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**MANAGING PERFORMANCE FOR  
ORGANIZATIONAL CHANGE AND LEARNING**

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## **ABSTRACT**

### **Managing Performance for Organizational Change and Learning**

This paper asserts the centrality of performance management in managing the business, defining the individuals' relationship with the organization, and functioning as a feedback and control mechanism. Because of this centrality, performance management can both be a deterrent to change when it is consistent with traditional organization paradigms and an enabler of change when it includes practices consistent with the new paradigm. When performance management is practiced in an open systems setting it results in ongoing organizational learning and change.



## **Managing Performance for Organizational Change and Learning**

Performance management is the myriad of formal practices that organizations create to help their performers know what they are supposed to do, develop the wherewithal to do it, know how well they are doing and be rewarded (or otherwise experience consequences) for what they do. The term performance management has appeared recently. It reflects the increasing recognition by organizations and organization scholars that this set of practices needs to be seen as and designed to be an integrated system of practices that impact people's performance in a manner that supports the strategy and contributes to the targeted performances of the organization. Previously organizations had a variety of practices, including performance appraisal, compensation and rewards, human resource development, selection, placement and career paths that were managed as independent practices, often by functionally distinct expert groups.

This paper argues that the performance management practices of an organization are critical elements of large-scale organizational change. Large scale change is fundamental change in the character of an organization that results in lasting change in the performance of the organization (Ledford, Mohrman, Mohrman and Cummings, 1989). It is *pervasive* change that ultimately entails most if not all elements of the organizational system. It is *deep* change that affects people beliefs, values and understandings.

It seems almost self-evident that changes in performance management practices are required to facilitate large-scale change that is designed to alter the performance capabilities of the organization. Yet for many organizations these practices are among the last to change. During many organizational transitions, performance management practices are seen as and in fact function as forces for the status quo. To some extent, the resiliency of traditional approaches is a result of the depth dimension of change.



Performance management practices reflect deep-seated beliefs and values, and embody employees' relationship to the organization.

We argue that performance management is not just one of the many features of organizations that have to change as part of large-scale change. Rather, it is a pivotal system of practices that are never neutral in the change process. These practices can be forces for the preservation of the status quo, and thus work against the change, or they can be instruments of the learning and change that are required to effect large-scale change. Furthermore, the nature of the performance management system will affect the organization's ongoing ability to learn and change.

This paper begins by making a case for the centrality of performance management to the organization and its members. We then examine the changes in performance management that are required to fit with organizational models such as networks, team-based organizations, partnerships, process organizations, and high-involvement organizations that are emerging in response to environmental requirements for new kinds and levels of performance (Galbraith, Lawler and Associates, 1993). The concept of paradigm shift is used to help understand how performance management practices can play different roles in the transition to these new organizational forms. Finally, we make the case that the emerging performance management models will be forces for ongoing organizational change and learning, and as such will be keystones of the learning organization. Throughout the paper, we will refer to findings from studies of performance management practices in organizations that are in the process of organizational transition (Mohrman, Mohrman, and Lawler, 1992; Mohrman, Cohen and Mohrman, 1995). Brief cases encountered in that research will be used to concretize the concepts presented in the paper.



## **The Centrality of Performance Management**

Performance management practices tend to be despised, feared, and ignored in organizations. Completing appraisals, holding salary discussions, distributing awards, dealing with problem performers, making and carrying out developmental plans, and updating information bases for selection and assessment purposes often elicit no more than perfunctory attention from managers who complain about the time-consuming and constraining nature of these practices and do not take advantage of the opportunities that they provide for meeting the performance needs of the organization. Managers often see these practices as separate from managing the business, and see the time required to carry them out as distractions from their job. Data from our performance management studies indicate that managers and their subordinates frequently see the organization as not requiring managers to do a good job of carrying out these practices, and they see managers as having inadequate time and sometimes insufficient skills to do so. Yet in these companies, these same managers and employees report that they *would like to see effective performance management practices*. Managers would like to have tools for more effective management of organizational performance. Employees would like to have tools that better clarify expectations and acknowledge performance.

Done well or poorly, performance management is central to organizational functioning for three reasons: its activities are elements of the management of business performance; it is integral to employees' understanding of their relationship to the organization; and it is a feedback and control system.

## **Performance Management and Managing Business Performance**

The practices that help organizational performers know what they are supposed to do, develop the wherewithal to do it, know how well they are doing and be rewarded for what they do are the practices that link these performers to the business purposes of the organization. These performance management practices shape performances by giving



information about appropriate content and direction of activities. Ideally, they also align the performances of the various performers in the organization so that their organizational activities aggregate to deliver effective and efficient performance of the overall organizational mission.

Figure 1 illustrates the nested performances of performers at various systems levels in the organization. Individuals exist in larger groups, such as departments, projects or teams, which in turn are part of larger business units. The performance management of the individual should ideally be nested within the performance management of the larger units of which they are a part, so that the activities of the individual contribute to the performance at the measurable business unit level. From the perspective of the organization, individual performance delivers value to the extent that it ultimately contributes to the goals and strategy of the organization. This usually happens because the individual is performing within organizational sub-units that deliver value by carrying out an organizational process, or delivering a product or service.

### **Defining the Individual's Relationship to and Understanding of the Organization**

Performance management practices, more than any other organizational practices, define employees' relationship to the organization. Pay systems, for example, determine whether employees share in the financial performance of the organization, or whether they are being paid for time, effort and skills but not for business performance. They also establish expectations for equitable treatment and in fact help define equity. Career paths determine whether employees have an opportunity for career growth and personal development. Development systems reflect the organization's willingness to invest in its employees. Finally, performance appraisal practices let an employee "know where he/she stands", and are often the gatekeepers to the other valued outcomes such as career opportunity, development, and reward. For this reason, employees who see performance management as being poorly done, arbitrary, and misleading are still reluctant to discard



it completely. They look to their appraisal, the size of their merit increase, and their developmental opportunities as feedback that indicates where they stand and what kind of future in the organization they might expect.

Performance management practices also have implications for the employee's self-concept and ability to derive satisfaction from work. Because of the evaluative nature of the performance feedback and rewards aspects of performance management, performance management practices can have implications for the employee's self-esteem and sense of accomplishment, and for whether the employee feels valued. Work can be defined in ways that give employees a sense of where they fit into the bigger picture, and thus make performance more meaningful, or it can be defined in an isolated, focused manner that separates the performance from the bigger system into which it fits and thus limits its meaning.

Performance management practices also shape an employee's understanding of critical aspects of the organization. These include what aspects of performance are valued (rewarded) within the organization, and what performances are required to get ahead. When they link the performer's activities to overall organizational direction, they shape an employee's understanding of the strategy and goals of the organization, and their role within it.

Thus, performance management practices are a window to the larger organization that enables the performer to understand where he fits. They are also a reflection of the larger organization, that tell the performer how she is perceived and where she stands.

### **Performance Management as Feedback and Control**

The feedback system in the organization is the organizational control function (Lundberg, 1980). Performance appraisal and performance feedback have often been characterized in the literature as control systems (e.g., Taylor, Fisher, and Ilgen, 1984). The notion is that performance feedback allows the performer to adjust his or her



performance to more closely adhere to what is desired. If management orchestrates the feedback and criteria of appraisal then performance appraisal is a mechanism by which managers control performers. Although there are other sources of performance feedback for performers, the official performance appraisal carries a lot of weight with the individual, in part because it is tied to valued outcomes such as rewards and career opportunities.

### **Implications for Large Scale Change**

We have argued that performance management is central to the management of business performance, that it is an organizational control system, and that it mediates the relationship of employees to the organization and their understanding of the organization. Because of the centrality of performance management in the organizational system, it is also central to the organization transition process. The large scale changes that organizations are undergoing entail changes in the nature of the performances that are being managed, the way control is exercised, and the relationship to the organization and understanding of the organization by employees. They involve changes in performance management practices; furthermore, changes in performance management can stimulate the other organizational changes that are required.

### **Changing Models of Organization and Performance Management**

In this section we discuss the relationship between models of organization and performance management practices. We first characterize traditional organizational models and performance management. Then we do the same for emerging models of organization and performance management.



## **Traditional Models**

The traditional model of organization that still guides most organization designs is based on dividing work into jobs performed by individuals. The basis for division is often functional. Jobs are integrated into organizational wholes by the ways jobs are defined and by rules, goals and hierarchical management (Galbraith, 1994). Each individual occupying a job is connected to a supervising manager by a hierarchical authority relationship. This model assumes relative stability so that the jobs defined and the means of their integration remain constant enough that any changes over time can be managed.

The performance management practices that have developed in traditional organizations reflect the underlying model (Murphy and Cleveland, 1991). Individuals are considered to be the performing units. Therefore individuals are the target of performance management. Since jobs are predefined by job definitions, the definition of what performance is supposed to be is taken as a given. Since people are selected and initially trained for the job, the ongoing development of the performer to do the job is not considered a major issue, until jobs change or people change jobs. Consequently, performance management in traditional organizations has boiled down to the review of performance and assigning rewards and consequences based on the reviews. For most traditional organizations formal performance management has come to be thought of as performance appraisal and (often) pay for individual performance. In fact, performance appraisal is often thought of as existing only as a means for determining pay raises. Beyond this the rest of performance management is left to the informal practices and management styles of the supervisors. Because individual performers are linked to the rest of the organization through their supervisors, performance appraisal and reward decisions are done by the supervising managers. Direction of the appraisal reflects the direction of exercised authority, downward.



The traditional organization model sketched above and the appraisal practices associated with it have shown themselves to be unable to cope with many of the issues of modern organizational life: frequent change, uncertainty that makes it difficult to preprogram rules and completely specify jobs, a tendency for individual performance and organizational needs to be misaligned, managers' inability to cope with the exceptions confronting them, the need for performers to work more with others, such as customers and coworkers, and the fact that supervisors are relatively out of touch from the performances of their subordinates (Mohrman, Resnick-West, and Lawler, 1989). Consequently the old, simple performance appraisal practices have evolved in recent years to cope with these realities. To help tie individual performance to business needs many appraisal systems have been integrated with a business planning process in which business goals are cascaded down the hierarchy resulting in goals set for individuals that derive directly from business goals. Whether or not they are connected to business goals, appraisal systems have tended to graft on goal setting processes to help define what performers should be doing so that they do not rely just on job descriptions. Because of changes in job demands, appraisal processes have also begun to more seriously address development needs of performers. More systems are providing for formal input from others in addition to the supervising manager. Systems are becoming more participative, allowing performers to become partners in their own appraisal processes through such mechanisms as self-appraisals and holding performance discussions prior to the completion of the appraisal form. To cope with frequent change, appraisals are happening more frequently, often as interim reviews. As the limited focus of appraisal systems has expanded, they are becoming known as performance management systems.

### **New Models**

The new models of organization are evolving because of the competitive realities of the new global environment and the rapid changes that are taking place (Galbraith,



Lawler and Associates, 1993; Nadler et. al., 1992). Most models stress the lateral or horizontal nature of organization, whether in terms of processes that cut across the organization (Davenport, 1993; Hammer and Champy, 1993), networks of technologies and people (Savage, 1990), customers (Deming, 1986), or joint ventures. The lateral nature of these organizations is necessitated by the strong interdependencies among subsystems in the delivery of value to the customer. Performing units in organizations include individual people but they are also collective systems and subsystems of people, such as teams, minibusinesses, and business units. These performing units are related to each other in the form of nested and overlapping systems (Mohrman et. al., 1995). Hierarchy is not to be thought of as a set of reporting relationships but as the hierarchy of nested systems. Each level in the hierarchy is a system with a broader scope of responsibility than those systems contained within it. In order to be adequately responsive to the demands of a quickly developing competitive environment, performing units must have the authority to respond to local developments in ways that are compatible with the needs of the larger system. In order to cope with the ever-changing environment and its constantly increasing competitiveness, new organizations must constantly learn (Senge, 1990) and improve themselves (Mohrman and Cummings, 1989).

Performance management practices will support these organizational dimensions with their own set of matching characteristics (Mohrman et. al., 1995). In these organizations, performing units at various systemic levels are forming and reforming constantly so that the focus of performance management is performance, not particular performing units. Since performance happens at every systemic level performance management practices will be multilevel in nature. The performance of a unit at any one level will need to be managed in the context of the performance of the larger unit in which it exists (see Figure 1). Since the larger system is made up of many interdependent subsystems the performance of each of these subsystems will have to be managed



laterally also so that it is coordinated with the performances of the other subsystems. Finally, performance management systems must themselves be self-designing and contribute to the learning capabilities of the organization.

Actual practices that meet these characteristics can vary but some generalizations are possible. Rewards for performance can be based on performances at several systemic levels: individual, team, business, corporation. In settings where performing units can shift frequently, defining performance for a unit is a major need. Performance management processes will stress the defining of performance over the review of performance. As performance is defined and reviewed and redefined organizational units must be developed and redeveloped, designed and redesigned to perform as well as possible. Continuous performance improvement requires continuously reorganizing for improved performance. These development processes will therefore become a major part of performance management. Reviews of performance will require multiple perspectives. For instance the review of a team's performance can be made from several perspectives: the larger business in which it is a part; other teams that are interdependent with it in the business; external customers it services; or the individual members of the team. Each of these is a perspective of someone with a different stake in the performance of the team. The various perspectives cannot be expected always to be in agreement, but they are all important. Performance management will require practices that consider all stakeholder perspectives.

Figure 2 illustrates some of the key contours of traditional and emerging organizational forms, and singles out the characteristics of the performance management practices of each. Viewing the organization as a system, it can be predicted that when each model is fully in place, organizational design features, including performance management, will fit with one another and yield a consistent logic of operating (Katz and Kahn, 1978). In an organization in transition from the traditional to the new logic, features will be out of alignment with each other, as the organization gradually puts in



place the features of the new organization. Thus, changed features become forces for further change, as they have created a tension within the organization. Unaltered features hinder change, as they perpetuate the old logic. The next section will examine this transition, employing the notion of large-scale change as a paradigm shift, and will illustrate how performance management practices can either catalyze or hinder change and learning.

### **A Paradigm View of Organizational and Performance Management Models**

One way to view the transition from traditional organization models to new organization models is as a paradigm shift (Kuhn, 1970; Mohrman and Lawler, 1985). The concept of paradigm also allows us to explain why organizational models and performance management practices are so inextricably intertwined.

"Paradigm" has been overworked as a term and has tended to fall out of favor because of its almost faddish use in the last decade. Nevertheless, it is an important conceptual heuristic that helps us portray the relationship between the depth and pervasiveness dimensions of large-scale organizational change. A paradigm is an entirety consisting of a way of looking at the world (Kuhn, 1970; Pfeffer, 1982), a way of doing things consistent with that worldview (Kuhn, 1970; Pfeffer, 1982), and the community of people that hold the world view and act according to its practices (Kuhn, 1970). The worldview (depth dimension) cannot be separated from the ways of doing things (pervasiveness). In this sense, organizational and performance management models are components of a worldview, performance management practices are components of how things are done, and the people in an organization are the social matrix or community sharing the worldview and acting accordingly.

When paradigms shift, several things take place (Kuhn, 1970; Mohrman and Lawler, 1985). The old paradigm begins to experience exceptions or anomalies that it is not equipped to handle. For example, product and market focus change so quickly that



the old hierarchical decision-making isn't fast enough to respond. In the arena of performance management, frequent change taxes performance appraisal practices based on enduring job descriptions, as organizations engage in elaborate efforts to update job descriptions only to discover that they are already obsolete. Developing interdependencies among individuals tax managers' abilities to coordinate, and managers frequently lack the perspective to determine and weigh the contributions of various contributors. When anomalies develop, the dominant paradigm adjusts by adding on ideas and practices that are responsive. For example, performance appraisal processes might add on goal setting processes or processes that yearly review the job description in order to deal with changing performance needs, and if change takes place more quickly appraisals are held more frequently. To deal with increased coordination needs managers might encourage individual performers to coordinate directly with others. This means that complete appraisal of the individual performer will probably require input from coworkers.

As anomalies develop and practices adjust, people begin to develop different ways of viewing the world. A new but incomplete paradigm starts to form. New organizational design features and practices are put in place. For example, cross-functional product strategy teams might be established to respond to rapid changes in competitor products. Concurrent engineering approach may be implemented. Some people begin to see the world differently and adopt new practices. As anomalies accrue they put the old paradigm under stress and new views of the world accelerate. More people share new views and practices. Paradigm shift occurs when the anomalies threatening the old paradigm reach proportions such that the old paradigm is no longer able to cope with them simply by adding on features, and when a new paradigm is sufficiently developed, conceptually and in practice. Kuhn called this the point of crisis for the old paradigm. A critical mass of people now share the new way of understanding



the world, most features and practices have been brought into alignment and the new paradigm becomes dominant.

The new paradigm is not only able to handle the developments that were seen as anomalies under the old paradigm but it also incorporates the old paradigm, albeit within a new viewpoint (Kuhn, 1970; Mohrman and Lawler, 1985). For instance, in the new organization hierarchy is but one form of organizational control. Performance management of individuals is just one of several systemic levels of performing units whose performance must be managed. Appraisal is just one of many processes that must be actively engaged in for successful performance management; defining performance and developing performance capabilities are two others that may indeed be the primary focus of performance management in the new paradigm. The open and nested systems view of the organization drives a multiple stakeholder view of performance management in which the manager (or, better yet, the managing system) is just one of many stakeholders in the performance of a performing unit.

The paradigm shift view of organizational change helps explain why performance management can be both a deterrent to change and a lever for change. In this section, several cases will be described that are examples of each of these situations.

### **Performance Management as a Deterrent to Change**

Performance management can serve as a deterrent to change when it continues to reflect the old organizational logic and to focus people's attention on old values and ties their self-image to the effectiveness of performances that no longer meet the needs of the organization. Medco is an example of such a situation.

#### **Medco**

Medco creates and markets medications. It employs hundreds of skilled professionals, many with Ph.D. and MD degrees, who work with doctors to develop new medications.

Recently, Medco has been faced by a rapidly changing business environment, including global



competition, reduced profit margins, and a changing health care market that have necessitated large redirection of corporate strategy and increased performance demands internally. Medco has found it difficult to get its professional cadre to reorient its work and reconceive its work in the light of the new business realities. For the research labs, the required reconceptualization is to see science as being oriented to market needs, not just to interesting scientific puzzles. It also means redefining the concept of laboratory yields to focus on usable, marketable compounds, not just on new compounds.

The formal performance management practices used in the research labs are a performance appraisal process and a merit pay system. For performance appraisal, individual professionals compile a file of their accomplishments for the year, which tends to consist of their accomplishments in their laboratories, and submit it to their supervisor. Feedback from supervisors about those accomplishments is uneven across the supervisors and employees, but the norm is "you've done a good job this year, keep it up." Because supervisors are scientists from the same discipline, what feedback people do get tends to focus on the quality of the process applied in their laboratory work and the yields they get in the lab. Professionals in Medco tend to have a very academic view of their work. Laboratory results are considered important, publications and patents are concrete affirmations of this view. People tend to talk in terms of "my science." Within the rather general disease categories they work in, people pursue their interests.

After the appraisal documentation is complete, supervisors get together and rank employees in similar job categories to determine merit raises. Because management is worried about legal issues, there is considerable pressure on supervisors to make performance appraisal ratings match the merit pay rankings, so even if they are told to keep up the good work performers may receive low official ratings that reflect their status in the rankings. Many performers consider their pay raise to be the best indicator of how they are doing.

This performance management process does not make the business needs of the corporation visible to the lab scientists. They assume that laboratory yield and good science are



the most important performance criteria. Based on their merit pay and on noticing who "gets ahead", they develop concepts of their value to the corporation based on these factors alone. In fact, a belief exists as part of this worldview that some of the best and most valuable scientists may never be associated with a compound that gets to market. The academically oriented performance management practices work against the corporate thrust on market focus and responsiveness. Despite announced missions and strategies requiring this closer focus and the integration of laboratory performance with business need, the academic worldview in the labs is self-reinforcing.

When organizations such as Medco attempt to instill a new world view they are thwarted by the actual practices and views implicit in them that people experience. For Medco the performance appraisal process continues to celebrate the science of the individual independent of the business. Furthermore this practice is extremely impactful on the viewpoints of the individuals since it is the only feedback they get about their performance, and it is seen as directly measuring the worth of the individual and reflecting the organization's valuing of the individual as expressed through pay decisions. Furthermore, it reflects deeply held beliefs from the old paradigm that the best way to yield useful compounds is to yield lots of compounds.

One of the tensions within Medco is that producing useful compounds is a multi-disciplinary process that occurs best in informal or formal teams. The scientists are highly interdependent with one another. Yet the performance management practices focus on the individual within discipline frameworks. Consequently, efforts to create cross-disciplinary teams were slow to materialize because of the strong within-discipline orientation of all contributors. These approaches are not questioned by the scientists who grew up with them. Such traditional approaches to performance management can persevere even when they do not affect performance or are detrimental to it. In large part this is because they have shaped employee understanding not only of what is important,



but also of what is equitable. They create a view that individual performance is the fair way to determine a person's value to the organization. They also perpetuate the assumption that managing individual performance is automatically going to amount to managing the performance of collective units.

This issue of the appropriate systems levels at which to conduct performance management (individual, group, business unit, etc.) is accentuated by the findings from research conducted in the late 1980's on the performance management practices of the professional and managerial corps of three corporations (Mohrman, Mohrman and Worley, 1990; Mohrman, Mohrman, and Lawler, 1992). The companies were in the defense, aerospace and energy industries, and all were operating at the cutting edge of technology. They employed a large number of professionals, including engineers, scientists and specialists from the other functions of the organizations. Many of these knowledge workers worked on projects in which their performance was highly interdependent with others. Although performance pressures were growing, and the companies were aware that they needed new approaches if they were going to be able to respond, they were still being organized and managed in their traditional fashions. This included the performance management systems; however, our research was conducted because the managements in each of these companies felt that they could not respond to the performance pressures with their current performance management systems. At this point in time, they chose to think of the problem as needing to more effectively eliminate performance problems and motivate higher levels of performance.

All of these companies practiced formal performance appraisal of individual performers and had merit pay systems based on ranking employees. We found that the performance appraisal and merit pay systems fostered planning, goal setting and feedback between the employees and their supervisors but that none of these activities had any effect, in general, on the performance of individuals or on the projects they worked on. In one organization that particularly stressed the ranking process we found that the



individual pay for performance system negatively impacted the performance of projects. In other words, in these organizations formal performance management practices either had no effect or a detrimental one on individual and collective performance.

On the other hand, we found that informal performance management processes that occurred in and was done by groups or teams of coworkers did have a positive impact on both project performance and individual performance. These practices included collective planning, feedback, goal-setting and self-assessment of the team by its members. Although none of these companies had formal team performance management practices, these practices were occurring informally because they were advocated by some managers and had real impact on team performance.

In that study, pay for individual performance as practiced through the merit pay systems was considered to be a fair way to be paid. Furthermore, people's belief that their pay was in some way related to their project or team's performance was *not* related to their sense of equity. In summary, these organizations had individually oriented and supervisor centered performance management practices that did not contribute to the collective performance required for organizational results. However, that system was perceived as fair. Furthermore, the management of these companies truly believed that corporate success depends on individual stars and that they had a system where "cream rises to the top." (Rising to the top was a major concern in these tall hierarchical organizations.) The worldview was strong, and none of these companies felt that it was feasible to engage in significant changes in their individually oriented performance management systems even though the data showed their practices to be ineffective. In fact, the changes they made were to strengthen the existing paradigm of individual performance management by trying to get better individual feedback from the supervisor. These changes were in concert with the prevailing organizational paradigm.



## **Performance Management as an Enabler of Change**

In the above companies, the performance management locked in the existing paradigm, in large part because they linked so closely to people's deep beliefs and values. In this section, two examples will be provided of companies where performance management practices encourage change. In the first example a minor change in performance management, the introduction of peer input into appraisals stimulated much more fundamental change. In this case, individuals had engaged in changed work systems that caused them to begin to internalize another set of worldviews. They could understand the inappropriateness of a more traditional performance management practice and exert pressure for it to change and conform to the new organizational paradigm. Such pressures become apparent in organizations that have begun to change from their traditional way of managing and organizing to one that is more lateral in nature and less hierarchical. One of the common structural design elements is to use teams as formal performing units. This happened in Chemteam.

### **ChemTeam**

The research lab of a major food manufacturing corporation had been reorganized into increasingly self-managing teams for about 2 years. It had not changed its formal performance management practices which focused on the individual performer and individual pay for performance and used a ranking process. However, as part of the annual performance management cycle all the teams were asked to help rank their members. One particularly mature team (the ChemTeam) that had successfully adopted the new organizational logic was made up of Ph.D. and Masters level analytic chemists who supplied consulting services to various customers throughout the corporation. In practice, the delivery of consulting services had changed from an individual project assignment mode to the forming and disbanding of temporary teams within the ChemTeam, composed of people with the necessary collection of expertise and experience to carry out a particular project. When the team sat down to consider how they each had done as individual performers as a start to the ranking process, they eventually came to the conclusion that



they were unable to separate out each person's individual performance since they were so interdependent and each depended on the others in order to perform at all. As a result they refused to continue the ranking process and demanded that the performance management process be changed or, at the very least, that all members of the ChemTeam be ranked at the same level in the overall ranking, and that their raises be identical percentages.

The worldviews of the ChemTeam members began to shift as they started to do their work in teams instead of as individual consultants. When the new practice of peer input to the individual appraisal and merit pay was introduced, going through the exercise made the team members aware of the inconsistency of these approaches with the way work was being done. They no longer saw individual merit pay as equitable. This shift in belief is a relatively deep change that only comes, when people actually experience living within the new paradigm, the team-based organization in this case.

In the Chemteam example, changes in the way work was done lead to changes in perceptions of equity that put pressure on the company to move away from the individual performance appraisal model. The Oilco example that will be discussed below shows the opposite causality, where changes in the performance management system were introduced to spur change in the organizational culture and organizing model.

#### Oilco

Oilco is a petroleum and chemicals company that in the late eighties began to shift in its corporate strategies and in its organizational models to become more competitive in its fast changing global environment. At the time, the organizational change strategy was relatively uncoordinated, with pockets of different changes taking place throughout the company. There were some total quality management endeavors, some team-based reorganizations, and some attempts at organizational culture change and organizational effectiveness projects, all initiated at the local business unit level. At a corporate management team retreat the corporate mission and vision were drafted, and the outlines of a corporate change strategy to respond to environmental



challenges was delineated. A high level team of line managers was appointed to design and introduce a new performance management system to lead, support, and catalyze change.

Oilco's existing performance management system was a combination of management by objectives and performance appraisal for individuals along with a ranking process for the determination of salary raises. In many parts of the organization ranking was done first so that appraisal ratings could be made to conform with salary rankings. The new system was designed to embody many of the cultural directions that the corporate line leadership had identified in its new mission and values statements. These included such things as increased employee involvement and participation in the business, increased teamwork, and increased customer focus. The new system therefore included participative mechanisms by which supervisors and performers assumed a more equal role in the appraisal process from goal setting to evaluation. These processes were to be done jointly. Interim reviews were to be held when appropriate so that changing business conditions were incorporated into the performance management process. There was no summary performance appraisal that could be used for salary determination, so the automatic connection between salary action and appraisal was severed. The ranking process of employees for salary purposes was to take place after the performance review. Employees received feedback about where they fell in the ranking and the bases for ranking (to promote understanding that salary ranking was not entirely based on just performance considerations). Supervisors and employees jointly decided on others who should have input in the review, such as coworkers, customers, and/or other managers. To place the individual performance management practices more squarely in alignment with business performance management, all individual performance management, both at the time of goal setting and at the time of review was to take place after the group in which the individual worked had gotten together with their supervisor and set group goals and reviewed group performance. Individual and team goals and performance were also to be related to the business plans and corporate goals.

The new performance management system was carefully set out in documents supplied to all employees. Over 600 managers were trained as trainers and did the training for every



remaining manager and professional in the organization, about 20,000 people. Everyone received at least two days of training. Baseline data were collected before the design process began and repeated at two year intervals following implementation. The results showed that the new practices were being followed, and that people saw a closer link between their performance and business performance. Furthermore, they reported higher involvement and more lateral participative processes, a reflection of the culture and values set forth in the mission statement. Immediately after its roll out several parts of the corporation that had begun organizing as teams adapted the new system for team level performance management by using the entire process to manage the performance of the team as the performing unit. In other units, the team planning and review processes spurred increased use of formal teams. Most recently, corporate Oilco has decided to recommend a team-oriented process corporate wide.

In Oilco, the performance management practices were designed to reflect the organizational worldview to which the organization wanted to change. The new performance management was a set of practices, a way of doing things, that implied a different organizational model from the existing top-down hierarchical control model. It was able to be impactful for three reasons. First, performance management is a set of practices that were central to how each and every employee relates to the organization and gets a sense of worth. Second, it is a set of practices that touch every employee. This makes it an extremely efficient way to build a social matrix for the new paradigm, a community of shared viewpoints. Third, in some places other organizational change efforts were going on that allowed people to see examples (Kuhn, 1970, calls them exemplars) of the new organizational logic at work besides in performance management.

## **Summary**

In this section, we have argued that the centrality of performance management makes it a key lever for change or a stubborn barrier to change required for more effective



business performance. Performance management practices embody and reflect organizational values and beliefs. Figure 3 illustrates the central role of performance management practices. It shows that traditional performance management practices can so shape worldviews that even faced with data about the need to change the company stays locked in to the status quo. Medco, for example, was having difficulty establishing cross-functional teams or getting scientists to gear their activities to market needs. The traditionally oriented energy, aerospace and defense firms initially dealt with data that their traditional approaches weren't working by trying to improve them, thus perpetuating the old paradigm, even though many of the fixes were to anomalies in the paradigm.

In Oilco, on the other hand, some new approaches to performance management were explicitly and successfully used to stimulate changes in worldview and further changes in organizational practice. The new performance management practices deviated from the hierarchical control model, complementing some of the experimental lateral organizational work structures that were in place, and stimulating others. In Chemteam, on the other hand, changes in work design to create flat organizations and teams combined with a small change in performance management to create a push for more fundamental changes in the way performance was managed.

The key role of performance management appears to be its role across the entire social matrix in stimulating or preventing the deep changes (changes in worldview) that must accompany pervasive changes in practices. In the next section, we also argue that new models of performance management can be instrumental in stimulating the iterations of change that are involved in large-scale changes processes and in stimulating ongoing learning.

### **A Systems View of the New Performance Management**

Some of the companies we have studied were well on their way in their transition to a flatter, team-based organizational model. Many of the features were in place. We



were able in these companies to observe the ongoing central role of performance management. We have argued elsewhere that large-scale change is an iterative process of closer and closer approximation to the desired new organizational model that entails ongoing organizational learning, and that creates a learning organization that continually refines its design through time (Mohrman and Mohrman, 1994; Mohrman and Cummings, 1989). This is consistent with the notion that the new organization paradigm includes the need for organizational learning. We observed performance management practices playing a key role in these ongoing learning processes and design iterations. To explain this phenomenon we can look at the open systems nature of the new organizational and performance management paradigm.

### **Performance Management as an Open System**

As mentioned earlier, performance appraisal and performance feedback have often been characterized in the literature as control systems (e.g., Taylor, Fisher, and Ilgen, 1984). In the traditional organizational paradigm, management provides the feedback and the criteria of appraisal, allowing performers to adjust their performance to more closely adhere to what is desired. When criteria do not change and the appraisal device remains constant this amounts to a thermostat model of performance management. It achieves a steady state of individual performance. In traditional systems managers do the measuring and feeding back of the appraisals. In this sense, performance management amounts to a closed system consisting of the manager and the performer. Because of the centrality of the performance appraisal, it carries a lot of weight with the individual. Traditional organizations are a hierarchy of closed loops between managers and subordinates. The overall effect is to keep the status quo.

Under the new performance management there is still the assumption that feedback is necessary to control performance. In fact, individuals, teams, and businesses are seen as nested but open systems (Massarik, 1980). The openness of the systems is



important because it is through the fact that each system is open to feedback from all stakeholders in its environment that change is generated. Change is also due to the fact that performance management includes more than just appraisal and feedback. When performance management is considered to be only appraisal and feedback then performance can only be adjusted in terms of the criteria in the appraisal. But when performance management includes processes for defining performance and developing capabilities to perform, then feedback can also be used, if necessary, to change the nature of the performance desired and to change the way the performing unit organizes to perform. Both of these constitute sources of continuing organizational change. An example of this is Techco.

#### Techco

Techco is a high technology organization, undergoing change to a more customer-oriented and lateral way of functioning. Progress in this direction varies from location to location in the corporation. In the corporate headquarters a cross functional team-based organization was formed for the purposes of developing and maintaining various computer based corporate Human Resource (HR) systems, such as compensation and benefits, the human resource information system, and affirmative action. Teams were organized around customers (various HR departments) and consisted of HR systems analysts and corporate Information Systems personnel (analysts, programmers, and hardware people).

After about a year of operation a task force was formed to develop a performance management system that was consistent with the new organization. The task force decided to take the performance management task in stages. The first stage was to introduce a process by which the various teams conducted a self review of how they were performing as teams. To do so all teams were trained in a simple process of identifying those people in the organization that had a stake in their performance, including managers and customers and other teams. They then put together a basic survey of open-ended questions to determine how each of the stakeholders viewed the team's performance. They also answered the survey questions themselves.



After receiving stakeholder input each team got together and discussed all the evaluations, those of the stakeholders and those of the individual members. Each team then compiled a summary of the review and shared it with the management team of the organization, which had itself gone through the same exercise. There was then a similar process by which the entire HR systems organization was reviewed on the basis of these and similar inputs. All of this preceded the traditional individually based performance appraisal process. The task force had also adapted the corporate appraisal form to reflect performance dimensions that had become important for individuals in the new team-based organization. These additions mainly reflected the need for team members to act in a manner conducive to team performance. Managers who filled out individual performance appraisals were asked to take the performance of the team that the person belonged to into account.

The result of the team-driven team evaluations was that the organization embarked on an extended examination of their team organization. Some of the teams came to realize there was little interdependence within the team and that the group was not really functioning as a team. Other teams experienced extreme differences in how they were perceived by the different stakeholders depending on the function represented by the reviewer. Many of these issues had been informally discussed but the team review process systematically highlighted their existence. The review started a process by which the entire organization reorganized itself into a more sensible team-based structure. This process was spurred on when different team members received very different individual appraisals apparently simply because they reported to bosses representing different functions. Members of the IS function tended to be evaluated on the traditionally hard, numbers-oriented criteria associated with the computer systems disciplines, while members of the HR organization belonging to the same team and performing the same tasks were evaluated on soft, relations-oriented criteria. This surfaced the need to get cross-functional management agreement about the purpose of the teams and the proper evaluation criteria. It also led to dialogue about the varying worldviews in the different disciplines that was leading to organizational changes that were not supportive of one another. In this organization, the



introduction of a multi-stakeholder team-based performance management process initiated a significant redesign of the organization. It led to a change iteration that moved the various features and practices of the organization more into alignment with the model of a flat, team-based, customer-oriented organizational model.

When Techco went through the process of team-based performance review, they ended up questioning both the very nature of the performance they were delivering and the way they were organized to deliver it. They learned about factors that were impeding their effectiveness at applying the new team approaches. The result was further organizational change but still consistent with the new organizational paradigm they were in the process of adopting. In recent research in 26 team-based business units in the knowledge work components of seven companies (Mohrman, Cohen and Mohrman, 1995), we found similar phenomena as well as further evidence of the importance of the open-system approach to performance management.

In these various settings the performance management practices ranged from very traditional with only a nodding glance toward the team organization to quite sophisticated practices that managed the performance of the teams as well as the individuals in the teams and that used multiple sources outside the team, including managers, customers and other teams, to determine what the teams should be doing as well as reviewing how well the teams were doing it. Reward systems also varied in the degree to which they rewarded individual and team performance. This afforded an opportunity to examine the impact of various aspects of the new performance management paradigm.

In those settings where managers still tended to review individual employees it negatively impacted team performance. Pay for individual performance was generally accompanied by manager review of individuals. Qualitative data found that when this



occurs, employees tend to focus on it to the exclusion of other forms of feedback, thus accelerating the closed loop.

Team performance was positively affected to the extent that both managers and customers reviewed the team's performance and to the extent that the teams themselves were involved in defining what their performance should be. Interestingly, when teams reviewed their own performance this tended to detract from their immediate performance but it resulted in the team coming up with organizational and process improvements. These improvements also happened to the extent team members evaluated each other and the team planned what its performance should be. Finally, in these team-based settings, rewards for team performance tended to foster team performance planning and review by customers, managers, and teams themselves, which, as we have just reported, tend to be associated with team performance and team improvements.

In short, in team-based settings the most impactful performance management practices on team performance and organizational and process improvements are formal team-based practices, and practices that bring in multiple stakeholder perspectives. Performance management processes within the team tend to be focused on improvements in methods and processes; external stakeholder input to team performance focuses on performance. The only positive form of individual level performance management was individual reviews by coworkers, which tended to lead to organizational and process improvements in the team. In other words, these reviews of individuals by coworkers nest the examination of performance of the individual within the team's performance needs.

Finally, in these organizations both individual and team pay-for-performance were perceived as fair by team members. The social matrix had not fully redefined the notion of equity so that individual pay-for-performance was not seen as equitable. Rather, it had expanded its notion of equity to include team and business-unit pay for performance.



In at least two organizations, team performance management was tied to organizational learning, not just to learning within the team. In both cases the management team tasked itself with guiding the ongoing change process. They took advantage of team assessments to systematically solicit from the teams what organizational factors were impeding or facilitating their effectiveness. Based on this information, they planned changes in the organizational context to further the new model. In this way, more and more pieces of the new paradigm were put in place. This is similar to the changes in Techco that resulted from their team performance management.

### **Summary**

This section has argued that if performance management practices create an open system, they contribute to ongoing change and learning in the organization. This happens within performing units that are reviewed, and within the larger system that encompasses many performing units. The open system can only be created if information comes from many sources and is shared in many directions. This fundamentally changes the nature of control in organization. Similarly, an open system requires that the redefinition of work and the development of capabilities are included in the performance management model. The traditional supervisor-subordinate individual performance management system that focused on appraisal and reward is a closed system that impedes learning. Part of the new organizational paradigm is that the open systems nature of the organization and its performance management process leads to continuing change by promoting organizational learning and improvement.

### **Conclusion**

We have argued from examples and conceptual models that performance management plays a central role in large-scale change. It can be a force for the status quo, a force for change, and a force for continued organizational learning and change.



While many of our arguments could be applied to any set of organizational processes and practices, there are at least three reasons that performance management has special currency. First, performance management is a set of practices central to the very nature of the individual's relationship with the organization. It is through performance management that the individual knows his or her place, role, and worth in the organization. Thus, performance management has a unique role in the organization for connecting directly with the community of individuals and instilling the organizational paradigm through practice and concept. Second, performance management practices nest the various performing units within the larger system performance needs, and relate various units to one another. Third, performance management constitutes a feedback mechanism about the central concern in organizations, performance. Everything else is peripheral. Consequently, depending on how performance management is conceived and practiced the organization can be a relatively static hierarchically managed entity or an evolving, continuously improving and open system.



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Figure 1: Nested Performances of Systemic Levels in the Organization

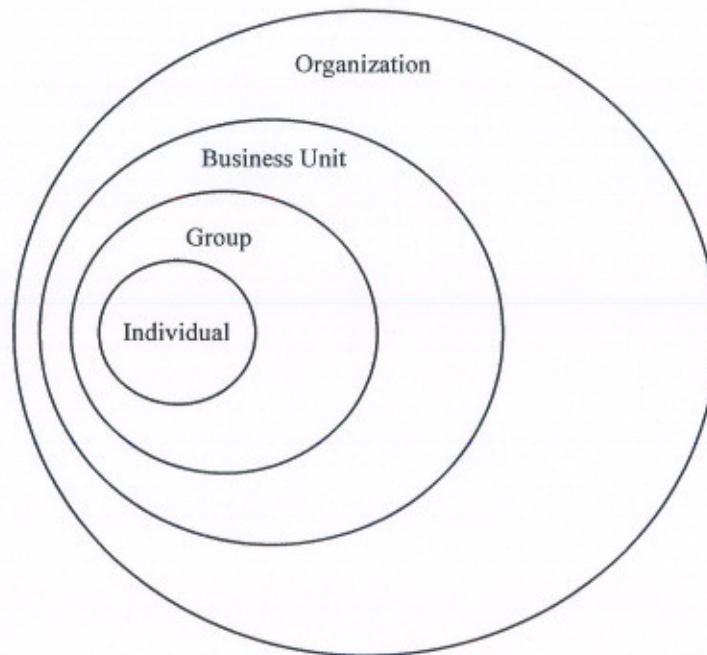


Figure 2: Characteristics of Traditional and Emerging Organizational Forms and Performance Management Practices

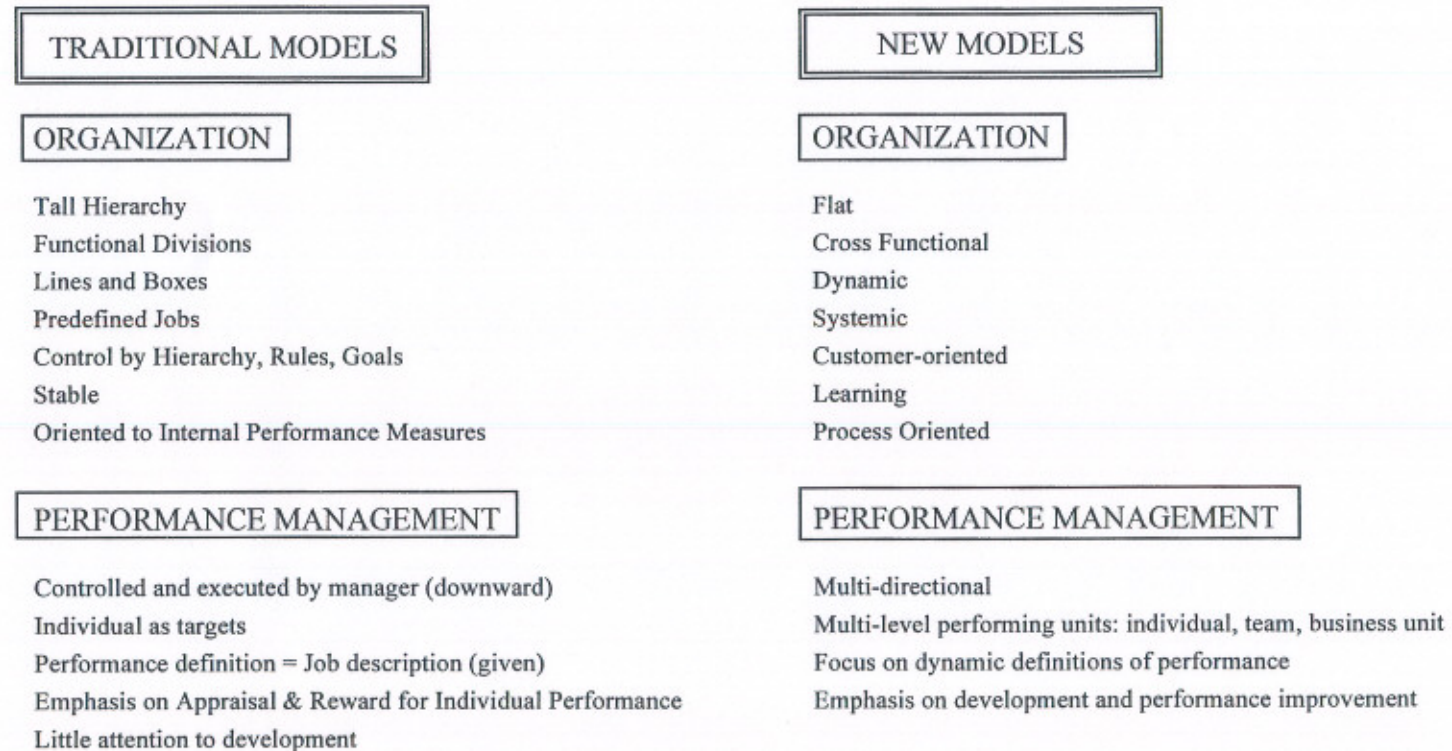




Figure 3: Role of Performance Management In  
Traditional and New Organizations

