

EMGT 835 FIELD PROJECT:
Analysis of the Employee Performance Evaluation System

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Executive Summary

The employee performance evaluation system was developed with the thought of assisting management to effectively motivate and manage the actions of their employees.

The system is deeply integrated within most companies and embraced by corporate management; however, the actual effectiveness of the system must be evaluated. Factors which contribute to the ineffectiveness of current employee performance evaluation systems are: the absence of focus on people, the perceived lack of importance from the participants, the systems direct attachment to monetary compensation, and the overall misunderstanding and misapplication of the system and philosophy by management. However, alternative approaches to the application of the traditional system exist such as: better hiring practices, open communication and candor between employees and management, a quality management approach to employee evaluations, and team based evaluations.

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Introduction

The core responsibilities of a manager are leadership and management. As a manager, leadership is associated with the people in the organization while management is associated with the development and management of the processes to support the functions of the organization. The employee performance evaluation system was developed with the thought of assisting management to effectively motivate and manage the actions of their employees. Virtually every company has an employee performance evaluation system operating within their company. Some companies have very structured documented processes within their evaluation system, while others are less formal. Nevertheless, the performance evaluation system is widely accepted as a key system in making employees more effective to the company. This is done by assisting the individual employees to develop goals in support of the goals of the company and then measuring the employee against fulfillment of these goals. Typically, the company performance evaluation system is linked to employee pay, their ranking within the organization, and the upward mobility of the individual within the company. Today, the employee performance evaluation system is deeply integrated into the company and embraced by corporate management; however, how useful and effective is the current employee performance evaluation system? This field project provides an investigation and “Analysis of the Employee Performance Evaluation System.” The project is comprised of the following components: Management by Objectives: The Philosophy behind the System, The Roles and Process Flow within the System, The Effectiveness of the System, Alternative Applications to the Current System, a Review of Local Company Evaluation Forms, and Recommendations and Items for Future Research. Additionally,

to supplement the literary research information, various informal conversations were conducted with individuals within different positions from various local companies. It was anticipated that informal conversations would provide honest insight into the actual thoughts from individuals concerning the employee performance evaluation system and the actual effectiveness of the system in lieu of the company line on the subject. Likewise, to identify differences and commonalties in implementation between companies, a review of the employee performance evaluation documents from different area companies was performed.

Management by Objectives: The Philosophy behind the System

Most employee performance evaluation or appraisal systems implemented in corporations can be attributed to the application of the management philosophy known as “Management by Objectives”. The author of this well-known philosophy was Peter F. Drucker. Drucker first introduced and discussed this philosophy in his book, *The Practice of Management* (Reference 4) in the chapter entitled *Management by Objectives and Self-Control*. However, by reviewing and analyzing Drucker’s own words, it appears that the essence of his philosophy has been misunderstood and even misused by corporate management. The applications and results from this management misunderstanding have brought about short-term achievements but have also introduced underlying elements of fear within the corporate organizational structure.

There is an explicit need for individuals within a small business or large corporation to work together. The synergism of a well developed team of individuals working towards a common goal is extremely valuable to overall productivity and efficiency. To support this need to work together, Drucker advocates the establishment of business goals. Within his book, Drucker begins by establishing the need for the business to work collectively as a team with a common goal. He emphasizes the common focus of management should be based on business goals.

The performance that is expected of the manager must be derived from the performance goals of the business; his results must be measured by the contribution to the success of the enterprise. The manager must know and understand what the business goals demand of him in terms of performance, and his superior must now what contribution to demand and expect of him and must judge him accordingly. If these requirements are not met, managers are misdirected. Their efforts are wasted. Instead of work, there is friction, frustration, and conflict. (Reference 4)

Additionally Drucker states, “Management by objectives requires major effort and special instruments. For in the business enterprise, managers are not automatically directed toward a common goal.” (Reference 4) Within the management by objectives philosophy, the goals of the business are established as the ultimate common goal and then goals for the supporting layers of management are defined to support the goals from the preceding layer of management or organization. Applied in this manner, this is essentially a top down management approach to goal setting. Typically, this top down approach is the one most commonly used in determining employee annual goals. Senior level management goals are established and then provided to middle level management, who then provide their goals to lower level management, who then provide their goals to their employees. The goals of the individual employees are then defined based on the goals of their manager and then the employees work to fulfill the goals of their direct management.

Drucker not only advocates the establishment of goals but that performance measurements and results are developed against the business goals. Establishing the goal or objective is a step in the management process. Drucker believed the measurements established should be relevant, clear, simple, and rational; however, they need not be rigidly quantitative nor need to be exact. (Reference 4) The use of the acronym SMART (SMART: Specific, Measurable, Achievable, Realistic, and Time oriented) for goal setting has been attributed to the application of management by objectives.

According to Drucker, measurements should be used as a tool for the manager to apply self-control and not a means of control from above. He states if performance measurements are used as a tool to control, this will lower the overall effectiveness of the

manager. The results should be provided to the manager, not his superiors. If the results are used as a tool to control, this is simply a means of upper management tampering to achieve results without understanding their affect on the system or process. The inability of management to allow their managers to manage has led to performance results being used against their own managers. The use of performance measurements by those above is a major source of individual fear. The very tool that was used to assist the manager is now used against him. This action is clearly contrary to the philosophy of Management by Objectives as described by Drucker.

The inappropriate use of performance measurements and results by management has created significant misunderstandings in the application of management by objectives. Policies, procedures, and reporting elements must be in place; however, Drucker is a stern advocate of individual management by self-control and management's accountability for his performance. From Reference 4, Drucker states the three common misuses of reports and procedures are the following:

- 1) Procedures are instruments of morality.
- 2) Procedures are substitute for judgment.
- 3) Instrument of control from above.

These three common misuses of reports and procedures are rampant in business and are not applicable to the management by objective philosophy as outlined by Drucker.

The performance evaluation and appraisal system is widely accepted as a means to assist the individual employee develop his goals in support of the goals of the company, thereby making the employee more effective to the company. The philosophy behind the development and implementation of the performance evaluation and appraisal

system is Management by Objectives authored by Peter Drucker. Management by Objectives was and is still a significant management philosophy and has been implemented in a number of corporations. However, it appears that its essence has been misunderstood or even misused by corporate management. Drucker believed Management by Objectives would be a tool to assist the individual members of the business to work together as a team according to the business goals. However, management's misunderstanding and misapplication of Drucker's tool to assist has not only led to a focus on short-term achievements; but has also introduced underlying elements of fear within the corporate organizational structure. The results from the performance evaluation and appraisal systems are often directly linked to employee pay and their upward mobility within the company. This misapplication within employee performance evaluation and appraisal systems has resulted in an increase in employee fear and "gaming" within organizations. The tool which was to help individuals to work toward common goals and increase the synergy of the organization has actually returned the focus back to the individual and not to teamwork.

"It's just another tool. It's not the great cure for management inefficiency..."
Peter Drucker

This misunderstanding and misapplication of the Management by Objectives philosophy within the performance evaluation system is addressed in detail within the section entitled The Effectiveness of the System.

The Roles and Process Flow within the System

The two primary roles within performance evaluation systems are those of Management and the Employee. The most common functions of the manager within the employee evaluation system are the following: goal setter, goal reviewer and approver, employee coach and mentor, employee evaluator, employee rater, compensation distributor, and overall system liaison between the human resources administrators and the employees. In conjunction with the functions of the manager, the functions of the employee are the following: goal developer, form completer, goal performer, individual evaluator, and system evaluatee. In conjunction with roles of the individuals, the typical process flow of the performance evaluation system will also be provided. A simple diagram of a typical process flow for the performance evaluation system is shown in Figure 1 on page 15.

In addition to the roles of Management and the Employee, the human resources department also plays a significant part within the system. There is a common perception among employees that management plays the strongest role within the process. The manager is involved in most stages of the process; however, the actual system and processes are owned by and administered the Human Resources organization. Since the overall processes involved are commonly defined and dictated by the human resources department, they are typically responsible for defining the timelines in which the processes occur. Their processes typically require that the employee goals and objectives development occur during the first quarter of the year but this can often continue into the second quarter. The goals for the organization for the following year are typically determined during management planning sessions at the end of the third quarter or fourth

quarter of the previous year. Given that the manager is involved in the organizational planning, he possesses specific knowledge of the goals of the company and how the goals of the individuals within the organization can be developed to meet the corporate goals and uses this knowledge in his role as the goal setter. From this knowledge, the manager identifies the goals of the organization and assigns these goals to individuals within the organization. These goals can be both individual and team oriented.

The employee begins development of his annual goals with assistance from his manager and under the time constraints as determined by the human resources department. Once each employee has completed his goals and objectives forms, these are reviewed by the manager to ensure consistency against the goals of the organization. As the goal approver, the manager reviews the specific goals defined by the individual employees for compliance against the organizational goals and approves, modifies, or rejects the goals. The goal review and approval stage is typically iterative in nature where the manager provides feedback to the employee on his goals and objectives development, and then attaches specific measurements and timelines to the goals for the individual employee. This phase can be highly iterative due to any the following factors:

- insufficient dialogue between the manager and the employee before the employee begins filling out the goals and objectives forms,
- inadequate understanding of the forms involved by the employee or manager,
- inflexibility of the manager with the wording preferences used, or
- insufficient time for the employee to properly prepare.

This phase in the process can be frustrating for both the employee and the manager. Additionally, game playing often occurs during this phase between the employee and the

manager. The manager tries to get the employee to commit to certain goals and objectives while the employee tries to under promise so that he can over deliver at the end. This factor will be addressed in greater detail in the section on The Effectiveness of the System. Depending on the company, the manager may have the goals and the objectives of his individual employees reviewed by his respective manager for consistency with the organizational goals. This may also provide another iterative event in which the employee must revise the goals or wording to suit his next level manager. The completed goals and objective forms are then provided to human resources according to the human resources established timelines.

Once the goals and objectives have been reviewed and approved they are turned into the human resources department and the employee functions as the goal performer and works to achieve the goals and objectives in which he will be evaluated. The goals and objectives should act as a road map to assist the individual employee in remaining focused on what management has established as important in meeting the goals and strategy of the organization. This execution phase is the longest phase in the overall process. During this phase the manager acts as an employee coach and mentor to ensure that the goals are being successfully met. Periodic reviews between the manager and the individual employees should be performed to verify progress and identify any obstacles or issues that need to be addressed. In some cases formal quarterly or semi-annual reviews are required or recommended depending on the procedures outlined by the human resources department. Ideally, during these reviews the previously established goals for the employee are reevaluated and altered or completely revised based on the actual projects or unexpected needs of the organization versus what was initially planned.

Used in this manner, the employee goals and objective forms can be a dynamic document with modifications being made until the final review. However, this is typically not the case. During informal interviews with employees and managers, many employees simply file away their goals and objectives and work “as normal” until the final reviews are required. Likewise, unless required in the process to specifically address the previously agreed upon goals and objectives, managers do not review them for progress or obtain status from the individual employee. A key to success during this phase in the process is that dialogue between the manager and the employee is continued and maintained (whether formally or informally) so that the employee is working on what management defines as most important and the employee remains focused throughout the year in meeting his goals and objectives thus fulfilling the goals of the organization. This need for open communication throughout the process is addressed in greater detail in the section on The Effectiveness of the System.

The next phase of the process is the employee self evaluation and final progress. The employee’s role is as the form completer and self evaluator. This phase typically occurs during the last month of the year but the results leading to the final review are usually not presented to the employee until sometime during the first quarter of the following year. As with the other processes in the performance evaluations, the timelines are governed by the human resources department. During this phase the employee is provided with the final forms containing his annual goals and objectives and prepares his comments and documents how he did in meeting his goals and objectives. The employee provides details of specific items or tasks that were performed to support his performance and his justifications in meeting or not meeting his goals and objectives. Additionally,

depending on the process, the employee will rate himself based on the rating scale established within the performance objective forms. The rating systems are typically numerical rating from 1 to 5 with 1 being bad and 5 being outstanding. No systems reviewed used a grading scale of A, B, C, D, or F; however, the numerical ratings of 1 to 5 usually correlate with a grading system.

Once the employee has completed the forms and provided them to the manager, the manager reviews the employee comments and begins to formulate his review of the employee. Most evaluation systems attach monetary rewards to the review process either in the form of bonuses or salary increases and have various ways to distribute the money. During this time, the amount, usually a percentage of total salaries, is made available for pay increases or bonuses and identified by upper management based on the financial success of the company for the year and placed in the next year's budget. The amounts available for bonuses or salary increases are then provided to each organization and the managers are made aware of the amount of money available for distribution to their employees based on their annual performance. During this review period, the manager rates the performance of the employees and documents his comments of the employee's progress in meeting the goals and objectives. Additionally, the manager assigns distributions of the monetary rewards to each individual employee. These awards are typically based on the numerical rating the employee was given from the manager review. These ratings assignments are highly subjective in nature with variations between managers and organizations as to what are the tangible points needed to get a certain rating versus a different rating. During an informal interview with a manager, he mentioned that it is typical to identify the amount of compensation (raise or bonus) the

manager wants to give the employees and back out the numerical ratings accordingly. Another common approach in some organizations is a comparative approach where employees are placed into various percentile groups and monetary rewards are distributed based on the employees overall percentile ranking i.e. 90 percentile employees receive the highest compensation and 10 percentile receive the lowest. This is commonly based on a forced distribution method for the organization and the distribution and employee grouping tends to remain the same throughout the employee's career. In most cases, the monetary amounts awarded to each employee are entered into the human resources system and tracked accordingly to ensure spending allocations are properly met and each employee will have his additional compensation added to his paycheck. Depending on the distribution method, a manager may have to make a case to his management and possibly the human resources department for giving his employees higher than average raises or bonuses. During an informal meeting with a manager, he stated that for him to give a larger than average raise or bonus he had to provide justification to his manager and his next level manager. Additionally, there was a maximum raise that would be allowed by the human resources department. During these final reviews, the manager role is one of employee evaluator, employee rater, and overall system liaison between the human resources administrators and the employee. The employee is the system evaluatee. As with the goal establishment phase, this phase has the highest amount of game playing between all of the participants (employee, manager, manager's manager, human resources department). A significant source of this game playing is the perceived link between employee performance and monetary compensation. This will be discussed in greater detail in the section on The Effectiveness of the System.

The final step is the employee final one-on-one review with his manager. This step allows the manager to present his annual review of the employee's previous years efforts and provide the employee with his associated compensation. The manager provides his comments to the employee on his performance and his justification for evaluation ratings, as well as, feedback on what the employee is doing well and what needs to be improved upon. The employee is free to ask questions and make comments at this time; however, the involvement for the employee was actually completed once he completed his self evaluation which may have been months earlier. Depending on the openness of the relationship between manager and the employee, the employee may or may not be overly surprised by the evaluation. This dialogue is also used to assist in beginning developing goals and objectives for the next year's employee performance evaluation.

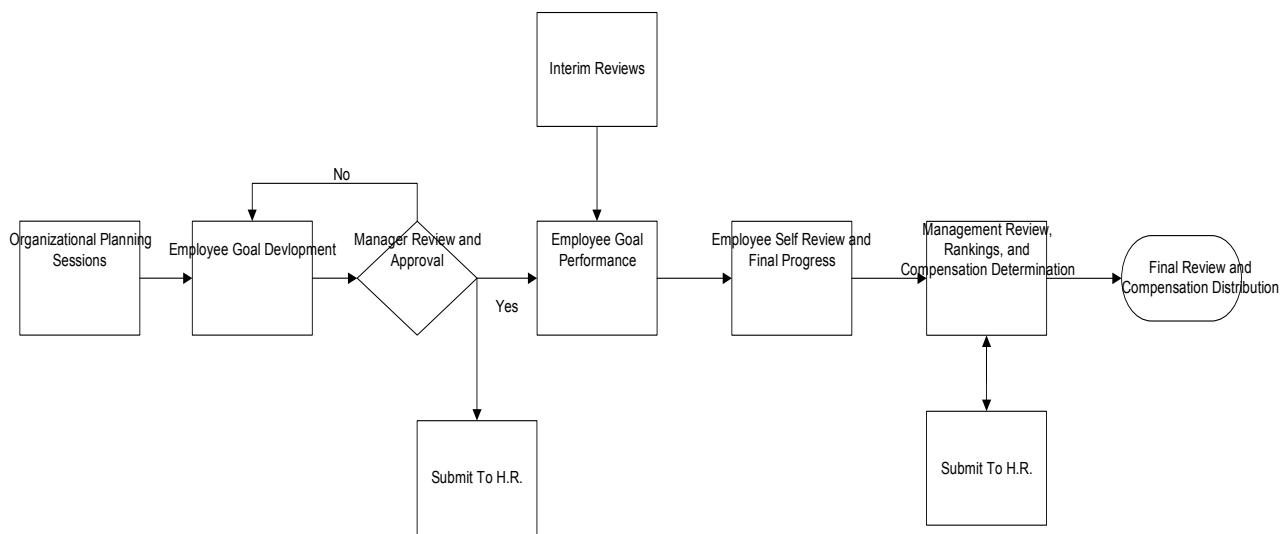


Figure 1: Typical Process Flow for the Performance Evaluation System

The Effectiveness of the System

In its currently applied state, the employee performance evaluation system is not effective in making individuals work more effectively. The following factors contribute to the ineffectiveness of current employee performance evaluation systems: its absence of focus on people, the perceived lack of importance from the participants, the systems attachment to monetary compensation, and the overall misunderstanding and misapplication of the system by management.

Focus on People

The performance evaluation system was designed as a management tool to assist in making people work more effectively. However, many managers are quick to comment, “You can’t manage, what you can’t measure”. This attitude was embraced and intertwined within the performance evaluation system; however, it is this notion of measuring and managing people that is a contributor to the ineffectiveness of the system. There is an intrinsic difference between management and leadership. This differentiation between leadership and management is significant when observing the effectiveness of the system. By definition leadership is associated with people while management is associated with things such as processes and procedures. Simply stated, “You lead people and you manage things”. The traditional performance evaluation system fails to treat individuals as people and treats them more as things, processes, or instruments. Even from a process standpoint, to increase the overall efficiency of a process the manager must have an understanding of what the individual components (employees) need to operate more or most effectively (motivate). Understanding this human factor is

significant in motivating people to work more effectively. “Motivated people move faster.” (Reference 26) Psychologist A.H. Maslow provided a widely accepted theory regarding the motivating needs of human beings and is commonly referred to as Maslow’s Hierarchy of Needs and is depicted in Figure 2.

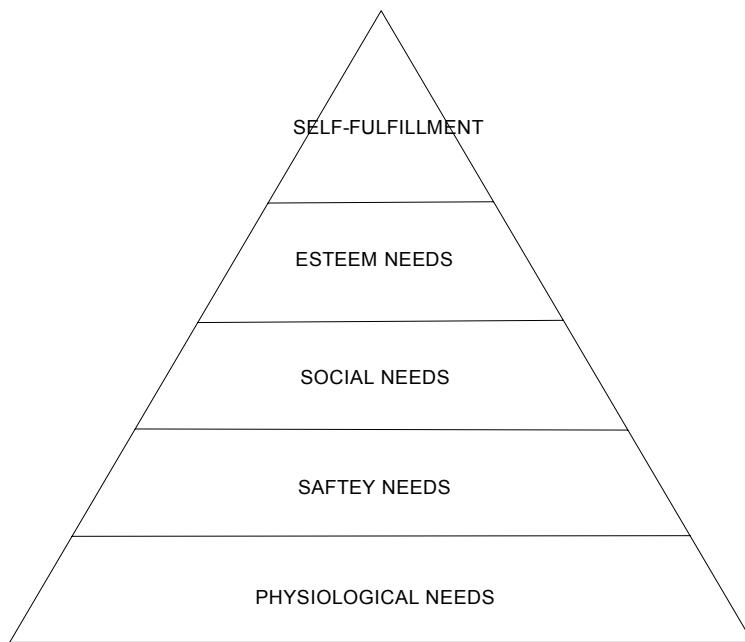


Figure 2: Maslow’s Hierarchy of Needs

From Reference 24, Maslow’s Hierarchy of Needs can be summarized as:

- Physiological needs:
food, water, clothing, and shelter
- Safety Needs:
protection against arbitrary deprivation, danger, and threat
- Social Needs:
belonging, association, and acceptance by one’s fellows
- Esteem Needs:
self-respect, self-confidence, status, recognition, approval, and prestige
- Self-Fulfillment:
realization of one’s own potential and being as creative as possible

Maslow's theory implies that individuals must fulfill the lowest level needs and once they are met will then proceed to higher level needs. Additionally, not all individuals are at the same level as each other and there can be constant shifts between the levels for each individual. Along the same lines as Maslow's Hierarchy of Needs for effectively motivating people, Figure 3 identifies the factors which led to satisfaction and dissatisfaction on the job and the grouping of intrinsic motivation factors and the hygiene or dissatisfaction avoidance factors.

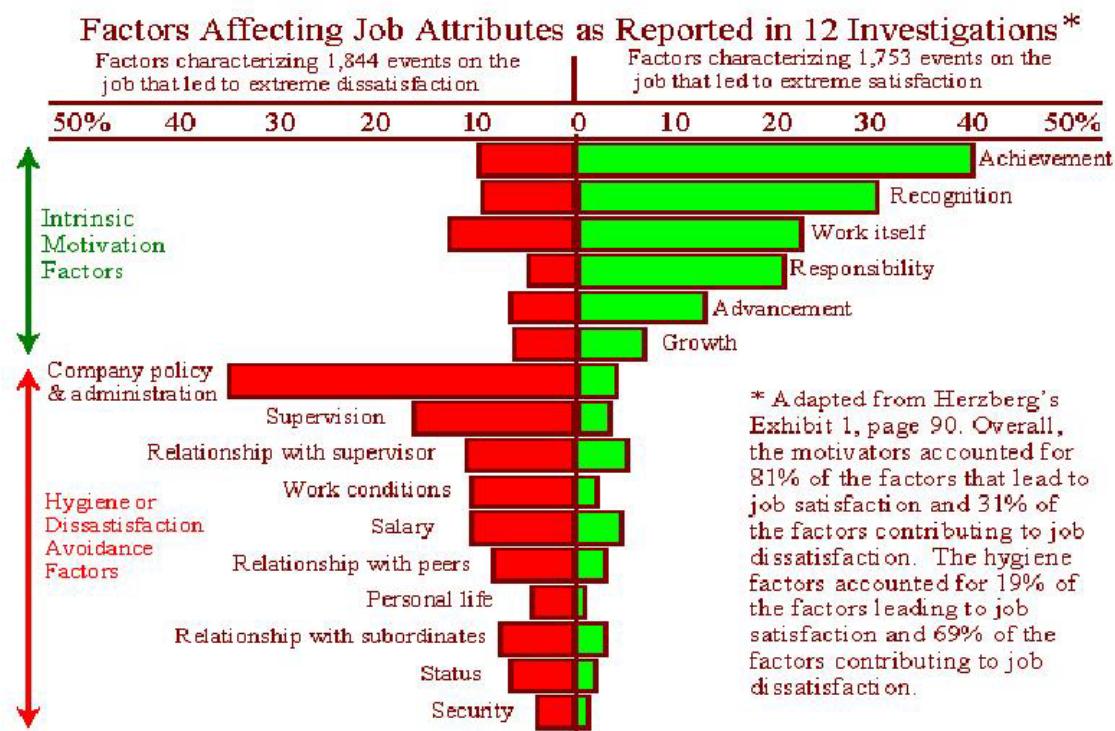


Figure 3: Factors Affecting Job Attributes

Reference:

<http://www.maaw.info/ArtSumHerzberg68&03.htm>
EMGT 800R Fall 2004

As shown in Figure 3, the factors that contributed to the highest employee satisfaction were: Achievement, Recognition, Work Itself, Responsibility, Advancement, and Growth, with Achievement and Recognition being ranked the highest. These correlate to the esteem needs from Maslow's Hierarchy. Contrariwise, the factors that contributed the highest levels of employee dissatisfaction were: Company policy and administration, Supervision, Relationship with supervisor, Working conditions, and Salary, with Company policy and administration and Supervision being ranked the highest. On the following pages, Figures 4a and 4b show these factors and expands them to identify specific tasks or issues related to these motivation and hygiene factors for engineers.

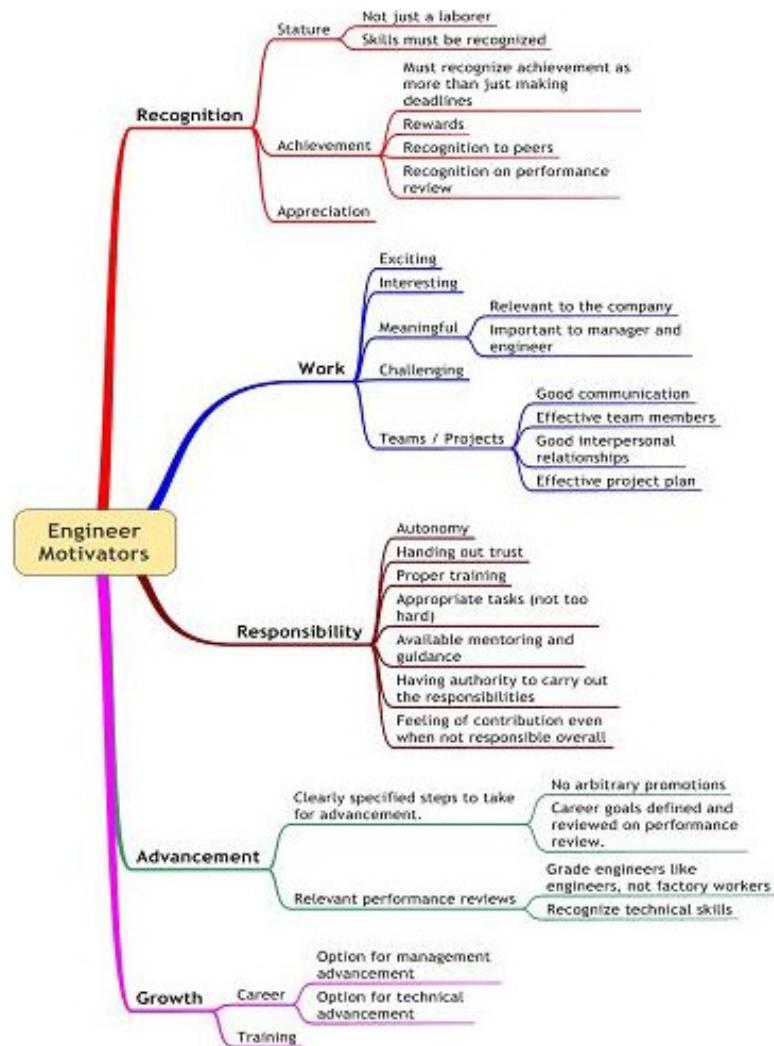


Figure 4a: Motivating Factors Affecting Job Attributes – Details

Reference:
 EMGT 800R Fall 2005
 Excerpt from Prof. Robert Myers

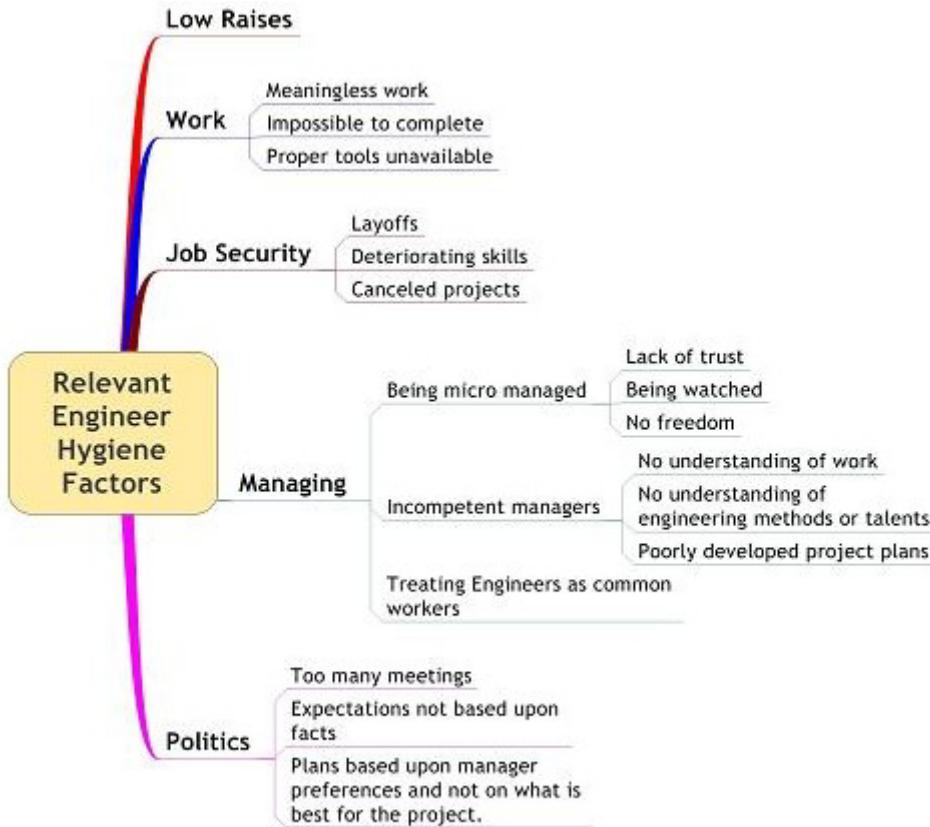


Figure 4b: Dissatisfaction Factors Affecting Job Attributes – Details:

Reference:
 EMGT 800R Fall 2005
 Excerpt from Prof. Robert Myers

This lack of emphasis on the motivating factors of the individual and the neglect of personal goals and needs is a factor leading to the overall lack of acceptance and effectiveness and traditional performance evaluation system.

Appraisal acceptance will be maximized if the evaluation process is accurate, procedures are implemented fairly, the **appraisal goals are congruent with personal goals**, and the raters do not exceed their perceived authority.

(Reference 20)

Furthermore, the measurement of people by using rating scales for comparison between members may be believed as a fair and objective and used for simplicity sakes but is detrimental to individuals on a personal level. How are people measured within a team? Each player has a unique function and role within the team. How can their unique and special roles and contributions be compared with each other? How can the team contributors be placed in a forced distribution method or an 10-80-10 method where 10 percent are “high performers”, 80 percent of the people are average or “the core”, and 10 percent are “poor performers”? This comparative approach is typically a human resource requirement or approach. This approach fails to appropriately address people at the individual level and neglects their unique roles within a team. What happens when new employees are added or removed from the distribution? A redistribution must take place. If the lower performers are removed, as can be the common practice, then individuals who were part of “the core” are now termed as poor performers. Secondly, the same individuals who were the high performers are now shifted into the average category. This shift in performance category or level was not due to their performance but was due to the system itself. From an individual perspective, an employee has worked diligently throughout the year and when the evaluation time occurs he is provided with an average rating and given excuses why he received that rating. Other common remarks for average ratings are: “You are core”. “A 3 on a 5 point scale is not average but that you met your goals”. “I don’t give 5s (excellent rating)”. This method does nothing more than limits employee recognition and does “not fairly acknowledge all employees’ contributions and provides little motivation to improve”. (Reference 16)

We talk about empowerment; there's nothing empowering about being forced to participate in something and being given a humiliating grade or ranking. (Reference 20)

This type of measurement system provides a type of self-fulfilling prophecy to the individual employees of the organization. Reference 26 provides insight into these type of activities.

So, what do you assume about the people who work in your organization or team? What do you assume about people in general?

If you believe that most people who come to work for you are lazy, stupid, untrustworthy, inept, and just downright contrary, that assumption can't help but show up in the way you run your business. You'll have all kinds of rules and regulations designed for numskulls who couldn't pour milk out of a boot with the directions printed on the heel. You'll no doubt have a supervisor for every six or seven folks, and will inevitably attract just the kind of people who will live down to your assumptions. Discerning, competent employees won't come anywhere near your place, and your original assumption about people will be reinforced. (Reference 26)

Lack of Importance

No one would overtly say the traditional performance evaluation system is not important to management or employees; however, many people do not believe in its actual importance. This underlying perception or belief has resulted in the system not being implemented effectively and led to its overall ineffectiveness. During informal sessions with various managers and employees most individuals did not perceive the importance of the employee evaluation system. Many managers felt it was a "necessary evil" mandated by the human resources department and did little to contribute in enhancing employee productivity or development. For the most part, individuals (managers and employees) did not believe the system was really valuable or value added but was something that had to be done. "This is the system that the company uses to give us raises and bonuses and this is what we will use."

During the goal setting stage of the process, employees typically felt rushed due to time constraints and did not want to spend a significant amount of time on this process due to other more “real work” tasks which must be done. During the final review sessions, most employees did not prepare for the sessions and constructive feedback from their reviews was lacking. It was also believed the only important task of the review was providing the raise or bonus amounts. When asked about their belief or trust in the system, a common response from employees was, “Managers are going to do whatever they want anyway”. Moreover, the performance evaluation system is also not a priority to management. Management has been tasked with meeting a variety of corporate deliverables and ensuring that the performance evaluation system is administered effectively and enhances the productivity and development of the employees and the organization is not their main concern. This is often times left to human resources to ensure the system is developed and properly administered.

Attachment to Pay

Most employee performance evaluation systems have a direct attachment to employee pay either in the form of annual bonuses or salary increases. As shown in Figure 3, salary itself is not a significant motivating factor; however, “it certainly can be a demotivator”. (Reference 17) Because of this attachment to employee pay, the traditional system inherently does the following: institutes fear, promotes game playing within the organization, and contributes to individual focus.

The traditional system promotes game playing by applying “Under Promise and Over-Deliver” by the employee. Rewards are based on successfully meeting the

established goals and punishment for not meeting the goals. During the goal setting phase, the manager tries to get the employee to commit to certain goals and objectives while the employee tries to under promise so that he can over deliver at the end and get a better rating and hence a better raise or bonus. Instead of enhancing employee performance, this system actually promotes mediocrity in goal setting and inhibits any desire to reach out especially when monetary compensation is at stake.

As part of the traditional system, the manager assigns distributions of the monetary rewards to each individual employee. These awards are typically based on the numerical rating the employee was given from the manager review. In many of the company performance evaluations the ratings are used to define a factor that is directly used in computing either bonuses or salary increases. These ratings assignments are highly subjective in nature with variations between managers and organizations as to what are the tangible points needed to get a certain rating versus a different rating. During an informal interview with a manager, he mentioned that it is typical to identify the amount of compensation (raise or bonus) the manager wants to give the employees and back out the numerical ratings accordingly. Depending on the distribution method, a manager may have to make a case to his management and possibly the human resources department for giving his employees higher than average raises or bonuses. During an informal meeting with a manager, he stated that for him to give larger than average raise or bonus he had to provide justification to his manager and his manager's manager. Additionally, there was a maximum raise that would be allowed by the human resources department.

The traditional system has an individual focus and promotes game playing within the team among the team members. Too much importance is placed on individual contributions and little is placed on team achievements or effective team dynamics. Individuals are compelled to justify their own positions and performance and not demonstrate their contributions within the team especially when individual compensation is a stake. Instead of enhancing performance the system actual promotes “dysfunctional competition” between members of the organization. (Reference 16)

Misunderstanding and Misapplication of the Philosophy behind the System

A significant inhibitor to the overall effectiveness of the employee performance evaluation system is due to management’s *Misunderstanding and Misapplication of the Philosophy behind the System*. No one would argue with the need to work toward a common goal or set of goals; however, management by objectives and employee evaluation systems have their primary focus on meeting the goals and fail to emphasize the overall processes of the business. Many times the goals that are established by senior management as business goals are random in nature (i.e. increase production by 15%, reduce cost by 10% etc.). Most senior management believes that this type of goal setting is management by objective, but as defined by Drucker, this is simply “management by drive”. This is a significant management misunderstanding. In Reference 4, Drucker describes this short-term management philosophy as one that has “emphasis on one phase to the detriment of others”. This philosophy is typified by cutting advertising, education, and technology. Drucker states that management has done nothing more than created a culture of hysteria, confusion, and ultimately an admission of management’s

incompetence. Management by drive is a “sign management does not know how to plan”.(Reference 4) Within the performance evaluation system, the employee is evaluated on meeting or not meeting these random “management by drive” objectives. However, since employee performance evaluation systems are typically linked to employee pay and management bonuses, there will be short-term results; nevertheless, as Drucker states these results are to the “detriment of others” or long term future of the company.

Furthermore, it is irrational to set arbitrary goals for the business without viewing or treating the business as a system made up of a number of individual processes. As identified by Dr. Deming, once a system or process is stable, any significant increase in productivity must come from changes to the system. The system must be thoroughly evaluated before goals or objectives can be set. If a system is not stable or operating within its control limits, any changes to the system to produce a desired outcome is at best a random event which is nothing more than tampering. The Deming Red Bead experiment (Reference 1) illustrates a system where “management” has defined totally arbitrary goals without looking at the stability or types of variation within the overall system. The results achieved are random at best, but the individual is blamed for the results from an unstable system. According to Deming, management is accountable to making changes to the system. Without a proper analysis of the system where the employee is operating, the goals and objectives “developed” by and for employees from which they will be appraised and evaluated against are really nothing more than random events with random outcomes where the employee actually has no control.

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. (Reference 19) Therefore, management must first understand the system or processes before it can establish any specific goals for the system.

If you have a stable system, then there is no use to specify a goal. You will get whatever the system will deliver. A goal beyond the capability of the system will not be reached. If you have not a stable system, then there is again no point in setting a goal. There is no way to know what the system will produce: it has no capacity. (Reference 2)

Measurements established within the system should be relevant, clear, simple, and rational; however, they need not be rigidly quantitative nor need to be exact. (Reference 4) This is contrary to what most businesses try to apply within their goal setting and use within their employee performance evaluation systems. The use of the acronym SMART (SMART: Specific, Measurable, Achievable, Realistic, and Time oriented) for goal setting has been attributed to the application of management by objectives. However, it appears management's focus in developing SMART goals has reduced simplicity, rationality, and introduced the need for significant measurement processes and procedures. This complexity in measurement and procedures is clearly seen in the employee evaluation and appraisal systems developed by the human resources department. Many times the managers who are trying to implement the evaluation and appraisal system do not fully understand it. The emphasis becomes more on properly filling out the forms and meeting the deadlines established by human resources than opening the avenues of communication between management and employees or providing an opportunity for employee feedback. This complexity leads to frustration within applying the employee evaluation and appraisal process.

An additional misapplication to the management by objectives philosophy is the linking of the objectives to the individual's pay i.e. pay for performance. In Reference 4, Drucker does not directly link the two together but addresses the hazards of allowing performance information to be provided to superiors. However, Drucker did advocate rewarding individuals within the company who make "needed contributions". (Reference 5) Nevertheless, the linking of objectives to pay has lead to "various forms of "gaming" – goals worded with deliberate vagueness, or even better, ones proposed that had already been met with the knowledge of the person above."(Reference 10) The overall merit review or pay for performance process is one of the most destructive forces in management today. (Reference 1)

Recently, corporations have seen their failure from their misapplication of management by objectives.

"We thought we had a good MBO program," says Mike Beale, another member of the quality staff. "But what we found that the goals set by management often didn't filter down to the employees. And we found that we weren't stating our goals in meaningful, measurable terms". Like most U.S. companies, FP&L (Florida Power and Light) approach to management by objective had emphasized strategic goal but had neglected the means of achieving or even evaluating their feasibility. (Reference 7)

However, most corporations still apply some degree of management by objectives. It is typically represented or misrepresented and applied within employee evaluation systems known as: performance management, performance objectives, or pay for performance. Nonetheless, the actual application of management by objectives within companies has caused the reverse effect. Instead of assisting individuals to work as a team, the focus has once again returned to the individual.

Management by-the-numbers normally destroys teamwork! It's every person for himself or herself! Tom Watson, former CEO of IBM, stated it very well: "The 80s had plenty of individual business heroes (mostly corporate raiders). In the 90s the winners will be entire companies that have developed cultures that, instead of fearing the pace of change, relish it." Managing by the numbers, whether it be a formal disgusting system like MBO, or lest structured, is ruining team work in most firms. Survival in the short term occupies all the thought processes. (Reference 6)

Management by objectives and performance appraisal processes, as typically practiced are inherently self-defeating over the long run because they are based on a reward-punishment psychology that serves to intensify the pressure on the individual while really offering a very limited choice of objectives. Such processes can be improved by examining the psychological assumptions underlying, by extending them to include group appraisal and appraisal of superiors by subordinates, and by considering the personal goals of the individual first. These practices require a high level of ethical standards and personal responsibility in the organization. (Reference 23)

Alternative Applications to the Current System

As shown in the previous sections, the traditional application of the performance evaluation system is not effective in assisting managers in making individuals work more effectively nor does it enhance employee performance. However, alternative applications to the traditional system exist that can aid in enhancing employee effectiveness such as: a better hiring system, open communication and candor between employees and management, a quality management approach to employee evaluations, and the use of team based evaluations.

Hiring System

Even though not directly related to the current performance evaluation system, the company hiring system is indirectly related in that it provides the individual employee into the evaluation system. Since the employee is the first input into the system, the hiring system must be evaluated. As previously shown, performance evaluations are not motivators to improve but can have the opposite effect. The human resources organization uses information gathered from employee performance evaluations to supply managers for layoffs or for documentation for employee termination. The hiring process has failed and human resources use the employee performance evaluations as a catch all for their poor hiring system and practices. Some companies use the performance evaluation system as a means to “identify” the poor performers for removal and keep a continuous supply of new talent into the system. This simply means that there is a flaw in the system and looking at the system, the employee is introduced into the system through the hiring practices of the company. Thinking in terms of developing a

defect free system, the hiring system is introducing known defects (poor performers) into the system and the performance evaluation systems is used as a type of quality control and rework/salvage/scrap process for the employees of an organization. It is interesting to note that this approach of acceptability to rework, salvage, and scrap is a very common practice in the manufacturing industry. The belief is that a defect free process can not be developed. However, applying the philosophy of quality management, an analysis of the process that introduced the defect into the system must be done. As Deming notes, the individual employee cannot be responsible for the system. That is the responsibility of management. The hiring system allowed the poor performer into the system in the first place. The responsibility of management is to implement a better hiring system and “hire the best”. Do not let the poor performers into the system or organization to begin with.

Most employee hiring practices focus on simply meeting technical criteria and experience needs. The hiring system needs to be more stringent since it is the one responsible for introducing employees into the system. More emphasis needs to be made on employee fit within the organizational culture, meeting the values of the company, and establishing an effective role within the team dynamics over and beyond simply meeting technical criteria. Some methods which can be implemented include: interviews with managers, team members, and internal and external customers, contract to hire (contract for 6 months with possibility of permanent employment), and more extensive checks of past references from previous employers. The organization must create and establish a sense of desire to have a long-term relationship with the employee, not one merely to fulfill short-term requirements.

Open Communication and Candor

Managers must go beyond the formal meeting times of the employee evaluation system to have dialogue with employees. Additionally, as was previously discussed much of the interaction between the manager and the employee during the employee evaluation system is not effective communication but is simply “gaming”. Without open communication and candor a relationship of trust will never be developed between employees and management. Without a culture of trust, there can never be optimum performance within an organization. Successfully implementing informal conversations and meetings between managers and employees can aid in building a relationship of trust between each other. Open dialogue must be started and maintained.

During an informal conversation with a manager, he mentioned that his style was not to stay in his office but proactively leave his office and spend time with his employees (i.e. “Management by Walking Around”). However, when he began to manage a new organization his team members felt very uncomfortable and believed he was merely trying to check up on them. It took him a considerable amount of time to build trust with his employees and create an open environment within the organization. Once he had developed a relationship of trust and open communication with his employees the organization operated more effectively and he was able to more effectively manage the organization.

In conjunction with open communication is the benefit of implementing “true” 360 Degree evaluations between employees and managers. This evaluation method forces accountability and honesty between both the manager and the employee. However, to be successful, the evaluations need to have candid feedback sessions

between the manager and the employee. Additionally, to be beneficial to all of the participants, the sessions should not be career limiting to employees.

The former CEO of GE was asked by a group of managers “What would be one thing that is lacking in business today? The answer to his question was simply, candor. To be effective, managers must be honest and candid when communicating with their employees. Likewise, employees should feel free to be honest and candid when communicating with their managers. A culture that supports candor and values the input of all of the participants will enhance the overall effectiveness of the organization.

Lack of candor basically blocks smart ideas, fast action, and good people contributing all the stuff they’ve got. (Reference 25)

Yes, yes, everyone agrees that candor is against human nature. So is waking up at five in the morning for the 6:10 am train every day. So is eating lunch at your desk so you won’t miss an important meeting at one. But for the sake of your team or your organization, you do a lot of things that aren’t easy. The good thing about candor is that it’s an unnatural act that is more than worth it.
(Reference 25)

Quality Management Approach

An alternative approach to the traditional employee evaluation system is a quality management approach to employee evaluations. Key to the quality management approach is the emphasis on the operating systems and processes within the system. This is the inherent difference between the traditional employee evaluation system and a quality management approach. The traditional system focuses on the performance of the individual and holds the individual responsible for the effectiveness, performance, and results of the system in which he is functioning in; however, the quality management

approach is more focused on the processes and works to develop the effectiveness of the system and its processes.

Deming suggested 80% of performance problems are caused by system design and only 20% are caused by ‘abnormal’ variations that may be linked to individual behavior. (Reference 20)

These system design performance problems are essentially the responsibility of management. Management has the responsibility for establishing the systems and processes in which the employee functions. Reference 20 indicates that performance raters (i.e. management) have difficulty distinguishing which performance issues are due to the system or which are from the individual. Additionally, the system must be thoroughly evaluated before any goals or objectives can be set. If a system is not stable or operating within its control limits, any changes to the system to produce a desired outcome is at best a random event.

Reference 16 advocates the reasons to use performance evaluations are to accomplish the following: enhancing customer focus, improving organizational processes and providing feedback to enhance employee development. A quality management approach to performance evaluations bases itself in the following fundamentals: developmental not evaluative, process not simply results, and standards not comparative.

Performance appraisals should be used as a tool to provide feedback and focus on enhancing employee development and not one to control the employee.

Quality-driven organizations should place more emphasis on the developmental purposes (e.g. providing feedback, identifying training or developmental needs) of performance appraisal. However quality-driven organizations should also use performance evaluations for the additional purposes of enhancing customer focus and improving organizational systems and processes. Both of these objectives are

crucial to a quality-driven or TQM environment. Therefore, TQM organizations should evaluate employees on the extent to which they focus on the customer and the extent to which they suggest and initiate actions to improve organizational systems and processes. (Reference 16)

To effectively identify areas for employee development, trained multi-raters are used. The raters would not only be from management but also from peers and subordinates (internal customers). Multi-rater feedback would be extremely helpful in enhancing employee development which leads to increased improvement and performance.

Multi-rater systems facilitate continuous improvement of people, organizational systems and processes. (Reference 16)

Trained raters to properly evaluate performance and provide feedback in a constructive manner. Focus on teaching raters how to identify situational factors with potential to affect the performance of employees, estimate the extent of influence and then adjust evaluations upward or downward depending on whether the situational factors constrained or enhanced the performance of employees. (Reference 16)

Furthermore, to assist in identifying elements for development, providing feedback, setting goals, and developing action plans to improve performance Reference 16 proposes the use of a Behavior Observation Scale (BOS).

When applying a quality management approach, the processes and actions by which the employee or team achieves the results need to be considered not simply the results. Actions that produce short-term achievements and lead to long-term detriments should not be acceptable to any organization. As stated earlier, a cause leading to the ineffectiveness of the traditional evaluation system is the focus on achieving short term results without a thorough analysis of its impact to the performance of the system.

Employee performance should be evaluated on the basis of how the work is done as well as its results. (Reference 20)

Appraisal should not be limited to job duties but extend to focus on satisfying internal and external customers and the extent to which they contribute to the

improvement of systems and process. The appraisal form should contain a list of factors with potential to constrain or enhance the performance of employees and adjustments to ratings can be performed accordingly. (Reference 16)

Quality management philosophy attempts to develop standard processes to reduce the variation within a system. Contrariwise, the traditional employee performance evaluation system typically applies a comparative approach in its evaluation. This comparative approach reduces teamwork and promotes gaming in the evaluation process.

Using comparative standards to evaluate performance of employees is compatible with the quality-driven perspective that emphasizes trust, empowerment, and the continuous improvement of systems and processes.....Absolute standards encourage cooperation because performance evaluation of one employee is not influenced by performance of other employees. Every employee is compared to the standard. The evaluations and rewards an employee received depend on his or her performance relative to the standard. (Reference 16)

Team based evaluations

The emphasis today is on successful team building and effectively working as a team. It is an established belief that synergy within a team can be developed which can make the sum of the whole function more effectively than their individual parts alone. However, traditional employee performance evaluations systems inherently weaken team dynamics and decrease the overall effectiveness of the team by its primary focus on individual performance and not the role of the individual within the team. Typical comparative systems encourage competition, not cooperation, and can undermine focus on teamwork and organizational goals. (Reference 16)

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. (Reference 20)

A key in developing a successful team is the establishment of team goals and individual roles within the team. The implementation of team evaluations based on team goals can enhance overall teamwork and assist individuals in effectively working together.

To excel, organizations need to tap the best capabilities and creativity of each individual while ensuring that a spirit of teamwork exists throughout the organization. Team goals and measurements bring small groups of people together, striving to be their very best. (Reference 17)

However, the development of trust among the members can take a significant amount of time and can be very challenging. Figure 5 shows team effectiveness versus performance at various stages (Form, Storm, Norm, Perform). Most managers want to quit at the "Storm" stage due to the decrease in team performance and never achieve the increased performance and effectiveness of the team.

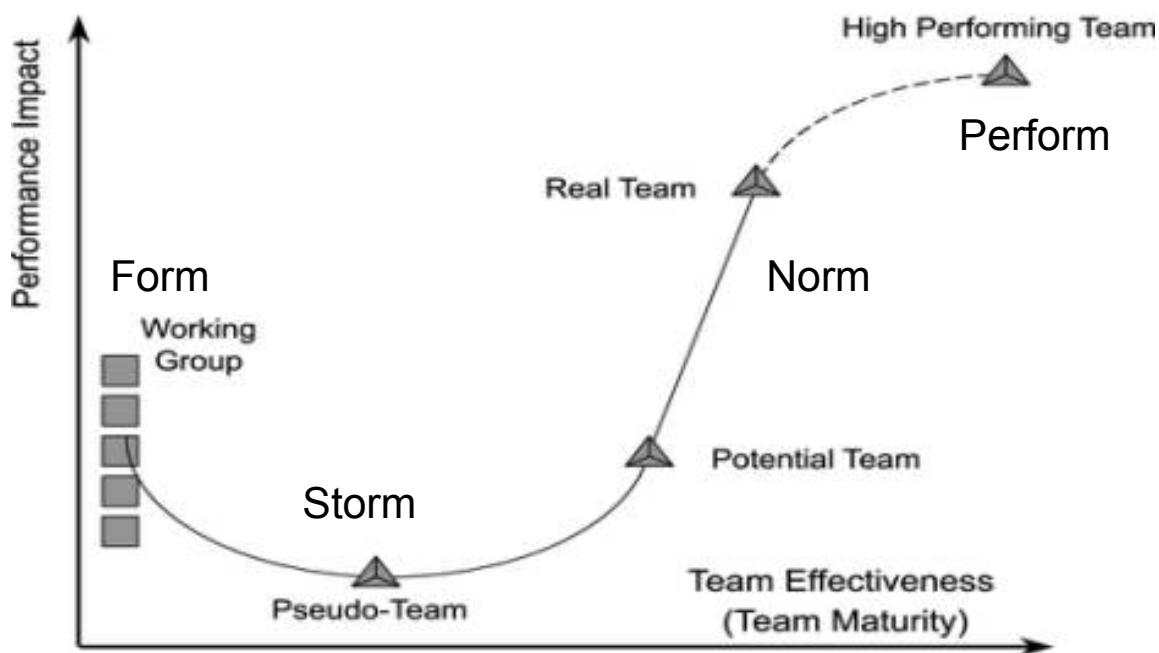


Figure 5: Katzenbach & Smith: Team Performance Curve

Reference:
EMGT 808 Spring 2004

Group based evaluations may not be easily or quickly implemented but require a high level of personal trust among members and trust requires time to develop. (Reference 20)

Additionally, simply applying team evaluations on their own will not enhance performance without having established team goals, communication, team behavior, clearly defined roles, and processes (Reference 9). If the manager is mature and remains focused, it is shown that the implementations of team evaluations combined with team rewards and incentives can enhance overall team productivity.

In accordance to TQM principles, group performance should be the focus of evaluation in order to lessen unproductive competitive behavior within the team and to focus individuals' attention to group rather than personal objectives. Group based incentives are seen to 'encourage employees to be more concerned about the performance of their group and search for ways to cut costs and improve productivity. (Reference 20)

Review of Local Company Evaluation Forms

Performance review and evaluation forms from various local companies were provided and reviewed for similarities and differences in application. The forms used in the review are provided in Appendix A. The evaluation forms were obtained from the following industries: life insurance, banking, federal government, telecommunications, and a distilling company.

The review was performed to observe the applications of the traditional system in the company forms and not to make a critical assessment. The key characteristics reviewed in the evaluation forms are the following: rating system, attachment to pay, individual performance objectives, functional requirements, attention to core values, developmental plans, review periods, reviewers and signatures required, manager specific items, comments section, and overall complexity of the forms. The key characteristics for each company reviewed are summarized in Figure 5 below.

Company	Rating System	Scale	Attached to Pay	Ind Perf Objectives	Functional Reqs	Attn to Core Values/Functions	Development Plan	Review Periods	Reviewers Approvers	Manager Specifics	Comments Section	Overall Complexity
Aegon Financial Partners (AFP) IT Non-Mgr Bonus	Yes	1,2,3,4,5	Yes	Yes	Yes	Yes: Quality, Behavioral, Output, Schedule, Financial, Knowledge & Experience	No	Quarterly (Suggested)	Mgr, Next Lvl Mgr	N/A	No	High
Aegon Financial Partners (AFP) IT Mgr/Bonus	Yes	1,2,3,4,5	Yes	Yes	Yes	Yes: Quality, Behavioral, Output, Schedule, Financial, Knowledge & Experience	No	Quarterly (Suggested)	Mgr, Next Lvl Mgr	Yes: Accountability & Leadership Behavior	No	High
Commerce Bank	Yes	E,E- M+,M,M-, D	Yes	Yes	Yes	Yes: Integrity, Customer-Focus, Team-Oriented, Excellence, LongTermView	No	Bi-Annual	Mgr, Business Mgr, HR	Yes: Developing Others, Aligning Performance for Success, Leading/Facilitating Change	Yes	Mid
Federal Aviation Administration, Project Management Office, Small Airplane Directorate	N/A	Meets Expectations, Does Not Meet Expectations	N/A	Yes	Yes	Yes: Teamwork, Customer-Focus		Monthly-Individual Perf Expectations only	Mgr	N/A	Yes	Low
Sprint Corporation	Yes	M, H, V, L, N	Yes	Yes	Yes	Yes: Integrity, Customer-Focus, Results, Relationships, Leadership	Yes	Quarterly	Mgr, Next Lvl Mgr	N/A	Yes	High
McCormick Distilling Company Inc Mgr	Yes	5,4,3,2,1	Yes	No	Yes	Yes	No	Annual	Next Lvl Mgr, Reviewer, HR	N/A	Yes	Low

Figure 6: Evaluation Forms Key Characteristics

Rating System:

All of the company forms reviewed applied a numeric or alphabetic rating system with the exception of the Federal Aviation Administration: Project Management Office - Small Airplane Directorate. The Federal Aviation Administration applied a simple “Meets Expectations” or “Does Not Meet Expectations” for the final evaluation.

Attachment to Pay:

All of the companies used the performance evaluation directly for employee bonuses or annual salary increases or both. Some companies used the performance ratings as numerical factors to calculate employee bonus and others used them for salary increases. As noted in the previous section, the FAA does not have a numerical rating system. The FAA applies a step program when increasing salary. As long as the employee “Meets Expectations” the employee will receive the salary increase raise predetermined for his pay grade.

Individual Performance Objectives:

All of the companies reviewed had sections for employees to identify individual performance objectives with the exception of one.

Functional Requirements:

All of the companies reviewed had sections regarding fulfilling specific job function requirements. Many of them were specifically attached to the core values.

Attention to Core Values:

All of the companies reviewed placed emphasis in core values in either meeting goal objectives or performance. The core values addressed were: Integrity, Customer-Focus, Team-Focus, Excellence, Results, Behavioral, and Leadership.

Developmental Plans:

Only one company, Sprint, made indications of employee developmental plans in conjunction with the employee performance review. This infers the reviews are evaluative in nature and not related to specific employee future development.

Review Periods:

The formal review periods varied from annually to quarterly. The FAA applied a monthly update for individual performance items.

Reviewers, approvers and signatures required:

With the exception of the FAA, all of the companies used the employee manager and next level managers to approve the employee performance evaluation. Two companies had provisions for human resources approval identified on the evaluation form. However, AFP did not have any provisions for employee or manager signatures to indicate acceptance with review.

Manager Specifics:

The following characteristics were evaluated for managers: Accountability & Leadership Behavior, Developing Others, Aligning Performance for Success. Descriptions for each of the characteristics were provided within the forms.

Comments Section:

All of the companies had sections for employees and managers to document specific comments with the exception of AFP.

Overall complexity:

Out of all the company forms reviewed, the FAA had the least complex of them all. The rating system was also the simplest, “Meets Expectations” or “Does Not Meet Expectations”. Additionally, the FAA does not directly attach employee pay to the evaluation system as all of the other did. Furthermore, it appears that the larger the company the more complex the evaluation forms used.

Recommendations and Items for Future Research

Recommendations and items for further research related to the employee performance evaluation system are the following: an investigation of the role of the human resources organization within the performance evaluation system, an evaluation of the performance evaluation system using quality management methods, employee hiring processes, and the effect of implementing employee development plans on employee effectiveness.

Since the human resources organization develops the employee evaluation process with input from management their roles must be identified and understood before any changes can be made. Additionally, the managing of the employee performance evaluation system is a significant function of the human resources organization and any changes or recommendations for changes to current systems would be under significant scrutiny from the human resources department. A few questions which would be helpful in investigating the role of the human resources organization are the following:

- How does the organization develop the system and its process?
- How does human resources use the processes?
- What are their criteria in the development of the processes?
- What effect does the legal department play in defining the processes?

Since the employee performance evaluation system is a system made up of various processes with inputs and outputs an evaluation of the overall system and processes can be made using the techniques of quality management. A team made up of employees, management, and human resource representatives could undertake the quality improvement task. As stated in Reference 16, involving employees in developing

sensitive organizational systems, such as the performance appraisal system, will engender trust, empower employees and reinforce the participate culture of TQM organizations. Data would need to be gathered in the form of interviews and surveys. The system must be completely defined detailing the processes and their corresponding inputs and outputs. An evaluation of the system needs to be performed to determine if control limits can be established. These control limits are necessary to identify if there is actually a stable process such that improvements can be made. Without the determination of upper and lower control limits any changes to the system or processes simply produce random outcomes and the system is merely being tampered with leading to no real lasting changes.

Since the first input into the employee performance evaluation system is the employee, it is recommended that the individual company or organizational hiring processes must investigated and evaluated. More emphasis needs to be made on employee fit within the culture and the values of the company over and beyond simply meeting technical criteria. Some items for future investigation are the following:

- Short Term agreements 3 to 6 months to see employee in action and activities within the culture. (“Contract to hire”) This method allows the employee to see the culture and the company see the employee operate in the culture.
- Establish a sense of long-term relationship with employee, not one merely to fulfill short-term requirements. (Use contract labor for short term needs and hire employees for the long-term.)

Furthermore, it is recommended that the implementation of individual employee development plans be in conjunction with organizational strategic planning. Most corporation or organizations strategic plans look ahead to approximately 3 to 5 years in the future. To be properly prepared and effective in meeting these needs, employee developmental plans should be defined in a similar fashion so employees are aware of the plans and are being developed to successfully implement the strategic plans. This method also demonstrates and creates a long-term investment in employees, their future, and a lasting value to the present and future of the company. Knowledge of strategic plans to develop action plans (i.e. development plans) can be used to increase and enhance future performance not only annual performance.

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 the process or even revise the strategic plan. (Reference 20)

Conclusion

The focus of management today is trying to do more with less by increasing employee performance and productivity. The employee performance evaluation system was developed with the thought of assisting management to effectively motivate and manage the actions of their employees. However, in its currently applied state, the employee performance evaluation system is not effective in making individuals work more effectively nor does it enhance employee performance. The factors which have directly contributed to the ineffectiveness of current employee performance evaluation systems are: its absence of focus on people, the perceived lack of importance from the participants, the systems attachment to monetary compensation, and the overall misunderstanding and misapplication of the philosophy behind the system by management. Nevertheless, alternative approaches to the application of the traditional system exist and should be considered to aid in enhancing employee effectiveness such as: a better hiring system, open communication and candor between employees and management, a quality management approach to employee evaluations, and team based evaluations.

The core responsibilities of a manager are leadership and management. As a manager, leadership is associated with the people in the organization while management is associated with the development and management of the processes to support the functions of the organization. In an effort to enhance organizational and corporate performance, management has deemphasized its role and responsibility to their employees and has forgotten its primary focus, THE PEOPLE.

Take away my factories, and I will build a new and better factory; but take away my people, and grass will grow on the factory floor. Andrew Carnegie

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