To: Chief executive officer

From: Director of quality consulting

Subject: The “merits” of merit review

I received your request for input to Holly’s annual performance review. In response, I would like to point out two issues.

First, some of the benefits of Holly’s efforts—such as the groundwork that she is laying for the future of continual process improvement within our company—might not fully manifest themselves visibly in the short term. In fact, some of the real benefits might not be visible to you or me even in the long run.

Second, the sincere attempt to evaluate an individual’s performance based on another’s personal observation and input from others unfortunately is riddled with many disturbing and irreconcilable problems. Some of these problems are particularly relevant to our organization as we begin to consider the barriers we need to remove quickly to ensure continued quality progress.

As you no doubt are aware, W. Edwards Deming, Peter Scholtes, William Scherkenbach, Ron Moen, and numerous others have long been urging companies to be aware of how traditional performance management methods affect their ability to improve, compete, and stay in business. I strongly encourage us to consider their arguments against using performance appraisals, which I briefly summarize below.

The negative consequences of annual merit review systems are absolutely devastating to any organization. These ineffective management processes create impassable barriers to meaningful process improvement. They encourage short-term safe performance at the expense of long-term planning. They annihilate teamwork and trust, demoralize employees, destroy staff satisfaction, instill fear, discourage risk-taking and research, foster mediocrity, increase process variability, and encourage rivalry, competition, and politics.

All of these consequences combine to plague an organization, discouraging meaningful process improvement. The performance appraisals’ negative effects far outweigh any perceived value, for, without their removal, desired levels of quality might never be achievable. Moreover, they have been shown to be unsatisfactory at meeting the needs of both the employee and manager. Thus, even their intended benefits are in doubt.

Numerous additional arguments exist for discarding such practices from all quality organizations. For example, it is essentially impossible to design a system in which employees are evaluated only on events under their control. Many have tried and failed. If anything, what is considered an evaluation of the employee is more an evaluation of the management system in which the employee works. The very notion that managers possess the skill necessary to judge an employee’s value is both preposterous and insulting. In addition, the evaluation of one person by another introduces unavoidable biases that compromise even the best intentions.

Merit ratings reward people who do well within the current system. Contrary to modern quality philosophies, their focus is primarily on measurable goals. Ultimately, such motivation tactics do not reward attempts to improve the system, and the organization is the loser. Consider the significant time, effort, and resources that could be freed up to focus on the huge improvement task remaining before us.

Unfortunately, many companies try to salvage their sacred merit review systems under the assumption that there is something worth saving. This is naive and is somewhat analogous to the concept of building a better bomb—one that is more accurate in its destruction. In Mary Walton’s book Deming Management at Work, Peter Scholtes stresses that “using performance appraisal of any kind as a basis for reward of any kind is a flat out catastrophic mistake. It is a sure road to demoralizing your work force....Just don’t do it.”

Eliminating ruinous management practices is prerequisite for fostering the corporate environment so very necessary to sustained quality improvement. Although the intention of these practices might be commendable, they are no substitute for leadership. Performance appraisals have become a management crutch and a poor substitute for effective leadership and communication. Deming’s philosophy acknowledges that to continue to improve quality and remain competitive, fundamental transformation of leadership and management is required. Once established, this new leadership then must eliminate employee performance appraisals and replace them with system performance appraisals.

There is growing evidence to support the message that Scholtes, Deming, and others have so passionately tried to communicate. But all of this external evidence is hardly necessary—simply consider the arguments just presented while looking around our own company.

More than any other doctrine, I thoroughly subscribe to the modern philosophies of management of quality in general and to Deming’s principles in particular. These concepts are absolutely essential to successful, sustained, and profound continual process improvement.

As a department aspiring to consult at an organizational level on matters critical to the successful management of quality, I emphatically question whether we should be advocating or even participating in those same archaic, destructive personnel management tools that are the antithesis of the modern approach to quality. I sincerely thank you for soliciting my input for Holly’s review, but I respectfully decline the kind invitation.

This Executive Summary was written by Jim Benneyan, senior quality consultant at Harvard Community Health Plan in Brookline, MA.
letters

Crosby’s put-down in poor taste
Many letters to the editor are provocative, but very few cause me to write one in return: Phil Crosby’s letter in your April 1995 issue pushed my buttons!

I believe that most people would agree that Crosby, Juran, Deming, Feigenbaum and others have made significant contributions to the much-needed quality movement in this country. For one of these great contributors to put down another, as Crosby did, is in poor taste, unethical (especially in light of Dr. Deming’s passing), thoughtless, insensitive and revealing of the originator’s (lack of) values and principles!

—Peter B. Bowman
Newburyport, Massachusetts

Philip Crosby’s letter in the April 1995 issue observes that, “One of these days someone is going to sit down and ask themselves how Dr. Deming came up with all these truths when he never did it for a living or ran anything.” While the logic of this question escapes me (would Mr. Crosby similarly discard all work by male ob-gyns?), I’ll give him the benefit of the doubt and answer: Dr. Deming applied the scientific method, which included the use of logic and continuous learning. As such, Dr. Deming’s theory of management must stand the test of time and evidence—as well as ad hominem attacks.

—Alan Crudden
Via America Online

After reading a certain letter in your April 1995 issue, I had to go to my bookshelf and double-check the name on the little paperbacks almost obscured by all the Deming hardcover books standing there. Yes, it was him: Philip B. Crosby. Hard to believe that he would write something so insulting about such a giant as Dr. Deming. Actually, I had trouble following his analogies about ants, spiders and honeybees. But then, I’ve always had a problem with Crosby’s books and his management advice. If one tries to live on [Francis] Bacon and honey, serious quality malnutrition will surely follow.

Allow me to do an analogy on ants and elephants. The elephant is the largest, wisest, most powerful animal in the kingdom. Sometimes elephants may step on ants because they don’t notice them. Some ants are lucky because they always avoided the elephant, except when the elephant happened to be dead. Then the little ant could come and take a bite with the expectation of finding nourishment. I suspect that all the ant found was a very tough hide through which he could not chew.

I’m quite positive that serious students and practitioners of quality management know the difference between ants and elephants, and who’s who.

—William L. Davis
Pembroke Pines, Florida

The merits of merit review?
I enjoyed the February 1995 series “Performance Appraisals: Two Views” by Edward Lawler and Greg Boudreaux. The questionable merits of merit review is a very important topic to continue reinforcing in the quality profession.

Simple as they may seem, the subjects of annual performance appraisal, pay-for-performance, individual incentive and annual bonus are far from straightforward. Although counterintuitive, these traditional, extrinsic employee-incentive devices have serious negative consequences on any organization’s ability to successfully manage for quality.

As Lawler and Boudreaux point out, numerous arguments exist for immediately discontinuing these ineffective and destructive management practices. Similarly, most corporate “reward and recognition” programs, which have entered the business bloodstream disguised as good “OM” methods, in fact are contrary to management for quality. They encourage short-term “safe” performance, discourage teamwork, demoralize employees and encourage rivalry and politics.

I would particularly encourage all readers to consider Lawler’s statement that “doing a poor job [at designing a merit review system] is worse than doing nothing.” Many companies, unfortunately, are still tempted to try “salvaging” their sacred merit-review systems. Instead, a company should focus on competing externally for business, not its people internally for compensation.

An abundance of reference material exists for those wishing to further explore these topics, although much of it is somewhat scattered. In order to facilitate this process, therefore, a bibliography of these materials is freely available. Contact me at 114 Marston Hall, Industrial Engineering Dept., University of Massachusetts, Amherst, MA 01003, (413) 545-2851, or e-mail: benneyan@ecs.umass.edu.

Finally, while I agree with most of Boudreaux’s opinions, it is very important to clarify that it is a serious misunderstanding of quality management to suggest that it is “the manager’s job to give performance feedback; this is what it means to manage people.” This is not what it means to manage people nor to manage for quality in the context advocated by Dr. Deming and his contemporaries.

Performance appraisals are a management crutch, a poor substitute for effective leadership and communication, and certainly not a necessary way of doing business. In Deming’s words, “the prevailing system of management is destroying our people.” Management for quality is a better way.

—Jim Benneyan
Via Internet: benneyan@ecs.umass.edu

A quality magazine?
I just had a good read of your [March 1995] magazine and I was impressed. Aside from provoking columns from Stephen R. Covey and Karl Albrecht, I especially enjoyed Tom Peters’ question, “Will you brag about it in the morning?” (probably as good a measure of organizational effectiveness as any!) and Dick Dusharme’s “Cruising the Internet.” Not only did Dusharme introduce the net, provide a glossary and a how-to, but he also provided a comprehensive quality resource list that put mine to shame. Very nice! I have passed your magazine to a quality-oriented associate with a view to nudging him online. If it works, Dusharme is to blame.

Thank you for a quality magazine.

—Stuart Udall
Perth, Western Australia

Quality Digest/July 1995