Insights for Executives

Documents That Aren't Worth Spit…Deming Was Right All Along!
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Would you introduce a process into your organization that consumes an enormous amount of money and resources while it:

- Destroys morale and self-esteem
- Produces lackluster motivation
- Creates high stress levels throughout an organization
- Provides great CYAs for managers and supervisors
- Discourages team work and collaboration
- Creates bitterness and acrimony
- Discourages truth and openness
- Wastes a great deal of time and effort
- Squashes innovation and creative thinking
- Adds no measurable value
- Keeps salaried wage increases low

No? Well, chances are your company already has it. It is called the Performance Appraisal Process.

Beginning at the beginning: Management by Objectives

First let's look at what's wrong with the cornerstone of most current appraisal systems: Management by Objectives (or Results). The concept is very appealing: A participatively developed, negotiated set of objectives and deliverables that are:

- Derived from company goals and priorities
- Clearly establish individual accountability
- Intended to enable managers to focus on managerial roles such as planning instead of hands on daily direction and micromanagement of employees
- Capable of driving employee effort and focus throughout the year
- Quantifiable and measurable, allowing for periodic monitoring of progress.

Part of what goes wrong with MBOs has to do with how the process is implemented. However, in today's chaotic and swiftly changing global business environment, there are some fatal flaws in the logic as well.

1. When people are judged on objectives the system is not capable of delivering, self-interest will always prevail over integrity and individuals will lie, cheat, fudge numbers, fabricate data and even sabotage competitors to appear to meet or exceed their objectives.

2. People will pursue their objectives in ways that may create negative consequences for the company or its customers.

3. With their focus firmly on their own objectives, people tend not to take responsibility for solving problems or launching initiatives not on their list despite benefits for their department, company or customers.

4. Their narrow focus on objectives often blinds people to new opportunities that may not have existed when their objectives were negotiated. This hinders the natural evolution of roles and functions within the organization and squashes innovation.

5. There is a Catch 22 with objectives that are edicted incremental improvements (5% improvement in quality metrics, 30% reduction in cost, etc.) Either they do not require any special effort or initiative to achieve (because the necessary processes are in place) or they are executive pipe dreams unsupported by planning or resources. In the first case the lack of real challenge encourages tolerance for mediocre performance while in the second unachievable objectives foster cynicism, lying, cheating, and the loss of motivation.

6. In the real world, things can change dramatically for a business during the course of a year: Market demographics shift, new urgent priorities appear, the financial picture changes, credit markets dry up, or a major acquisition is completed. The impact on most managers is mission creep: new priorities and objectives are added, but rarely is anything taken away. The resulting overload makes it impossible for managers to actually meet all objectives, which contributes, again, to lying, cheating, fudging, and fabricating data. Additionally, mission creep confronts managers with as many as twenty often incompatible goals, rather than the vital few priorities. Each manager must juggle priorities and will prioritize according to their beliefs about which are most important to their career. Cross-functional alignment gives way to uncoordinated, ineffectual efforts, back-biting and conflict.

Worst of all, the fundamental flaws with the MBO system land like a ton of bricks on individual contributors via the Performance Appraisal Process.

What's Wrong with the Performance Appraisal Process

When we ask ***why*** companies use Performance Appraisals (PA) executives and HR professionals usually respond as if it were immediately obvious:

- To monitor, control and improve performance
- To provide feedback
- To distinguish among excellent, good, and poor performers
- To reward good performance
- To motivate people
- To identify developmental needs
- To provide criteria for promotions
- To provide a legal basis for layoffs and firings

Sounds very compelling; so what's wrong with this picture? Let's explore some of the assumptions and beliefs (often unconscious and not surfaced or overtly discussed) that underlie the use of PAs.

The Assumption: You can quantify all of a person's individual contributions to the organization.

But in the Real World: There are many aspects of an individual's performance that are measurable. You can measure absenteeism, lateness, time on the phone or internet, progress on a work plan, meeting deadlines, targets and budget, robustness of data in a proposal, and so on. However, unless you follow each person around all day long, you are probably not aware of most of an individual's contributions.

In the course of helping companies focus their efforts on what is most essential to achieving their Vision of the Future, KLC Associates typically conducts an exercise designed to identify and eliminate non-value-added work. We draw a huge circle on the wall, and in that circle post the department's core purpose (mission) within the larger organization.

Each department member writes on post-it notes all the tasks they perform and contributions they believe they make to the department and its customers. These are posted either in or outside the Core circle. Then each person writes a second set of post-its listing all contributions they have seen their colleagues make that are not yet on the wall. I'll skip the analysis because it is the secondary benefit of the exercise that is relevant here. Invariably managers are quite surprised to see just how much their people really accomplish: "I didn't know we were doing that" and "I never realized you did all that" being the most common reactions. Frequently cited examples include:

- Can talk to the engineers/designers/finance/purchasing in their own language.
- Knows how to work the system to get results.
- Great teacher or technical coach.
- Routinely consults with customers.
- If there's a problem, jumps in and convenes people who can solve it.
- Creative thinker - stimulates others to think about things in new ways.
- Always upbeat -keeps morale and energy up during a crisis.

The Assumption: PAs improve performance at both the individual and organizational levels.

But in the Real World: There are no robust studies or surveys that support this assumption. None. A much quoted study by Timothy Schellhardt (WSJ Nov. 1996) concluded that over 90% of PA systems were unsuccessful. Decades of effort by managers, Human Resources professionals and outside experts have failed to find the magic form. PA systems do not improve performance because they often focus on objectives that are easy to measure but are at best irrelevant to, and at worst in conflict with the espoused purpose of the organization and real needs of its customers.

A particular university advertised that it valued and rewarded exceptional teaching ability among its faculty. In reality, tenure and pay raises were determined by the number of papers published.

A retail chain that wanted to be known for their friendliness and the quality of their customer experience, evaluated their sales staff on response time: the time that elapsed between a customer's arrival in the department and when their order was rung up.

The emotional aftermath of PAs within an organization is astonishing. Although there will be happy people in the top performance category, this is generally about 20% of the workforce and in many companies with four or more possible ratings, it is sometimes as few as 5%. Since the majority of people believe they are above average performers, this means that 80% to 95% of people are likely to be dissatisfied, upset, depressed and possibly angry or bitter. Such feelings can persist for months, negatively impacting motivation and performance. Worst of all, the most highly motivated and dedicated employees are often the ones most demoralized by the appraisal process.

The Assumption: Most employees are not trustworthy, cannot work autonomously, are lazy and will not take accountability or give their best efforts unless they are coerced, evaluated, have their 'feet held to the fire' or incentivized into doing so.

But in the Real World: Over 20 years of working across industry sectors, we have found if departments, teams and work groups are given a company priority but allowed to set their own objectives, and are empowered and given resources to improve systems and processes to enable delivery the objectives they set themselves are invariably more challenging that those management would have set, and are almost always fulfilled.

An internal consulting group I belonged to years ago had a discussion early in the year about setting department and individual objectives. Proposed objectives all had to do with numbers and content of training programs that were to be developed and completion of projects requested by senior management. At the end of the day, our manager agreed that perhaps those would not maximize our potential contribution to the business. Hence we began the year with one objective: find ways to improve the organization, as well as the motivation and performance of employees. Various members began experimental pilot consulting interventions with senior management involving changes in culture and leadership behavior. These were extremely well received, giving our group credibility and confidence in our new role. Thereafter, we proposed our collective and individual objectives for the year and were evaluated on the basis of our internal clients' improvement.

The Assumption: Providing employees with objectives, monitoring, evaluation, and feedback, puts them in control of their performance, enabling continuous improvement.

But in the Real World: Dr. W Edwards Deming wrote (and frequently said) that 96% of organization problems are systemic; only 4% are attributable to human error and/or dereliction. There are a host of systems, processes, policies, structures, politics and idiosyncratic factors that affect the ability of any employee to succeed.

One manufacturing program team received highly critical PAs for missing deadlines and failing to deliver cost and quality targets. Team and manager were demoralized and angry. When we explored the situation we discovered that the program team was physically remote from their headquarters. Headquarters executives had demanded detailed daily *reports describing program status, performance to budget, any emerging problems and how the team proposed to rectify them, with a road map demonstrating the timeline and daily progress. Preparation of the daily reports required lengthy daily review meetings, which interfered with the real work. One engineer had kept a log which demonstrated he was spending an average of 38.5 hours per week in review meetings. Additionally, the team's budget was based on an earlier project and assumed a predominately carry-over design. Major new design elements were added later but not reflected in the budget. Whimsical design changes were demanded by individual executives requiring redesign and increased supplier costs. Finally, one key executive had stubbornly demanded a particular component design be employed, despite compelling data from experts that it was not technically possible.*

A word about feedback: Pretty much everyone in the world thinks that feedback is the Holy Grail of performance improvement. And it is, but with some clear caveats around what, when, how, from whom and who owns the process.

Going back to Dr. Deming's 96% system problems, to improve the system the focus should be on the system, not individual performance. In terms of raising the game for the overall organization, the most impactful use of feedback is from the external customer and --at the systems level – feedback from internal customers within a system to those responsible for the previous stage or sub-process in the system. It is also extremely important, in establishing standards, that an organization create a strong real (versus rhetorical) vision, brand identity (who we are, what we stand for, what customers can expect from us) and values.

In terms of individual supervisor-subordinate feedback, the most frequent dynamic we see has the supervisor in control of when and where the feedback is given. It is usually one way, rather than a dialogue in which the employee can explore the feedback received and give feedback to the supervisor on how well the supervisor is supporting the employee's efforts to successfully carry out their job to the best of their ability. The latter two-way dynamic can build mutual confidence and trust; the former generally feels like a parent-child judgment, can damage trust, and generate enduring negative feelings.

A contributing factor is that supervisors most often give 'constructive' feedback (i.e., here's what you did wrong or could do better, and how it should be done). Many supervisors never give specific praise or positive feedback. In fact, literally hundreds of managers have told me some variant of "I don't tell someone they have done a good job because they will expect a good performance review and just rest on their laurels". Ironically, at a time when companies – even in the current economy – are collectively spending millions on employee engagement and recognition programs, the number two thing that employees across industries and levels say would improve their satisfaction with reward and recognition is: "My boss tells me when I have done well on a project or assignment or recognizes that I have given effort above and beyond the call of duty." (Number one was "My boss knows my name and says good morning.")

The Assumption: It is possible to accurately measure one employee's performance and compare it with that of others.

But in the Real World: This assumption may have had some validity back in the heyday of Fredrick Taylor when a rigid hierarchy, strong functional silos, and clearly defined and differentiated individual responsibilities were the norm. However, the modern turbulent, global business environment has rewarded much flatter, more nimble (and far-flung) organizations that organize work in many different ways (such as fluid project based structures, loosely interconnected hubs, etc.) Individuals tend to have far broader, more complex and frequently changing roles than ever before. Also, the former reliance on individual performance has transitioned to the broad use of teams and work groups, in which it is much more difficult, if not impossible, to discern, compare and differentiate the value of the individual contributions of various members.

Managers within another client, which uses a flat, project-based structure, have great difficulty trying to evaluate and compare the 'apples and oranges' contributions of various team members. In any given successful team, there are generally some people who contribute substantial technical expertise; other members excel at selling and building organization-wide support for the project; others excel at guiding group process; while others are excellent at creative thinking, problem-solving and trouble-shooting. Complicating matters, the role and skill-sets of the team leaders varied markedly. The four most common styles we observed were: Technical Expert Leader, Hierarchical Leader, Extroverted Cheerleader, and Facilitative Leader. These very different styles greatly influenced how a team used its resources, and how and to what extent members could contribute.

This assumption also feeds a tendency to see and reward apparently exceptional performance that may in fact be detrimental to the organization's continued success. Many companies will give top performance appraisals, raises and promotions to fire-fighters -- managers who visibly step into a crisis and save the day at the eleventh hour -- even if the crisis was of their own making. These action-oriented often volatile people are frequently more highly regarded – and more likely to be promoted -- than managers who focus on creating robust plans, working through people and building consensus and commitment around them, so that targets are quietly and smoothly delivered without a crisis.

The Assumption: Supervisors and managers, with the right training, can and will assess an individual's performance, competencies and development needs with complete objectivity.

- Raters are aware of and can set aside their biases and interpersonal relationships (good or bad) with the employee.
- Ratings are accurate and are never arbitrarily mandated or over-ruled by more senior management.
- Other factors such as containing salaried costs through critical appraisals never play a role.

But in the Real World: Sound psychological research about conscious and unconscious biases abounds, but these studies are seldom considered in PA systems. Some of the common and well documented biases in many of these studies include:

- Unconscious gender, race, ethnicity, age, attractiveness biases.
- Selective perception: raters form an impression of a subordinate and only see behaviors that confirm that impression.
- Bias in favor of people who look, act, dress, and speak like the rater, or share assumptions and values with them.
- The 'snap shot' effect: ratings are strongly influenced by a single incident, often one that evoked a strong emotional reaction.
- Personal like or dislike of rater for the ratee, AKA sucking up works.
- The Godfather effect: **r**aters give more positive appraisals to people they know are well regarded by more senior level management

As one manager succinctly put it: "What's the major real world consequence of the PA system? Documents that aren't worth spit."

Chaos is Not an Option - What Companies <u>Should</u> Be Doing.

1. Challenge your real world underlying assumptions about people.

Making a major shift in basic real assumptions about people -- assuming people are trustworthy, want to work, are willing to give their best effort and fully utilize their talents – and creating new systems and policies based on these assumptions is really scary! We encourage initial 'scary experiments' in low risk areas to prove it can work.

We use a simple but illuminating exercise to start the process. In workshops with cross-functional and vertical slice groups of executives, managers and employees we first give clients a real case study describing systems, processes and policies in place within an organization. We ask participants to think like consultants called in to diagnose the assumptions about people these reflect.

Then we ask them to put their consultant hats back on and diagnose the **real** assumptions about people that are reflected in their own company's systems, processes and policies. The comparison to their company's stated values is usually not a pretty picture, and often shocks senior management, but it does lead easily into their first scary experiments!

2. Shift the focus toward continuously improving systems instead of people and stop using MBO and Performance Appraisal systems.

There are two dilemmas that must be managed to do this successfully. First, something must replace the organizational 'glue' – the structure, direction, and control -- provided by deployment and monitoring of objectives from the corporate to the individual levels. This is not about turning the asylum over to the inmates. Secondly, companies must find different ways of managing processes currently tied to PA systems (e.g., compensation, employee development, promotions).

3. Replace the glue with something better.

Develop an in depth understanding of what your customers REALLY want from you, and incorporate this in your company's vision/purpose and brand identity. Scholtes, in his excellent book The Leader's Handbook', describes a concept of 'Customer-in thinking' – looking at what your company offers from the customers' perspective. What do they hope to get through buying your product or service? What is the benefit or value they seek? Also, think about what will be your strategy for innovation and product design: Adapting and adding new desirable features, benefits and functionality? Dreaming up and developing new products that have never been seen before?

Starting at the executive level create cross-functional commitment to your Vision/Purpose, values, brand identity, goals and strategy (where we are going and how we get there). Every executive should feel individually accountable for the success of the overall business, not just delivering their own functional objectives. The Vision/Purpose becomes the purpose for the system (the overall organization). Goals and priorities should be defined at a high level and totally compatible across functions, with progress measured at a system or organization level.

An example from Proctor & Gamble:

Our Purpose: *We will provide branded products and service of superior quality and value that improve the lives of the world's consumers, now and for generations to come. As a result, consumer will reward us with leadership sale, profit and value creation, allowing our people, our shareholders and the communities in which we live and work to prosper.*

Tagline: *Touching lives; improving life*

Strategy: *Delight the consumer with sustainable innovations that improve the environmental profile of our products*

2012 Goal: *Develop and market at least $50 billion in cumulative sales of "sustainable innovation products," which are products that have an improved environmental profile.*

Progress since 2007: *Cumulative sales of sustainable innovation product $13.1 billion*

Deploy these through functions and departments, so all employees can make decision about 'what is the right thing for our company'. Functions, department and work groups should discuss and agree: What do these mean for us? What is our purpose? Given the purpose and our roles and responsibilities, what should we do and what should we stop doing to contribute the greatest value to achieving key corporate goals and priorities? What breakthroughs might enable quantum leaps in our performance?

4. Focus improvement efforts on the system and sub-processes.

Identify organizational, system and sub-process purposes and ensure they are integrated. Set standards for processes that are driven by final standards and outputs that satisfy or delight customers, company purpose and values – but are consensed by people carrying out or impacted by the processes. The subject matter experts/users should be fully involved and empowered in developing/monitoring and improving their processes which both improves the system and builds people's understanding of and motivation and commitment to the system's purpose and values.

The major issue we have encountered with process oriented companies who do have a robust product development and production process, is they tend to lose sight of the process itself, and perceive outputs of various stages as goals and deliverables, rather than as inputs required for the next stage in the process to be successful. Additionally, people involved in each stage view themselves as important drivers of the next stage, rather than suppliers who need to surprise and delight their internal customers – the most important of which are those involved in the final stage before the product or service is provided to the external customer.

Let's look at an example of a relatively simple system operating in a high stress environment: a high volume seafood restaurant.

Their Purpose was to provide customers with the freshest seafood in their coastal city. Their standard was "Deliciously prepared food, from ocean to plate in under 2 hours". Their values were about creating a 'friendly, casual dining atmosphere'.

Their facility and staffing were consistent with their Purpose. They invested in a state-of-the-art kitchen and a floor plan designed to allow the quickest, most efficient possible service of meals. They hired the best seafood chef they could find and paid him well above the going rate. Kitchen staff roles and responsibilities, equipment layout, the location of supplies, etc., were all designed to expedite the flawless preparation of seafood and enable good communication and teamwork with as little wasted time, motion, as effort as possible.

For each stage of each sub-process we identified the purpose, desired outcomes, standards for all outputs, required inputs (component materials, products, information, services, etc.) and defined quality standards for all inputs. All of this analysis was driven from the core purpose of the system.

One crucial sub-process was the transfer of orders from the waitpersons to the kitchen staff person who read and called out orders. This person's input standards were extensive: no waiting, an unambiguous sequence of orders, orders clear and visible regardless of handwriting, all orders congruent with the way the kitchen operated, and once an order was up, confirmation the order had been delivered and fully satisfied customer expectations.

As staff became increasingly proficient at their jobs they grew increasingly adept at sharing feedback, analyzing their system and processes, and finding ways to increase efficiencies, improve food and service quality and reduce waste.

5. Place the responsibility for individual improvement and development with the individual.

Employees should be responsible for defining their own career goals, discovering what is required (credentials, experience, knowledge and skills, personal attributes etc.) and creating developmental plans -- while staying current with changing structures, roles, expectations, new needed competencies, etc. With such a system, it is also important that employees actively solicit feedback on how they are doing from in terms of both performance and development from internal (or external) customers, colleagues, fellow team members, managers, subordinates and so on.

If continuous improvement in the individual employee's own skill set is a condition of employment, then the organization has the responsibility to provide the enabling systems and resources for career development:

- In hiring and placement, concentrate on placing employees in roles that best utilize their strengths, rather than trying to fix everyone's weak areas.
- Map out organization-wide career ladders, with key qualifications (experience, attributes, skills, required credentials) required for each position so that each employee can decide on long term and shorter term career goals, determine what is required, and develop a plan for attainment in collaboration with their boss and HR.
- Assist employees in soliciting feedback from internal customers, colleagues and subordinates by setting up easy to use intranet systems and organizing feedback roundtables.

6. Compensate everyone based on team and organization success.

Eliminate all remaining commission work or incentive pay and put everyone on a base salary consistent with the market rate among your company's peer group, adjusted to reflect your position in the industry. Implement profit-sharing based on measures that reflect the success of the company in the market and on the bottom line. (Consider using stock options at all levels to strengthen employees' commitment to boosting bottom line performance.)

Reward executives and managers (through bonuses or merit increases) for successful selection, and development of high performing teams and for creating work environments that foster motivation and commitment.

Grant merit increasing following exceptional performance by teams rather individuals. In most cases, criteria should be agreed in advance and should reward accomplishments that go beyond normal job responsibilities for the work group. Examples might include achievements that ultimately delight customers; further the company's purpose, brand identity or values; enhance its competitive edge (through product or service innovation, significant improvement of systems; etc.) Occasionally, merit increases may be decided on after the fact for teams' alacrity in seeing and successfully adapting to sudden problems, exploiting unanticipated opportunities, and seizing the initiative in a changing environment.

7. Manage chronic poor performers up to speed or out of the organization.

In a high performing organization which has implemented the steps outlined above a poor performer will stand out like a sore thumb. The first response should be to correct systemic or process problems contributing to the performance issue and address any deficiencies in knowledge or skills. Second, determine if any personal problems may be contributing factors and deploy the appropriate company assistance programs (such as medical leave, telecommuting,, part time work for a period of time, rehabilitation for drug and alcohol problems and so on). If this fails, the final option is a rigorous performance management process to set objectives and a time-frame to meet them, all thoroughly documented. For violations of trust (illegal activity, theft, ethics violations) the normal corporate policies should be in place, well publicized, and rigorously enforced.

Some Final Thoughts

The negative comments about MBOs and performance appraisals back in the opening paragraph were drawn from responses to questions I asked about the effectiveness and unintended consequences of the appraisal process. It all began with a discussion I started on a business networking site and grew to include comments from many current and former clients. These were not disgruntled poor performers with axes to grind but a broad range of successful executives, line managers, HR professionals, and individual contributors in a wide variety of industries. (The bullet points are the best versions of the dominant themes which emerged.)

MBO and Performance Appraisal processes have been in existence for over sixty years and have become mainstays of most companies' management and control systems. Despite Dr. Deming's beliefs, and an increasing body of evidence that they do not achieve their purposes and have detrimental unintended consequences, it seems almost like heresy to suggest doing something different. However, the stable world of Frederick Taylor is gone; the rate of change in technology, societal trends, and the global business landscape is accelerating dramatically. More than ever before, the marketplace rewards companies that are adaptive, innovative, and, most of all, nimble. And being nimble requires new ways of organizing work that are quite different from the stable, hierarchical structures that prevailed sixty years ago.

Results don't deliver themselves. People, working within a system that supports alignment, commitment, motivation, trust, and empowerment, deliver results. Isn't it time to revisit our assumptions and remove the last obsolete obstacles to peak performance?