on some vague, far-off future, when ideally people will rise to a level where they will embody perfection. Everyone was thought to be able to recognize it when it showed up. There was little discussion about what was happening at the moment or how to effect improvement.

The other side of the perfection trap is the assumption that, while people are searching for it, they can admit to nothing less than having already achieved it. Employees were constantly expected to promote the image of the organization. What this amounted to was less a celebration of its real achievements than a refusal to admit that any problems existed, and a paranoia that "outsiders" might discover what was "really" going on. In fact, there was nothing remarkable happening. People were genuinely trying very hard to be responsible public servants. But the assumption that perfection is possible carries with it the corollary that anything less is inadmissible.

Those feelings infected the organization internally as well. Departments, work teams, and individuals wasted a great deal of energy covering up and justifying. Real communication about work was impossible, so attempts to make performance appraisal meaningful were doomed to failure.

Control

Many organizations are structured on the idea that the function of leadership is to control. The specter of chaos looms large, and most organizational structures are set up to help leaders control the people, systems, and information they manage. In such a setting, the employee's role is not to rock the boat, not to make selfish demands. Assurance that employees will do their part can only come from outside. The focus of control is external. The employees are not viewed as self-regulatory.

Performance appraisal systems support and are driven by the feeling that control is necessary and that it must be externally imposed. A primary rationale for doing performance appraisal is to motivate and/or discipline the employee. In all the discussions centering around the performance appraisal system in this agency, not once did anyone question the need to keep employees under control. Indeed, it would have been surprising if such a question had arisen.

In most of its activities, the organization had a major concern with vigilance and seeing that nothing happened that some manager had not orchestrated. Employees accepted that as management's role, and in looking to managers for leadership, they were looking to them to take responsibility for all the decisions. The most unpopular managers were not those who were too autocratic, but those who expected employees to take on too much decision-making responsibility. Because of this, the only changes to performance appraisal that made sense to anyone were those that still depended on people and systems to keep anarchy at bay through external manipulations.

Frozen feelings

Dysfunctional family systems often exhibit patterns of behavior, indicating that emotions are to be feared, covered up, and controlled. In such families it is not permissible to express feelings openly or to talk about problems. Similar patterns can be observed in organizations, manifesting themselves as a fear of conflict and confrontation and a certain deadly seriousness surrounding all affairs. There is an attempt to distance people from the possibility of either having to express or confront feelings. In this agency, an intense fear of conflict showed up everywhere. Meetings and public forums were conducted in an atmosphere of empty joviality and with a great deal of pomp. Playfulness was shocking and an embarrassment. All the while, the gossip was vicious, and the grapevine hummed. There was a preference for indirect communication that stemmed from the top, especially where negative feelings were involved.

In acknowledgment that greater employee involvement was desirable in these modern times, a number of small group facilitators had been identified from within the ranks; they were employed to assist in the management of meetings. Eventually their role became one of helping to keep conflict at bay and to protect everyone's friendly feelings, rather than to help groups work through issues. People generally resisted the notion that they had to take individual responsibility for making their own needs known. Indeed, when it did happen, the person making the attempt was often branded as a troublemaker. Ultimately it became clear that involvement and development efforts would flourish only as long as "venting" to a third party was possible.

The preference for a rigid performance appraisal system stemmed from similar feelings as well. Because people did not communicate openly and honestly on a regular basis, they felt a need to make it happen by instituting regular, formal, and documented sessions. They wished to provide a chance for communication to happen, but they feared anything that might be spontaneous or uncontrolled. In the end, the real fear of the appraisal interview was that it might unleash something unpleasant. That fear was so great that employees and supervisors alike resisted alternatives that would encourage face-to-face communication more than once a year.

Looking at how the patterns of scarcity, perfectionism, control, and frozen feelings operated within that organization gives some insight as to why it was so difficult to abandon or make real changes to the performance appraisal system. It is not that the organization was to blame, if that implies that an organization exists apart from the people who form it. There were no cynical, manipulative managers with dictatorial tendencies sitting at the helm. Nor should the employees be viewed as particularly wise, noble, conscientious beings whom the system had somehow ruined. The point Schaef and Fassel make, which is of primary interest in this case, is that everyone in the organization, by virtue of his or her willing participation in that organization, buys into and perpetuates "the system."

Inasmuch as a system is dysfunctional, it is also closed. There may be many occasions in which observed behavior patterns can be justified by the facts; but in a closed system, no other pattern is possible, ever. No other reality is allowable, and people are oblivious to any information that suggests anything else. In this agency, the intention to change the performance appraisal system was honest. Employees and managers conscientiously examined and rejected alternatives. Nevertheless, change did not happen because at that point change was impossible. No one knew how to behave otherwise. They could not envision an organizational reality in which genuine alternatives existed. Nor was there any perceived need to examine the assumptions under which the organization operated. Indeed, a suggestion that such an approach might be relevant would have been met with incredulity.

In such a setting, could changes to the performance appraisal system have been effectively made? The only way to make change in a closed system is to open it up to new paradigms by exposing and questioning the assumptions under which it operates. This self-examination must be undertaken simultaneously with the redesign of systems, so that new systems stem from and reflect the new paradigms. This is a painstaking process that involves taking small steps individually and incrementally over a long period of time. Once in a while dramatic breakthroughs occur. Often it may seem that the organization is going backward. The only rule is that everyone be brought along together.

This state agency was a closed system. The individual members did not see how their system was the result of beliefs they held concerning the way organizations should operate. The system reflected those beliefs, and though they disliked aspects of that system, they did not wish to abandon the beliefs that gave rise to it. In effect, they were searching for a pill, when the only way to cure the disease would have been to change the way they live.

Conclusion

By engaging in debate at the level of whether or not it is possible to construct an effective performance appraisal system, Scholtes, DeVries, and Mohrman are arguing about whether or not an appropriate "pill" does or can exist. A more productive approach might be to ask why it is that the tasks we require of performance appraisal are so important? What assumptions are we entertaining, and how are those affecting the outcomes of our processes?

As awareness grows, people become more open to alternative realities and more able to see what it would be like to make changes. Eventually, radical changes can occur, but these changes, and the systems that evolve as a result, cannot be imposed in advance of the change in awareness. "Buy-in" is not, in this case, a matter of saying "yes" or "no" to someone else's idea. It is a matter of creating a new idea, and an idea of a performance appraisal system that does not involve fear is only possible in an organization that does not operate on assumptions that make fear inevitable.

Reference

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Barriers to Change: Does the Performance Appraisal System Serve a Logical Purpose?

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Before looking at the reasons management is reluctant to change or eliminate current performance appraisal systems for salaried or exempt employees, let's review briefly via example the process and goals of a commonly used performance appraisal system.

The Performance Appraisal

Toward the end of a fixed period of time (usually every one to two years), managers are required to sit down with their direct reports and provide feedback on performance with respect to objectives in the form of a rating. These objectives may include all combinations of the following:
- stated or implied objectives
- vague or concrete objectives
- mutually agreed on or imposed objectives.

In addition, the manager is expected to establish "stretch goals" or "reaching goals" for his or her subordinates to encourage them to work harder and smarter. In some instances, managers attempt to coach their direct reports during performance appraisal sessions and plan activities for their future personal development. The hidden agenda of a performance appraisal session, however, enables managers to rate their direct reports for purposes of salary administration and to decide who to promote, demote, or dismiss.

The following illustration was taken from a Fortune 500 "Exempt Performance Appraisal Guide" (B.F. Goodrich Company, 1984). It is typical of performance appraisal processes used in private industry. Note in particular item 4.

Exempt Performance Appraisal Program
Administrative Procedure

The performance appraisal program is designed to:

- insure a systematic and detailed examination of each employee's performance and progress;
- let employees know how they are progressing in carrying out their responsibilities to recognize and reinforce effective performance and to determine ways to improve performance;
- assure objective and documented appraisals of exempt employees in the company.

To this end, the following procedures have been established by Senior Management:

1. Performance appraisals will generally be conducted for exempt employees within

- six months of employment, and
- once every twelve months thereafter.

2. Appraisal materials will be sent by Human Resources and additional forms are available upon request.

3. The Human Resources Department will, upon receipt of the forms, record the summary information on the computer for administrative purposes, and the actual form will be maintained for three years. After three years, the forms will be microfilmed and the original forms destroyed.

4. The performance rating from the Performance Appraisal form will be the only rating of performance that is used as one of the factors in computing salary adjustments. A current (within the last 12 months) Performance Appraisal form needs to be on file in order to process salary changes. Performance ratings can be changed at any time by submitting a completed and properly approved Performance Appraisal form.

5. If an unacceptable rating is given, the supervisor is responsible for notifying his/her Personnel Representative (see Personnel Standard Practice Instruction G-8).

6. Completed forms are confidential; only authorized persons will have access to them.

Should assistance be required in the performance appraisal process, consult with your Human Resources office. (p. 1)

Table 1 shows the results of an unpublished survey of attendees at a 1983 Industrial Research Institute workshop in Montreal, Canada. The survey was on performance appraisals and salary administration practices for research divisions.

Note that two-thirds of the companies used forced ranks which are tied to performance appraisals. It is also clear from this limited survey that performance appraisals and salary administration are interconnected. In fact, more often than not, managers are told in advance by their superiors that the ranks assigned to their direct reports must follow a distribution that is either "bell-shaped" (normal, Gaussian) or uniform. Thus, the manager would normally begin by assigning people to categories or simply by ranking them from worst to best. The latter is usually followed by setting arbitrary divisions between rank values to obtain the mandated distribution.

Table 1—Performance appraisal and salary administration practices

	Used Forced Ranks for Salary Administration	PAs Are Tied to Forced Ranks	Salary Administration and PAs Are Separate Issues
Exxon	Y	Y	N
Sohio	N	N	Y
P & G	Y	Y	N
Millipore	N	N	N
Lever	N	N	N
Philip Morris	Y	Y	N
Amoco	Y	Y	N
Kodak	Y	Y	N
Goodyear	Y	Y	N

(Y=Yes; N=No)

After completing the ranking process, a manager is required to sit down with all salaried direct reports and explain their compensation to them for the next year, based on their assigned ranks. To do this, the manager must weave a story or summary of performance for each person to explain or rationalize his or her rating. Usually the reasons for performance are attributed solely to factors perceived to be controlled by the subordinate rather than by the system in which the person works. One of our clients remarked, "When performance enters into salary administration, it is always the negative effect that is emphasized—what you are not getting for what you didn't do."

We can conclude, therefore, that performance appraisal is designed

- to assess employee performance against objectives and to develop plans to improve future performance
- to provide a basis for salary administration.

To avoid throwing out the baby with the bath water (that is, discarding performance appraisals as useless), we contend that the performance appraisal does have a logical purpose as a means to plan ways to improve an individual's work process, but not as a way to judge or compensate actual performance.

Why Managers Like Performance Appraisals

From the perspective of today's manager, performance appraisals are essential. Most managers sincerely believe they can measure performance and that it must be done. Let's examine reasons for this belief.

■ Managers feel that they have continuously improved throughout their careers and as a result have benefitted from high ratings on performance appraisals conducted by their superiors. Managers feel that their performance appraisals accurately measure their contributions to the company. The fact that their high ratings resulted in their present positions cause them to defend the appraisal system. The logic is essentially this: "I am an exceptional performer. The system identifies me as exceptional. Therefore, the system is good."

■ Managers like appraisal systems because they can sign off on them once they are completed. Their job is done, and the responsibility is turned back to the subordinate to work on as an improvement plan during the next 12 months. Because the personal development problems, which do not typically affect the manager's career, are now out of the office, the manager is now in a position to concentrate on other department functions more important to his or her own advancement.

■ Managers fear Equal Employment Opportunity Commission (EEOC) actions in response to employee grievances that could taint their careers. The performance appraisal, therefore, is a document to "cover your action" (CYA) if the action is a demotion or dismissal. For example, if a minority subordinate has a performance problem, the human resources department might counsel a manager

- to document every activity for which the employee has been warned about poor performance
- to write about those activities on the annual appraisal form
- to include the appraisal in the employee's personnel file.

■ Managers believe that the ranking from the performance appraisal is an accurate measure of performance and is essential for salary administration. However, Deming has pointed out in his four-day seminars that, if X represents the annual performance measure of the person and Y represents the effect of the system on performance, then

$$\text{Annual Rating} = X + X \bullet Y.$$

That is, the synergistic effect between individual performance and system capability influences the annual performance rating to an unknown degree. As a result, this one equation cannot be solved for X because there are two unknowns.

Do Employees Like the Idea of Performance Appraisals?

We believe the answer is yes, in part, but there is too much negative impact on people to accept the system as it exists today. Let's look first at some of the positive reasons employees like the idea of performance appraisals.

Why employees like performance appraisals

■ The performance appraisal is an opportunity to "talk to the boss." In a 1984 employee survey at the Quebec and Ontario Paper Company (personal communication), employees requested performance reviews. Why? Unless being promoted or scheduled for a pay raise, they were not extended the opportunity to talk to the boss. No communication with the boss meant they could be in trouble relative to performance.

■ The performance appraisal session is a planning session. The purpose of the Appraisal Conference taken from B.F. Goodrich Company's "Exempt Performance Appraisal Guide" (1984) points this out:

The Appraisal Conference

> The purpose of the review meeting is to come to an understanding of the evaluation of the employee's job performance and to set plans for the next year. The employee's record of accomplishment against the objectives established provides the basis for the evaluation of performance and for determining what improvements need to be made in the upcoming year. Areas of confusion, difference, or honest disagreement should be clearly developed and understood. The employee needs to be given full opportunity to present his/her view. If agreement cannot be reached, the supervisor's judgment is final. The employee is free to voice his or her disagreement on the form.
>
> While agreement is desirable, the objective of the conference is to arrive at a common understanding of what is expected, what needs to be done, and how that might be better accomplished. During this discussion, these points should be clarified:
>
> - How well have responsibilities been carried out and objectives accomplished during the past year?
> - What are the reasons for success or failure?
> - How can performance be improved?
> - What responsibilities are to be stressed and what objectives set for the coming year? (p. 2)

The major shortcoming of such planning sessions, however, is the frequency of meetings between the supervisor and his or her direct report. A quarterly schedule should be adopted at a minimum. So much for the positives. Now let's examine the negative side of employees' reactions to performance appraisals at Ford Motor Company.

Why employees dislike the old system of performance appraisal

Table 2 contrasts the "old" and "new" systems at Ford Motor Company (Ford Motor, 1986, p. 8).

Table 2—Characteristics of Ford Motor Company's appraisal systems

	Old System	New System
Communication	Once a year Unpredictable Distrust	Ongoing No surprises Honesty/trust
Responsibility	Supervisor	Mutual
Ownership	Employee Relations	Management
Documentation	Major emphasis	Summary information

■ Fear and a corresponding lack of communication can be consequences of performance appraisals. From a communication standpoint, Ford employees felt that performance reviews were too infrequent. Moreover, they were often surprised at the issues discussed at these sessions. Employees did not trust management because they perceived that the appraisals were merely to keep salaries low or to justify dismissals.

Consider the following example: When asked about performance appraisal, the initial response of a manager from a Cleveland based metals company was this:

> The job appraisal system at our company seems to be adequate. If management is unhappy about the way someone handles his or her job, the person is made aware of the problem and is given time to correct the problem. If the problem exists after the first talk to the person, the person may be given time off to "think over" what they are doing wrong and how they can correct their behavior. I believe everyone within the system is aware of the system and makes a conscious effort to avoid any of these "little talks."

The manager was elaborating on an assignment on how to "Drive Out Fear" within his organization. His response to performance appraisal clearly indicates how negative an impact performance appraisals can have on workers and the possible consequence of important communication not taking place because of the fear the performance appraisal created.

■ Supervisors are often responsible for conducting the appraisals according to typically vague criteria provided by the human resources department. For example, note some of the "Standards for Success" on a rating scale from the Noncommissioned Officer Counseling Checklist/Record (1987).

- Master the knowledge, skills and abilities for performance in your duty position.

- Meet PMOS SQT standards for your grade.
- Accomplish completely and promptly those tasks assigned or required by duty position.
- Constantly seek ways to learn, grow, and improve (p. 3).

There is, however, no operational definition for the terms "master," "accomplish completely," or "constantly" used in the above set of standards. As a result, who could possibly meet them?

■ Human resource departments emphasize documentation to guard against any EEOC discrimination claims brought against the organization by disgruntled employees who are dismissed or demoted.

In his book *Out of the crisis*, Deming (1986) poses two sets of questions on the subject of performance appraisals.

- How would you rate yourself? By what method or criteria? For what purpose?
- What are you trying to measure when you rate someone? How would your rating of someone aid prediction of performance in the future?
  a. on this job?
  b. on some higher job (with more responsibility) (p. 109)?

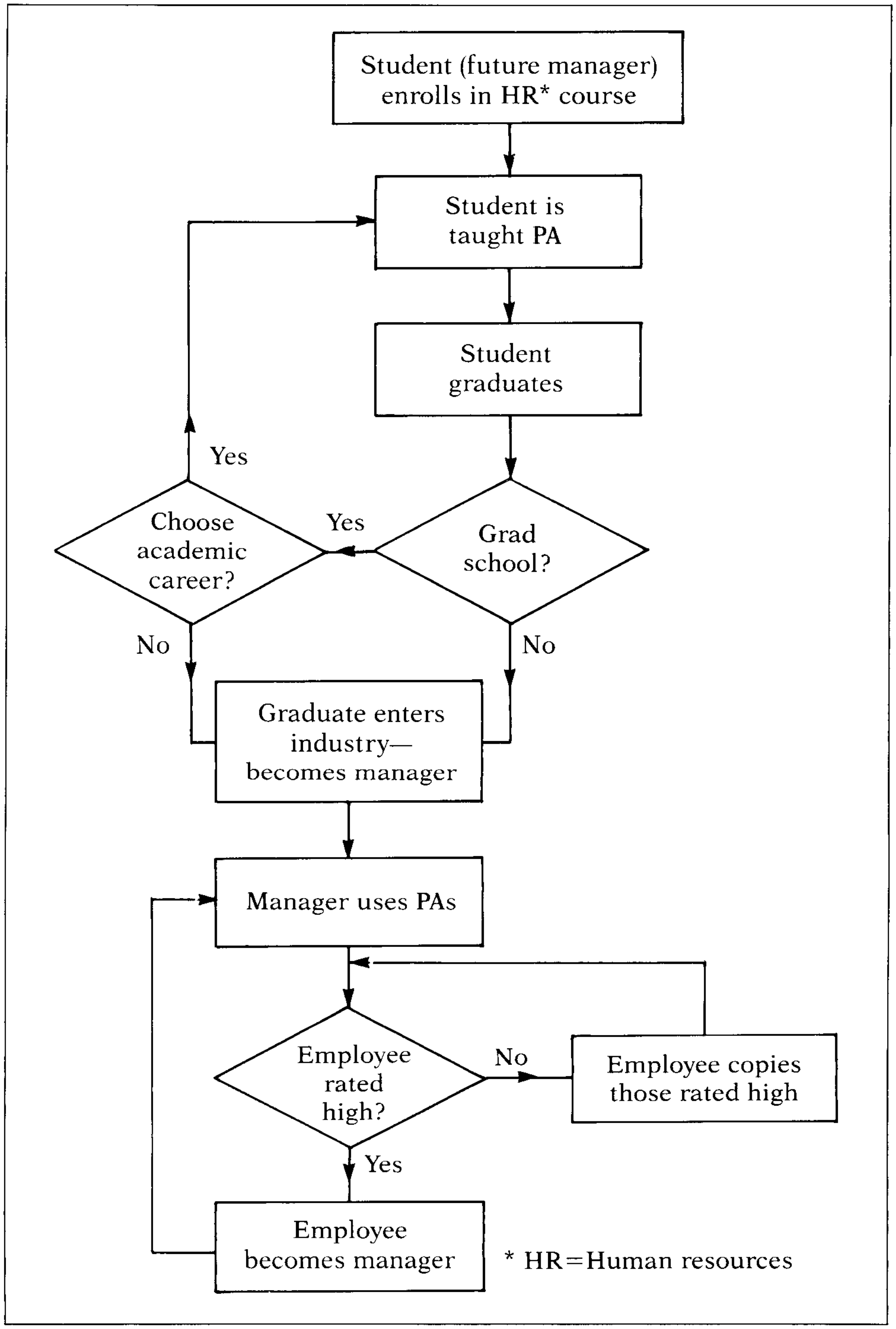
When these questions are given serious consideration, the answers should reveal how inadequate performance appraisals are for providing feedback to the worker and for predicting future worker performance. Though most managers initially feel that their performance appraisal systems suffice, employee feedback is frequently inadequate, and predicting future worker performance is a fantasy managers have convinced themselves is possible.

How to Change from Performance Appraisals (Retro-Action) to Performance Improvement (Future-Action)

Changing management's belief regarding performance appraisals is very difficult and therefore will take time. The reasoning behind this statement can be understood by studying the flow chart in Figure 1 on page 137. The disheartening length of time it takes to change is primarily because people become the system from which they learn. Notice the wording. "They *become* the system." That is, the people do not become *part* of the system. They *are* the system.

This flowchart not only illustrates how the performance appraisal system is perpetuated but is also an example of Deming's "Worker-Training-Worker" concept. Some students who are taught the performance appraisal process in universities continue on to receive advanced degrees. They then teach the concepts to "new" and unknowing students.

Figure 1—How the performance appraisal system is perpetuated



The devastating plight of the willing worker continues. Suffering even more than the worker may be the company. After all of management's efforts to use performance appraisals, there is still no improvement in worker performance because the problem is not with the *worker* but with the *system.* In contrast to the old performance appraisal system taught in human resource courses and practiced in industry, Scherkenbach (1985) describes Ford's Management Appraisal System as designed to improve the workforce continually through more effective leadership. The following quote is from Ford's Ad Hoc Committee on Performance Appraisal (1986).

> We felt strongly that the new system [see Table 2] needed to incorporate improvements in the characteristics we've discussed. First, communications between the supervisor and the employee should be ongoing, with no surprises. This, we believe, creates a climate of honesty and trust, which sets the stage for the basic requirement of coaching and counseling. Second, the responsibility for maintaining the dialogue and making it work should be mutually shared between the supervisor and the subordinate, not solely carried by the supervisor. Third, management must "buy-in" to the entire process, an integral part of its day-to-day responsibility. Finally, while documentation is required, the form and final rating can serve only as a summary of the ongoing dialogue that has taken place regarding performance; it cannot substitute for that dialogue (p. 8).

However, before you can have a system that enables managers and subordinates to sit down, review past performance, and map out future steps to improve performance, you must have:

■ Managers who thoroughly understand the subordinate's job, which includes the
- customer needs
- product or service
- process in which the person works.

■ Subordinates who respect the manager as someone with knowledge in the areas where they work.

■ Performance measures (possibly subjective), which both the manager and subordinates agree on in advance as meaningful (operational definitions).

■ Managers who have the ability and desire to work with people as coaches in order to improve their performance. A performance appraisal should be called a "Continual Improvement Review."

A helpful source in planning, feedback, and communication is *The improvement process* (Harrington, 1987). In his book, Harrington discusses performance planning rather than performance appraising. He suggests that employees develop career planning objectives and accompanying plans that are reviewed quarterly. Also presented are ideas for enabling companies to develop the necessary feedback loops to improve performance.

If this type of annual appraisal process were separated from annual salary administration using the approach of the Japanese, which Schultz discusses in "Compensation in a Collaborative Society," the appraisal process would be beneficial to the employees.

The performance appraisal could also serve a logical purpose. General Motors's BOC Group and Ford have both piloted such employee development efforts. The names may be different, but the intent is the same: to improve the system to allow employees to experience the greatest joy in their endeavors. The performance planning topics in Table 3 could serve as a guide for managers of tomorrow in coaching their subordinates.

Table 3—Performance planning topics

I. Principal Duties and Responsiblities

List the principal duties and responsibilities of the position.
Indicate the order of priority for the planning period.

II. Performance Objectives

A. Objectives	B. Performance Measurements (operational definitions)
List major objectives for the planning period.	Indicate standards of quality, quantity, timing, etc., against which the employee's performance will be reviewed.

III. Review of Objectives

Was objective achieved, surpassed, or not achieved?

Describe performance results and any system factors that affected performance.

IV. Performance Characteristics Affecting Overall Results

A. State performance characteristics that enhanced results:		B. State performance characteristics where improvement would enhance results:	
Individual	**System**	**Individual**	**System**

(continued on next page)

continued ***Table 3—Performance planning topics***

V. Overall Evaluation

Summarize the employee's total job performance for the planning period. In addition to the specific objectives, consider overall performance of job responsibilities and contribution to the work unit. Cite examples where appropriate.

VI. Plan for Growth in Present Position

Indicate steps to be taken during next planning period to assist in the development of the employee in present position.

To assist the manager in completing Item VI, this plan may best be developed by a team comprising the employee's immediate supervisor, some of the employee's colleagues, and some of the employee's direct reports, if any exist (Coles & Keller, 1987). Clearly, the attitude of all involved must be one of "win-win" for such an approach to be successful. In turn, this requires a separation between annual performance assessment and salary administration. Management must initiate this separation. Moreover, management must understand that the performance appraisal process is, to quote Peter Drucker (1988):

> 1. . . . about human beings. Its task is to make people capable of joint performance, to make their strengths effective and their weaknesses irrelevant (p. 75).
> 2. . . . to enable the enterprise and each of its members to grow and develop as needs and opportunities change (p. 76).

Summary

Does the performance appraisal system serve a logical purpose? No, not as it is commonly practiced today in business, industry, and government. Today's purposes are

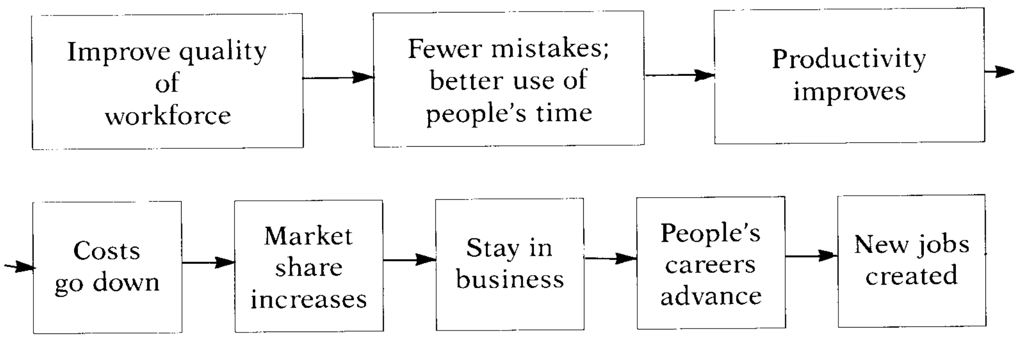
- to assess employee performance against objectives
- to develop plans to improve future performance
- to provide a basis for salary administration.

However, if performance appraisals are a "Continual Improvement Review," then they will serve as a means to develop people to the fullest extent of their capabilities. This requires frequent checks on progress relative to both job assignments and personal goals, plus continual revisions to employee improvement plans when supervisors and subordinates meet one-on-one in coaching sessions. The basis for these employee development meetings should be a Personal Improvement Team. This group would be charged with the responsibility of providing guidance to the manager or employee for

• leadership skills
• knowledge of processes
• career growth.

Also required is a separation between the annual performance assessment and salary administration. The annual time frame in this case is too short to establish whether the salaried employee of the system is responsible for results. The benefit of developing a quality workforce using performance reviews is a chain reaction (see Figure 2) similar to the one Deming (1986) describes.

Figure 2—Chain reaction



Thus, the performance appraisal does have a logical purpose as a means to plan ways to improve a person's work performance, but not as a means of ranking or compensation. A Continual Improvement Review certainly is a necessity in companies of today and tomorrow.

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Leadership Principles and Techniques

L.P.M. (Leadership Process Management)

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The pursuit of organizational improvement gathered speed dramatically when experts made it a point to distinguish managing from leading—a breakthrough that delivers more than a clarification of terms. The rationale is now available to support a significant shift in how management interacts with employees—a corporation's most valuable asset—to achieve organizational objectives. As a result, some traditional management approaches no longer belong in the work environment. By-products of authoritarian rule and top down directives are not part of the new leadership model. Although today's supervisor is not expected to abdicate responsibility, it is clear that leading people requires the offer of opportunities rather than the imposition of obligations and constraints (Heider, 1985).

"Leadership Process Management" (L.P.M.)—a model for an emerging management approach—revolves around continuous improvement of leadership processes that are critical to success. L.P.M. takes its cue from a principle set forth by quality improvement pioneer W. Edwards Deming (1986), who contends that the aim of leadership should be "to help people and machines and gadgets do a better job." An organization, he points out, can and must operate on the assumption that people want to do their jobs

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Special credit for their contributions to the development of the L.P.M. concept is given to:

Lorne Ames, Preident, INCO/Manitoba, Thompson, Manitoba, Canada.

Ron Schmidt, CEO, ZYTEC Corporation, Eden Prairie, Minnesota, USA.

Wayne Stewart, Vice President, Dominion Bridge, Winnipeg, Manitoba, Canada.

The leadership capabilities that they demonstrate within their respective organizations are models to inspire us all.

well. This being the case, there is no place and no need for heavy-handed emphasis on measuring and controlling employees. People, Deming (1986) says, respond to managers who coach, lead, and assist.

Case in Point: Annual Reviews Set the Wrong Example

"People control" is the organizational fallacy that makes the annual performance appraisal one of the most frequently cited sources of dissatisfaction with western management. Such reviews attempt to measure the contributions of employees in creating a product or service by ranking employees in order to award compensation increases. Such data, however, are unreliable because employees are captives of the processes and systems they are given. A performance appraisal disregards the fact that inadequacies or inequalities in the processes and systems influence results more profoundly than the skills an employee brings to the task. Management sets out to reward behavior leading to work unit productivity but succeeds instead in forcing employees to focus on individual tactics for "coming out on top" at annual review time.

The negative ramifications for the organization, according to Deming, include an employee bias toward short-term performance, rivalry, politics, and the destruction of teamwork opportunities. Most managers agree, but they remain at a loss for an effective review and reward system—one that will help them achieve the outcomes for which their units are accountable. L.P.M. provides a solution by championing the leadership model of management, by emphasizing continuous process improvement, and by rewarding employee behavior that leads to improved teamwork and group performance.

A Model for Teamwork and Equal Treatment

The primary expectation within L.P.M. is continuous improvement of processes and systems within the employee's own function. Prompting the employee to describe the function in terms of tasks, objectives, suppliers, and customers guarantees mutual understanding. Replacing doubt or uncertainty with clear expectations on the part of all involved enhances job satisfaction. Consulting suppliers and customers helps confirm what constitutes quality performance.

After preliminary fact finding and analysis, the employee identifies the quality indicators or factors critical to the success of the processes and systems involved. Opportunities for improvement are identified, along with control items that can be measured and plotted to track progress.

Employees continue to meet with their group leaders and peers on a regular basis—monthly, at least—to review progress and share accomplishments. The leaders and co-workers are obligated to provide constructive help and support. Sharing progress on a regular basis focuses effort on important functions, provides constructive feedback from associates, and identifies performance areas requiring further improvement. Involvement in continuously improving what is important triggers recognition, supplies positive reinforcement, and takes away the need to evaluate people on the basis of end results.

Unlike traditional performance appraisals, the L.P.M. system has no bearing on salary adjustments, bonuses, or other compensation. Because this approach strives to remove unhealthy competition between individuals, equal treatment is the norm. Although employees do not possess identical education, training, experience, and capabilities, organizations using this approach generally award the same percentage increases to employees (according to pay grade) who are within the normal distribution of employee performance. (In a normal distribution, half of the workforce will be above the median and half will be below. Employees who represent special cases—those outside the normal variation—require separate investigation and adjustments.) Bonuses should be based on performance of the entire operation, with each employee receiving the same percentage as the ratio of his or her salary compared with total payroll for that period.

Not All Leaders Are in Management

It is important to remember that L.P.M. is a model for action by *anyone.* The ability to lead is not reserved for CEOs, directors, and department heads. It merely requires exemplifying certain traits and responsibilities. For example:

1. **Be a role model for the organization.** Openly display understanding and the behavior and skills expected of others.

2. **Constantly challenge processes and systems.** The business environment, customers' needs, and competitive capabilities are constantly changing. A leader must be ever vigilant, challenging existing processes and searching for innovation and improvement.

3. **Enable and empower people to make decisions and solve problems.** Leaders must supply people with skills training, education, and improvement methods needed to make decisions and solve problems—in real time. Leaders should also communicate that employees have the power to be decision makers and problem solvers and that the organization's climate will be adjusted to permit their genuine involvement.

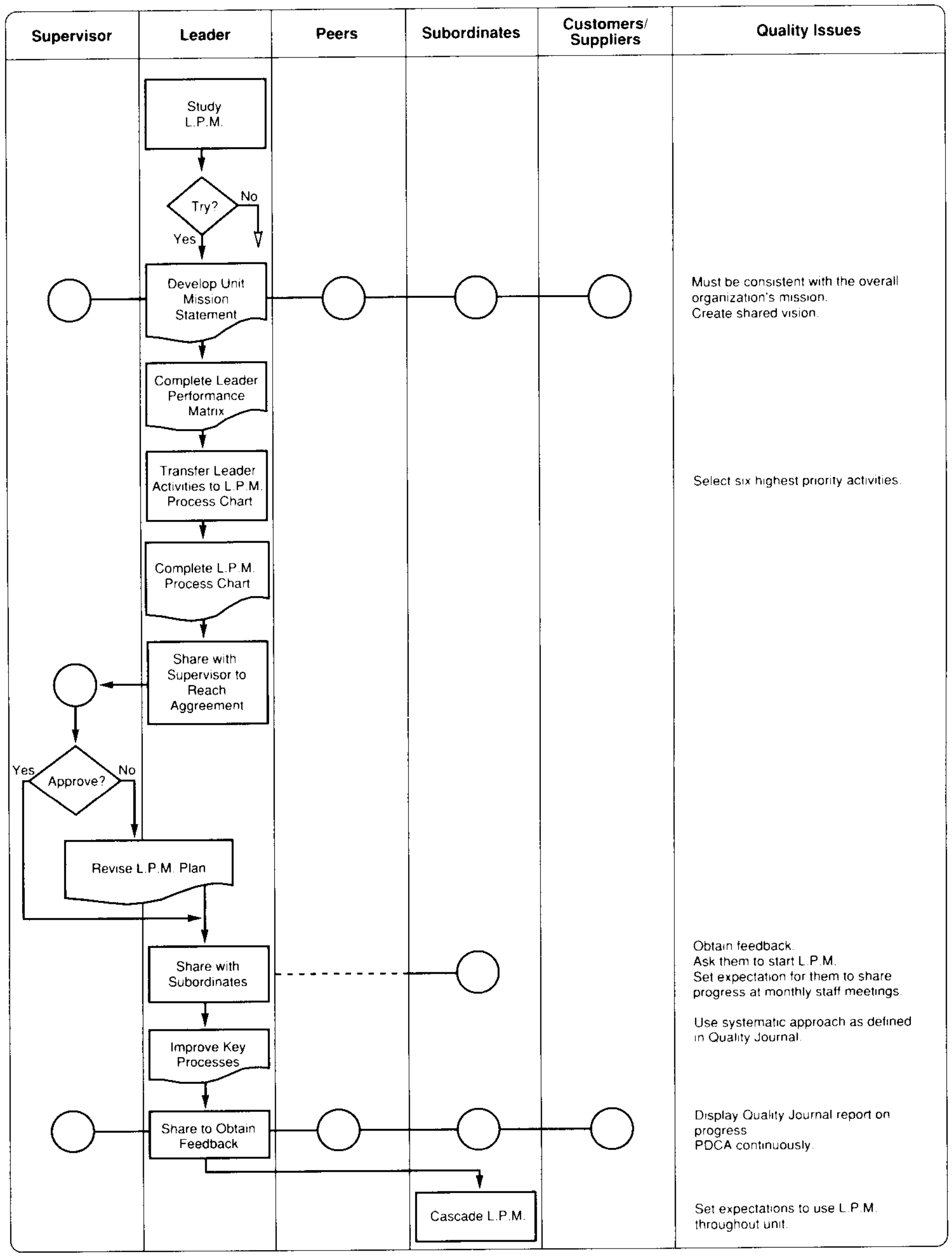
4. **Inspire a shared vision.** A leader should carefully define the mission of the work unit or organization, communicate that mission to all, and obtain feedback and buy-in so that everyone enlists in the crusade to achieve it.

5. **Provide for a sense of satisfaction among employees.** A sense of personal achievement is a strong motivational force that should be nurtured. Leaders should celebrate accomplishments, share victories, strive for happiness, and remove obstacles to pride in work.

Implementing L.P.M.

This multi-step description of L.P.M. is a chronological summary of the continuous improvement approach shown in Figure 1 on page 146.

Figure 1—L.P.M. Process



1. Start the process by developing a unit (department, division) mission statement that is consistent with the total organizational mission. Make it explicit and no more than two to three paragraphs in length so it is easily remembered. As a vision of the future, it is a guideline for decision making. Development and communication of the mission, however, are not enough.

- Visions seen only by leaders are insufficient to create organized movement. Leadership is accountable for inspiring a shared vision (Kouzes & Posner, undated).
- Leaders must cultivate a feeling of employee ownership in the organization's future. Constancy of purpose will enable employees to enlist in the crusade and rally around a common vision: achieving the organization mission.

2. Identify key leadership functions. The purpose of L.P.M. is to focus process improvement efforts on the employee's highest priority functions. Completing the Leader Performance Matrix (see Figure 2) will help a leader (the person completing the form) identify those responsibilities

Figure 2—Leader Performance Matrix

Leader Date	Functional Responsibilities of the Unit						LEGEND O Important ⊙ Very Important	
Major Activities of the Leader								

within his or her job that will have the greatest impact on the work unit's results.

- Indicate the desired results of the work unit on the horizontal axis. These are the functions we normally think of as responsibilities: quarterly output, cost targets, and so on. In reality, however, these are work unit objectives.
- Down the left side of the form, list the leadership responsibilities. These are the specific actions or primary functions that the leader must carry out for the work unit to achieve its functions. They should be listed in the form of a verb and an object to portray specific actions. Examples of leadership functions include providing methods and materials to workers, removing obstacles, and improving systems.
- Draw a circle at intersections where a leader's functional responsibility is important in achieving a desired result. A dot added inside the circle indicates that the relationship between the leader responsibility and the work unit result is very important. To determine where to direct attention first, analyze these relationships for priorities, additions, deletions, and the appropriateness of functions.
- The leader's six most important functional responsibilities transfer to the next step—the L.P.M. Process Chart (see Figure 3 on page 149), where specific opportunities for improving the leadership processes can be identified.

3. Recognize that job functions are work processes. The overriding responsibility for each employee is the ongoing search for ways to improve these processes. Use the L.P.M. Process Chart to arrive at the opportunities that exist within each function. The complete discovery process for each job proceeds as follows.

- List and define major job functions (results) operationally so that all parties understand the meaning.
- List the specific tasks associated with each function, along with the most important employee actions necessary to accomplish them.
- Identify one or two objectives (short- and/or long-term) related to each task.
- Identify suppliers and what can be done to help them become excellent suppliers. Suppliers provide the information, material, methods, environment, and equipment necessary to perform a function. Productive relationships here are critical to continuous improvement processes.
- Ask customers what they feel constitutes quality output. Identifying customers and their requirements are the first steps in actually devising methods to improve the function output, product, or service.
- Determine the quality indicators—critical factors that identify quality performance. Include details on indicators that would signal improvement toward leadership or dominant performance.
- List control items that can be measured and plotted to track progress toward achieving the quality indicators.

- List several opportunities to improve each job function (work process). Specific actions for improvement should simplify processes, making them more efficient in achieving objectives while eliminating waste and rework.

Figure 3—L.P.M. Process Chart

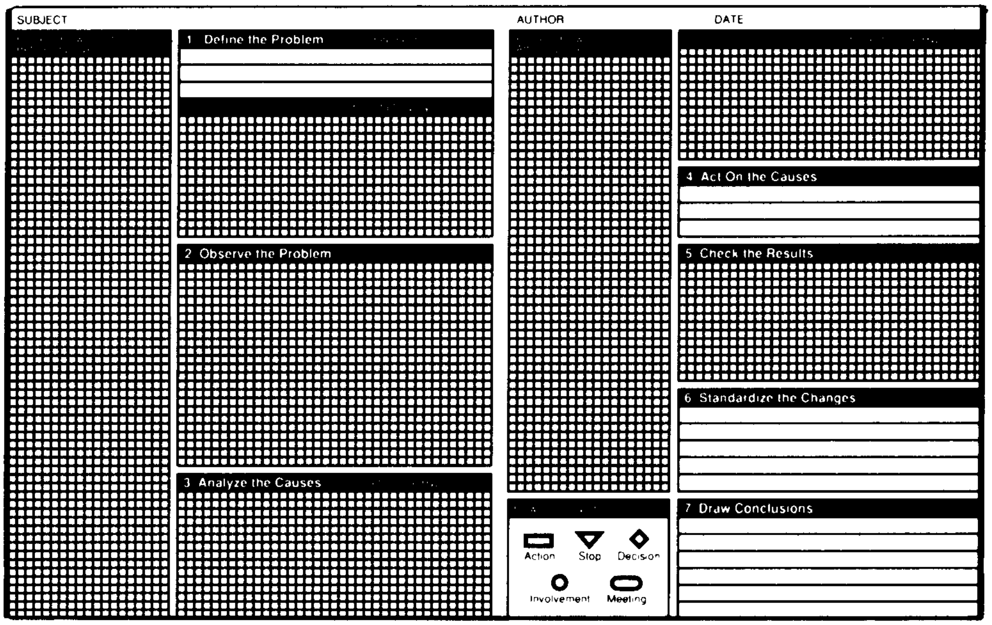
L.P.M. PROCESS CHART							
Major Activities of the Leader	Specific Tasks	Objectives of Each Task	Suppliers	Customers	Quality Indicators	Control Items	Opportunities for Improvement of the Process
A							
B							
C							
D							
E							
F							
REVIEW DATE		SUPERVISOR			LEADER		

4. Share results of the discovery process with the immediate supervisor. Agreement can then be reached as to the most important functions and the necessary revisions to make.

5. Share the L.P.M. plan with subordinates, and ask for feedback. Then ask employees to begin the process themselves. The leader must set the expectation that group members will share progress at every monthly meeting.

6. Have everyone involved in L.P.M. use a systematic approach to improve key functions. A Quality Journal (see Figure 4 on page 150)—an adaptation of a Japanese discipline on problem solving—can provide consistency to the process and enable participants to display progress in a manner that is understandable by all. It involves seven steps.

Figure 4—L.P.M. Quality Journal



- Clearly define the problem using facts to demonstrate its extent and its effect on the total system.
- Examine the problem from several points of view.
- Determine the main causes of the problem.
- Take action to eliminate the root causes.
- Check the effectiveness of actions taken.
- Standardize the solution after desired results are achieved.
- Review the problem solving procedure, and identify what was learned.

7. Meet regularly to share progress and obtain feedback. The L.P.M. model is a basis for performance communication and feedback between employee and supervisor on a continual schedule, and such communication must not be limited to formal completion and updating of the form.

8. Cascade L.P.M. down throughout the unit involved. The leader should set the expectation that the process be used throughout the unit. People at any level and within any segment of an organization can use the process and the forms. The term "work unit" is used generically to describe the group for which the leader and originator of L.P.M. is responsible. It can be a section, department, division, location, or corporation.

Accurate perceptions and mutual understanding are critical anywhere L.P.M. is implemented. Myron Tribus (personal communication) has developed a set of questions that can be used by work unit leaders to check for consistency throughout a group in selecting and improving on key functions.

- "Why have you selected these as your key functions?" The response to this question demonstrates whether a subordinate is, in fact, involved in continuous improvement. It also determines whether the subordinate and the leader have consistent views as to priorities. If this is not the case, the leader's priorities were not clearly stated, or the subordinate knows something the leader should know.
- "What will constitute 'excellence' when you undertake improving this process? How did you arrive at your definition?" First, is the subordinate clear on what it means to improve? In addition, because asking the customer is the only place to learn about excellence, the leader can determine whether the employee knows who his or her customers are and is attuned to their needs. Finally, it will be clear whether the employee merely is doing what will suffice or is striving for the best possible performance.
- "What will you measure as the work of improvement progresses? How will you know, before you get to the end of this particular effort, whether or not you are really making progress?" The purposes of these questions are: to discern the quantitative measures the employee will use; to encourage the employee toward quantitative measurement if he or she is not already so inclined; and to allow the manager to help the employee use the abilities of others who can demonstrate the use of quantitative tools.
- "How will you keep me informed?"

The Right Moment Is Now

"It doesn't matter when you start," says Deming, "as long as you start now." One of the root causes behind inaction in organizations is waiting for instructions from "on high." Certainly this new management approach will be implemented more rapidly if top management leads the way. But everyone in an organization has the opportunity to model the process within his or her own spheres of influence. Politicians are known to favor the explanation that they "practice the art of the possible." And that is what every employee can do—regardless of job title or organizational stature. "You have more power than you think you have," Deming points out. "You merely need to exercise it."

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Employee-Friendly Performance Evaluation

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W. Edwards Deming believes that man is entitled to joy in his work and that the United States needs more leaders who can remove obstacles to joy in work. Deming (1988) states that these leaders can accomplish this, in part, by serving as "coach and counsel," not judge; by working to improve the system; and by creating trust.

He proposes that annual performance evaluations be abolished because they judge the individual, focus on improving the employee's performance rather than the system, and rate employees based on subjective criteria. Performance evaluation is unfair, demotivating, and, therefore, useless to the system and to the employees.

An Employee-Friendly System

It is my premise that a performance evaluation system can be designed to provide the supervisory leadership necessary to help employees achieve joy in their work. Employees need supervisory leadership that sets realistic work goals, clarifies the activities necessary to accomplish them, specifies expected results, and provides the necessary systems, resources, training, and feedback so that these goals can be met. In addition, if employees understand what the measure of success is, they can determine themselves if they have been successful. A system of ongoing performance evaluation can increase the probability that employees will experience the joy that stems from success on the job.

Deming's proposal to abolish the annual performance evaluation is an appropriate and humanistic response to the typical evaluation system. In the evaluation model I propose here, supervisors provide ongoing, objective coaching to employees based on mutually established, job-related performance standards that are specific, observable, measurable, realistic, and within the control of the employees. Performance evaluation in this model equates with effective supervisory leadership, in which the leader's job is, as Deming (1988) advocates, "to help people . . . do a better job."

This model has been implemented in a performance standard-based system that the state of Wisconsin adopted in 1982. This chapter delineates six basic steps involved in effective supervisory leadership and shows how each step will increase the probability that employees will be successful in their work.

Implementing the six steps also increases the probability that employees will *feel* successful in their work—a conclusion supported by the work of

Hunter (1967). Hunter has organized the precepts of motivational theory into a paradigm for establishing situations intended to increase the probability of individual motivation. The six steps in this model are founded on the conclusions of that paradigm.

■ **Step one** is the identification of the key responsibilities—the general goals or objectives of the job. Each job tends to have five or six of these key responsibilities. An example of a statement of a key responsibility is "The development and presentation of training programs."

■ **Step two** is the definition of the worker activities. These are specific activities described with action verbs and generally listed in sequential order of performance.

In this example, if the key responsibility is "The development and presentation of training programs," a list of eight worker activities necessary to explain how that general goal is to be accomplished might be the following.

1. Conduct a needs assessment.
2. Establish training subject area priorities.
3. Perform research in the subject area.
4. Develop the training materials.
5. Schedule the training.
6. Present the training.
7. Evaluate the training.
8. Revise the training, if necessary.

The first two activities are essential to an employee's understanding of *what* is expected and *how* it is to be accomplished. Together, the two activities comprise the necessary elements of an effective assignment of work.

■ **Step three** is the establishment of qualitative and quantitative performance standards that define the minimum level of acceptable performance for the worker activities. The minimum level of acceptable performance can be set as high as necessary, as long as it is reasonable to expect that employees can perform at this level. The standards must be specific, observable, measurable, realistic, and documentable and should focus on the critical attributes of the work, without which the work would not be accomplished.

Professional standards, procedures, and protocols often establish a minimum level of acceptable performance that can be incorporated by reference into the performance standards. For example, attorneys must abide by the rules of evidence, and accountants must follow accepted accounting principles. Standards should be consistent with the employee's level of expertise and experience and should not constrain employees from exercising the expertise and judgment for which they originally were hired.

The standards also must be reasonable. Employees need to believe that when they expend the effort to meet the standards, there is a reasonable expectation that they will experience success. Employees will be more trusting if they feel that the situation in which they perform is fair, reasonable, and has been established in order to ensure their success (Hunter, 1967).

The most effective standards are those that focus on the worker activity or on activities that, if measured, also will measure whether or not the remaining activities have been performed. In the example being used, we can establish both qualitative and quantitative standards for the seventh worker activity, "Evaluate the training," which will let us know if the other six worker activities have been accomplished.

For example, a qualitative standard could involve an evaluation tool that is given either to the training participants and/or to their supervisors, which elicits from them whether or not

- the training subject met their needs
- the training content was up to date
- the training presentation was accessible to them
- the training notice was adequate.

A reasonable quantitative standard might be that 85 percent of the respondents feel that the training fulfilled those four criteria. Another quantitative standard could establish the frequency with which the training should be provided and the number of subject areas in which the training courses should be offered.

Implicit in the establishment of standards is the need to monitor them. Now that the employees know *how well* they are expected to perform, we need to ensure meaningful and timely feedback on their performance.

■ **Step four** is the identification of the means and frequency of measurement to determine the degree to which the key responsibilities and worker activities are performed in compliance with the standards.

The monitoring must be "user-friendly;" otherwise it will not occur. It will be "supervisor-friendly" if it coincides with normal supervisory contact and activities. It will be "employee-friendly" if it provides sufficient objective feedback with adequate timeliness, so that if there is a problem, it can be corrected before it is repeated.

The supervisor observes the process to identify both individual deviations from the standard, as well as contributing aspects of the system that need to be improved (lack of training, inadequate resources). The supervisor then coaches the employees regarding these observations. The supervisor and the employees should also identify a means of eliciting from the customers their perceptions of the quality of performance. The customers also might be involved in establishing the standards for which their feedback is elicited. In our example, the participants in the training sessions could provide their feedback through course evaluations.

Employee participation in the decision making for the first four steps in the performance evaluation process will establish the foundation for the employees' commitment to and trust in the process. Continuing with our example, the employees and the supervisor may decide mutually that the supervisor should audit training sessions to be able to give meaningful feedback to the employees. The employees' input into this decision is more likely to result in acceptance of the supervisor's monitoring presence.

At this point in the process, the employees know *what* they are expected to do, *how* they are expected to do it, *how well* the worker activities are to be performed, and *how* their performance will be measured. This empowers the employees to take responsibility for doing a good job. Because they now can measure their own performance against the established standards, they will not need to wait for supervisory monitoring to identify the fact that a problem exists, and they will be more likely to assume responsibility for contacting their supervisor when problems arise.

Once the frequency and means of monitoring have been established, it is important that the supervisor follows through.

■ **Step five** is the provision of feedback to employees regarding the results of their work performance. The statistical process central to Deming's model provides feedback on the employees' performances as it analyzes the system's process. Such feedback is as crucial to the success of the employees as it is to the success of the process.

If employees are not performing successfully, the responsibility of the supervisor and the system should be assessed first.

- Was the work assignment specific enough so that the employees could comprehend the nature and extent of the worker activities necessary to accomplish the key responsibility?
- Were the employees sufficiently trained?
- Given the nature of the system and the variables that affect individual performance, were the standards reasonable and within the control of the employees?
- Was the type and frequency of the monitoring sufficient to provide constructive and timely feedback?

If things are not going well, the supervisor should give specific feedback regarding what has not gone well, elicit from the employees their understanding of the problem, and come to a mutual agreement regarding how best to address it. If things are going well, the supervisor should give specific feedback as to what went well and why.

■ **Step six** is the action in response to observed performance. The standards may be retained or revised. Rewards, including additional compensation, may be provided for performance that is satisfactory or higher. Unsatisfactory or below standard performance may be remedied through improvements in the system, training, improved monitoring or, ultimately, discipline.

Deming has described performance evaluation as a stressful annual event at which the supervisor arrives with bias, and the employee arrives with fear and trembling. Neither knows exactly what is going to happen, but both know they are not going to like it.

In the performance evaluation model I have defined, there has been ongoing dialogue throughout the year between the employee and the supervisor. When they walk into any formal evaluation session, both are already aware of the performance goals and issues. They can simply continue their dialogue to plan together for the future.

Performance Evaluation Is Effective Supervisory Leadership

This six-step performance evaluation model is essentially the supervisory leadership process. It enables people to do a better job. Success is a powerful motivational force. We do the things we do well before we do the things that we do not do well. Implementing these six steps will increase the probability of employee success.

The performance evaluation process should involve a coaching relationship between the supervisor and the employees as they engage in a cooperative effort to improve the system. It should engender a sense of trust that stems from using performance standards that are reasonable, measurable, and mutually established and agreed on by the employees and the supervisor.

The supervisory leadership model of performance evaluation increases the probability that employees will *be* successful and that they will *feel* successful. As a result, they will feel "joy" in their work.

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Performance Appraisal: An Elegant Solution

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The answer is simple, really. All it takes is for every supervisor to have a strong working relationship with each of his or her employees. Every human resource system, every performance management process we develop (in particular, performance appraisal systems) is worthless without this one behavioral imperative: "Supervisors, know your people, know their performances, and be honest and fair in talking with them about how they are doing."

That imperative is more important than team and group progress against goals, and more basic than teamwork itself. Without this connection to the organization, employees cannot be productive members of a team or an organization. Maybe it's possible in Japan, but not here. This is the United States. Our culture and society are founded on individual growth and achievement, harnessed in pursuit of greater goals. The supervisory imperative is the key to keeping the pioneering spirit alive in U.S. organizations.

A prime example of this pioneering spirit at work is the oft-quoted case of Lincoln Electric in Ohio (Berg & Fast, 1975). Here is a company that lives by the principle of continuous improvement, which is a basis of the Deming philosophy. The secret of the company's success is "incentive management." Annually, every supervisor in the place, from office to factory, negotiates with his or her employees on their individual goals in four areas: "dependability," "quality," "output," and a combined area entitled "ideas and cooperation." Twice a year employees are rated on a scale of one to ten for each area. This performance appraisal rating is the sole determinant in their incentive payout, which runs at about 100 percent of base salary. The results at Lincoln remain impressive after four decades: high employee performance and commitment, low turnover, and high customer satisfaction.

This story, immortalized through everything from Harvard case studies to television documentaries, is cited here as an example of a performance appraisal and ranking system that works. The point is that the supervisor's relationship and the supervisory imperative are the keys to using performance appraisal as a means to the end Deming describes: an attitude of continuous improvement on the part of each employee. Deming's flat-out rejection of all annual performance appraisal systems that lead to merit rankings ignores the fact that this system can and does work in many U.S. industries.

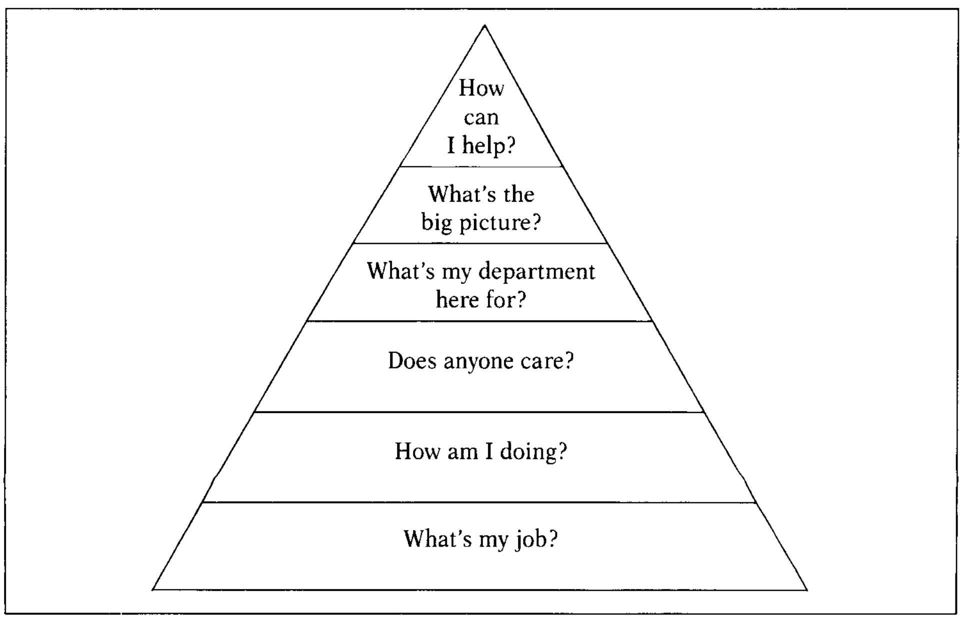
This chapter will outline the nature of this supervisory imperative and will provide a useful approach to help supervisors at any level and in any function establish a solid working relationship with employees. As suggested in the title, "elegance" is the key—finding solutions to the motivation question that are simple yet flexible and that address all aspects of the supervisory imperative. By defining the core of the supervisor's responsibility in working with employees, the ideas suggested may help in overcoming what Mintzberg calls the "loop" problem—that is, being too overloaded to do anything about being overloaded (Mintzberg, 1973). After explaining this central imperative, I will discuss the role of performance appraisal and will present a possible "elegant" solution. Finally, I will discuss possible concerns with this approach, incorporating many of Deming's points.

The Imperative

The imperative begins with the understanding that the supervisor's job is to optimize the performance of his or her people and work group. In the long run, an employee's performance is based on a perception of fair, honest, and mature treatment on the part of the supervisor—treatment that motivates and inspires, as opposed to treatment that is coercive and punishing.

To do this, the supervisor must answer *five basic questions that every employee asks.* The fact that the imperative is phrased in the form of questions indicates that *dialogue is the key.* Figure 1 illustrates the questions and suggests why performance feedback and appraisal are so central to the imperative.

Figure 1—The supervisory imperative



The idea behind the pyramid is simple: Addressing the questions from the bottom up, so to speak, gives the supervisor a broad action plan to help employees become motivated toward optimum performance.

Question 1: What's my job?

- Supervisors must do basic work planning for their work group on an ongoing basis in order to communicate individual job expectations.
- They must set and communicate goals and objectives as clearly and as often as necessary, so that every employee knows what his or her job is.
- They must provide or arrange for the coaching that is necessary with the "how" of employees' jobs.
- The bottom line is that supervisors must answer their employees' questions about their jobs. Of course, sometimes the question is not asked. It should nonetheless be answered.

Question 2: How am I doing?

- Feedback on performance against individual goals and objectives as well as other expectations must be given both formally (performance appraisal) and informally. Feedback allows for corrective action. Performance appraisal discussions and systems get at the heart of this question and provide information to help answer other questions as well.
- A supervisor must ensure that an employee receives positive and negative feedback because both are crucial to improving performance continually. Providing negative feedback in a constructive manner remains a key challenge of the supervisor's job, given the basic human tendency not to want to deliver negative news, even if it is helpful.
- These questions are very often not asked but should be answered nonetheless.

Question 3: Does anyone care?

- Supervisors must answer questions concerning an employee's growth, development, and worth to the organization. This provides the connection to the organization on a long-term basis.
- Compensation decisions must be communicated and the tie to performance explained.
- The employee's potential and future with the company must be discussed, and career development must be assisted.
- Again, these questions are rarely asked but should be answered nonetheless.

Question 4: What's my department here for?

- Work unit mission, goals, and objectives must be understood.
- The make-up of the department must be clear: Why this group of people with this mix of skills and abilities?

- How the department should work together must be clear. This may involve developing the department into work teams with common goals, roles, and procedures.
- Feedback against group or team goals follows as the next step in continual department improvement.
- Questions of department or work group structure need to be examined. How their work relates to those around them is a critical concern for people, once they know what their jobs are.

Question 5: What's the big picture?

- How a department fits with the rest of the organization and where certain people are expected to collaborate with other parts of the company will become important once the more basic questions are answered.
- What the mission of the organization is and how it is doing business-wise will also become important concerns.
- What are the underlying principles, values, and ethics that drive the organization? What does that mean about how work ought to get done?

Answering the five questions above is the supervisory imperative. There are many implications for viewing the supervisory role in this manner. For example:

- Supervisors should not bother doing performance appraisals unless employees have goals and expectations.
- Supervisors should not waste time trying to explain compensation decisions unless they are also talking about goals and performance on a continual basis.
- Employees will not care about quality improvement programs unless they know what their jobs are, how they are doing, and what the department is all about. If such an effort is underway, supervisors should concentrate on answering those questions first.
- If supervisors are thinking of starting quality circles with a group of people who do not know what is expected of them or feel like they have no organizational future, supervisors should think again.
- Supervisors had better do what they can to get general information about the company to the employee. But again, they should not bother unless employees have a sense of their individual and departmental lots in organizational life.

There is another underlying implication. Supervisors are in complete control of providing all this information and dialogue. It happens if they want it to and does not if they do not. Supervisors do not need all the answers. All they have to do is keep the dialogue going in some way. Once it is established for the lower-level questions of job definition, feedback, and longer-range concerns, they can start concentrating on the higher levels of department and organizational mission. This leads to a sixth question. Just as the first five questions redefine the role of supervisor, the sixth question redefines the role of employee.

Question 6: How can I help?

Employees often ask this question when they are getting their questions answered—not answered completely, irrevocably, or totally, however, but answered. This discretionary effort has been cited as the outcome of employee involvement and participative efforts and of the continuing improvement attitude that is central to Deming's thinking and to other quality-oriented processes. The way to achieve this empowerment is to fulfill the supervisory imperative.

Providing the answers to these questions is a way to redefine the basic supervisory role. The answers can provide an anchor to come back to when supervisors fall adrift in the complexities of the job. They are also a prerequisite for any further work in the area of quality, performance improvement, and motivation. In a sense, they may be all supervisors need to worry about.

The imperative is to answer the first five questions all the time, so that employees will ask the sixth. The challenge is to do it elegantly—that is, with a degree of simplicity, clarity, and effectiveness.

Carrying Out the New Role Elegantly

Before further explaining how an elegant approach to performance feedback and appraisal can help in fulfilling the supervisory imperative, some practical words are in order.

■ The supervisory imperative may be of the "necessary but not sufficient" variety. Other factors contribute to the motivation of individuals and the achievement of organizational success. But because it is rooted in the minds of U.S. employees, the imperative comes first.

Supervisors must develop an honest, fair, strong working relationship with their employees. Until then, they should not worry about any other improvement efforts. Supervisors should not think about teams, excellence programs, quality improvement, or anything else that involves employees working to help get the job done. The employees will not know what's in it for them. They will not see the sense in it, and they certainly will not succumb to any enticements of "developing an open, honest, collaborative atmosphere of trust" if they do not first have some of that with their supervisor. If a supervisor has 80 employees, finding elegant solutions to the imperative will be a tremendous challenge. If there are only 15 employees, finding solutions is eminently doable.

■ The supervisory imperative ignores organizational and functional distinctions. Performance improvement turn-arounds can occur in any function—production, marketing and sales, engineering, human resources, information services—as a result of applying the imperative.

■ It is harder to do as a supervisor moves up the ladder. Partly because of stronger individual needs and partly because of a condescension factor ("It's good for *them*, but at my level, you just can't work with people the same way. You have to assume that they know their jobs and empower them to do it.") Hogwash.

Supervisors and managers have to assume that all employees, and especially those at higher levels, need all the honest information they can get about their performance in order to make it better. If people at the top are that much more sophisticated and able, they should be better equipped to deal constructively with negative feedback once in a while. The same applies to the parallel argument for engineering, human resources, and other professions that may easily fall prey to the "cobbler's children" syndrome.

■ As a matter of fact, supervisors probably need no further instructions, training, or coaching. The "Drop Dead Rule" applies: Say that someone stipulated that the supervisor's life depended on his or her ability to apply the imperative. In that case, the supervisor most certainly would figure out how to build strong working relationships with his or her employees. It might be a good way for supervisors to start motivating themselves.

■ It's easy to succumb to rationalizing away the imperative. After all, most organizations these days are incredibly complex, and the way we go about our jobs within them is, some say, unnatural. People were not meant to interact the way we do in organizations—responding to so many people and pressures under such stress and with such little accomplishment to show for it on a day-to-day basis. The supervisor/employee relationship can be very tenuous because of this. Therefore, maybe the best we can hope for is to hang in there and not alienate employees so much that they leave the company. This type of thinking can lead to an organizational siege mentality, which results in supervisors abandoning the imperative and becoming less-than-human representatives of a less-than-human system.

Hopefully, knowing that there are some elegant answers to this dilemma will allow us to retain our humanity and get our jobs done at the same time.

An Elegant Appraisal Process

One way to help employees get the job done is by providing dialogue around the bottom two questions in the pyramid. This method is elegant in the sense that it is simple, inclusive, flexible, and does not take up a lot of time. The elegance derives from placing the responsibility for getting feedback on the employee, not on the supervisor. It defines the supervisor's role as that of the coach, developer, feedback giver, and system improver. It defines the employee's role as that of adult worker taking responsibility for becoming self-correcting and continually improving.

The process, similar to one Scholtes outlines in his chapter, is based on one of Deming's main points: that feedback ought to come from those who are best able to provide it—and this typically is not the supervisor. It takes the following format.

■ Define the job in terms of objectives, accountabilities, and expectations. Every supervisor must come to agreement with employees about this. It may come from job description elements, incentive objectives, special tasks assigned, or a piecework rate. The employee must be able to keep it in his or her head, so it should not be too much. If the job is large and complex, select just the most important things. This should be done annually or whenever the requirements change. Lincoln Electric's four main points are an example of this.

The job definition is not the most critical part of the appraisal process. The rest of the process, repeated over time, will clarify the job, both in the employee's and the supervisor's eyes.

■ Obtain feedback from stakeholders. The supervisor asks the employee to identify the five or six stakeholders (internal or external customers, internal or external vendors, peers who rely on cooperation, clients, etc.) who are best situated to provide feedback to the employee on his or her performance. Once these people are identified, the supervisor and employee decide what specifically is to be asked from each. Keeping it simple is important. An employee might ask these questions:

- What am I doing that adds value to your operation?
- What can I do to make your job easier?
- What suggestions do you have for my job or department?

Once the questions have been identified, the supervisor asks that the employee obtain the desired feedback within a given time frame (perhaps two weeks). The supervisor directs the person to get just the feedback and say "thank you," so as not to engage the giver in extensive analysis or defensive conversation.

■ The supervisor and employee meet to discuss the feedback. Out of the discussion a number of things should emerge, the most important being a shared understanding of how well the employee is doing. Other outcomes are discussed below.

■ The supervisor and employee agree on what actions might be taken to get better feedback next time (in six months or so). Both agree on the things they have to do to make that happen.

■ Repeat the process once or twice a year. The results should be summarized in the annual performance appraisal form, if there is one, and used as a basis for the performance rating, if one is required.

Paying attention to a number of points can help overcome an employee's natural reluctance to hold back any negatives. First, the employee is at least receiving that negative feedback, and even if uncomfortable about sharing it, may take some action on it. Second, if the supervisor takes department or system level feedback and uses it visibly and constructively, the employee will feel more comfortable in sharing individual performance feedback, especially if help is needed in improving the performance. Third, asking for help in improving performance before that performance needs to be formally documented or rated, and before it might be heard from another source, will incline employees to bring it up in a well-timed discussion.

Talking about these points begins this process between supervisor and employee, and living up to the trust, honesty, and fairness critical to these types of discussions will gradually overcome the employee's reluctance to share any type of feedback.

How Is This Process Useful in Carrying Out the Supervisory Imperative and in Doing Constructive Performance Appraisal?

"What's my job?" The process described here is useful in obtaining answers to that question and in sharpening and clarifying the employee's job through the eyes of the people to whom it most matters. The process provides direct feedback from the customer on an employee's work and removes from the shoulders of the supervisor the burden of being the sole judge and jury. It places more responsibility for performance improvement on the employee and, by providing the information, puts the supervisor in a better position to deal constructively with any negative feedback that comes to the employee or the department.

For the employee's performance, the supervisor can take a coaching role and has the broader system context and contacts to help the employee. For the department or system feedback, the supervisor may see patterns or priorities developing in the department through information given by a number of employees who are engaged in the process. The desire to do something about identified problems may therefore become more compelling, as the problems have already been discussed by others in the system but outside of the department. These people may support the supervisor's efforts to work on cross-departmental issues.

The supervisor's success in acting on this information depends on his or her ability as an organizational problem solver and perhaps on system constraints outside of his or her control. At a minimum, however, the process will provide a great deal of information that helps answer the questions, "How am I doing?" and "What's my department here for?" It will also facilitate the more effective functioning of that department in relation to the larger system.

During the discussions regarding the feedback received, the supervisor has the opportunity to bring up the questions of knowledge needed for the current job, and a potential job in the future, and can begin to answer the question, "Does anyone care?" This may flow naturally from the discussion or may be raised as a way to promote longer term thinking on the employee's part. It also provides a tie-in to the career development and training/education opportunities offered by the company. This is true for employees whom Deming identifies as being outside the system because of performance well below or well above standard. This information can be brought up in the context of the feedback and is less likely to be threatening for those falling short of the required performance for the system.

Concerns with the Approach

A number of concerns come to mind with this approach. First, it does not directly deal with the "merit ranking" problem voiced by Deming. But by positioning the performance appraisal as a summary of a process, and by making the core of that process a shared experience with the employee in control, any merit ranking will at least be based on good information. If there is a ranking to be done, it must still be done by the supervisor, and it remains his or her job to link the rating to the merit-pay system.

Lincoln Electric is a good example of how this potentially destructive dynamic can be turned into a win-win competition. Although the company does not use the system described in this chapter, appraisals are tied directly to about 50 percent of the employee's pay. Because the ratings have been consistent and honest, and because the employees see the tie between their direct efforts and their compensation, the effect is that everybody wins, "but some win more than others," as Deming has stated (Deming, 1988). The elegant appraisal described here can work the same way, if merit rankings are made honestly with the solid information provided by the feedback process.

The dysfunctional aspects of merit rating can also be mitigated with this or any other system by coupling the actual pay delivery as loosely as possible with the timing of the appraisal.

Another concern is that the system could unleash a monster, because of all the people running around asking for feedback and not being trained in how to receive negative or positive feedback. There are two parts to this. First there is the fear that everybody will have to do this all at once, that work will stop, and the place will fall apart. Not necessarily so. A supervisor can stagger the process with his or her employees and spread it out over a year. The data will still be valid enough for the summary appraisal.

The second part is the fear of feedback. If you envision a number of supervisors using the process at any given time, there will be a constant flow of performance information about individuals and a system that will become a way of life for the organization or department. The first few times an employee gets inappropriate or negative feedback may be tough, but the supervisor, as stated before, is in a position to help the person deal with it constructively. A receptivity combined with a fairly "thick skin" to the initial feedback will develop. The system will adjust to the increased information flow.

A third concern is that this approach does not provide a formal tie to anything but is just a way for the supervisor and his or her employees to get feedback. True. That is also its strength and part of its elegance. The rest of the elegance comes from the fact that it can fit into any existing system, without being formally tied in. The use of the information is totally within the control of the supervisor and employee, and the organization will come to share the expectation that it will be used for improvement. So there is some pressure to use it, but the responsibility lies where it belongs. Hopefully the pressure to use the information will also result in improvements in the work system that might not have happened if the process were not in place.

One last concern is the perennial complaint that it is almost impossible for supervisors to develop strong relationships with their employees if their bosses aren't doing the same with them. And this leads us to some final thoughts on the elegant performance appraisal and the supervisory imperative. If the imperative is not being overwhelmingly carried out in the organization, it is clear who is not fulfilling it in the first place: the person at the top.

Top managers or executives in an organization should not rationalize that having honest and elegant performance discussions does not apply to them because they have incredibly brilliant and motivated people working for them. We all know people who are incredibly brilliant and know their jobs well but still do not perform. Managers can not argue that the incentive system is what motivates their people and tells them how they are doing by the size of their pay checks. We all know that, unlike Lincoln Electric employees, most people do not really have a clear understanding of what goes into their bonus payout. Top managers and executives can not argue that they know how their folks are doing—and the employees know they know, because of the intense nature of management's routine contact with them. Managers can not argue that before they embark on this state-of-the-art performance appraisal, compensation and development systems are needed to deal with the expectations and fallout. All those systems will follow, and the technical talent to put them in place probably already exists in the organization. Managers should create the need first to set the standard. The supervisory imperative should be exercised with their direct reports. A place to start might be with a customer focused, elegant performance appraisal effort.

Summary

Back to simplicity and elegance. Deming argues that the annual performance appraisal/merit ranking system is dehumanizing and creates a win-lose atmosphere that leads to unmotivated employees and no push toward continual improvement. It is my hope that this chapter has helped convince readers of a number of points.

- The individual focus on performance and initiative is a strong driver in U.S. organizations.
- A supervisor must continually answer five questions that every employee asks implicitly or explicitly in order to be asked the sixth: "How can I help?"
- Doing so can create a win-win atmosphere.
- An elegant performance appraisal approach, simple and usable yet powerful and flexible, can indeed help in achieving that drive to continual improvement by providing valid information to the employee on performance and to the supervisor on the work system.

- The key is getting feedback from the right people about the right issues. Supervisors have it totally within their own control to obtain this information and to use it as the basis for performance and improvement discussion.
- Although this may not change the dysfunctional systems in any given organization, it can surely help supervisors do the best they can to allow their people to do the best they can. In a way, whether performance appraisal and review systems work or do not work is not the right question to ask; the right question is whether supervisors can fulfill their imperatives as leaders in U.S. organizations.

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Performance Appraisal: A Statistician's Perspective

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One might well ask what perspective a statistician could have on an issue such as performance appraisal. However, one of the most strident critics of the current system of performance appraisal is W. Edwards Deming. Deming, a statistician, is best known for his management philosophy, a philosophy credited with providing the foundation for Japan's rise to its current economic position. Deming's philosophy in general and his position on performance appraisal in particular are often misunderstood. The intent of this chapter is to examine Deming's position on performance appraisal from a statistical theory standpoint.

This chapter provides an overview of performance appraisal, raises concerns that statistical theory has about performance appraisal, and discusses what needs to happen instead.

An Overview of Performance Appraisal

This section discusses the elements and objectives of performance appraisal, along with potential problems of using a performance appraisal system.

Elements of performance appraisal

In his chapter, Scholtes lists the elements of a typical performance appraisal system:

1. a standard of measurement
2. a method for establishing the standard
3. a period of performance
4. a performance interview, and
5. the rating.

Another point could be added to Scholtes' list:

6. the ranking, which compares the rating with others doing similar work.

Objectives of performance appraisal

To assess the appropriateness of the elements of performance appraisal, we need to use the objectives of performance appraisal as a yardstick. The most commonly stated objectives of performance appraisal include some or all of the following.

- Provide a forum for a supervisor to counsel an employee on personal and professional growth opportunities and requirements.

- Identify candidates for promotion.
- Identify training needs.
- Determine rewards for the next period.

An analogy for performance appraisal

The following story provides an apt analogy for performance appraisal. It is a true story.

The plant manager of a small plant in a very large corporation wanted to get an independent assessment of how his plant was doing, so he asked to have a standard corporate supplier audit conducted in his plant. The auditors spent two days carefully examining his plant. At the end of the two days, they met with the plant manager and shared their observations with him. The auditors had seen many good things in the plant, but they also saw much that they felt needed improvement. After discussing opportunities for improvement, the plant manager was elated; the audit had done just what he had hoped it would do—give him an assessment of how his plant was doing along with ideas for further improvement.

However, the auditors were not done. They rated his plant a three (on a scale of one to five, one being best). This tempered the plant manager's enthusiasm. He told the auditors that he thought his plant was a two, but he'd gotten good ideas from them and that his plant would not be a three for long. However, the auditors were still not done. They told him his competitor was rated a one. Suddenly, all the good ideas and helpful advice were irrelevant. The only thing that mattered was the competitor's rating of one. The plant manager directed his energies away from following the suggestions for improvement and toward determining what the competitor had done to get a one. The objective became "to get a one," not "to change systems and processes that will improve the operation of my plant."

What does this story about evaluation of a plant have to do with performance appraisal? Comparing pieces of the story with the elements of performance appraisal, as listed above, answers that question.

With respect to elements 1 and 2 of performance appraisal—establishing standards—the corporation had somehow established the standards it wanted its suppliers to meet. Those standards formed the basis for the auditors' observations. In most performance appraisals, the standards are based on results. This is not completely the case in this example. Although the audit criteria involved the quality and quantity of product produced, budget performance, and other results of the plant, they also involved characteristics of the work processes, such as quality control systems and material handling procedures.

Element 3—a period of performance—does not apply in this case because the plant chose to have the audit conducted instead of having an imposed evaluation.

Element 4—a performance interview—is represented in the story by the audit and conversation. The story violates one of the unspoken assumptions about performance appraisal: that performance throughout the period contributes to the evaluation. In the story, the auditors could only assess the plant and its operations based on their two-day visit. Notice, however, that given their limited view of the plant, the auditors were able to provide a great deal of information to the plant manager which could help him improve his plant.

Element 5—the rating—is shown by the value of three assigned to the plant. This rating summarized a two-day evaluation of many dimensions of the business and discussion of the plant's shortcomings and potential remedies for them. But when the auditors assigned the numerical rating to the plant, the focus of the audit shifted from improving systems and processes in the plant to judging its current operation. The role of the auditors also changed from helping the plant improve to focusing on what was wrong in the plant and making sure the rating reflected the problems.

Element 6—the ranking—is shown by the comparison of the plant to its competition. The plant was a three and the competition was a one. When the plant manager compared his plant's rating with that of his competitor, his focus became "beating the system" instead of improving the system; he would do whatever it took to get a high rating. (Later, after investigating the competitor's rating of one, the plant manager found that the competitor had made sure its people kept up appearances to satisfy the auditors, although much of what they did was superficial.)

What were the objectives of the audit? We can only guess, but it is likely that the corporation intended for the audit to do the following.

- Provide a forum for its representatives to counsel its suppliers on opportunities and needs for improvement.
- Identify suppliers with which the corporation wants to continue doing business.
- Ensure that suppliers are providing what the corporation wants and needs.

Is it likely that the audit satisfied those objectives? In the discussion above, the plant manager found the counseling by the auditors to be valuable. However, the subsequent rating and comparison to a competitor (probably to achieve the second objective) decreased the likelihood that the plant manager would follow the spirit of the recommendations. Rather, he likely would do what was necessary to convince the corporation that his plant should continue to be a supplier to the corporation. Based on this example, it is unlikely that the audit, as conducted, satisfied the corporate objectives.

This story and discussion allude to some potential problems of an appraisal system. The next section addresses these potential problems more formally.

Concerns About Performance Appraisal

Established statistical theory points out some potential problems with performance appraisal as it has been described above. First, there is the question of the focus of performance appraisal. This question arises from doubt about whether any single instrument can satisfy all the objectives of performance appraisal. Second, there are problems with the interpretation of data in performance appraisals.

Focus of performance appraisals

Deming (1950) introduced statistical studies he labeled enumerative and analytic. In any statistical study, the ultimate aim is to provide a rational basis for action. Enumerative and analytic studies are distinguished from each other by where action is taken. Deming (1975) summarized the distinction between enumerative and analytic studies as follows:

> Enumerative: in which action will be taken on the material in the frame studied.
>
> Analytic: in which action will be taken on the process or cause-system that produced the frame being studied, the aim being to improve practice in the future (p. 147).

(In a statistical study, the frame is the set from which the sample is taken.)

Stated a different way, an enumerative study is a statistical study in which the focus is on judgment of results. In an analytic study, the focus is on improvement of the process or system that both created the results being evaluated and will continue creating results in the future. A statistical study can be enumerative or analytic, but it cannot be both.

A performance appraisal is a statistical study. Data are gathered (whether the data are quantitative or qualitative and whether they are gathered objectively or subjectively), and action is taken based on them. Is a performance appraisal an analytic study or an enumerative study? To address that question, determine the focus: It is either on judgment of results (enumerative) or on improvement for the future (analytic)?

In the story above, the focus of the audit as it began was on opportunities for improving the plant for the future. However, after the auditors rated the plant and then compared it to the competition, the focus shifted to judgment of results as seen in the plant at that time. When taken as a whole, the plant manager clearly saw the focus of the audit as judgment.

Some of the objectives of this type of performance appraisal are analytic and some are enumerative. However, a performance appraisal can only have one primary focus, and that focus depends on how the appraisal is conducted. Most performance appraisals begin with a conversation about opportunities for improvement and for personal and professional growth and then continue to the point where a rating is given. For many of the appraised, the rating overshadows the discussion of improvement, and the focus of the performance appraisal becomes the rating—the judgment of performance.

Interpretation of results

The rating and ranking that occur in performance appraisals are often conducted without understanding or recognizing variation. Deming (1986) states:

> A common fallacy is the supposition that it is possible to rate people, to put them in rank order of performance for next year, based on performance last year.
>
> The performance of anybody is the result of a combination of many forces—the person himself, the people that he works with, the job, the material that he works on, his equipment, his customer, his management, his supervision, environmental conditions (noise, confusion, poor food in the company's cafeteria). These forces will produce unbelievably large differences between people. In fact, apparent differences between people arise almost entirely from action of the system that they work in, not from the people themselves (pp. 110–111).

An appraiser should understand variation among results and interpret the results accordingly. This understanding centers around the source of the variation observed. Shewhart (1931) introduced the notions of chance and assignable causes of variation. Before attributing a result to an individual, an appraiser should ask whether that result was due to an assignable cause of variation or whether it occurred simply due to chance causes. Shewhart developed rules for deciding whether variation is likely to be from assignable or chance causes.

Shewhart's rules dictate that if observations fall within certain limits, as shown by the distribution in Figure 1, then there is no reason to suppose that the variation is due to any assignable cause. On the other hand, if some observations fall outside these limits, as in Figure 2 on page 174, we can expect to find some assignable cause for the observations outside the limits. However, even if there is an assignable cause for an extremely good or bad result, the person to whom that result is attributed is not necessarily the cause.

Figure 1—Distribution of results due to chance causes of variation only

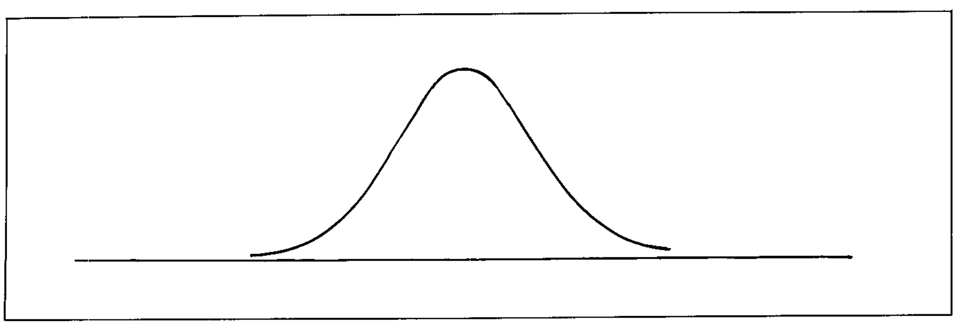
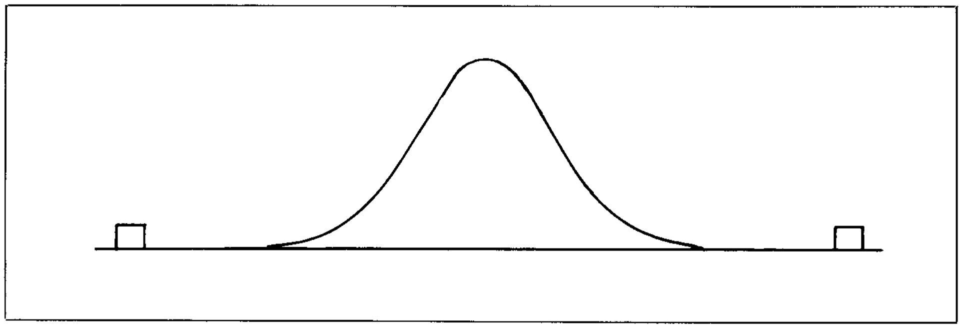


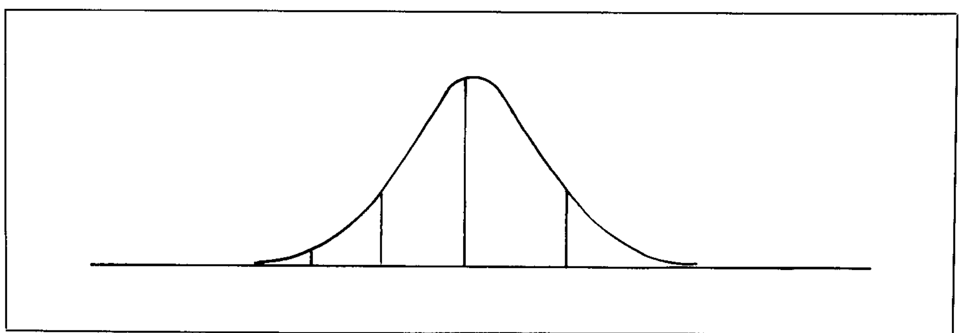
Figure 2—Distribution of results due to chance and assignable causes



In the case of the plant audit, is the difference between the plant's rating of three and the competitor's rating of one due to assignable or chance causes? Does the difference measure a difference in the plants, or does it measure a difference in auditors or production schedules or product mix? It is unlikely that the auditors or anyone who used the results of the audits asked those questions.

Shewhart's approach is not typically taken in evaluating results of performance appraisals. Instead, especially if ranking of people is a part of the system, evaluators arbitrarily divide into several categories a distribution of results due to chance causes of variation (see Figure 3). Treating results in this way assumes that they are entirely due to the person appraised; or at least that the other factors affect everyone equally. Further, it assumes that the results have predictive ability. Neither assumption should be made lightly.

Figure 3—Distribution of results, divided arbitrarily



There are two kinds of mistakes possible in assessing actions taken based on performance appraisals. First, people can be treated as though they belong to the same system, when, in fact, one or more of them are outside the system. This would happen when the situation is seen as a Figure 1 judgment, when it really is a Figure 2 situation. Second, people can be treated as though they do not belong to the same system, when, in fact, they do.

Unfortunately, an appraiser cannot always avoid both kinds of mistakes. For example, the only way to be certain of avoiding the second mistake would be to treat all people as though they belong to the same system. However, this would result in committing the first mistake as often as possible: Whenever people are outside the system, they would be treated as though they are in the system. This would result in both the lack of needed assistance for those outside the system on the low end and the lack of needed recognition or challenge for those outside the system on the high end. Conversely, appraisals that rank people and treat them as though they are not part of a system will not commit the first mistake but will commit the second mistake frequently.

Shewhart developed rules for deciding whether variation is likely to be from chance or assignable causes to minimize the net loss from both mistakes, recognizing that there is no way to avoid both mistakes all the time.

Leadership as an Alternative to Performance Appraisal

This discussion of concerns about performance appraisal provides a focus for the interactions between a supervisor and the supervised—improvement of performance for the future.

Deming (1989) says that managers or supervisors must become leaders. He lists attributes of leaders.

- They understand how the work of their group fits into the aims of the company.
- They work with preceding stages and with following stages.
- They try to create joy in work for everyone. They try to optimize the education, skills, and abilities of everyone and help everyone improve.
- They are coaches and counselors, not judges.
- They use figures to help them understand their people and themselves. They understand variation. They use statistical calculation to learn who, if anyone, is outside the system and in need of special help.
- They work to improve the system that they and their people work in.
- They create trust.
- They do not expect perfection.
- They listen and learn.

Conclusion

Understanding the statistical issues discussed in this chapter will lead to understanding Deming's position on performance appraisals. When Deming calls for the elimination of performance appraisals, he is not calling for the elimination of the coaching and counseling for growth that can occur in the context of performance appraisal. Instead, he is calling for the elimination of arbitrary rating and ranking and for a focus on improvement of processes and systems that give results, instead of on judgment of results.

Deming's alternative is clear: "The first step in a company will be to provide education in leadership. The annual performance review may then be abolished. Leadership will take its place. This is what Western management should have been doing all along" (1986, p. 116).

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The Leadership Challenge in Health Care

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In a tumultuous, swiftly changing environment, in a world of multiple, colliding systems, leaders cannot limit their leadership to those within their jurisdiction, that is, to those below them. Some of the most critically important tasks for leaders today require lateral leadership—boundary-crossing leadership, involving groups over whom they have no control.
John Gardner (1986), *The heart of the matter*

The Need for Change

Cost and quality are two major issues signaling a need for transforming the health care industry in the United States today. Historically, reimbursement of health care costs has been liberal from third-party payers (Havighurst, 1985). However, during the past decade, several factors have resulted in an environment of intense competition and cost containment pressures, including stricter Medicare reimbursement policy, state Medicaid cutbacks, and the implementation of the diagnostic related group (DRG) prospective payment system (PPS). Many of the changes in reimbursement programs have been based on the belief that quality health care could be provided more efficiently. Under programs in more than one-half of U.S. hospitals, payments made to hospitals by the federal government do not cover the cost of services provided to Medicare beneficiaries (National Committee for Quality Health Care [NCQHC], 1988). Throughout the country, many hospitals have closed, and more closures are predicted. Still, the cost for health care in the United States continues to soar, costing more than $500 billion dollars—or 11.4 percent of the gross national product (Health Insurance Association of America, 1987). This increase in cost has been attributed to an increase in demand for health care, medical inflation, and advances in technology and treatment. If we continue to follow our current course, the future does not appear to hold any relief in health care costs, as the elderly population expands, the incidence of AIDS grows, and the number of uninsured individuals needing health care rises (NCQHC, 1988).

Quality is another key issue at the forefront in today's health care industry. The Joint Commission on Accreditation of Healthcare Organizations (JCAHO), through its accreditation standards for hospitals, has strongly emphasized quality assurance and outcomes. The most recent accreditation standards emphasize quality in the management and administrative services in health care organizations, as well as in clinical practice (JCAHO, 1988). The Health Care Financing Administration (HCFA) of the U.S. federal government now reports annual Medicare mortality data by hospitals across the country. Although HCFA has discouraged use of these data to rank hospitals or to compare institutions, because the data are not adjusted for risk factor variables, the perception that the data reflect quality of care at these institutions has caused defensive reactions among health care leaders. Malpractice litigation and insurance costs continue to skyrocket, in some cases causing clinical practitioners to cease practice because they cannot obtain coverage and/or afford the rates.

On top of these pressures, fear and frustration have reached an all time high in the health care industry. Fewer people are entering health care professions, and those currently practicing find it increasingly difficult to take pride in their work. The bureaucracy, hierarchy, regulatory practices, and methods of management prevalent in health care do not work anymore. A transformation guided by profound knowledge is needed to provide continuous improvement of access and delivery of quality, cost efficient health care (all Deming concepts). We in health care need to face the challenge of leadership and begin the transformation.

From Functional to Process Management

The past decade has given rise to widespread structural changes in our country's health care delivery system, with health maintenance organizations (HMOs), preferred provider organizations (PPOs), and vertically integrated systems now dominating the industry. What has not significantly changed, however, are the philosophy and methods of management within health care. Management's role is viewed predominately as getting things done through others, with each professional and service discipline working within functionally controlled vertical structures.

In reality, many of the organizational systems comprise cross-functional processes that necessitate an infrastructure that supports cross-functional teams to manage those systems. For example, discharge planning of patients is a work process within the Department of Social Work. To conduct this work effectively, however, social workers rely on both nurses and physicians to notify them of their patients' conditions and needs. Social workers then must work with the patients and families, and many times outside institutions and agencies, to coordinate a patient's discharge from the hospital. The functional roles of health care professionals are interdependent, and providing quality service and clinical care to patients clearly requires a collective effort. The role of management in health care must become one of managing for continuous quality improvement and innovation of systems. This can happen only when a win-win milieu exists within the organization—one that supports cooperation, communication, and teamwork.

Health care professionals readily view the patients as the ultimate customers, or end users, within the industry. We must also be cognizant that, within the organization, there exist suppliers and customers for any particular work process. The integration of these cross-functional processes form the systems that ultimately result in quality service and clinical care to patients. In essence, every person, every professional and service function, every department, is a supplier to many processes, as well as a customer of other processes. Ironically, it is often these systems that cause unnecessary rework, increased costs, and frustration to health care professionals who are trying to do their best. By understanding these processes and by working with both upstream suppliers and downstream customers, we can provide cost efficient, highly valued service and care to our patients.

Clearly, we need to develop and support proactively a cooperative environment that encourages continuous improvement through interdisciplinary teamwork involving both physician and non-physician health care professionals. Like all others in the field, physicians are customers of some processes and suppliers to other processes. Batalden (1986) and Berwick (1989), both medical doctors, support the necessity of physician participation and active involvement in the quality improvement process. To accomplish the necessary transformation, all health care professionals must work together and focus on process management for quality improvement and innovation.

A New Paradigm

The assessment of conformance to standards is the traditional role of quality assurance in health care organizations. Standards and outcomes, obviously important in health care, appear to be the primary targets of both external regulatory agencies and reactive leaders within health care organizations. But concentrating only on meeting designated minimum standards merely assures the status quo and does not promote continuous quality improvement of service and clinical patient care.

In addition, by focusing only on outcomes, we are attempting to assure quality through inspection. We need to emphasize prevention and to focus on improving processes that produce the outcomes. This can be accomplished effectively only when we begin to analyze process measurement data analytically, in addition to enumerative studies of outcomes. Rather than focus on the outcomes of processes and systems as ends themselves, or react by tampering with systems whenever a standard isn't met, we must analyze process measurement data over time to understand the capability of the process.

As we analyze the data, we can see the variability within processes, and our task becomes that of differentiating special causes of variation from common causes of variation. Common causes of variation are those that are part of the normal operation of the process. Special causes of variation are abnormal or intermittent influences that lead to erratic or unpredictable behavior of the process. Once we remove the special causes of variation from the process, we can then concentrate on reducing variation within the process, continuously improving existing processes, and creating new innovative systems.

Juran and Gryna (1988) have estimated that 20 percent of potential improvement opportunities are within the realm of employees working in the organization's systems. The remaining 80 percent of potential improvement opportunities must come from management in changing the organizational culture and systems that are in place. Deming (1986) estimates from his experience that 94 percent of the possibilities for improvement belong to the system and are management's responsibility to improve.

In the new paradigm for health care management, the focus is on improvement and innovation of organizational systems, as opposed to erratic reward and punishment of employees working within the organization's systems. Through interdisciplinary teamwork built on customer-supplier relationships based on trust and respect, health care professionals can work together to improve quality through the cross-functional blending of resources that determine outcomes: people, methods, materials, equipment, and environment. As a team focused both on continuous improvement and innovation of processes and on customers' needs and satisfaction, we can reduce variation, waste, rework, and thus cost.

Along with the information we obtain about process capability, by listening to and working with our internal and external customers, we gain valuable information that directs our improvement efforts. In the health care industry, this translates to obtaining feedback systematically on the needs and satisfaction of other health care professionals and people who depend on our service within organizations, as well as patients, their families and significant others, third party payers, and the community. We must constantly seek ways to create new and improved systems throughout the organization that add value to the service and care we provide to our customers.

Breaking Down Barriers

As we begin to transform the management paradigm in health care to one of leadership and continuous improvement, we will need management methods and strategies that promote cooperation, teamwork, and continuous improvement. Management must take a hard look at the methods and structures currently in place and not only remove those that are barriers to the transformation, but also replace them with methods and structures that will positively affect the new organizational culture.

One of the systems management has in place that needs to be replaced is the annual performance review. The predominant system of performance review used in the health care industry—one of reward and punishment—is based on methods used in other industries and is thought to increase the productivity of employees. Winners and losers are created in an organization that uses such practices as performance ratings and merit pay tied to numerical objectives and other results that benefit employees or their functional areas. Those practices create an environment that supports competition among employees and among groups within the organization. The usual end result is a short-term gain for the employee or department but a long-term loss for the organization.

Data from numerous studies (e.g., Kohn, 1986) show that extrinsic motivators—money, ratings, or grades—adversely affect long-term performance by undermining employees' intrinsic motivators for performance, which include enjoyment and pride in the work for itself. Cooperation and reward based on collective performance promote higher productivity and quality of performance than do competitive conditions. Nelson (1988) suggests that attitude toward job, co-workers, management, and the organization plays a more important role in influencing productivity than does the formal organizational structure or financial incentives. Deming (1988) believes that we can abolish the annual performance review, which focuses only on outcome, when we have implemented modern principles of leadership in the organization. Health care organizations must develop a system of recognition and reward that accounts for variance in performance due to resources within the system, that recognizes innovation, creativity, and achievements that improve the capability of established systems, and that allows employees' intrinsic motivation to flourish.

The Leadership Role

The role of health care professionals in clinical and management leadership positions is to change the organizational culture to one that fosters continuous quality improvement and innovation through interdisciplinary teamwork. The transformation—in which the role of management is viewed as improving systems in the organization—is not a quick fix and is not something that top management can delegate to others in the organization. Many U.S. manufacturing and service organizations, believing that management's role is to get things done through others, have attempted merely to transplant the Japanese technique of quality circles to improve quality and decrease cost. Historically, this approach has not worked (Baker, 1988). Management has not been involved in the process, and quality circles have consisted of people from a specific functional area. Quality circles have not been empowered to deal with cross-functional processes and thus have been unable to affect the quality of products and services that depend on cross-functional organizational systems. The end result has been that employees become frustrated, and management looks to other programs to motivate employees to improve their work.

Therefore, it is essential that those in health care leadership positions *lead* the transformation to the new management paradigm. We must consistently show commitment and active involvement in the process and empower teams to improve our organizations' cross-functional processes that provide service and care to patients. Deming (1989) has identified the following attributes of the transformation leaders.

- They understand how their groups' work fits into the aims of the organization.
- They work with preceding stages (suppliers) and with following stages (customers) in the process.
- They try to create joy in work for everyone. They try to optimize the education, skills, and abilities of everyone and help everyone to improve.
- They coach and counsel people rather than judge them.
- They understand variation, including special causes and common causes of variation.
- They work to improve the system their people work in.
- They create trust.
- They do not expect perfection.
- They listen and learn.

Health care leaders will need to embark on a sequential course to implement the transformation. First, they must educate themselves in the new philosophy of management and internalize the beliefs and values of this new paradigm. Second, they must participate in training to learn new skills and tools that will be necessary for managing in the new paradigm. Leaders must obtain profound knowledge which Deming (1988) describes as knowledge of variation, common causes and special causes, tampering, interaction of forces, operational definitions, and psychology. Third, they must foster experimentation of the new way of managing through role modeling. And finally, they must teach the new management paradigm and integrate it into every aspect of the organization until it becomes the organization's culture.

Leaders throughout the organization must motivate and energize others by sharing their vision of the future, teaching, coaching, and nurturing people in the organization. They must focus on long-term gains, improvement, and innovation of systems within health care, rather than on short-term gains and rewards for an individual or a single professional or service function. The transformation is essential if we are to provide access and quality health care services to future generations in this country. The challenge before us is one of leadership, and the challenge is ours!

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The Annual Performance Review in Academia: A Review and a Proposal

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As in many other job settings, the annual performance review has become a standard fixture within academia. Often the only mechanism used to provide feedback to faculty, the annual performance review usually focuses on questions of promotion and tenure and on decisions related to merit-pay increases. It is seldom used to provide feedback for maintaining quality, identifying training needs, or pinpointing systems problems that need the attention of management.

In this chapter, following a brief review of the literature on faculty evaluation, I will present a case study, detailing how one department in a major research university conducts its annual performance review. Also presented are an analysis of the case and recommendations for how such a review, consistent with Deming's philosophy, can be accomplished.

Review of the Literature

A considerable amount has been written on the topic of conducting evaluations of faculty members, addressing factors to be used, evidence to be considered for each factor, the source of such evidence, criteria to be used, and so on.

Seldin (1984, p. 37) provides a point-in-time perspective of the factors used nationally in private and public liberal arts colleges, according to academic deans. Overall, the ranking is as follows.

1. Classroom teaching
2. Student advising
3. Campus committee work
4. Length of service in rank
5. Research
6. Publication
7. Activity in professional societies
8. Personal attributes
9. Public service
10. Supervision of graduate study
11. Supervision of honors programs
12. Consultation (government, business)
13. Competing job offers

Though public colleges tended to give somewhat more emphasis to research and publication than private colleges, both emphasized classroom teaching almost unanimously as the highest ranked factor. Centra's (1981) findings are similar, except that research universities placed slightly more emphasis on quality of publications than on classroom teaching.

Classroom teaching, according to Seldin, is most often evaluated by department chairs, followed by deans and systematic student ratings. The problem, however, is how administrators judge teaching competence. Seldin concludes that "the question persists: Is the perception [of teaching competence by administrators] equal to the reality? How often not? How seriously?" (p. 45). There is evidence that administrators are increasingly using direct observation of classroom performance and course materials in their judgments, but they also often use student ratings and secondary evidence—research and publication records—as indicators of teaching performance (Seldin, 1984). This is done in spite of Feldman's (1987) findings that there is only a small positive association between research productivity or scholarly accomplishment of faculty members and their teaching effectiveness (as assessed by their students).

Many articles have been written on using student ratings to assess teaching effectiveness (Armstrong, 1987; Arubayi, 1987; Cruse, 1987; Gaski, 1987; Howard, Conway, & Maxwell, 1985; Marsh, 1984). It is clear that there is still considerable controversy about the use of such measures. Armstrong (1987) provides a good summary of the outcome results.

> [T]he literature reveals high inter-item, inter-rater, and test-retest reliability for student evaluations of teachers, and moderate cross-course reliability. Tests of validity have disclosed some extraneous bias factors, but they tend to be small in absolute terms and in combination account for not more than 15 percent of the variance in teacher ratings. Student ratings of classroom teaching ability correlate moderately to highly with comparable ratings made by others. And, finally, the weight of evidence indicates at least a moderate positive relationship between student ratings and objective measures of student achievement. Thus it would appear, in general, that student ratings of instructors are sufficiently reliable and valid to be used as *one of several* sources of information in administrative decisions relating to retention, reappointment, promotion, salary, and tenure (p. 74).

Cruse (1987), while agreeing on reliability, disagrees on face validity. He says that validity is "marred by halo affects, the apparent inability of even skilled raters to judge complex behaviors adequately, the salience of personality features in judging tasks, and a host of other variables" (p. 723).

Multiple criteria are used in judging scholarship/research performance. According to Seldin (1984), all of the following were "always used" by at least 60 percent of public and 50 percent of private college respondents: books as sole or senior author, books as junior author or editor, publication in all professional journals, monographs or chapters in books, and articles in quality journals.

Two factors were rated considerably above all others in evaluating college service performance: service on college-wide committees and academic advising (Seldin, 1984).

In all three areas, the factors themselves are supported fairly widely, though criteria for the factors are not reported. In almost every instance, however, Seldin (1984) reports that the criteria were judged by department chairs and deans using subjective measures. One of his conclusions is this:

> Generalities about effective teaching and productive scholarship need nailing down to the professor's day-to-day activities and priorities and the department's and institution's pressing needs. One answer is the "faculty growth contract," where the department chairperson and the professor arrange an agreement in specific terms of the professor's proposed achievements in a stipulated time. The evaluation . . . is then confined to an appraisal of the proposed and actual accomplishments (p. 123).

In spite of the problems, however, Seldin does not argue against faculty evaluation; he simply argues for more emphasis on the evaluation of teaching, rather than solely on research and publications. And he concludes:

> Although faculty evaluation is more art than science and is practiced by fallible human beings, . . . farsighted institutions . . . will acknowledge weaknesses in their faculty evaluation systems and will devote the necessary time, energy, and resources to dismantle and rebuild them. Their goal will be construction of a new system that is at once flexible, comprehensive, objective, individualized, fair, and consistent with the law (p. 125).

He adds:

> There is no perfect evaluation program, nor can there be. Such a system will probably always remain beyond reach. But with enough time, effort, and goodwill, we can come reasonably close (p. 156).

Thomas (1989) underscores the same problem with faculty evaluation as do several other writers in this monograph: that too much is expected from the process. Focusing solely on the evaluation of teaching, she identifies three purposes: "student course selection (usually at larger institutions), administrative decisions (such as tenure, promotion, and salary), or development (improvement)" (p. 3).

Though Deming (1982) focuses on people who lie outside plus ("stars") or minus (needing retraining, reassignment, or dismissal) status by three standard deviations, Magnusen (1987) categorizes faculty in a non-normal distribution.

> "Stars" (or fast-trackers with high potential) are estimated to comprise 25-30 percent of an organization, while "solid citizens" (who handle the bulk of organizational work) often represent 60 percent or more. . . . "Newcomers" (or learners) might represent another 2-5 percent of the organization, with "deadwood" (nonperformers) comprising the remaining 10-15 percent (p. 525).

Unlike Deming, however, Magnusen observes that each group receives special attention except for the "solid citizens." Magnusen is concerned that this group will become "demoralized, indifferent, and candidates for 'deadwood' status" (p. 525) unless they are also recognized. Deming, on the other hand, would treat those within plus or minus three standard deviations the same, while providing far more differentiation in pay for the "stars" than for the "solid citizens."

A Case Study

The system for merit pay increases used in the Department of Vocational and Technical Education in the College of Education at the University of Minnesota illustrates many features often found in systems for evaluating faculty members and thus is presented here as a case study.

The University of Minnesota system mandates merit pay for faculty. Therefore, all faculty receive formal administrative reviews on an annual basis. The first step for any faculty member in the College of Education is to complete a Faculty Accomplishment Form. This form is completed the first of May but covers "anticipated" accomplishments through mid-June. It is very detailed and requires a full working day to complete, in addition to extensive, detailed record keeping throughout the year. It gathers information in the areas of teaching, research, service, and administration such as the following.

Teaching
Courses taught
Number of credits taught
Courses developed
Courses revised
Student and other evaluations
Number and types of student committees
Number and types of student advisees
Names of advisees graduated
Placement of advisees graduated
Titles of Thesis or Plan B papers supervised

Research
Publications
Grants
Presentations
Work in process

Service and Administration
Department, college, and university committees
Administrative responsibilities

(continued on next page)

Student organizations advised
Journal editor responsibilities
Other external commitments and consultations

Finally, faculty are asked to list any honors received and to estimate either the number of hours per week or the percent of time spent in each of the four categories. In addition, they are asked to submit a detailed, current curriculum vita (some may exceed 50 pages!), student evaluation summaries from at least one course of their own choosing, two (and only two) examples of "scholarship" from the past year, and a statement of research focus, including how their work fits into the department's priorities. A committee of administrators within the department developed, adopted, and updated these priorities, with faculty input from a faculty retreat, three hearings, and ongoing, informal input to administrators.

Published standards do exist and are used for reviewing faculty for promotion and tenure, as well as for merit pay increases. The standards were developed by a faculty committee and accepted by the full faculty. These standards (see Appendix A starting on page 197), though detailed, are not easily measured, especially relative to quality. Attempts have also been made to distinguish expectations according to rank (see Appendix B starting on page 201). The criteria are, however, as Deming says, basically "unknown and unknowable." Nevertheless, the criteria are used to guide performance review decisions. The work plans faculty develop for the year, against which accomplishments can be compared, are quite explicit relative to courses to be taught and committee assignments. Relative to quality, amount, type, etc., of other contributions, the work plans are silent. Their measure is a broad commitment to "percent of workload" (e.g., 10 percent per quarter for research), though there is a lack of agreement on the base to which the percentage applies.

Faculty members submit the required documents to the department chair and to their direct supervisor (there are five in the department), who often analyze the person's accomplishments. The department chair then develops recommendations for the dean, and the resulting increase in pay is reported back through the hierarchy.

How decisions are made at each step is somewhat hazy, though subjectivity and intuition clearly play a role. The culture of the university suggests that research is weighted more heavily than teaching and that service and administration are of relatively minor importance. Percentage increases are assigned to each faculty member, in as little as one-quarter percentage point differentials, after adjustments for new promotions and past inequities. In addition, the university has a special fund set aside to provide extraordinary increases for faculty who can provide evidence of a bona fide offer from another institution that exceeds their present salary.

Once final figures are set, the faculty member receives a letter from the department chair, indicating the following year's salary, along with an invitation to meet with the supervisor and department chair to discuss the evaluation, if desired. The frequency for each percentage increase is not made public, though it will be shared during the discussion period, if requested. Likewise, salaries are not shared publicly, though these are available in the university library. Beyond providing the initial information, the faculty member has no additional opportunity to influence the decision further. Likewise, there is no appeal except through a formal grievance proceeding.

What's Wrong with the System?

Unfortunately, as in the whole area of annual performance reviews, it is much easier to indicate what's wrong than to recommend a replacement. There are many serious problems in the case study as presented. As Deming suggests, only a few people—those ranked at the very top—come out of the process with any positive feelings. Morale during the few weeks after the next year's salaries are announced appears to this author to be low, even among those receiving a relatively high increase. Some of the major reasons for this are as follows.

1. Instability of the measure

Deming (1982), among many, has pointed to the short-term philosophy undergirding management in the western world. This same deficiency is found in a system that rewards (and withholds rewards) on an annual basis. This is especially true when an academic launches on a long-term research objective, or when a person's academic focus is changing. Significant long range contributions or changes in focus do not occur in a year but are built up over many years.

Deming's observation is that only a few people are outside the range of natural variability—either positively or negatively. Those who are out of the range in the positive direction are there because there is something truly outstanding about them and their performance. One should not, therefore, expect someone to be at the top of the range one year and in the middle of the range, or worse, the next. Yet with the system described, that is exactly what can—and does—happen.

2. Ignoring the principle of variability

The assumption that one can make one-quarter percentage point distinctions among faculty members suggests a lack of understanding of variability. Especially given all of the problems identified earlier, it is clear that any attempt to rate faculty on the basis of merit will have a considerable standard error of measurement. Deming suggests that, with statistical process controls on tight, observable, and measurable data, variability alone means that distinctions cannot be made among employees within plus or minus three standard deviations. How, then, can we assume even tighter controls with nonmeasurable, nonbehavioral, and undefined variables?

3. Subjectivity of the review

In spite of the development of so-called standards, the reality is that, no matter how much commitment there is on the part of the administrator to produce fair and honest ratings, the ratings are still subjective and are made, in fact, by a person who does not have close, day-to-day contact with the person being rated. Further, the person doing the review is in a difficult position to "measure" the significance of a faculty member's work; in most instances, the reviewer (here, the department chair) is outside the academic discipline of the person being reviewed. Plus, numerous studies indicate that any review system that rates employees on subjective criteria does not measure merit or productivity but is a proxy measure of the relationship between the reviewer and the reviewed.

Another difficulty with subjectivity is the impossibility of any faculty member to meet all of the criteria simultaneously. Obviously, with such a wide range of criteria on which to be judged, faculty have to make decisions about the areas in which they are to focus their energies. This could be done relatively easily if the faculty member had the luxury of choosing one area on which to focus, and if administration concurred with that choice. But when such a process is not followed, and faculty are left to sort out for themselves where to place their energies, all sorts of opportunities emerge for bias in evaluations.

In one case, a faculty member received a positive review but was told he needed a higher rate of graduating student advisees. The following year, with a considerably improved graduation rate, he received a lower rating because, he was told, he needed to bring in more funds to the department—even though no mention was made of that criterion the previous year! With such shifting criteria in the midst of more criteria than can be met, the whole exercise becomes one of trying to outguess the reviewer!

4. Rewards and objectives inconsistent

Whenever standards are subjective and individual work objectives are not established, purported objectives may be subverted in the application of rewards in the annual review.

For example, at the University of Minnesota, senior faculty are often reminded of the importance of providing mentoring opportunities to junior faculty and to graduate students. If taken seriously, this would imply, among other things, co-authored research projects and articles. Therefore, one would expect to be rewarded for joint authorship. In fact, however, a jointly authored article or report is considered evidence that one "cannot produce independent research;" thus the effort is denigrated for both authors.

Another example: Frequent memos from administration remind faculty of the importance of course enrollments for budgetary purposes. Awards exist within the college and the university for excellence in teaching. One should expect teaching, therefore, to be rewarded. In practice, teaching appears to be relatively less important than research. Even on the research side, it sometimes appears that there is less concern for the quality and impact of the research than for the number of dollars a faculty member can bring into the university. So, is a faculty member being rewarded for research skills (scholarship) or for the ability to garner funds (fund raising)?

Finally, with a special fund available to retain faculty members who receive bona fide job offers, faculty are encouraged, if motivated by salary, to be constantly on the "sales block." Loyalty to the organization is not rewarded, while disloyalty is, and is actually punished with diminished salaries.

5. Misplaced role of management

Deming, and most writers in the field of quality, claim that most of the problems with poor quality are the responsibility of management—most set this figure at 80 to 85 percent. If problems in quality exist, it is because the system is at fault: There are too few resources, the available resources are not appropriate, appropriate supervision and training are not provided, appropriate measurement instruments are not in place, the needs of customers (in this case students, the public, other academics, etc.) are not known nor sought, and so on. There becomes a need to "invert the organization"—for management to see its primary (and perhaps sole) role as providing support for those performing the work. The system of performance review described here continues to function in the outmoded assumption of the manager as taskmaster and evaluator, but not necessarily one who is responsible and supportive.

6. Secrecy

Whenever decisions are made in an environment of secrecy, there is increased probability of those decisions being tainted with discrimination. In the system described, without specified criteria

- the evaluator need not make public the criteria used, thus making grievances difficult
- the process used is not clearly articulated, so remains somewhat secretive
- percentage increases are not freely or openly shared, and
- salary levels are not volunteered or easily made available.

7. Distance from the work

The further one is from the work—the focus of any quality effort—the more difficult it is to provide appropriate feedback. In the system described, the final evaluator, in fact, is the dean, four levels away from the work. In the case of promotions and tenure, there are six levels between the work and the decision maker—the vice-president for academic affairs. In both instances, two more layers exist in theory, though in practice they have relatively little impact.

The work—The customer

|

Faculty member being reviewed

|

Division head (immediate supervisor)

|

Department chair

|

Dean of the college

|

Dean of the graduate school
(for promotion and tenure)

|

Vice-president of academic affairs
(for promotion and tenure)

|

(President of the university)

|

(Board of Regents)

Though there are other problems—such as the amount of time faculty members spend keeping records, the timing of information submission, the restrictions on work samples allowed, and so on—those described above are the major difficulties with the system as it exists.

A Proposed System for Faculty Evaluation

In spite of the difficulties, it is possible to devise a faculty evaluation system that is workable and avoids most of the difficulties of many existing systems. This section will describe the characteristics of such a system. The numbers coincide with the deficiencies numbered in the above section.

1. Infrequent salary merit adjustment

The instability of the system can be overcome with infrequent merit adjustments to one's salary. This principle seems to be understood in academia around issues of tenure and promotion. Most institutions have seven years during which to make a decision about tenure, and today the expectation of faculty in most institutions is that they will spend at least seven years at a given rank before receiving a promotion. Why should we expect anything different with respect to merit pay? For senior faculty who are no longer under consideration for tenure and promotion, a formal salary review once each seven years seems reasonable. It is a large enough time frame for administration to determine a faculty member's contributions to the institution, to allow for projects to come to fruition, and to permit changes in focus. The expectation would be that "stars" would remain "stars" unless some traumatic experience causes a significant change in performance. For faculty at other ranks, the average pay increase should be assigned to each faculty member until that person is moved to the next higher rank, at which time salary would be adjusted to reflect the promotion.

Following this recommendation will also nullify two of the minor concerns. First, the time of submission is not as critical. In a seven-year time period, there is no need to "guess" about accomplishments. In the existing system, almost one-third of the time (April 1 to June 15) could reflect a guess about accomplishments. Second, because the reviews would be staggered, all faculty would not be reviewed at the same time, and thus the restriction on the amount of evidence that could be submitted could be lifted.

2. Three categories

For the system to work as described in the point above, it is simply not possible to continue trying to make fine distinctions in merit as measured by one-quarter percentage points. As Deming suggests, it is much more reasonable to assume that all faculty members are functioning in an average (and thus acceptable) manner. Very few faculty members will truly be "stars," and they should be rewarded with considerably higher salaries than the rest of the faculty. One would expect that such stars would be full professors; otherwise, something has gone seriously wrong with the promotion system.

One also would expect there to be very few faculty at the unacceptable end; such people should be assistant professors. The institution should respond by providing training, mentoring, and other kinds of support to improve low end performance. The first assumption we should make is that the system has a flaw, not the individual faculty member. Only when such support does not change a person's performance should we consider that the selection criteria were not appropriately applied or that the faculty member should not be retained.

Occasionally, the system may be flawed, or, because of a traumatic experience (divorce, death, illness, alcoholism, etc.), a faculty member who was once considered competent enough for promotion is now judged to be in the unacceptable category. Again, management's first response should be to provide the support needed for improvement. This might include counseling, retraining, or additional resources in an attempt to move such a person back into the acceptable range. Failing that, it is the institution's responsibility to ensure that customers are not subjected to unacceptable workers. Following a grace period during which no increases in pay are provided, if no change has occurred, the faculty member should be released from the faculty. By this time, the need for such action should be well documented to avoid legal difficulties.

Thus, three categories should be sufficient in any merit system:

- "unacceptable," in which case there is no pay increase, and the faculty member ultimately may be released after support is provided and there is no change in performance
- "average," in which case there is average pay increase
- "outstanding," in which case a substantial pay increase will be provided.

3. Description of the work for each faculty member

To avoid the impossible tasks of trying to achieve every criterion and trying to outguess the evaluator, all faculty members should have negotiated descriptions of their work mutually. Such descriptions should be explicit enough to indicate clearly how much is to be accomplished within what set of objectives over the seven-year time frame between formal reviews. The faculty members should understand clearly what roles they are to perform in curriculum development, teaching, grants, research, publications, and service to the community and to the institution. It then becomes the institution's responsibility—management's in particular—to provide the resources necessary to accomplish those objectives. That might include the provision of graduate assistants, appropriate supplies and equipment, released time, sabbaticals, and reasonable work loads.

4. Rewards match objectives

The above step should help to ensure that faculty are rewarded for fulfilling the expectations identified for them. Thus, if in step 3, a faculty member agrees to provide mentoring support to a junior faculty member, the reward system should examine how much evidence there is that such was done. Certainly, one piece of evidence would be the number of co-authored articles published, the number of courses team taught, the number of shared consultancies, and so on. Further, rewarding a faculty member for mobility and lack of loyalty to the institution would no longer be possible. If a faculty member is a "star," his or her salary would already have been adjusted significantly upward. If a faculty member has not been judged to be a "star" and receives a significantly higher offer at another institution, that should be a signal that the other institution's standards are not as high; the faculty member should be allowed to make the move without serious loss to the institution.

5. Frequent, informal two-way feedback with commitment to system changes

Deming's injunction for "constant improvement" is valuable for higher education. To occur, however, there must be frequent opportunities to share observations about the system with people in positions to change the system to be more productive. Administrators, therefore, must establish systems that will permit them to listen to, not tell, those whom they supervise so that they, the administrators, can change the system to support the faculty who are performing the work.

Acknowledging that they do not do the work—they simply support those who do—will require a significant change in mind-set for most administrators. At the immediate supervisor level, this means meeting with each faculty member a minimum of once a month, though that is probably too infrequent to accomplish the intended objective. Likewise, department chairs must meet at least this frequently with individual division heads, and deans with their department chairs, and so on.

6. Open process

This step is probably the easiest and yet may produce the greatest resistance. Once the system is developed in support of the characteristics proposed here, it is then necessary to ensure that everyone in the system knows and understands what the process will be. It also requires that there be openness in the results. Just as promotion and tenure decisions are openly announced and lauded, so, too, should that occur for those who have achieved "star" status. Announcing the people who are in trouble becomes more problematic, but this too should be open so that the institution's resources can be provided in an attempt to help such faculty members move up into the average range.

7. Customer evaluation

Finally, the evolved system should be based on the input of the intended recipients of the work. Many higher-education institutions have not spent much time thinking about whom their customers are; if they have, there is not consensus on who the customers are. An evaluation system such as that proposed here would require that the customers be identified and their input sought in the evaluation process.

If the customer for teaching is students, then course evaluations and follow-up information from former students (graduates and otherwise) must be used. If the customer for research is the profession, then publication in "blind," refereed journals—and not further judgment by administrators outside the field—should be the appropriate measure. If fund raising is the objective, then numbers of dollars brought into the university would be a reasonable measure of this criterion. If service to a specific community is part of the work, then evaluation from that community should be sought. The point is that such judgments should not be left up to an administrator, unless the administrator is the customer. Only the customers are in a position to make the necessary judgments. Though such judgments will always be somewhat subjective and will likely continue to reflect the sexism and racism in our society, making them over seven-year time blocks, with only three categories of judgments, increases the probability that most decisions made will be appropriate.

Conclusion

The system described in this chapter requires considerable change in philosophy about administrative systems as they currently exist in much of higher education. And the results will still have flaws. Nevertheless, they will go a long way in providing a focus on the work and increasing the probability of quality within institutions of higher education.

Appendix A—Criteria for promotion and tenure
Department of Vocational and Technical Education
University of Minnesota

Criteria	Dimension	Suggested Type of Evidence
A. Accomplishments		
1. Research	Quantity	List in chronological order. Indicate work prior to coming to the University of Minnesota and work prior to last promotion. Includes items such as books, journals, monographs, original papers, presentations, instructional materials, and tests. Full bibliographic citations should include title, publisher or name of journal, volume, date and pages; a clear distinction should be established among books, articles, chapters in books, notes, comments, reviews, and technical reports. Works "in press"/"accepted for publication" should be so indicated. Works "in progress" and "under review" should not be included. For original papers that have been presented, the dates, place, and recipients should be given. Where there are multiple authors, the contribution of each author should be described.
	Quality (How well?)	Judgment of peers concerning basis for problem selection (significance of issue): originality, appropriateness of procedures, depth of interpretation, basis for critical judgment and accuracy and clearness of reporting. A distinction should be made between materials that have and have not had peer review (for original papers presented at meetings, indicate if invited and/or refereed). Describe the process by which peer review was

(continued on next page)

Criteria	Dimension	Suggested Type of Evidence
		obtained. Peer review can be obtained by the Dossier Preparation Committee during the process of preparing the dossier. Include description of recognition and awards for disciplined inquiry and the basis used for granting these recognitions.
	Impact (How has it been used?)	Use of results in further inquiry by candidate or others or directly in improving practice of vocational education. Evidence might include description of programmatic nature of inquiry, or extent of use in practice of vocational education (by students, teachers, administrators, policy makers). Judgments of individuals representing user groups are appropriate.
2. Teaching	Quantity	List different courses taught, instructional development, advising (both undergraduate and graduate), invited lecturers, visiting professorships, etc. Course information should include number of times taught and number of students. List graduate advisees; for past graduate advisees, include thesis and dissertation titles.
	Quality (How well?)	Judgment concerning knowledge of field, capability in instructional development, and capability as a teacher. Present a sample of syllabi for newly developed courses. Multiple sources of evidence are preferred—peers, administrators, students, self. Peer evaluation might include direct observation, review of syllabi, tests, student papers, other course materials, and interviews with

(continued on next page)

Criteria	Dimension	Suggested Type of Evidence
		students. Evaluation procedures should be consistent with the department's policy for the evaluation of instruction. Include comparison data for student evaluation data. Responses from former students or students about to graduate are valuable; sample should be sufficient to be representative. Explain how evaluation was conducted and what criteria were used. Include recognition and awards for teaching and the criteria for this recognition.
	Impact (How has it been used?)	Indication of learning by students during course and later use of this learning in practice. Success of students in subsequent courses or in positions taken after graduation may be used. Samples of students' work may be included.
3. Discipline related service	Quantity (How much?)	List services. Description should include recipient of service and its duration. Describe responsibilities for service to professional organizations.
	Quality (How well?)	Judgments by users of service are appropriate. Evidence might include letters of affirmation, repeated requests for service, notation that candidate was invited or sought for appointment, and materials developed through service activities. Evidence should address extent of knowledge, thoroughness, follow through, and initiative as appropriate.

(continued on next page)

Criteria	Dimension	Suggested Type of Evidence
	Impact (How has it been used?)	Extent of influence. Describe relationship to discipline and university mission. Include development of working relationship with individuals, agencies, institutions, and organizations important to vocational education. Describe how service has improved effectiveness at other university activities, improved community or profession, and added to the prestige of the university.
4. Participation in governance and service to University		List participation and service activities. Department administrative and committee service should show evidence of planning, organizing, directing, and evaluating. Describe how service contributed to maintaining and improving academic unit and the university.
B. Additional Evidence		The types of evidence listed above for teaching, research, and discipline related service should not be considered exhaustive of the types of evidence that might be appropriate. The thoroughness of providing evidence of quantity, quality, and impact may vary among accomplishments; special attention to completeness of evidence should be given to accomplishments that are considered most significant to the candidate's appraisal.

Appendix B—Expectations for faculty accomplishment*

Department of Vocational and Technical Education

University of Minnesota

	Assistant Professor	Associate Professor	Professor
Research	Initiating program of research in a couple of problem areas. Continuous flow of research products, particularly presentations and refereed publications. Small internally or externally funded grants.		Portfolio of research accomplishments (refereed journals, non-refereed leadership essays, paper presentations, professional books, textbooks, reports). Funded grants supporting graduate students and civil service, supplies, etc. Mentoring more junior faculty. Programmatic research leading to expertise.
Teaching	Teaching appropriate load (1–5000 level; 8000 level occasionally). Building graduate advising load (MEd/MA—joint advising on EdD/PhD). High-quality teaching.		Teaching appropriate load (1–8000 level courses). Advising appropriate load (MEd/MA-EdD/PhD). Directing graduate seminars. Leadership of new directions in programs and follow through development. High-quality teaching.
Service	Minimal amount of service, but some (moving from department, college, university). Building professionally related service to include national, state, and local focus.		Equitable amount of internal service at department, college and university level. Called on as spokesperson in area of expertise (review, critic, keynoting) at national, state and local levels. Serve in responsible positions in professional associations and/or significant task forces.

*Research, teaching, and service are integrally related. Productivity in each category is determined by nature of appointment (i.e., percent time for research).

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A Comparison of Approaches to Workforce Diversity

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The performance appraisal, as part of an organization's reward system, has significant impact in determining the values that are lived out in the organization's culture. Some organizations are recognizing the potential of this impact in a new area—that of promoting a diverse workforce. The term "diversity" most commonly means gender, racial, and cultural diversity, and includes protected-class employees (e.g., handicapped people) and issues related to changing roles (e.g., paternity leave).

Institutionalizing the recruitment and retention processes of a diverse workforce has been relatively slow, resulting in economic consequences ranging from high turnover rates to lawsuits and loss of government funding, as well as the less easily measured consequences of loss of positive contributions of a diverse workforce. In attempting to accelerate this process, organizations in both the private and public sectors have begun to add recruitment and retention goals to position descriptions and performance appraisals of their management and supervisory staff. Salary increases and promotion decisions are often related directly to managers' successes in reaching the goals set by the organization. The rationale is that people with the power to recruit, hire, and set standards for behavior in their work units will be more likely to meet those goals if their motivation is economically based. Motivation may increase, but the means by which the goals can be accomplished are not implicit in this new dimension to the reward system. And managers whose roles have been production oriented often have not had the experience of managing goals that fall within the realm of social values and human relations.

In addition to insufficient direction or guidance in accomplishing goals, Scholtes (1988) warns of the shortcomings of managing by setting quotas or numerical goals: short-term thinking, misguided focus, internal conflict, fudging the figures, greater fear, and blindness to customer concerns. When quotas are attached to managers' performance reviews, the goal easily becomes focused on quantity, with quality falling far behind and negative outcomes increasing.

In this chapter, I will explore some of the shortcomings or outcomes of managing the goal of a diverse workforce by attaching numerical quotas to performance reviews. I will also suggest using Deming's quality process as an alternative approach. By focusing on methods—identifying systems and processes and solving problems through scientific methods rather than blaming people and fulfilling quotas—fear, conflict, misrepresentation of statistics, and misguided planning are less likely to accompany the steps toward achieving a diverse workforce.

Applying Deming's Philosophy

DeVogel (1988) writes that Deming's theory "contains a strong ethical element" (p. 43). Listing elements from his 14 points—"constancy of purpose," "leadership," "driving out fear," "removing barriers," "pride of workmanship," and "self-improvement"—she links his concepts to the ethical concern that workers "have the right to develop a relationship with the process and with their co-workers that respects the unique contributions they can make." Although she relates this view to a need for congruence between pride in workmanship and high quality output, she also points to the importance of respecting the uniqueness, or diversity, of people in the work setting.

Deming (1982), in discussing his point on driving out fear, admonishes organizations to "break down the class distinctions between types of workers" and to "discontinue gossip" (p. 244) and other practices that result in negative relationships at work. Deming repeatedly points out the need for workers to feel secure in order to make suggestions and question the way work is done. Those considerations, though not directly referencing the issues of gender or racial diversity, represent values that are consistent with the goal of a diverse workforce. DeVogel's interpretation of Deming's philosophy and admonitions suggests that the goal of diversity might be seen as both a means and an end. For example, when barriers are removed, when fear is driven out, and when negative practices are discontinued, many issues concerning retention processes become moot. On the other hand, fear becomes one of the driving forces when a numerical goal is attached to a manager's performance review, and the ethics involved in the means to that end are often compromised.

The quick fix is attractive, but it precludes having sufficient time or attention to facilitate a sense of security for the new employees hired or for the existing workforce. When decisions are attached to numerical goals rather than to a philosophical change in the organizational structure, gossip may take the form of "she was hired because she's a woman," or "he was promoted because he's black." And white male managers may become conscious of yet another fear: Not only do they fear loss of status or salary increases for not meeting their quotas, they also fear competing for and losing promotions to the very people they hired to meet those quotas. The fear is well founded; after all, *their* managers have quotas to fill as well.

In this chapter, I will explore how an organization with a quality program in place might implement the goal of achieving a diverse workforce. What approaches and tools could that program provide for working toward that goal? And how do those approaches contrast with the performance appraisal/quota approach?

Scholtes (1988) lists six elements of a quality effort, which he describes as steps toward a quality leadership program:

- education of top management
- a two-year strategy for implementing the quality philosophy
- identification and development of a network of coordination and guidance
- development of an organizational culture supportive of the philosophy
- training and education for everyone
- careful selection of improvement projects.

Framing the Question

What is the goal here? Is it developing an "improvement project," as in Scholtes' framework above—that is, a process to be studied? In theory, if each of the six elements were in place in an organization and Deming's philosophy on uniqueness of the individual were institutionalized, working on diversity issues could be framed as the final step above—as selected improvement projects. Diversity could also be viewed much the same as teamwork—as a means toward an end, such as improving quality. However, the education element of this issue involves a consciousness-raising process much the same as the educational process for a total quality program.

My approach, therefore, is to frame diversity like quality—as a philosophy. Scholtes' six steps then become a model to be used for implementing this goal—a model in which the process is based on quality principles, and the content is the philosophy of diversity.

Steps Toward Achieving Diversity

Assuming that a quality program is in place, I will explore the six elements in terms of their service in developing a philosophy of diversity.

Education of top management

The result of educating top management, according to Scholtes, is that managers will "feel these concepts deep in their bones," and that "quality will become second nature" (p. 1–14). Walker (in press) describes an ongoing educational program on diversity for management. The program promotes relationship building and bonding in small group settings in order to lower defenses and to increase acceptance of diversity. Such a program would be congruent with a quality philosophy.

In contrast, some organizations that link the quota system with performance appraisal offer a standard one- to two-hour training program on affirmative action issues to audiences often as large as 100 to 200 people. Managers and workers alike are passive receivers of the information, and the role of managers in setting standards for behavior is not evident.

Commitment to the philosophy (that is, for managers to "feel these concepts deep in their bones") is not likely to result from education of this nature. However, the training sessions do meet the goals attached to the performance appraisals of managers: to attend training and to provide training for current employees.

A two-year strategy for start-up and implementation

Scholtes' admonition in this step is not to begin a bigger effort than can be realistically supported and maintained. The point here is that such a change cannot be accomplished quickly. The long-term strategy in a quality program would consist of in-depth education and thorough analyses of the processes at various stages of recruitment and retention, including establishing realistic numerical measures before addressing hiring quotas.

Unfortunately, the tendency in linking quota setting to performance appraisals is for managers to fill their quotas quickly, paying insufficient attention to the quality of the recruitment, selection, and retention processes. Tokenism is common, resulting in higher turnover rates and lower productivity and often reinforcing existing stereotypes of protected-class groups. Short-term goals are met, but long-term results are seldom positive.

A network of resources for coordination and guidance

In the initial stages of a quality modeled diversity program, it is important to identify and develop a network of people who bring with them experience and a personal commitment to the issue. A suggested first step in developing the program would be to select a steering committee. The network could provide both members and information for the steering committee or for management.

Townsend and Gebhardt (1986) recommend that an effective committee include people with both power and diversity. For this project, the definition of diversity would go beyond areas of expertise, levels within the hierarchy, and departments represented and would include the types of diversity cited earlier. The definition of power would expand beyond positions of power in the organization to include the formal and informal leaders of groups who identified themselves by their diversity. Identifying, utilizing, and empowering such a committee or network would send a clear statement to the rest of the organization that the goal is not superficial and would begin internalizing the philosophy of diversity into the organization's culture.

In organizations in which the motivation for diversity goals is economically and externally based, networks of women and minorities are sometimes regarded as radical "fringe groups" who threaten the status quo. A federal organization I worked with on diversity issues regarded requests from a women's network for inclusion as demands. Some male members of the organization also labeled a diplomatically worded action plan a "manifesto." Too often, informal networks are regarded as threats rather than resources or partners, and quotas—rather than being a philosophy of diversity—become the goal.

In organizations operating with numerical goals attached to appraisals, the concept of power is often based on the zero-sum model; that is, there is a limited amount of power for distribution. When networks of people are recognized or empowered, the perception among managers may be that there is less power available to management. If the networks can recognize or produce candidates for management positions, and if they have input into policy or decision making, the threat of losing power increases. Rather than choosing "the best man" for promotion (with the losers being "good sports"), affirmative action becomes the culprit, forcing distribution of a limited amount of power among more people and filling a given number of openings (a quota) with women and minorities. Deming's philosophy operates more on a system of unlimited power, in that empowerment leads to a more powerful, successful organization for all employees. In a system of partnership among employees, "the best person for the job" is most likely to be hired or promoted.

Development of an organizational culture supportive of the philosophy

The quality philosophy supports the uniqueness of individuals. It offers no guarantee of automatic acceptance of diversity, but the use of a network or steering committee, the focus on problem solving in systems and processes, the de-emphasis on quotas, and the types of educational programs become statements and practices that reflect this core philosophy.

In contrast, organizations that operate with quota systems have a norm of competing against the numbers; for example, hiring a woman who is black will satisfy two quotas. This also happens in education processes. A case in point is a comment by a manager who had been appointed as an EEO officer. He told me that the mandatory affirmative action training program he presented to groups of employees was designed to be two hours long, but if he discouraged questions, he could keep it under an hour and a half. Such an approach is merely a numbers game, not one that promotes organizational change.

Training and education for everyone

In a quality program, the philosophy behind this step goes beyond the thinking of the EEO officer above. Rather than presenting a condensed, "canned" training session, education includes helping employees know where they fit into the larger context and how their roles influence and are influenced by the diversity philosophy. This type of education is interactive, involving interchanges between managers and employees. The means by which such training and education are accomplished become a reflection of the organizational culture and philosophy.

Careful selection of improvement projects

Scholtes warns of common errors in selecting projects, including selecting desired solutions rather than processes and selecting systems to study rather than processes. In a performance appraisal/quota approach, the tendency is to skip the cause analysis of the problem and jump to what is seen as the solution: often a quick fix of hiring minority applicants to fill quotas. The inadequacy of this solution is reflected in higher turnover rates for minorities in organizations that emphasize hiring without looking into recruitment processes and that fail to analyze retention processes. When the focus shifts to cause analysis, more long-term and in-depth approaches can be discovered. An analysis of procedures would yield other areas of possible study. For example, analyzing the steps of the hiring process might yield recruitment steps, "suppliers" of applicants, the causes of low application rates among certain groups, etc.

Summary

The performance appraisal/quota system approach to a goal of workforce diversity encourages short-term solutions based on numbers, with little support or specific guidance in promoting organization wide cultural change. An analysis of the approach Scholtes has outlined for implementing organizational changes suggests that the quality philosophy provides guidance in analyzing current systems and processes, as well as a structure for internalizing the organizational changes needed for recruiting and for retaining a diverse workforce.

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