# Ongoing Discussion “Thought Piece”

**Prepared by**

**Mary Jenkins**
mgjenkins1@comcast.net

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**Ongoing Discussion Host: Bill Bellows**
**(william.bellows@pwr.utc.com)**

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Whenever I have an opportunity to talk about performance appraisals, it always brings to mind a funny anecdote a friend sent to me years ago regarding the **"The Top Ten Strategies for Dealing with a Dead Horse."** These are:

1. Buy a stronger whip.
2. Change riders.
3. Appoint a committee to study the horse.
4. Appoint a team to revive the horse.
5. Send out a memo declaring the horse isn't really dead.
6. Hire an expensive consultant to find "the real problem."
7. Harness several dead horses together for increased speed and efficiency.
8. Rewrite the standard definition of a live horse.
9. Declare the horse to be better, faster, and cheaper when dead.
10. Promote the dead horse to a managerial position.

Funny but also profound in its summary of what most of us do. I bet many of you have seen, or maybe have even participated in, some of the organizational remedies described above.

It **only** took me 10 years, 4 failed attempts at appraisal system design and re-design efforts; along with numerous personal encounters with Dr. W. Edwards Deming - to finally convince me that I was attacking symptoms, while ignoring the root cause. My prized derby entry - ***Performance Appraisal*** - would never truly have a successful run.


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Editorial Support: Belva Datcher-Sparks

Of course I was not alone in my tenacity to try and make this process work. In fact, I later learned that the pattern of my attempts to improve performance appraisals actually followed a predictable cycle - that was being repeated around the country.

The cycle started with a five point rating system, where “3” is average - and implementation went something like this:

- System launch – included much fanfare regarding how many processes - appraisal system results will impact: assignment selections, promotions, compensation, etc.
- Within 3 years of introduction, 75% of employees were rated in the top 2 categories. Because ratings were used to drive merit pay, this presented a problem.
- The fix: a 6 point rating system with behavioral standards. The goal was to spread out the ratings across the scale and move the distribution more toward the middle. It worked for the first year, but within 3 years, 75% of employees were rated in the top 2 categories.
- Senior management by now is frustrated by the inability of managers to do their job. The fix: a forced distribution system. Employees doing similar work must be ranked in the top 10%, the next 25%, the next 55%, or the bottom 10%. This of course is an administrative nightmare—and a system so destructive that it often triggers class action law suits of age, race or gender discrimination. It is the shortest lived system, often abandoned after only 1 year.
- Perplexed by the turmoil in the organization and the publicity associated with lawsuits, a willingness to let managers do what they want sets in. After the damage has been done, there is a tendency to move toward a “no rating” appraisal system. Merit pay continues, but it is less available for employee scrutiny.
- Things are quiet for a few years. But organizational memory is not good, and people move on. A new CEO arrives, and the cycle starts all over again.

We just can’t seem to break out of this pattern - and for employees and managers alike, the experience is often underwhelming at best.

Organizations are tempted to eliminate appraisals completely. Because people regard them with so much fear and loathing, they’re postponed, gamed, glossed over, and generally viewed as something to be survived rather than used. Abolish them, you might think, and there would be a collective sigh of relief.

But what then would happen to all those things appraisals are supposed to affect? If managers aren’t **required** to give feedback, they probably won’t. Employee motivation and personal development might suffer. Performance will decline. There will be no basis


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for awarding pay increases and no paper trail to cover the organization if an employee must be let go. It may signal to the organization that mediocrity is acceptable.

This is a debate that has rumbled along quietly for decades, both in Human Resource (HR) circles and in executive suites.

So, we are stuck for many reasons, one of which is the intentions of appraisal are generally good. But is it having a positive net effect on worker motivation and productivity? Does your organization really benefit from this practice?

***Let's do a reality check. Below are 10 common indicators that your performance appraisal process is not working--or worse, causing damage. Which of these are true for you?***

1.________ In the past five years you have changed, reformatted, or completely revamped the appraisal process within your organization

2.________ Once appraisals are filed away, people pay little attention to the process

3.________ You have to use tactics of force to get appraisals completed (threatening directives, withholding increases, posting the names of the tardy managers, etc.)

4.________ Managers frequently complain about the bureaucratic nature of the process and wasted time required for paperwork.

5.________ Each year a substantial number of employees see the process as unfair and are even demoralized

6.________ Marginal performers have a track record of being rated generously-having the effect of creating an impediment to discharge.

7.________ Because of inconsistencies in approach, appraisals have little value as a screening tool for promotions.

8.________ Appraisal ratings are inflated en masse, making the linkage to a "pay for performance system" ineffective

9.________ Managers and employees alike go through the motions, putting little heart into the process.

10. ________ Dissatisfied employees take up HR staff time with bias complaints, and rating appeals.

***While rare – about 5% of organizations - report that their appraisal process works well and is fully meeting the varied objectives linked to it. However, if you find that your organization scores at least five or more "True," on the list above, then your performance appraisal process is likely doing more harm than good.***

It is time to break the cycle. To do so we need to look beyond the design of the form, the number of ratings, or any of the other superficial characteristics. Let's first look at the elements that make up the fundamental structure of appraisals, in order to understand why they so consistently miss the mark.

## WHY PERFORMANCE APPRAISALS BACKFIRE

Like any other system, there is a web of interdependent factors contributing to performance appraisal failure. If we untangle them, we can discover the roots of the problem fit within 4 primary categories.

### 1. <u>Performance appraisals have multiple competing purposes</u>

Ask organizations around the country why they do performance appraisals, and you will hear responses that can be summarized into 7 basic functions:

1. Feedback/communication
2. Compensation
3. Coaching and development
4. Organization improvement
5. Motivation
6. Documentation for termination cases
7. Staffing decisions

All of these functions are neatly bundled together with a performance rating. So efficient isn't it?

Here in lies the first problem. Each of these critical functions has their own specific objectives and wrapped together they work to undermine each other.

For example, to drive merit pay, there must be a good distribution of ratings so appropriate differential in pay can occur. But rating someone lower than they think they should be destroys the opportunity for feedback to be heard, often turning the discussion into a conflict over ratings. This of course is de-motivating.

What is a manager to do? The results speak for themselves—rate the person higher. This in reality is why the performance scales are so often skewed to the high end. The desired connection to pay is lost and we create a trail of documentation that works against the employer in the event of litigation. Conversations intended to be developmental quickly


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turn defensive and people on both sides of the desk walk away from this annual event feeling diminished. In this case, efficient is not effective.

## 2. Performance appraisals are based on faulty assumptions

If we take the time to uncover and examine the basic premises upon which performance appraisals are designed, we discover beliefs and perceptions about ourselves, other people, work, motivation, improvement, and supervision that doom appraisals to fail.

When an organization practices appraisal, it's really subscribing to myths that ignore reality (see chart).

| MYTH | REALITY |
|---|---|
| A one –size-fits-all coaching structure works well for all supervisors and employees. | Supervisors have different styles of working with people, and employees have varying needs and preferences for feedback, coaching, and development. |
| Managers are the best source of feedback for all people on all jobs. | Feedback is more likely to be internalized when it comes from a trusted, credible source. |
| The quality of performance improves when focusing on extrinsic rewards | Outside a narrow band of circumstances, the use of extrinsic rewards gives us less of what we want (creativity, motivation, problem solving) and more of what we don't want (unethical behavior, short term thinking and addictions). |
| 95% of an organizations problems can be addressed by focusing on individual performance. | 95% of organization problems result from processes and systems. |
| Focusing on individual weaknesses improves performance. | Performance is optimized when work is aligned with individual values, interests, and capabilities. |
| Poor performance arises from laziness, dereliction and irresponsibility. | Poor performance often arises from deficiencies in the system, fitness for the job and relationship issues. |
| Supervisors (raters) are fair, objective, and unbiased. | People unknowingly bring perspectives and unknown biases that influence ratings of other people. |
| People withhold effort if special incentives are not dangled in front of them. | People are intrinsically motivated to perform well when the work is meaningful—pay is not a motivator but can be a significant de-motivator. |


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| MYTH | REALITY |
|---|---|
| Appraisals are required by law or are necessary to assure legal documentation. | With few exceptions, the law does not require appraisals—appraisal evidence more often than not works against employers in the event of litigation. |

It is easy to see the manifestation of these myths in the basic design of performance appraisals. For example, appraisals continue to place supervisors in the role of primary provider of feedback. (Myth: Supervisors are the best source of feedback for all people on all jobs). There are a multitude of tools and methods designed to support the supervisor in this role, but all of them ignore what has been known in the social sciences for many years. Feedback, in order to be heard and internalized, must come from a trusted, credible, respected source.

Think about it…we don't always listen. We need feedback to continue our growth and development, but there are many times we rationalize and reject it—we determine the source is either uninformed, biased, or doesn't have our best interest at heart.

With today's organizational structures and broad spans of control it is more likely that the best feedback for development will come from several people, with different perspectives and areas of expertise. A savvy employee may choose to seek out feedback regarding negotiations skills from one person and use someone else to learn how to run more effective meetings. Building from the premise that feedback must come from a trusted, credible source leads to the design of a very different process than a traditional appraisal.

Look closer at the myths upon which performance appraisals are designed and you will see several that are directly opposed to the values statements that many organizations say guide their behaviors.

Diversity is espoused, but appraisal systems are designed to treat everyone the same in terms of timing, format, and frequency of feedback.

Teamwork and collaboration are heralded as the "way we work", but this process focuses on individuals and is based on a zero sum system of rewards (for me to win, someone else loses).

Performance appraisals (as well as other policies and systems) are the organizations beliefs about its people made tangible. Closing the gap between our words and our practices threatens some cherished illusions, and the easy way out has been to continue to run with systems that are the antithesis of what we say we believe in – hoping that somehow it is just not noticed.

**3. Performance appraisals de-motivate more than they motivate**

In my work as a consultant I have confirmed there is a universal belief we hold about ourselves as individuals that causes us to cling tightly to appraisal ratings and the systems of reward tied to them:

*I am a better performer than at least 80% of the people who do similar work; you (the rater) can easily identify me as a top contributor, and I should be rewarded accordingly*….

Herein is another dilemma. I recall an employee satisfaction survey conducted at a large manufacturing company. The survey results reported that 80% of the employees wanted a "pay for performance system". A similar percentage reported they believed an objective system could distinguish performance. But a third question was most revealing. When asked if the employee felt they had been paid fairly for their performance - a resounding majority responded "No". Interesting feedback from employees whose company had been using a pay for performance system for over 15 years.

If an appraisal system hands out high marks to all, it's a charade that no one will take seriously. To prevent rating inflation, many organizations require managers to grade employees on a curve and hand out merit increases accordingly. Now the organization has another problem. In the span of a 30-minute meeting, a well- intended performance appraisal can transform a vibrant, highly committed employee into a demoralized, indifferent one. Not surprisingly, there is a negative effect on supervisor/employee relationships as well.

**4. Performance Appraisals don't improve an organization's performance**

Perhaps the most harmful damage done by appraisal stems from the false belief that it leads to improvement. Absent an understanding of systems theory, organizations are lured into the illusion that focusing on individual improvement results in the collective improvement of the organization. The unintended consequence that stems from this core belief are missed opportunities for true improvement and the strong potential for sub-optimization.

Deming suggested that most people want to do a good job, and are constrained in their efforts by poorly designed systems or work environments that are not conducive to unleashing talent and intrinsic motivation.

## THE ALTERNATIVE: UNBUNDLING

What keeps performance appraisals alive is a combination of hope and despair: hope that appraisals will somehow accomplish their objectives despite the odds; despair over the difficulty of accomplishing those objectives any other way.

But a small number of organizations have done just what the critics recommend, which is to unbundle these functions and create separate methods for achieving the desired results. When each function is unencumbered from the others, very creative approaches result. Here are just a few examples:

**Feedback**

Performance appraisals are supposed to provide feedback so that employees can learn from mistakes and build on their strengths. While the objective is valid, the tool is problematic. Reviews offer feedback only once or twice a year. The feedback is initiated by the managers (or the HR department), focuses entirely on the individual, goes into the personnel file, and may be tied directly to a raise. The system thus provides every incentive for employees to make themselves look good, and for kindhearted managers to overlook mistakes.

Organizations that have unbundled appraisal functions approach feedback differently. To keep the focus on development, they have created methods to ensure the feedback comes from respected, credible sources and that the information obtained remains in the hands of the feedback recipient. Often, this means that only a sign-off form, documenting that a developmental conversation took place, is sent to HR.

In some organizations the design of the feedback system reflects an earnest attempt to move away from paternalism. The responsibility of seeking out feedback is shifted to the employee, who synthesizes the information and uses it to create developmental goals. The manager in this case plays the role of a facilitator and coach—not judge. To support this approach, and to help employees take advantage of feedback that is readily available all the time, feedback tools are developed and training is offered on the skills of giving and receiving feedback.

**Pay**

Performance appraisals at many companies provide both the basis for determining raises and a forum for discussing them with employees. This is not a marriage made in heaven: if money is on the agenda, everything else invariably dwindles in importance. But there is a more fundamental problem with linking appraisals to pay, which is that the two may not correlate. “If you have wages based on performance reviews, and you have a tight lid on raises,” one HR expert recently pointed out in the magazine “*Nation’s Business*”, “it means your performance reviews can’t be very good”. Or, as managers and HR professionals alike would agree - it means minimal difference in the amount of money distributed.

Deming scholars and other performance appraisal critics tend to be critical of merit pay itself. In cases where pay is separated from the other functions of appraisal - new procedures have been created for determining raises.

Some have incorporated maturity curves within their pay ranges, which correlates pay with experience. Others adjust pay based on added skill sets. In all of these cases, pay increases based on perceived performance is very limited.

**Legal Cover (Poor Performers)**

Performance appraisals provide a paper trail documenting an individual's performance; when an employee must be dismissed, the record protects the company against a lawsuit. Or so runs the theory. In fact, say many experts, a broad-based performance appraisal system is an ineffective means to this end. Reviews are infrequent. The language contained in them is often ambiguous. Most organizations' records exhibit inconsistencies that a skilled lawyer can easily pick apart in court.

A better alternative may be a special evaluation system designed only for the small minority of employees who risk dismissal.

Peter Scholtes, an author and consultant who led the attack on appraisals referred to this as "a temporary intervention with an employee whose work is outstandingly poor…to remove any possible ambiguity regarding short-term expectations."

**IN CLOSING**

The performance appraisal systems I implemented earlier in my career affected thousands of people, many who were undoubtedly damaged as a result. For that I am truly sorry. But as Maya Angelou says, "When you know better, you do better," which was one reason I felt compelled to co-author a book titled "***Abolishing Performance Appraisals."***

In this summary I wanted to provide you with a general understanding of why despite our best efforts, an organization's performance appraisal process continues to underperform, and cause damage to the organization and its people. A few alternatives were described to illustrate options emerging from those who have walked away from traditional performance appraisals. Additional details regarding building on the alternatives; or what a manager can do when he/she is ready for change – but the organization isn't - are covered either in my book or can be explored more in discussion.

The task of eliminating performance appraisals is a challenging undertaking. Is it worth it? Many organizations will decide it isn't. But some will find unbundling these critical functions and re-designing them to accomplish each function's unique purpose provides an opportunity to think about management practices that are often taken for granted.

Given the damage caused by traditional performance appraisals, and the chasm between its many underlying assumptions and what is known in both social science and the science of improvement - it seems well worth the effort.

As Peter Block would say, "All those interested in creating a future different from the past, please enter. Everyone else keep doing what you have been doing and try harder."

**QUESTIONS TO CONSIDER IN PREPARATION FOR DISCUSSION:**

1. Study your organization's vision and values. Is your performance appraisal process congruent with these aspirations and beliefs? How do you know?

2. As you reviewed the contrasting list of "myths and reality", did anything in particular trigger an epiphany or a concern?

3. Reflect on a time when you received feedback (either positive or constructive) and you ***chose*** to listen. You internalized what was said and it permanently impacted your behavior. ***Why*** did you listen?

4. It was stated that there is a wide chasm between what is known in the social sciences and what is practiced in business. One area of study where this is particularly true is ***motivation***. What is your understanding of intrinsic motivation and how it is impacted with the use of extrinsic rewards?

5. Dr. Deming used to say…" the job of management is prediction." What do you think he meant by that statement and how does it relate to our work on performance appraisals?

## Biography

Mary Jenkins is an organization development consultant, lecturer, and author specializing in strategic planning and system design. Based on a 5 year working relationship with Dr. W. Edwards Deming, Mary has integrated his quality philosophy and management principles with her knowledge of organization development and Human Resources design, resulting in a unique approach to organizational improvement. She has worked with a wide range of clients in business, education, government, and healthcare including Shell Oil, Saturn Corporation, the US General Accounting Office, and Ascension Health.

Mary is co-author of the book, *Abolishing Performance Appraisals- Why They Backfire and What to Do Instead.* It has been published in 4 languages, and is referenced frequently in academia and the media, including CNN, the *Wall Street Journal*, *Business Week*, *HR Executive*, and *Harvard Management Update.* She is also a contributing author to several books focused on emerging practices in human resources.