



Now What?

What to do *after* you scrap the performance appraisal system

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In an earlier article I argued against redesigning a company's performance appraisal system and instead made a case for eliminating it.¹ Performance appraisal is such an accepted part of organizational life that the prospect of eliminating it raises several questions. The purpose of this paper is to set forth and answer those questions. Briefly, these questions are as follows.

If we didn't have a performance appraisal system:

- How would people receive feedback?
- How would people find out what is expected of them?
- How would employees get their work objectives?
- How would individual and organizational interests be aligned?
- How would employee training and development needs be determined?
- How would people be recognized and rewarded?
- How would merit raises be determined?
- How would the organization protect itself against lawsuits for wrongful dismissal or discrimination?

¹ See "Don't Redesign Your Company's Performance Appraisal System, Scrap It!" in the May-June 1997 issue of *Corporate University Review*, pp. 54-59. Available on the web at http://www.nickols.us/scrap_it.pdf

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If we didn't have a performance appraisal system, how would people receive feedback?

Answering this question requires distinguishing the common usage of "feedback" from its technical usage. (Three additional sources regarding the concept of feedback as it pertains to behavior and performance of and in organizations are listed at the end of this article.)

People can be regularly heard saying something like the following, "Let me give you some feedback." They also can be heard asking for it. In this usage, "feedback" refers to information provided or solicited. Such information often pertains to how the person who is receiving it is perceived by the person who is providing it.

It is useful to know about the judgments others make of us, but if the only time we seek or obtain such information is at performance appraisal time, we are managing our lives and careers on the basis of very skimpy and highly unreliable information. Information about how we are doing needs to be and ordinarily is gathered on an ongoing basis. Those of us who care to know have a sense of where we stand with others.

The preceding remarks apply to the common usage of the term "feedback," which is a far cry from its technical meaning. The technical meaning of "feedback" is concerned with control. In the context of control, feedback is information about actual conditions in relation to some reference condition. Underlying this view of feedback is the observation and measurement of results and the use of this information in controlling the actions that produce the results.

It seems unlikely that any information received in a performance review session would qualify as feedback in the control system sense. If the reference condition is some result expected of the employee, whether stated in terms of outcomes or compliance with procedure, then the employee must be able to ascertain if that result is being achieved while doing the work.² Thus, at performance appraisal time, the employee would already know the extent to which the desired results had or had not been achieved. If employees are neither privy to expected results nor to information regarding their attainment, then results will be happenstance and the difficulty will lie with the system, not with the employees.

The answer to the question "How would people receive feedback?" is that they would receive it the same way they do (or don't) now – as a regular, integral part of their working activities. It stems from their observations of their working activities and the effects and consequences of those activities in light of their own intentions (whether or not these intentions are consistent or inconsistent with the expectations of management).

To paraphrase an old political saying, "All feedback is local feedback," which is why work and work control systems must be designed to provide information directly to employees on as close to a real-time basis as can be made to happen and not as some after-the-fact judgment rendered by someone who is far removed from the work itself.

² See Joseph M. Juran's comments about self-control in *Managerial Breakthrough* (pp. 189-190).

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If we didn't have a performance appraisal system, how would people find out what is expected of them?

Except for people who are engaged in routine, repetitive work, expectations change on a regular, usually a short-interval basis. Expectations must be communicated continually, not once or twice or even four times a year.

More important than the frequency with which expectations are communicated is the clarity with which they are communicated. Clarity usually emerges over time, the result of a continuing dialogue, not a one-time transmission. Because expectations change, they must be discussed on a regular basis. The frequency of such discussions must match the rate of change in the work itself. To rely on annual or even quarterly performance reviews as the mechanism for conveying what are essentially unfolding expectations seems likely to prove singularly ineffective.

If we didn't have a performance appraisal system, how would employees get their work objectives?

The blunt truth is that, if they have any work objectives at all, most people set their own. This is the era of knowledge work and the knowledge worker.³ Many so-called "bosses" (if that term has any utility at all) are in no position to set work objectives, to monitor their accomplishment, or to supervise their pursuit. The work, especially at the task level, is in the hands and the heads of the workers. To be sure, a manager could formulate goals and objectives having to do with improvement in work processes and the like, but if these must be left to the workers to realize, who needs the manager? An even better question is "Who needs work objectives?"

Work objectives are time-tied, measurable expectations of results. As stated earlier, these should be developed as part of an ongoing stream of two-way dialogue, not as part of some periodic ritual designed to reinforce the illusion of control. Performance appraisal systems are not necessary to the development of clear, mutually understood and agreed to work objectives. Indeed, owing to their punitive aspects, performance appraisal systems might well constitute a hindrance to setting work objectives, not a help.⁴

If we didn't have a performance appraisal system, how would individual and organizational interests be aligned?

Why do they have to be aligned? The transaction between the individual and the organization is frequently little more than an economic exchange; pay and benefits as inducements in return for the employee's contribution of work performed.⁵

³ This brief paper is no place to elaborate on the implications of the shift to knowledge work. Readers who are unfamiliar with this civilization-shaking phenomenon would do well to consult two of Peter Drucker's books: *The Age of Discontinuity*, and *Management*.

⁴ There is no better discussion of this point than Douglas McGregor's classic HBR article, "An Uneasy Look at Performance Appraisals." *Harvard Business Review* (May-June 1957).

⁵ See March and Simon's book, *Organizations*, for a clear exposition of the concepts of contributions and inducements.

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The alignment to be achieved here is between pay and benefits and the work contributions expected from the employee. Keeping pay scales aligned with the labor market is probably more important than anything that happens in a performance appraisal session. Again, it is a process of regular, ongoing, two-way dialogue that is required, not periodic appraisal sessions where the employee is being judged.

If something more in the way of commitment and caring on the part of the employee is desired, it is the employee who does the aligning, not the organization. That kind of alignment occurs on the basis of values, of the standards and principles people hold dear.

If the individual doesn't require such alignment, the transaction between the person and the organization will be the mainly economic one described above. If the individual does require such alignment, it will be there or it won't. In other words, the employee can look about at the behavior of others, at the actions of the organization, at the decisions of its leaders, and determine whether or not his or her values and those of the organization are aligned. If they are, all is well and good on that score. If not, the individual can leave, tolerate the discrepancy, or work to change the values evinced in the organization. Conversely, representatives of the organization's culture, both formal and informal, might move to inculcate a different set of values in the employee and, if that fails, they might opt for disciplinary measures, including termination.

Technically speaking, organizations don't have values; only people have values. Thus, the oft-stated desire to align individual values and interests with those of the organization really refers to the aim of having employees behaving in ways that are consistent with the directions provided by management and compatible with the culture of the organization as defined by those same managers. Neither of these long-term, socio-cultural aims is likely to be realized through a periodic review of job performance.

If we didn't have a performance appraisal system, how would employee training and development needs be determined?

The answer, in a nutshell, is through assessment. This might be a formal, structured assessment, perhaps a performance test, or it could be an informal, loosely structured assessment, as when a person takes stock of his or her strengths and weaknesses in relation to job requirements. A performance appraisal system is not required for either kind of assessment.

To rely on performance appraisal systems as the primary means by which such assessments are conducted is to put performance appraisal systems to a use for which they are ill suited and, at the same time, to consign any real needs for training and development to the scrap heap. Training and development needs must indeed be dealt with, but a performance appraisal system is not the mechanism for doing so.

If we didn't have a performance appraisal system, how would people be recognized and rewarded?

People should be rewarded on the basis of their contributions to the organization, that much is self-evident. No manager worth his or her salt needs help in identifying or recognizing those

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The equity difficulty lies in gauging the value of employee contributions so that recognition and rewards are commensurate with those contributions. Unusually noteworthy contributions are readily identified; they stand out, they draw attention to themselves. No performance appraisal system is needed. But what about recognizing and rewarding sustained long-term contributions of high quality? It seems obvious that an annual performance appraisal system won't do. Something else is required.

The political issue lies in ensuring that rewards and recognition are consistent with employees' views as well as management's views. Employees often have a different picture of who is contributing what to the organization. From their perspective, the real contributors often go unrewarded. One obvious solution here is to make available a certain amount of funding for employee-awarded rewards and recognition.

In any event, performance appraisal systems simply don't play a significant role in rewards and recognition. Moreover, attempting to make them serve that purpose, coupled with their known punitive qualities, draws attention to their carrot-and-stick nature.

If we didn't have a performance appraisal system, how would merit raises be determined?

Who says a merit increase is necessary? Automatic annual pay raises inflate the wage and salary structure. A periodic cost-of-living increase might be desirable for retention purposes, but this can be accomplished via incremental increases that have nothing to do with performance or performance appraisals. Sterling performances of a one-time, situation-specific nature are best handled via bonuses and other one-time means, not by ratcheting up the basic pay scales. As mentioned earlier, pay scales should be aligned with the labor market, not driven up automatically each year as the result of merit increases.

It is also the case that annual merit raises are quite modest, even at the extremes of the rating scales. Their motivational value is dubious, and linking them to performance appraisals adds little value.

In short, the answer to the question is that you shouldn't have merit increases, let alone tie them to performance appraisals.

If we didn't have a performance appraisal system, how would the organization protect itself against lawsuits for wrongful dismissal or discrimination?

There are two goals here: 1) discouraging lawsuits, and 2) winning them when they occur. There is no evidence indicating that performance appraisal systems discourage lawsuits and quite a bit suggesting that performance appraisal systems backfire in court. Thus, the first purpose is not served and the second is ill served.

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Part of the answer to the question is to "keep book" on those employees who are targeted for dismissal, but only on those employees, not the entire employee population.

The best protection against lawsuits for discrimination is not to discriminate and to be able to show that the effects of discrimination are not widespread in the organization. If such effects are demonstrably present, the specifics of an individual case won't matter much. The organization will likely lose unless the person filing the lawsuit is one who was targeted for dismissal and records support the organization's position. (As is always the case in such matters, seek competent legal advice.)

Conclusions

We return then to the central question: What would we do without performance appraisal systems?

We would do quite nicely, thank you, and at much less cost, both economic and emotional, than is now the case. For any function claimed as supported by performance appraisal systems, there are other, better options available. In short, performance appraisal systems don't add much value.

Dismantling the performance appraisal system apparatus won't be an easy task. It has staunch defenders, performance appraisal *apparatchiks* whose careers are pinned to the continuance of such systems. Such systems are so pervasive and so widely accepted that questioning their value smacks of heresy. Dismantling performance appraisal systems will seem to many as tantamount to opening Pandora's box. That prospect will make them uncomfortable and reluctant to act. Managers and supervisors who rely on the performance appraisal system to provide them with the carrots to dangle and the sticks to wield in a carrot-and-stick management approach will be particularly alarmed by the prospect of doing away with performance appraisal systems. Yet, it seems clear enough that the costs of performance appraisal systems far outweigh their benefits. In one sense, this is true regardless of their cost, because the purported benefits don't stand up to scrutiny.⁶

Performance appraisal systems are an anachronism; a vestigial remnant of an era when most work was materials-based and working was a manual activity, one that could be readily observed by a supervisor. In this milieu, management methods and techniques focused on ensuring that employees complied with *prefigured* work routines.

Now, in the era of knowledge work and knowledge workers, work is information-based and working is a mental activity. The workers in response to fluid, changing requirements configure Work routines. The task of management in the new world of knowledge work is to enable and elicit employee contributions of value to the organization. To rely on a system designed to exact and enforce compliance is folly.

⁶ See my article, "Don't Redesign Your Company's Performance Appraisal System, Scrap It!"

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End Note: Internet Lists Polled

The Internet discussion list names are given below.

- bpr-l@uticai.twi.tudelft.nl (business process reengineering)
- change@mindspring.com (change management)
- consulting@quality.org (consulting)
- hrnet@cornell.edu (human resources)
- learning-org@world.std.com (learning organizations)
- quality@pucc.princeton.edu (TQM in manufacturing and service companies)
- trdev-l@psuvm.psu.edu (training and development)

References Regarding the Concept of Feedback

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3. *Behavior: The Control of Perception* (1973). William Powers. Aldine Publishing Company.

Other References Cited

1. *Management* (1973). Peter F. Drucker. Harper & Row.
2. *The Age of Discontinuity* (1969). Peter F. Drucker. Harper & Row.
3. *Managerial Breakthrough* (1963). Joseph M. Juran. McGraw-Hill.
4. *Organizations* (1958). James G. March & Herbert A. Simon. McGraw-Hill.
5. "An Uneasy Look at Performance Appraisals (May-June 1957)." Douglas McGregor. *Harvard Business Review*.

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