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PERFORMANCE APPRAISAL, OR IS IT PERFORMANCE MANAGEMENT?

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Old controversies never seem to go away, at least that is the case with performance appraisal. Performance appraisal has been one of the most praised, criticized and debated management practices for a number of decades. It has also been the subject of great amount of research, which has provided a considerable amount of information about its impact on organizational effectiveness and how it can be effective.

Recently, discussions about performance appraisals have changed as a result of the increased adoption of total quality management practices and the use of teams and employee involvement strategies. These trends have focused attention on some new and some old problems with performance appraisal. But before considering them, let us take a few moments to consider what is known about performance appraisal.

Knowledge About Appraisals

There are some good reasons for doing individual performance appraisals. Historically, it was argued that they could help a supervisor define the work of a subordinate, measure the performance of the subordinate, and finally, reward the subordinate in a way that will create motivation. It was also argued that as part of the process of setting goals, and evaluating and rewarding performance, supervisors can counsel individuals on their skill deficiencies and help guide them in the development of new capabilities and competencies. Clearly, these are all worthwhile objectives and no one can be too critical of a performance appraisal system which accomplishes them.

The problem, and it is a well-documented problem, is that most performance appraisal systems do not motivate individuals effectively nor do they effectively guide their development. Instead, they often end up causing conflict between supervisors and subordinates, and lead to dysfunctional behaviors. The dysfunctions are often exaggerated when performance appraisals are tied to traditional merit pay systems and are particularly

severe when the performance appraisal system forces supervisors to compare subordinates with each other and to evaluate some of them favorably and some of them unfavorably, the classic forced distribution problem.

It is clear that some of the problems that are caused by performance appraisal can be corrected by simply putting in place a well designed and administered system. For example, if the intention is to use pay as a motivator, then it is better to use a pay system which ties variable pay to the results of a performance appraisal than to use a merit pay system. If one purpose is to produce cooperative behavior, it is dysfunctional to use a forced distribution system that produces competition among the individuals being appraised. In addition, there is considerable evidence that if the appraisal system is intended to improve skill development and provide individuals with career counseling, then this needs to be done in a separate discussion from the appraisal of the individuals most recent performance and the pay consequences that will result from the evaluation of that performance.

It is also clear that most supervisors are not naturally good at performance appraisal and performance management. It seems to be an unnatural act, at least for most supervisors, and as a result, if they are not trained, they tend to do it rather poorly. They tend to talk to subordinates about generalized traits such as reliability and helpfulness, and as a result, to produce defensiveness on the part of the individuals they are appraising. In addition, appraisers often fail to prepare themselves well for performance appraisal discussions and do not spend the time that their subordinates would like to see spent on them.

It is much easier to talk about what is wrong with the classic performance appraisal model than it is to suggest what to do about it. In a number of respects this seems to be the trap that many advocates of total quality management have fallen into. Deming and others have been extremely vigorous in pointing out what is wrong with performance appraisal and have gone on to argue that it should be eliminated. They have been particularly harsh

in their criticism of forced distribution systems. Deming also talks about the mistake of labeling people and the fact that individuals often are not responsible for problems, they are simply the victims. The problems in his mind are usually work system problems, not problems due to the poor performance of employees.

Given the many valid criticisms of the traditional performance appraisal approach, one conclusion seems clear: Organizations should abandon the old. But what, if anything, should replace it? It is hard to argue with the objectives of appraisal systems. Developing the skills of individuals is important as is performance motivation. Unfortunately there is no simple answer to the question of what should be done about them. Coming up with an performance management system that is motivational and that contributes to skill development requires a good understanding of the organization design and management strategy of an organization, and a well developed and articulated approach to performance management. One thing is clear, doing a poor job, or doing the wrong thing, is worse than doing nothing. Nothing, however, is not good enough in a highly competitive world that demands organizations constantly improve their performance. With this in mind, lets look at some alternatives that organizations might adopt with respect to performance management and also briefly consider when each alternative is appropriate.

Appraisal Alternatives

One alternative is to do traditional performance appraisal correctly. That is, to have a supervisor appraise the job performance of his or her subordinates on a regular basis and to consider skill development during a separate session. This can be tied to a pay for performance system and a skill based pay system, but if cooperation is desired it should not be a zero sum or fixed reward pool. This approach is appropriate in many traditional hierarchical bureaucratic organizations. It was developed to support this type of organization and still fits. Admittedly, this type of organization fits fewer and fewer situations and is in decline for a number of good reasons. If an organization decides to do traditional performance appraisals, it is critical that it invest a considerable amount of time

in the training of appraisers so that they can develop the skills that are not a natural part of their repertoire.

Perhaps more important than training is the development of a total performance management approach that is in line with the current thinking about what makes a performance appraisal system effective. This should begin with a strong commitment at the top of the organization to doing performance management well, and include appraisal measures that focus on behavior, not personality. The appraisal scale should contain relatively few categories and in most cases should not be a forced distribution. I could go on to point out other ways that this system should be designed. At this point, I believe that it is sufficient to say that there is still a role in some organizations for the old fashion all-purpose performance appraisal, but it should only be done if an organization is willing to make a significant commitment to doing it right.

A second alternative is to eliminate individual pay for performance, but still have supervisors do traditional performance appraisals. This makes performance appraisal a little easier to do, and places somewhat fewer demands on supervisors. The problem is it also often means that supervisors don't spend enough time on performance appraisal because performance management is not seen as a serious activity. In essence, it is firing blank bullets. Still, it is appropriate where an organization is willing to commit substantial resources to helping the supervisor do it well, and to indicate that it is a serious activity aimed at skill development and job definition. From an organizational point of view, it is most appropriate where motivation through individual pay for performance is either not possible, such as in certain union and government situations, or where pay for performance is well established at a group or organization-wide level. This may be true, for example, where there is extensive profit sharing, gainsharing, or even small group incentives in place so that extrinsic motivation is handled through other vehicles.

A third alternative is to turn the performance management process into a team activity. This approach makes particular sense in an organization that is relying heavily on

self-managing work teams and expects work teams to handle issues of skill development, selection, discipline, and pay administration. Having this type of system operate effectively is a significant challenge and requires a considerable investment in team training. It also requires relatively mature teams. The manager who is responsible for the team's performance has an important role to play. The manager needs to be sure that the appraisal process gets done by the team and that it is done fairly and reasonably. In essence, the manager becomes a facilitator of the appraisal process, and a check on the effectiveness and fairness of the process. The appraisal may well include individual pay for performance rewards, but only if the team decides it is appropriate. The work on self-managing work teams shows that it can be an effective approach.

A fourth alternative exists where the work of a team is highly interdependent and it is difficult to assign responsibility to individuals for particular performance results. In this alternative, the manager appraises the team as a whole and rewards the team as a whole. Just as with individual performance appraisal, goals are set, performance measured, and rewards distributed. In this case, however, they are distributed to a team as a whole, or perhaps to several teams. The supervisor does not intervene in the internal process of the team, but encourages the team to deal with its own performance problems and to pay attention to its competencies and capabilities, and how they can be built internally through individual skill development. In this model there are no individual pay for performance rewards, although, there may be social and recognition rewards because of the better performance of some individuals is informally recognized by the members of the team. Rewarding everyone the same is specifically intended to create internal inequity in the team with respect to rewards for performance. The expectation is that the members of the team will create social and recognition rewards to offset the inequity which may be caused by all individuals receiving the same financial rewards.

Teams and Appraisals

The team approach to performance management is probably the most difficult for individuals in the United States to accept. It goes strongly against the supervisor driven pay for performance individual recognition culture which exists in the United States. However, it fits a team environment in which teams are highly interdependent and need to be held accountable for collective results and performance.

Appraising teams or appraising individuals in the context of a team requires a significant change on the part of organizations with respect to how they operate their performance appraisal system and more basically how they think about organizational effectiveness. Despite all of the literature on teams and the increased adoption of teams, most organizations still have individual performance appraisal systems and individual merit pay systems. These practices conflict directly the development of highly effective teams, but fit the values and experiences of most managers. Simply measuring an individuals contribution to the team in a traditional performance appraisal system is not the answer. An entire redesign of the performance management system is needed--a redesign which recognizes the team structures which are in place.

Performance Management in the Future

The best way of summarizing my points is to say that performance appraisal should not be abandoned in most organizations, instead it should be reinvented on a selective basis. The challenge is to move from the traditional dysfunctional approach to one that fits the new approaches to organizing which are being developed. Completely eliminating performance appraisal is a non-answer, it does not deal with the reasons it was created in the first place. Individuals need to be guided and encouraged to develop particular skills and to direct their performance toward critical organizational outcomes. The challenge is to develop approaches to do this which fit the increased use of teams and total quality management systems.