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Do Performance Appraisals Work?

Though they are accepted and entrenched nearly everywhere, some quality experts are championing the end of appraisals

by

Tony Juncaj

IN 1989, MANAGEMENT at Glenroy Inc. gathered workers in the company parking lot. What followed was a scene resembling a druid ritual: Workers cheered and roared as they fed a raging fire in a 55-gallon drum with all the company's personnel manuals.

With that, the company's performance appraisal and merit pay system went up in smoke. Glenroy, a small manufacturer in Menomonee Falls, WI, shifted day-to-day responsibilities from managers and supervisors to individual workers and established market based pay grades and company-wide, noncompetitive bonuses. The company hasn't looked back since.

Since Glenroy's transformation, few organizations have followed the Wisconsin company's lead. Today's organizations seem in no rush to invite workers to roast s'mores over burning personnel manuals. Where there is no smoke, there is no fire.

But that doesn't mean the way workers are evaluated isn't changing. Conceding that workers greet performance appraisals with the joy of a strip search, HR professionals are spending considerable time and brainpower to create a kinder, gentler performance appraisal process. This includes increasing the frequency and breadth of supervisor feedback to employees and developing simpler, less subjective methods to assess and measure performance.

Two divergent camps have emerged in a serve and volley debate over the merits of the performance appraisal. If Glenroy took the revolutionary approach, most companies are choosing the evolutionary one, convinced that the perceived flaws and failures of the appraisal can be fixed over time.

Leading the charge to make the latter the path less traveled is Tom Coens, who contends "feel good changes" undertaken by companies to hone the appraisal are all a waste of time. Coens, principal at Quantum Paradigms Inc., a firm in East Lansing, MI, specializing in organizational training, teamed up with Mary Jenkins in 2000 to write a controversial book with a title removed of mystery, *Abolishing Performance Appraisals—Why They Backfire and What To Do Instead.*[1] Coens and Jenkins also launched a website, www.abolishappraisals.com, to complement the theme of the book.

Final performance?

"The direction of the book," Coens says, "begins with the premise that an adult really doesn't want or need a report card. It's silly to believe you can accurately rank people."

Calling appraisals a "tool of patriarchy," Coens, whose HR career spans 32 years, including a decade as assistant director of the U.S. Department of Labor's Wage-Hour Division in Chicago, fires off three reasons why performance appraisals must end:

1. They fail their well-intended purpose.
2. They do tremendous damage to employee morale and self-esteem.
3. They are counter to expressed organizational values.

Although he had long believed the appraisal was intrinsically destructive and demoralizing, Coens' passion to end it began taking shape in 1990. It was then that he embraced the quality movement and was particularly influenced by the philosophies and theories of W. Edwards Deming, Philip Crosby and Peter Block—all of whom, Coens adds, were outspoken critics of performance appraisals.

He sees an appraisal process that ties the performance of an individual or group to departmental or organizational goals or objectives.

"Appraisals fail because their commonly used structures violate common sense," he says commandingly. "Do you think people will commit to something if you force them to do it and hold a gun to their heads, or if you invite them to do it? The appraisal process creates a walking-on-eggshells atmosphere in the workplace. That's why we have a different conversation in the washroom than in the meeting room—because you don't want to offend the boss, because that appraisal is like the power of God."

Others involved with workforce issues counter that the appraisal has less to do with divine influences and more to do with earthly mandates to measure employee performance to determine training and development needs, compensation, promotion or termination.

Pitch the bath water, nurture the baby

"The performance appraisal is a complex, highly written about subject," says Linda Peterson, vice president of HR at Kettering University in Flint, MI, for the past seven years. "It isn't perfect, but nothing really is. Just because it is imperfect, we should not resort to throwing out the baby with the bath water."

A.J. Deeds, president of TQD Inc., a training and development firm in Fenton, MI, warns the drive to deep-six the appraisal is misguided. Organizations should instead "go deeper to understand what the process was supposed to accomplish and what has caused that effort to fail," he says.

"The appraisal process is easy to blame," Deeds continues. "Eliminating performance reviews seems like a good idea due to the negative impact surrounding their use. But performance reviews in and of themselves are not the culprit for dissatisfaction."

Appraisals invariably fail, Deeds says, because leaders at the top place appraisals at the bottom of organizational priorities.

"Feedback and evaluation are necessary components of systems and personal development. They will not go away just because the performance review is eliminated," Deeds explains. "Unless something else is put into place that helps managers overcome their reluctance to deal with employee performance improvement and helps employees clearly link reward with performance, the ineffectiveness, dissatisfaction and disappointment experienced with current performance review processes will continue."

Paul Travalini, a senior consultant with Diversified Information Services, a Northville, MI, firm specializing in performance improvement and training, explains that organizations should align appraisal programs with their strategic plans.

He sees an appraisal process that ties the performance of an individual or a group to departmental or organizational goals or objectives, which could be based on financial targets, specific projects or quality and performance metrics.

"After giving clear-cut direction on how people fit into the strategic and annual organizational plan, holding them to the results can be the basis for feedback to guide the employees, examine processes or even revise the strategic plan," Travalini says. "This can help employees define a 'north star' as they navigate through their performance targets."

Hitting the mark

Ultimately, Peterson says the appraisal can work as long as people within organizations don't treat it as a standalone product.

Getting Real About Performance Appraisals

If there is a good reason for companies to maintain performance appraisals, Tom Coens doesn't know one. But Coens, co-author of *Abolishing Performance Appraisals—Why They Backfire and What To Do Instead*, says he knows the main reason they should be scrapped: underlying assumptions.

"A lot of people think the problems with the appraisal have to do with the forms, inadequate training, supervisors shirking responsibility or prima donna employees who believe they are above criticism," says Coens.

"The real culprit is underlying assumptions—the beliefs and messages the appraisal conveys about people, work, motivation, improvement and supervision. These assumptions are not realistic or healthy, and they sharply clash with the values espoused by quality management organizations."

As an example, Coens says appraisals suggest the boss or organization is responsible for improving everyone's individual performance, that organizational improvement comes from improving the parts and that improvement opportunities should be triggered by an annual date rather than the cycles of systems and processes driving performance.

"Variations of appraisal uniformly fail and bring unintended, damaging effects because the underlying beliefs are not changed. We know from systems theory that underlying assumptions, unearthed beliefs blindly accepted as true, often drive the outcomes of a system. When an organization practices appraisal, it's really subscribing to unspoken ideas that ignore reality or send people the wrong messages."

To make his point, Coens cites assumptions vs. reality.

Assumption	Reality
One appraisal process can effectively serve several functions at the same time.	Appraisal is overloaded with too many functions—often one function undercuts the other (for example, the focus on money interferes with people hearing the feedback).
A one size fits all coaching structure works well for all supervisors and employees.	Supervisors have different styles of working with people, and employees have individual preferences and needs for feedback, coaching and development.
The organization and supervisors are responsible for employees' feedback, development and performance.	Empowerment is promoted as an organizational value, yet appraisal makes the supervisor, not the employee, the driver of improvement and compiler of feedback.
Appraisal processes can objectively and reliably assess individual performance.	Evaluative processes are largely subjective—just-in-time ratings provided for a single purpose are more valid and reliable than multiuse ratings.
Ratings are motivating and let people know where they stand.	Ratings typically don't provide information truly reflective of employees' status—ratings demoralize because nearly everyone expects to be rated highly and have his or her efforts appreciated.
Feedback, development and performance improvement are annual events.	Feedback and improvement opportunities are available all the time, not once a year—events and situations should dictate feedback, development and improvement.
People withhold effort if special incentives are not dangled in front of them.	People are intrinsically motivated to perform well when the work is meaningful—pay is not a motivator but can be a powerful demotivator when it is inequitable.
Inspecting individuals improves individual and organizational performance.	Improving systems and processes improves the performance—improvement results from identifying the cause of poor performance and planning specific steps for improvement.
Appraisals are required by law or are necessary to assure legal documentation.	With a few exceptions, the law does not require appraisals. Appraisal evidence tends to help employees in legal actions at least as much as it helps the employer. Just-in-time, written counseling provides more reliable performance.

"The performance appraisal is only as good as the people using it—the management team, employees and supervisors," she continues. "If used correctly and smartly, it is an effective tool for things like coaching, feedback and development. And to the extent it is used to measure performance, as long as there are clear lines of communication, chances are we can improve performance."

Peterson's peers in the HR field seem to agree, but surprisingly not in overwhelming numbers. The 2000 Performance Management Survey, by the Alexandria, VA, based Society for Human Resource Management (SHRM), reported 61% of HR professionals were satisfied with their companies' performance evaluations; the survey attributed this in large part to elements of the "performance management systems," as the appraisal is being rendered these days, being oriented toward employees.[2]

For example, the three highest ranked objectives for performance management systems were to provide information to employees about perceptions of their performance, clarify organizational expectations of employees and identify development needs.

Conversely, traditional objectives of appraisals, such as documenting performance for employee records and gathering information for promotion decisions, ranked at the bottom.

SHRM does not have an official position on the appraisal. Frank Scanlan, a media affairs specialist at the society, says his organization's focus is to provide members information on a wide array of HR subjects, including designing and conducting the appraisal.

Indeed, the SHRM website is replete with white papers on performance management systems—none that advocate the appraisal's demise.[3]

So with the appraisal seemingly entrenched and accepted in organizations, why would anyone advocate its demise? In Coens' case, for the very reasons it is entrenched and accepted in organizations.

"People fear stopping the appraisals will eliminate essential functions like feedback, development, training and legal documentation, and that's not true," he argues. "They think those functions can't be accomplished outside the context of a multipurpose, annual, one size fits all paper collection based on the earth's rotation around the sun. They're stuck in that mind-set."

Coens cites Glenroy as one example among hundreds of how a company can excel without appraisals.

Up until the bonfire of the manuals in 1989, everyone but the president received an annual performance review. Pay raises were tied to the overall ranking.

Bonfire of the manuals

Glenroy manufactures packaging materials and thermal laminating films used in pharmaceutical, food and home products. In the late 1980s, the company's leadership began attending Deming seminars. Earnestly embracing the quality management movement, Glenroy leaders decided they were "going big."

"The personnel manuals were basically scorekeeping," explains Jim Daugherty, CFO. "They were just a way of keeping track of the things employees didn't do right. They were basically meant to try not to get people into trouble."

Up until the bonfire of the manuals in 1989, everyone but the president received an annual performance review, in which people were ranked on a scale from one to 10 in various categories. Pay raises were tied to the overall ranking. However, most employees perceived the ratings strictly as the subjective opinion of the supervisors, and the feedback process was a perfunctory routine at best.

In place of formalized feedback, the company instituted instant feedback, where a worker or supervisor can initiate immediate dialogue. "Instant feedback does make it harder on leadership because it requires a do-it-now process," Daugherty says. "But a good leader would do that anyway."

And in place of incentives, the company established pay grades tied to the external market, based on survey data of comparable manufacturers in the region, with a commitment to pay no less than the 60th percentile—out of 10 companies in the region, four would offer higher salaries, six would offer less.

In addition to market competitive wages, Glenroy offers a companywide bonus called the Glenroy Performance Award or GPA, a quarterly noncompetitive bonus. "Everybody gets it, or no one does," Daugherty says.

By getting rid of the appraisal and shifting the onus of the work to the workers, Glenroy did undergo downsizing. Along with the manuals, the firm unceremoniously pitched the inspection department.

And that has drawn skeptics, including customers.

Daugherty recalls how one customer became so upset he was ready to pull his business after discovering Glenroy was without an inspection department. But after a thorough plant tour and an explanation of the process, he became impressed, Daugherty says.

Although it has been rare, Daugherty says the firm has had to deal with a problem employee or two, "which we do document because we live in a very legalistic society."

If a worker reaches the end of a disciplinary path, the worker is suspended for three days without pay. "This is meant to give the employee time to think about it," Daugherty says. "We've rarely had to fire a worker. Usually they quit themselves."

In the 13 years since the transformation, the company's business has quadrupled, with its core business based on quality, not cost, Daugherty says. In the same period, its workforce has grown from 43 to 142 employees, producing more than $40 million in goods each year.

If it worked for Glenroy, can it work for other companies?

Daugherty concedes getting rid of the appraisal is much easier for smaller companies but thinks even large companies can do it over time, at least on a trial basis in targeted departments. "I'm joyful every day that I don't have appraisals to worry about," he says.

Worrying over why

But Coens does worry about appraisals—specifically, why companies still use them.

"It's apparent to me performance appraisals are very demoralizing, very damaging," he says. "Worse yet, if you look at the values of organizations today, appraisals represent the exact opposite.

"We talk about empowerment; there's nothing empowering about being forced to participate in something and being given a humiliating grade or ranking," Coens continues. "We talk about teamwork, yet appraisal pushes individual accountability. We talk about diversity, but appraisal is one size fits all—everyone is required to follow the same format, and every leader is supposed to use the same method of coaching."

Coens says a blatant failure of the appraisal is it holds people accountable for results—even though there are factors over which employees have little or no control.

As if before a supervisor at a performance review, Coens role-plays a manufacturing representative and ticks off a series of questions. "You can hold me accountable for sales, but:

- "Do I choose the product line?
- "Do I define the warranty?
- "Do I control the shipping date of the last order?
- "Do I design the marketing brochure?
- "Do I control what the competitors are offering, their prices, quality and choices?
- "Do you think these things will affect my ability to perform?"

Interestingly, to illustrate the dark side of results based appraisals, Coens invokes Enron, the mega energy company driven to bankruptcy because of shady accounting by its shady executives.

In part, the way the executives were able to cook the books was by holding workers lower in the food chain accountable for financial results by using a punitive ranking system.

"Did they get those results?" Coens asks. "You bet they did."

Conceding that he's not sure if the tide is turning his way, Coens says his book has received an enthusiastic response, even among some HR executives. He says in the two years since it was first published, a paperback edition and several foreign-language versions have been released.

"It's a new century; it's a new time. There seem to be younger HR people that really want to go beyond the form. They're tired of wasting their time."

REFERENCES

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