Human Resource Development

DCE 5110

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MODUL PEMBELAJARAN : DCE 5110 HUMAN RESOURCE DEVELOPMENT disediakan dalam bentuk bahan pengajaran dan pembelajaran kenderi di bawah program Pendidikan Jarak Jauh, Universiti Putra Malaysia. Sebarang pertanyaan dan cadangan untuk memperbaiki gaya penyampaian dan isi kandungan modul ini bolehlah dikemukakan kepada penulis dengan menggunakan alamat Pusat Pendidikan Luar.

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In his consulting practice he specializes in executive assessment and placement, building executive teams and executive counselling. He completed his PhD at the University of Illinois in 1970 and an MBA at the University of Southern California in 1987.
ABOUT YOUR INSTRUCTOR

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Institute for Distance Education and Learning

Universiti Putra Malaysia

SYNOPSIS

HUMAN RESOURCE DEVELOPMENT

HRD is a course about how an organization can use its most critical resource—people—to achieve its goals. The participant will gain an understanding of how the human resource function, as a primary organization component, links the continuing development of individual employees to the organization's superior economic performance. HR activities, such as selection, planning, training, appraisal, rewards, and others, are examined and strategies that contribute to organizational success, while maximizing the individual's contribution, are studied.
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About Distance Education

* Distance education is full of challenges and opportunities. The challenge is to commit yourself to a schedule of achievement and to maintain that schedule. The opportunities are many: to increase your knowledge and application of the material so that you add value to the various processes in your life; to increase your value to your employer; and to prepare you for the continuous changes you will be facing.

* Participants in this process who are committed to their studies will be able to complete the program successfully.

* One of the advantages is that you are able to study at your own convenience—at home, in the office, during your leisure time, on your way to work—anywhere you can concentrate for a period of time on the material.

* It is important to keep in mind, however, that the total responsibility is in your hands, as you do not have regular weekly class sessions to push you into completing the assignments.

* Instructors can be contacted by telephone, E-mail, fax and correspondence for any advice or consultation you feel you need. Remember, you will only get help if you ask for it.
Introduction to this Study Guide

* The material you read in this booklet is meant to act only as a guide to the prescribed text, as well as to the readings recommended or provided.

* It is not meant to be a text in its own right. Topics or issues may be presented at some length to help provide a framework for your studying and to expand or emphasize material presented in the text.

* This guide provides a framework of the important points which you should use to lead you in your study. Remember, it is only a guide to point out some of the important issues.

* Each section/topic begins with a definition of the material presented or a statement of objectives, both of which serve to give an overview of the material covered.

* At the end of every section, there are a number of pertinent questions which you should answer as they will help you to comprehend, apply and analyze the subsequent subject material.

* As you review your notes and answers for each section (topic) consider how the material applies to your workplace—would you do anything differently at work as a result of your experience in this course?

* You will notice that the Study Guide is printed on only one side of each sheet. This was a deliberate decision in order to enable you to use the back of each sheet as a place to make any notes or comments.
Routine Preparation

An essential part of your learning will be the study and preparation you do for each section of the course by reviewing any introduction to the various units in this Study Guide, by carefully reading the assigned chapters in the text, and the additional readings assigned, as well as others you may find. It is strongly advised that you answer the discussion questions at the end of each chapter of M & N, assigned as required reading.

Sometimes, as well, you will be asked additional questions in the Activities component of this Study Guide. The short answer section for your final exam and the essay section will draw substantially, but not exclusively, on the questions assigned for each unit of the course. Some of the questions may also be selected for Assignments I and II.

You will see from the schedule (page 8) that you will have to maintain a vigorous pace of reading. The number of pages with each assignment have been noted and you should use this information to plan your progress through each section as it is critical that you stay ahead, or at least on target.

Learning should be a positive experience and to keep it as such, regular attention to your preparation and completion of the assignments is critical and rests with you.

Please note that this course has been built around "The Elements" model (page 13) as it provides a sound and logical approach to understanding the field of human resource development. However, there is no textbook that follows this path. Therefore, as you are developing your understanding of the field, you will not be following the chapters in the text from beginning to end. As you will see, your assignments will move back and forth throughout the book as we attempt to align the reading assignments with the model.
Activities

At the end of each section of this Study Guide there is an "Activities" component. To fully understand the course material you should complete all of the activities noted.

From the text, these activities will include questions from the end of each chapter in the Questions for Review section and terms in the Terms for Review listing, as well as critical Incidents, in which you have an opportunity to apply the knowledge from the chapter.

You should answer each of the text questions and any questions that cover the additional readings assigned. A good idea when studying and preparing to answer questions, is to read the questions before you read the material. In this way you are aware of what material needs special attention as you do your reading. As well, it is always a good idea to read the Summary of a chapter prior to the actual reading of the chapter.

You should be able to provide a brief explanation/definition of each of the Terms for Review given and be able to use them correctly. Any profession or specialized activity has a language of its own and human resources is no exception. Being aware of the meaning of a word in a particular context could be a distinct advantage to you.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

Please note the dates that assignments are due. They must be in the IDEAL office by the announced date.
HUMAN RESOURCE DEVELOPMENT

Schedule

The following schedule outline is a suggested structure so that you can pace your study and preparation for assignments and tests. You are encouraged to remain as close as possible to this guide.

Tutorials/Checkpoints

There will be three (3) scheduled meetings during the semester for orientation, review, testing and consultation. These sessions are critical and your attendance is required.

Reading Assignments

The reading assignments are given on the first page of each unit of this Study Guide. Carefully review all assigned material and answer each of the study questions assigned. This exercise will be an important indicator of your comprehension and application of the material.

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Text and Resources

* The course text is listed below with an abbreviation, given in parenthesis. This abbreviation will be used throughout the Study Guide to refer to the text.


This is the preferred text and can be purchased at:
The IDEAL office during the first session and subsequently at the Cooperative Bookstore on campus.

A participant should purchase this primary resource. If it is not available, other texts will serve as a substitute. However, specific references to required reading and other activities in the text will be less helpful to you in directly guiding your study.

* Of course, you can supplement your reading from this primary source with material from any other materials relating to human resources.

* Two other texts, noted below, have been used to supplement material from M & N and are "on reserve" in the Resource Centres:


Additional Reading

Frequently, you will encounter reading assigned from other sources. These additional materials are presented because the author(s) has(have) presented a specific point of view. You should include this material in your study as the assignments and examinations will include the content from these additional assigned readings.

Sources noted as "on reserve" at a Resource Centre are available at:

Assignment

Final Examination

There will be a three (3) hour closed-book examination that will be worth 40% of the overall evaluation for this course.

Assignment

There are two assignments, each worth 15% of the overall evaluation.

Assignment 1 should be submitted to the instructor during the second course meeting, and

Assignment II is due on the third meeting

Please note: The due date for the assignments is the date your submission must be received during the face-to-face meetings.

Project Paper/Case Study

1. The project paper is valued at 30% of the course assessment
2. You are required to conduct a project on any aspect of the course outline
3. The topic chosen must be a study on a particular organization
4. You can collect information or work with an organization to complete your project
5. A report of not fewer than 20 A4 pages double-spaced is to be written by you and must contain appropriate references to people or material
6. Your are required to make a presentation of your report
7. The project paper is due on the day of the final examination

A reminder

All examinations and projects are to be completed by the individual without collaboration with other projects.
HUMAN RESOURCE DEVELOPMENT

HUMAN RESOURCE DEVELOPMENT / Course Overview

All decisions affecting the workforce concern the human resource (HR) function and are spread throughout the organization. The most effective of these practices are those dedicated to workforce improvement and organizational gain. HR activities evolved out of an earlier era of personnel administration that focused on managing the rules and regulations concerning employees and the organization's relationship with organized labor. Today, employees are recognized as valuable resources who can contribute significantly to organizational effectiveness and be a source of competitive advantage—the ability to organize and perform activities efficiently to gain an advantage over competing organization's (Porter, 1985).*

Senior management has come to recognize that human resources, like finance, operations or marketing, must be considered a "resource," critical to the success of the organization. They are beginning to understand that employees require continuous attention and investment, from recruitment to retirement, for the extensive expenditures essential to support the organization's human assets, to yield a positive return over time.

Nearly 30 years ago, in an article in the Harvard Business Review, Hekman and Jones (1967) stated that explicit recognition of the asset value of human resources can be incorporated into a qualitative structure. Rather than allocating the traditional accounting costs (e.g., original, replacement, opportunity) as with physical assets, HR managers should emphasize the rewards, benchmark values and investment returned to the organization when dealing with their workers. It has been shown that HR activities—the planned learning in an organization that contributes to the change necessary to maintain competitiveness—contributes directly to organizational success, especially through productivity gains, quality improvements and customer satisfaction.

It is not an exaggeration to state that the most strategic human resource issue today is how to achieve optimum performance from people. HR practice, through the integrated use of education, training and development,

* References given in this section are listed in the Bibliography at the end of the Study Guide.
must be designed to assist employees improve the organization's performance. The HR function is the primary link between the organization's strategy and the development, maintenance and continuing improvement of its core competencies, those required for competitive advantage.

Human resource management (HRM) is the application of the principles, mechanisms and structures designed to fully make use of the organization's people. Activities related to hiring, dismissal, compensation, benefits, employment law, job design, etc., as examples, are considered in this area. At times, development (HRD) and management (HRM) functions may be indistinguishable. However, the overall goal remains the same—to provide conditions that will maximize human capital. As one author stated (Senge, 1994, p.10), the primary goal of human resource activities is to create compatibility between the individual's continuing development and the organization's superior economic performance.

The underlying concept of this course is that performance improvement and development of individuals and groups within the organization can be approached from a systematic, yet human resource-oriented perspective. Through effective HR activities, organizations can achieve their goals in the most advantageous manner by focusing on their most important asset—people—and the development and improvement of the organization's core competencies. This focus is a critical human resource activity and it is fundamental to organizational success and its future.

In that future, as the 21st Century approaches, new ideas, assumptions, styles and skills for working with and developing people will be required as all organizations confront new demands and pressures. Six components have been identified as having significant effects on employee practices in and around the workplace: (1) an increasing focus on productivity; (2) the effects of continuous change; (3) the demand for customization and quality; (4) marketplace globalization; (5) business strategies dependent on employee quality and versatility; and (6) changes in work structure and design (McLagan, 1989).

... 

A model that includes the most common elements of HR practice, for the balance of this century and into the next, is presented (next page) and will serve as an outline and guide to your study. In the model there are eleven components that are grouped into different functional approaches to the
The Elements of Human Resource Development*

* This model is adapted from Patricia A. McLagan's "Model for HD Practice."
practice of human resources (represented by the two bands surrounding the 11 elements). In the following review, the eleven elements are first grouped into three broad functional areas as presented in the original model developed by the American Association for Training and Development (Mclagan, 1989).

* * *

The first three elements use development—preparing employees to work effectively and efficiently in the organization—as their primary process.

Knowledge Development and Performance activities enables the organization to identify and ensure that planned learning and the development of key competencies is the focus of HRD. These programs enable individuals to perform better in their current jobs and prepare for future organizational requirements. The HRD function is becoming the driving force behind changes that lead to the learning organization.

The focus of Organization Development efforts is to ensure that healthy inter- and intra-unit relationships are created to help groups identify, initiate and manage the change processes that develop as the organization maintains and increases its competitiveness.

To ensure that individual career planning is aligned with organizational career management processes, so that individual needs are congruent with organizational requirements, is the primary purpose of Personal and Career Development activities.

* * *

In the next five elements the focus shifts to the management concerns of acquiring and retaining productive employees so that organizational goals can be achieved. Development and management are not independent activities, they operate conjointly in pursuit of the organization's objectives.

Selection, Staffing and Promotion functions are critical to ensuring that staffing needs for competent employees, able to perform the job are achieved through recruitment, selection, promotion and succession planning activities by matching people, their career objectives and their competencies with jobs and career paths.

Compensation, Rewards and Benefits insure that compensation and benefit packages are fair and consistent; and that people are rewarded equitably for their contributions to organizational success.
Optimal employee performance is a fundamental concern of HR and is achieved through a range of activities included under the umbrella of Staff Support Services. These services provide for all levels of employees and include financial, health, recreational, personal and other activities that contribute to employee success on the job.

In an organization, Structure and Job Design activities define how tasks, relationships and systems are organized and integrated across operational units and in individual jobs, so that the strategic objectives are achieved.

The Performance Management Systems link individual and organizational goals to ensure that daily individual effort is consistent with overall organizational objectives.

The final three elements provide the support and interactive components necessary to maintain the strategic role of human resources in the achievement of organizational goals.

As a human resource focus, Relationships/Interface in an earlier time concentrated on effective labor and union relations. However, as employees have become more highly educated and "knowledge" workers, the development of appropriate relationships and an increasing interface between employees and other stakeholders has become a critical function in the pursuit of competitiveness.

Human Resource Planning determines what major personnel requirements, strategies and philosophies the organization will need to achieve its goals.

Research and Information Systems conducts research in support of the organization's human resource requirements, ensuring that a comprehensive information base is available covering practices, personnel and policies, so that organizational leadership has the most current information and tools available to support comprehensive and sound HR activities.

All of these HR elements are designed so that every employee is fully prepared to successfully perform his/her job. Such focus results in increased productivity, improved quality, enhanced innovation, expanded personal
fulfillment and a readiness to adapt to change. This is represented by the circle in the middle of the model, which in overlapping each of the components, represents their integration.

Another grouping of human resource practice components is provided by the proponents of performance technology who see their efforts as "intelligent practice" and "a quality process for human resources" (Gordon, 1992). Their thesis is that all of the activities used to build an effective human resource system can be classified into one of four categories: placement (selection and assignment in Gordon's article), information, context (identified as environment in the article), and motivation; which are represented by the outer band in the model.

DeCenzo & Robbins (1994, pp.30-33), present a different perspective of these and other HR practice components, which they divide into four broad functional categories: inception, development, motivation, and maintenance. A brief outline of their perspective follows.

The inception function is concerned with getting individuals into the organization by planning and securing the right number and kinds of people, in the right places, at the right time, capable of effectively and efficiently completing those tasks that help the organization achieve its overall objectives. The function concerned with preparing employees to work effectively and efficiently in the organization is development.

The motivation function focuses on enhancing employee contributions by attempting to meet the needs of each individual. While maintenance is the function that retains employees in the organization by providing working conditions they believe are necessary in order to maintain their commitment.

In summary, it is important to understand that no matter what the function, or how it is categorized, the overall strategic goal of human resource development is to optimize employee potential and performance as they contribute to the success of the organization.

As you continue your study of Human Resource Development, it may be useful to make frequent reference to "The Elements" diagram (page 13), or
to the various "functions," as this may help to place the particular subject in perspective within the total focus of meeting both the individual's needs and achieving organizational success.*


This manual is on reserve in the Resource Centres.
3D and Ethics*

Ethics are a crucial consideration in all fields, particularly those in:

* professionals perform roles requiring high levels of trust and openness;
* people are vulnerable because rules or situations are changing.

HRD is a field in which special ethical sensitivities accompany the ethical considerations associated with any area of social or economic activity. The Models list 13 major ethical issues related to ethical challenges frequently confronted people as they do HRD work. The list (The Models, are 8, p.40, also presented below), however, does not tell you what to do when ethical issues and challenges arise. Unless there are legal or professional constraints (for example, against breaches of contract or copyright law or use of individual assessment measures by people who have not been trained), ethical situations are often not clear. One must use judgment to make decisions and use appropriate actions. When exercising judgment one may need to:

* involve others;
* work hard to create win-win solutions;
* be willing to expose the decision process and rationale for all to see;
* take an unpopular stand which may have damaging political effects for the HRD professional.

When ethical issues arise, they are often dilemmas: a best or right answer isn’t always clear or options may have negative side effects. Never, HRD professionals must face these issues and anticipate, recognize, and address ethical challenges in a way that meets high moral, legal, and professional standards and protects the rights of all concerned. This is difficult, especially because ethical dilemmas in HRD often pit certain interests (for example, those of groups) against others (those of individuals).

There are two actions one can take to help raise awareness of ethical challenges and resolve them as an ethical professional when they occur:

* anticipate the ethical issues to be faced by doing an ethical issues

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forecast. This will help preparation for any challenges that lie ahead and may help identify early actions that need to be taken to prevent a crisis.

think and act carefully and systematically when an ethical dilemma develops.

**Ethical Issues for HRD**

The following are 13 major ethical issues associated with HRD work. It is important to be aware of and prepare for all of them to avoid or resolve the challenges that relate to them. Issues that apply across the broadest range of situations appear first.

1. Maintaining appropriate confidentiality
2. Saying "no" to inappropriate requests
3. Showing respect for copyrights, sources and intellectual property
4. Ensuring truth in claims, data and recommendations
5. Balancing organizational and individual needs and interests
6. Ensuring customer and user involvement, participation and ownership
7. Avoiding conflicts of interest
8. Managing personal biases
9. Showing respect for, interest in, and representation of individual and population differences
10. Making the intervention appropriate to the customer's/user's needs
11. Being sensitive to the direct and indirect effects of intervention and acting to address negative consequences
12. Pricing or costing products or services fairly
INTRODUCTION TO HUMAN RESOURCE DEVELOPMENT

Human resource development (HRD) is the integrated use of education, training and development to improve individual, group and organizational effectiveness. Through this integrated approach, HRD becomes more than the sum of its parts. It's the combined use of all developmental practices to accomplish higher levels of individual and organizational effectiveness than would be possible with a narrower approach.

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* Learning Objectives
* Required Reading
* Definitions of HR
* HR in the 90s and into the Future
  * The Technological Revolution
  * Changing Organizations
  * The Changing Workforce
  * Strategic Role of Human Resources
  * Endnotes
* Learning Activities
  * Questions for Review
    - from the text
    - from additional readings
    - from the incidents
  * Terms for Review
  * Review

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*noted in "The Elements" model (p.13 in this Guide) the first three components of the model are grouped together as "development functions," with the primary focus being to maximize employee effectiveness within the organization.
LEARNING OBJECTIVES

At the completion of this section, in addition to the objectives presented in the text (M&N), you should be able to understand:

1. the comprehensive nature of human resource practice and the implications it has for organizational success;
2. the historical development of the human resource function and the changes it brought to organizations;
3. the impact technology has on work systems and workers;
4. the changing nature of organizations and how their human resources will be affected;
5. the implications marketplace changes have on and how they impact the organization;
6. the relationship between national development and improved education and training;
7. the strategic role human resources must play in an organization.

REQUIRED READING


* As you read both of these chapters and Chapter 8 (assigned in Topic 1) keep in mind an overall HRD perspective, i.e., covering all of the "development" activities—the first three elements of the model.

** These references are "on reserve" in each of the Resource Centres.
DEFINITIONS of HR

There may appear to be confusion about how the practice of human resources is or should be identified. Much of the literature calls it HRD (human resource development), while most texts and other materials refer to the field as HRM (human resource management). Both, of course, are correct.

Development should be the perspective or purpose of the HR function in any organization—to develop employees to their maximum potential for the benefit of the individual and for the organization. Management is the practical application of many of the components typically associated with the practice of human resources so that the objectives of the individual and those of the organization are achieved.

An encompassing definition of human resources should describe it as a process of managing people as a critical resource, in a way that gets them involved in contributing to the well-being and success of the enterprise. It is critical that employees become involved contributors, as important stakeholders, in the overall operation. To achieve this objective, organization's must facilitate the development of people and present this purpose in a clear and specific set of objectives, that will influence the selection of activities, designed to achieve the objectives, and which can then be evaluated to determine if the purpose was accomplished.

There are as many definitions of both areas as there are experts in these fields, a few of which are presented below. However, before reviewing these, the assigned reading by Robert R. Blake, "Memories of HRD," provides a perspective of the beginnings and purpose of this function, which is critical to the success of any organization. This is an excellent article as it provides the reader with the beginnings and dimensions of human resource development from a person who was involved, as well as an explanation of how many innovations began, both in operations and HR, that are the standards in industry today. In addition, there is an added benefit in the article--"Seven Dimensions of Organization Culture"—will be useful in increasing one's understanding of organization behavior.

* References given in this section are presented in the Bibliography.
P.B. Johnnie, in an article assigned in Topic 1: Knowledge Development and Performance defined HRD as:

[the] systematic development of the aptitude, attitude, knowledge and skill requirements of an individual so as to enable him or her to perform a specific or given task.

Blake's expression of HRD is interesting as it gives a perspective on his view of the field's unlimited scope:

The field of human resource development defies definition and boundaries. It's difficult to put in a box. It has become so large, extensive, and inclusive that it's now greater than all outdoors.

The authors of the text (Mondy and Noe, p.272) state:

HRD is planned, continuous effort by management to improve employee competency levels and organizational performance through training, education, and development programs.

Also, they define human resource management as:

...the utilization of human resources to achieve organizational objectives. (p.4)

You can see, these definitions are very similar to the approach taken in describing the functions of both development and management in the discussion of "The Elements" in an earlier section of this Study Guide.

Looking elsewhere, Bernardin & Russell (1993, p.2) stated that

HRM concerns the recruitment, selection, development, compensation, retention, evaluation, and promotion of personnel within an organization.

They went on to confirm:

the most effective HRM programs, policies and practices are those which are established maintained and improved with the organization's mission and strategic plan in mind, and in particular, with total customer satisfaction as the ultimate goal.

These descriptions of HRM by Bernardin & Russell contain activities and emphasis that are included in "The Elements" discussion.

The American Society for Training and Development established a task force early in the 1980s that subsequently reported their study and provided a language about training and development that many individuals, organizations and educational institutions began to use to help assure quality in training and development work. Their definition of HRD follows:
HRD is the integrated use of training and development, organization development and career development to improve individual, group and organizational effectiveness.

- Integrated means that HRD is more than the sum of its parts. It's more than training and development, or organization development, or career development in isolation. It's the combined use of all developmental practices in order to accomplish higher levels of individual and organizational effectiveness than would be possible with a narrower approach.

- Training and Development focuses on identifying, assuring and helping develop, through planned learning, the key competencies that enable individuals to perform current or future jobs. Training and development's primary emphasis is on individuals in their work roles. The primary training and development interventions is planned individual learning, whether accomplished through training, on-the-job learning, coaching, or other means of fostering individual learning.

- Organization Development focuses on assuring healthy inter- and intra-unit relationships and helping groups initiate and manage change. Organization development's primary emphasis is on relationships and processes between and among individuals and groups. Its primary intervention is influence on the relationship of individuals and groups to effect an impact on the organization as a system.

- Career Development focuses on assuring an alignment of individual career planning and organizational career management processes to achieve an optimal match of individual and organizational needs. Career development's primary emphasis is on the person as an individual who performs and shapes his or her various work roles. Its major intervention is influence on self-knowledge and on processes that affect individual's and organizations' abilities to create optimal matches of people and work.

- To improve individual, group and organization effectiveness means that HRD is purposeful. It is instrumental to the achievement of higher goals. Because of HRD, people and organizations are more effective and contribute more value to products and services: the cost-benefit equation improves. (McLagan, 1989, p.7)

Even if one continues to search elsewhere, the conclusion reached will be that no matter how an organization identifies its relationship with its employees, the focus of the effort must be to improve their well-being so that they will optimize their performance in pursuit of the organization's success.
INTRODUCTION TO HUMAN RESOURCE DEVELOPMENT

HR in the 90s and into the FUTURE

Human resource practices are changing rapidly as a result of sweeping technological development and the changes it brings. Workplaces and workforces are responding dramatically to a "tidal wave of change," as the influence of new technology spreads and the resulting effects flood day-to-day activities, creating new situations to which workers and organizational leaders must respond.

World wide, in answer to the flood of change, organizations recognize they must be more flexible and participative, while at the same time, tougher and more demanding, yet more human. New workplace values are emerging, as demand for increased accountability accompanies the fostering of creativity and, combined with marketplace requirements for continuous adjustments, competitive advantage is being created through a focus on people strategies.

Workers, on the other hand, anticipate more meaningful assignments as they become better educated and less dependent on management for performance supervision and for the information needed to perform work assignments. As they work collaboratively, sharing the benefits of their experiences, employees become more involved in their organization's operations. They want and expect to participate in decisions by contributing ideas based on their experience, as well as expecting to share in the wealth they create.¹

The Technological Revolution

In a development that began in the mid-1950s, the "Technological Revolution," described as the third wave of change,² is having more impact on and changing society faster than did the automobile. This era has also been identified as the "Post Industrial Society."³ The computer, representing this period of growing technological influence, with its expanding capacity and plunging prices, combined with increasing human capability to effectively employ its potential as its availability spreads, is used more

¹ Noted items in this section are presented in the Endnotes at the end of this section.
productively. As a result, more data is generated forming greater pools of information, providing a broader and deeper knowledge base. This evolution not only increases the importance of theoretical knowledge, it affects possible conclusions and leads to improved decisions.

Technological innovation has lowered production costs, increased proficiency and productivity, and improved customer satisfaction, while simultaneously reducing the number of workers required for many tasks. AT&T, the American telecommunications conglomerate, is one example of an organization with reduced staffing requirements and subsequent job loss. Over a 10 year period, it reduced by half the number of operators used in 1984, even though demand and use of its services had surged. By mid-1995, within manufacturing, the last five and the next 10 years were forecast to result in the biggest job cuts ever. While in the field of communications, the impact of changes in telephony alone totally eliminates geography as a limiting factor to doing business, with great impact on human activities. One report stated, *companies are leveraging cyberspace and electronic technology to cut costs and boost productivity,* with *technology [changing] the economics of sharing knowledge.* As a result, across-the-board, all aspects of organizations have become more future oriented.

Since its introduction in 1975, the use of the personal computer has exploded and is now used on the job by one-half of the workforce in the United States, with one-third of US homes also having a PC. PC use is also spreading across Europe, throughout the former Soviet Union, and across Asia Pacific. Originally considered a work-tool, the PC has become a life-tool, as it contributes to increasingly smarter TVs, buildings, phones, appliances and automobiles. Computer-driven technology will continue to change the way everyone works, lives and learns.

One example of technology that has had a significant impact on fields such as, business, banking, law, medicine and even public safety, has been computer imaging. Paper documents scanned into a computer to create digitized records are filed and recalled on demand. The savings in paper and printing costs, staff time spent filing, searching for and retrieving, the ease of recall, etc., mount as the convenience in using information expands from its original production point to being available anywhere it can be received on screen, transmitted by modem and telephone or satellite to sites across the country or around the globe. This facility alone makes business transactions, medical consultations, police checking, as examples,
immediate. Some have identified this capability as the beginning of the paperless or the virtual office.

Changing Organizations

As organizations change there are significant effects on human resource practices in and around the workplace. Employer attitudes toward workers is evolving from the parent-child relationship that lingers from the Taylor-era of scientific management, to one where employees are recognized and treated as professionals.

These changes obligate every employee to take on new responsibilities and accept new challenges requiring different attitudes and approaches to work and relationships by both employees and their employers. The increasing workforce professionalization changes the fundamental systems organizations have traditionally relied upon to control employee behavior. As earlier on-the-job measures of control become less pervasive, trust in and expectations of employees shifts to recognizing them as partners in pursuit of organizational goals. Consequently, the long-standing conflict between worker and manager takes on a different perspective—the management of professionals.8

The focus of work has also shifted as employees are required to manipulate information and to engage in activities of a service nature rather than handling physical goods.9 Subsequently, continuous learning has become a requirement in organizations, as learning at all levels, from the shop floor to the executive suite, is required and valued, with employees becoming respected as thinking contributors, brains rather than brawn, because "more and more of what people...do has knowledge as its raw material."10

In their striving to cope with lightning fast and continuous change organizations are attempting to be more adaptive and respond to the cultural shifts within. The transformation of work methods along with a collapse of bureaucracy results in hierarchies being displaced by flatter and more flexible organizations, with decision-making decentralized by necessity.

Telecommunication—E-mail, mobile fax, pagers, PCAs, handphones—enables employees to work from home or in the field, returning to the "office" infrequently. Some organizations, as part of reengineering efforts, and as a means of encouraging staff to spend more time with clients/customers, have
drastically reduced employee office and assigned workspace. In there place, "work stations" fully equipped to meet employee job requirements are available by reservation for times when they must return to headquarters. IBM and the accounting firm of Ernst & Young, are two examples, providing strong corporate leadership. Even though the savings created by this trend are substantial, as explained by one consultant:

"Cost cutting was not...the motivation for IBM...[The objective was to)...get sales people to build a strong relationship with their customers. You do that by being out in the field as close to customers as possible, not by sitting in the office and waiting for a customer to call."11

These changes are forcing employers and employees to rethink their complete relationship—"[t]he whole area of team work, collaboration and management will have to be redefined."12

Pressure for workforce productivity continues to increase, with organizations and industries looking beyond obvious efficiency gains to more systematic "breakthrough" ways of being low-cost producers of high-quality products and services. In the global fight for survival, the goal is no longer just to capture market share, but to secure "mind share," as customers face constant battering for their loyalty in the developing "attention economy."13 To meet the pressures for increased productivity and quality, employee performance measures must be based on actual productivity and quality of output, not just attendance at the worksite.

Work, too, is adjusting to the continuous technological advances, with the pace and consistency of change accelerating. While manufacturing cycle-times are reduced, and the useful life of information shrinks, time, and its effective use, becomes more valuable as a resource. The result is quality output produced in less time, giving an organization a temporary competitive advantage.

Organizations are recognizing that their greatest benefit will come from the long-term relationship they create with customers. Two primary concerns have developed in the ongoing battle for customer loyalty, they are customer focus—customization—and quality. The goal is to give each customer whatever s/he demands, with no request being too difficult or beyond fulfillment. This focus on customer satisfaction is not a fleeting tactic, but a pervasive key competitive characteristic as customer service and quality become the hallmarks of superior organizations. In addition, self-service and round-the-clock service are expanding as they become the keys to
efficiency and to meeting increased customer demand for service as former hours and days of work change in response to adjustments in work requirements.

In mid-1995, evidence of these changes was reflected by two-thirds of American workers following non-traditional hours, and one-half working outside the former 9 to 5 standard. Flex-time is no longer limited to just the adjustment of daily hours, but also includes grouping of days. Schedules reflecting these differences may combine six working days, followed by four off-days, or four on-four off, or other variable combinations. Whatever the mix of hours or days, the goal is to get the job done with a higher level of service and quality, while meeting employee needs and improving their quality of life.

The arena for planning and action has catapulted from the neighbourhood to become global. Markets, resource pools, competition, partnerships have all crossed national boundaries, and competitors have become suppliers, even customers, challenging earlier ways of looking at the market and performing in response to its requirements. Global competition, as well, "provokes an increasing concern for efficiency and fuels the application of evermore sophisticated technology."14

The Changing Workforce

The workforce also reflects the changes taking place in other aspects of the environment. Urbanization spreads, as workers move from farms to factories, then into offices, as the shift towards more highly educated professional and technical workers in "think jobs" expands. These educated and informed workers expect adult roles with meaningful work and involvement. Their work has become more knowledge-based, emphasizing judgment, flexibility and personal commitment, rather than performing tasks in response to rules and procedures. Today's workers recognize their skills are important resources and should be used effectively by the organization. In return, however, they expect some personal gain.

More women will continue to enter the workforce and older workers will remain on the job longer. Within-home and child-care responsibilities are being shared by both parents, and as more families assume responsibility for aging parents, both child-care and elder-care facilities will be required on, or near, the job site to assist with this aspect of family responsibility.
The nature of the relationship between organizations and their employees has also shifted, with merit and competence replacing loyalty and long service as the bond. The organization no longer "owns" employees' relevant skills, it now must earn the right to use those skills. Long-term contracts of service with position and time dimensions as the primary factors will be replaced by contracts for service that will define the activity(ies) the worker is to perform within a specific time-frame and for a pre-determined reward. The value of the employee to the organization will be truly recognized if her/his competencies are viewed as investment opportunities to be used fully by the individual and the organization.

Strategic Role of Human Resources

The roles and functions of human resource departments have changed, as well. Forward looking departments are recognized as critical to the accomplishment of organizational goals and employee self-fulfillment is identified as contributing to organizational gain. Investment in human capital has become as critical as other capital investments. Correspondingly, the human resource function is no longer being conducted by employees promoted to this task on the primary criterion that they are "good with people." Specifically trained professionals, with a broad background in education, psychology and human development, as examples, are becoming the standard, with advanced degrees in business the expectation.

The focus and performance of the HR executive have shifted from earlier tasks associated with personnel, maintenance and regulatory functions, to becoming a senior partner in the business and strategy dimensions of planning, performance and change management. The HR professional must develop a comprehensive understanding of the financial, strategic and distinctive capabilities of the organization, being prepared to support these with highly trained, competent employees, while delivering the required human resource activities and managing the change process.

The human resource specialist must do more than find a person with some ability to perform a particular task, s/he must match a candidate's competencies—abilities, skills, characteristics—with the organization's distinctive capabilities. Employees, increasingly, are recognized as non-disposable, ever-appreciating assets, who with appropriate and continuous training will consistently contribute to organizational goals.
Even though technology has reduced staffing requirements in some areas; e.g., telecommunications and manufacturing; there is an expanding demand to provide regular training in many fields as jobs and job requirements change, and as employees' needs and interests also expand and change. Human resource practice will continue to become more systematic as its specialists pursue ever more sophisticated approaches to the optimal use of its human capital.

The HR executive must concentrate on the strategic responsibility of planning in partnership with other elements of the organization, so as to provide competent workers to meet organizational goals. Education and training requirements must expand to maintain the investment already made in employees and to have fully capable people ready to meet the next challenge. As the organization prepares to ride the next technological wave into the future, employees must be ready to ride with it. This, then, becomes the primary task of human resource development--to fully use the organization's investment in its human capital, its people, so they are prepared to meet the challenges they will face, each and every day in the future.

ENDNOTES

Please note: Any reference to another source, such as a journal article or book, can be found in the Bibliography at the end of this manual.


2. The technological revolution was presented by Alvin Toffler in The Third Wave. He stated the Technological Revolution was the third wave of massive change, having followed the Agricultural Revolution, the first wave, and the Industrial Revolution, the second wave.

3. Dr. Daniel Bell in The Cultural Contradictions of Capitalism discusses the general societal impact of a shift from industrialism to the professional service economy he labeled the "post-industrial" society.
More recently, this phrase has also been applied to the period of expanding technological influence.


   In a slightly different slant, Business Week, 16 October 1995, p.40, reported there were 63 PCs per 100 employed workers (including PCs at school and home) in the US.


11. Dr. Richard Nolan, Professor of Business Administration, Harvard University, serving as a consultant to IBM, in ASIAWEEK, 18 August 1995, p.39.

12. Saveri. loc cit. p.44.

13. "Mind share" refers to capturing a customer's loyalty through gaining an intellectual commitment, whereas the "attention economy" is a term used to classify the marketplace in an economy flooded with visual and auditory symbols searching to dominate the consumer's attention.


15. Both of these expressions—contract of service and contract for service—were discussed in a presentation to the Malaysian Employers Federation by

16. Professor Adrian Furnham provided an extensive discussion of competency in "Human Resource Competencies."
LEARNING ACTIVITIES

(a) Answer Questions for Review 1-7, from Chap.1, p.29 and from Chap.2, p.69 of M & N.

(b) As you read the Incidents, pp.31 & 32, you should be able to answer the questions that follow. It is a good idea to review the questions before you read each incident.

(c) Also, answer the additional questions below.

1. Explain the comprehensive nature of human resource practice.

2. (a) What impact has technology had on organizations?
    (b) Briefly speculate what changes will have resulted from technology in five (5) years time.

3. How has technology influenced human resource practice?

4. As organizations have changed how have human resources been affected?

5. Explain the relationship between national development and improved education and training.

6. What strategic role do human resources play in an organization?

7. In the Wimbiscus article, you should be able to explain:
   (a) the individual components and the interaction of the Nadler and Tushman model—Congruence Model of Organizational Behavior—Figure 5, p.16; and
   (b) the Nine-Performance-Variable Model, Figure 1, pp.6-8.

8. Please explain the following statement: for HRD functions to be valued and to receive continued support from top management they must provide an economic benefit to the organization.

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on pp.30 and 69. You should be able to provide a brief synopsis of each of the other items you were assigned.
TOPIC 1

KNOWLEDGE DEVELOPMENT & PERFORMANCE

Objective:

to identify and ensure through planned learning the development of key competencies that will enable individuals to perform current or future jobs.

Training and development’s primary emphasis is on individuals in their work roles, with the primary intervention being planned individual learning.

Content

* Learning Objectives

* Required Reading

* Introduction
  - A Closer Look at the Learning Organization
  - The Learning Organization’s Five Disciplines (Model)
  - Five Main Activities in a Learning Organization (Model)
  - Increased Demand for Training
  - Endnotes

* Learning Activities
  - Questions for Review
    - from the text
    - from additional readings
    - from the incidents
  - Terms for Review
  - Review

* As noted in “The Elements” model (p.13 in this Guide) the first three components of the model are grouped together as “development functions,” with the primary focus being to optimize employee effectiveness within the organization.
TOPIC 1: KNOWLEDGE DEVELOPMENT & PERFORMANCE

LEARNING OBJECTIVES

At the completion of this section you should understand:

1. the meaning of the following terms: education, training, andragogy, synergy, mind-set, learning organization;
2. the difference between HRD and HRM;
3. the requirements fundamental to building a learning organization;
4. the influence education, training and development has on employees and the benefits to the organization;
5. the impact open-book management is having on employees and organizations;

REQUIRED READING


Johnnie, J.B. International Journal of Educational Management, Vol.7 No.5, pp.5-9 (3).**

* Although the subject of the chapter is change, much of this material relates directly to Topic 1 and to the Introduction in this guide.
** These references are "on reserve" in each of the Resource Centres.
INTRODUCTION

For the human resource function to achieve its goals and manage the unpredictability of change in today's rapidly advancing digital environment it must facilitate the movement of the organization toward the learning organization model—a philosophy that alters the way everyone within an organization thinks about learning and decision-making.

This is not, however, a process for which human resources is totally responsible. HR professionals will have familiarity with the components required to achieve a learning organization philosophy and will be able to contribute to and assist with its introduction. However, for an organization to transform itself into a learning organization it will require the commitment of the entire organization.

In the quest to redefine themselves organizations search for measures that will contribute to their success. Whatever path they choose, very few will be identical. Those skills common to developing a learning organization (LO)—to describe successful outputs and the behavior, overt and covert, that will produce the outputs—are also the skills fundamental to the Total Quality Management (TQM) approach, the reengineering process (BPR), or combinations of these, and they will contribute substantially to the organization achieving its goals.

The main focus of an LO, TQM and BPR includes:
(1) a concern about quality;
(2) a willingness to look at how all processes and work gets done;
(3) an openness to learning at all levels of the organization and how they work together.

Each of these points is critical to the success of any operation if it is to compete in today's global marketplace.

Some far-sighted executives recognizing the link between learning and continuous improvement—continuous improvement requires a dedicated commitment to learning—have begun to refocus their organizations around this relationship.¹ In the United States, the United Kingdom, and in Malaysia, business has recognized the importance of education with some organizations developing educational institutions within their corporate
structure. Spending on corporate education has grown by five percent a year over the past decade in the US, and education and training receives in excess of US$50 billion yearly; about half the total spent on higher education.²

It appears that many companies internationally recognize the value and necessity of education and training, as demonstrated by the commitment some corporations have made to educational development,³ as well as to three basic rules of today's workplace:

(1) no company can guarantee a worker a job for life;
(2) the most important asset, both for the worker and for the company, is knowledge; and
(3) as technologies and working methods change ever more swiftly, a worker continually needs to learn new skills.⁴

The value and necessity of education and training were affirmed in a speech by T. Mohd. Azzman, Secretary, Malaysian National Information Technology Council, when he said:

Malaysia is now at a stage where its economic growth largely depends on the proper use and application of human creativity and intelligence...Human skills and knowledge will become obsolete quickly and will need to be renewed.⁵

A Closer Look at the Learning Organization

The popularity of the learning organization idea was stimulated with the publication of Senge's book (1990),⁶ even though the term had been in use much earlier. However, the "component technologies" or "disciplines" he described as being fundamental to a learning organization have been elements of organizational life for a much longer period.

A schema of the five disciplines of a learning organization is presented on the next page. Three of the "disciplines"—personal mastery, mental models, team learning—relate closely to the T-Group movement (see Blake)⁷ which had the development of a "learning culture" as part of its core. Even though T-Groups had an impact on organizations during their popularity in the 50's and 60's, these "disciplines" did not have the significant influence then they are having today.

Often, the descriptions or definitions of a learning organization are confusing or, at best, idyllic and provide little structure around which managers can build a framework for introducing the philosophy of a learning
The Learning Organization's Five Disciplines

"Learning is not...taking in information
...learning is...enhancement of our
capacity to take action. It's always
connected to action." (Senge)

"...one whose members are
continually, deliberately
learning new things." (Senge)

"Continuous improvement
requires a commitment to
learning." (Senge)

"A learning organization is an organization
skilled at creating, acquiring, and transferring
knowledge, and at modifying its behavior to
reflect new knowledge and insights." (Senge)

"...an organization...continually
expanding its capacity to create
its future." (Senge)

"...an organization...continually
expanding its capacity to create
its future." (Senge)

**Shared Vision**
- Share a "picture" of the future
- Build sense of commitment
- Clear and concise agreed upon plan
- Initiated by senior management
- Creates alignment
  - everyone pulling in same direction toward
  - common, avoiding higher purpose
  - reflects organization's values and customers' requirements

**Team Learning**
- Begins with "dialogue"
  - more than conversation build thought
  - processes by adding insight
  - suspend assumptions/break barriers
  - to new ideas/genuine thinking together
- Synergy develops
  - members produce more together
  - than separately
- Individuals collectively produce
  - extraordinary results
- Working together to achieve vision

**Personal Mastery**
- Learn to expand personal capacity
- Clearly define/develop personal
  - level of proficiency
- Identify/dose gap between
  - present desired future ability
- Commitment to lifelong learning
  - and goal achievement
- Openness with others valued

**Mental Models**
- Reflect/deal with assumptions
  - supporting undesired actions
  - and interpretations
- Set aside "old" ways of thinking
- Separate "espoused theories" from "theories-in-use"
organization. A clear and action-oriented definition was given by Garvin (1953) in his article:

A learning organization is an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights.

His explanation of the definition helps to make the concept much clearer. He describes three critical issues usually omitted in definitions and descriptions of learning organizations; each of which is essential if a manager is to successfully implement a learning organization philosophy. Garvin identified these as the three Ms—meaning, management and measurement. Once these have been clearly identified and understood, a manager will have something tangible and be able to lay the foundation for establishing a learning organization.

The first M, meaning, represents the requirement that the definition of a learning organization be believable and provide a footing so that it can be applied and acted upon. The second M, management, must include clear directions for practice within a defined range of action. Measurement, the final M, provides a way of demonstrating the rate and level of learning so that continuous improvement can be assessed and gains recorded.

As with any activity that is to affect an entire organization, senior management must be committed to the processes that will carry through the necessary changes. For the learning organization philosophy to take hold, an environment conducive to the necessary changes must be encouraged and supported. People must be allowed time to think and be rewarded for contributing ideas and suggested changes. In general, three fundamental components are needed to develop a learning organization:

(1) a change in management mind-set;
(2) a creative orientation encouraging individuals to be proactive not reactive to situations; and
(3) oriented towards systems thinking—everything relates.

Garvin identified five main building blocks or activities necessary to the success of developing a learning organization. These are shown in Figure 2.

The focus on learning organizations in this first topic represents the shift in thinking and attitude that must be made if any organization is to be successful in the future. As already noted, as a nation develops there is a move from manufacturing and labor-intensive activities to a knowledge-
Five Main Activities in a Learning Organization

**Transferring Knowledge**
- Knowledge must be shared quickly and efficiently throughout organization
  - ideas have greatest impact when shared broadly
  - new material must be actively experienced
  - via written/visual reports, site visits and tours, personnel rotation programs and transfers, education and training programs, standardization programs
- Knowledge more likely transferred effectively if incentives in place
  - internal competitions and rewards offer encouragement for information sharing
  - new learning openly applied encourages employees to contribute/share more

**Learning from Others**
- Look beyond borders to gain new perspective
- Completely different functions can be fertile sources of ideas & catalysts for creative thinking
- "Steal ideas shamelessly" / Benchmarking (ongoing investigation and learning experience ensuring best industry practices are uncovered, analyzed, adopted and implemented)
  - compare to best-practice organizations
  - study practices – way work gets done – not results
  - conversations with customers
  - insights into changing preferences
  - "contextual inquiry"
  - up-to-date product information
  - feedback about service and patterns of use
  - "first-delivery teams"

**Learning from Experience**
- Review successes and failures (reflection and self-analysis)
  - assess systematically and state outcomes clearly
  - post-project reviews
  - a mind-set recognizing value of productive failure = insight, understanding and wisdom
- Unproductive success when something goes well / nobody knows how or why

**Experimentation with New Approaches**
- Systematic searching for and testing of new knowledge
  - use scientific method / similar to problem-solving
  - motivated by opportunity and expanding horizons – not difficulties
  - Takes two forms (a) on-going programs and (b) one-of-a-kind demonstration projects
    - (a) - continuing series of small experiments = incremental gains in knowledge
      - steady flow of new ideas (even from outside)
      - incentive system favoring risk taking
      - need training in skills for performing/examining experiments
    - (b) - larger more complex
      - holistic system-wide change
      - use one-site / overall application / "learning by doing"
      - "clean slate approach" - set precedents / establish new norms
      - tests of commitment by employees who "test" system
      - development by multifunctional teams
      - limited impact without explicit strategies for transferring learning

**Systematic Problem Solving**
- Rests heavily on philosophy and methods of quality movement
  - relies on scientific method for diagnosing problems
  - data/statistical assumptions as background for decision-making
  - uses simple statistical tools to organize data, draw inferences
  - training programs on problem-solving techniques
- Accuracy and precision essential for learning
  - employees more disciplined in thinking
  - more attentive to details
  - push beyond obvious symptoms to assess underlying causes

By creating systems and procedures supporting these activities and integrating them into day-to-day operations, learning can be managed more effectively and successfully.
creating workforce. In such organizations ideas for improvement will be generated and acted upon. As a result there will be a demand for competent knowledge workers who, in the focus on value-added activities, can be increasingly productive. As well, the expansions of formal educational opportunities are having a significant impact on workers’ perspective and how they view the world.9

To develop and maintain an adequate supply of competent workers who will be capable of meeting the demands of the digital economy and able to respond to continuous change will require organizations to increase their investment in educational, training and development activities.

ENDNOTES

Please note: Any reference to another source, such as a journal article or book, can be found in the Bibliography at the end of this manual.


3. In Malaysia, as only two examples, Tenaga National is actively pursuing the development of a corporate university and the Lion Group purchased an already established private college, spending hundreds of millions of ringgit in reestablishing its presence.

4. The Economist. loc.cite.


ADDITIONAL RESOURCES


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-12, from Chap.8, p.251, M & N.

(b) Read the Incidents, pp.314-315, and be able to answer the questions that follow. It is a good idea to review the questions before you read each incident.

(c) Answer the additional questions below.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

1. You should have a comprehensive understanding of the differences between HRD and HRM. Please explain this difference.

2. In the Garvin article why are the three Ms fundamental to building a successful learning organization?

3. Explain:
   (a) the impact education has had on workers and
   (b) the implications this has for human resource activities and the organization.

4. Why is open-book management impacting both employees and organizations?

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on p.313.
TOPIC 2

ORGANIZATION DEVELOPMENT

Objectives:

(1) to ensure healthy inter- and intra-unit relationships; and

(2) to help groups initiate and manage change.

OD’s primary emphasis is on relationships and processes between and among individuals and groups. Its key intervention is influence on the relationship of individuals and groups to effect an impact on the organization as a system.

Content

* Learning Objectives

* Required Reading

* Introduction
  - Endnotes

* Learning Activities
  - Questions for Review
    - from the text
    - from the additional readings
  - Terms for Review
  - Review

* As noted in "The Elements" model (p.13 in this Guide) the first three components of the model are grouped together as "development functions," with the primary focus being to optimize employee effectiveness within the organization.
TOPIC 2: ORGANIZATION DEVELOPMENT

LEARNING OBJECTIVES

In addition to the objectives presented on p.319 in M&N, at the completion of this section you should be able to:

1. understand how OD is utilized to achieve the organization’s objectives;
2. understand how groups can be used effectively to achieve organizational goals;
3. apply the principle of system-wide change using the organization as the unit of change;
4. understand why it is imperative to evaluate any change program.

REQUIRED READING:

M&N Chap. 9. Corporate Culture and Organization Development. pp.319-358 (39).*


* Corporate culture is not covered in other sections of "The Elements Model," other than for the listing given in Blake's article (assigned in the introduction).

** These references are "on reserve" in each of the Resource Centres.
TOPIC 2: ORGANIZATION DEVELOPMENT

INTRODUCTION

Organization development is a planned, data-based approach to change, involving (i) goal setting, (ii) action planning, (iii) implementation, (iv) monitoring and (v) taking corrective action when necessary.

It is not a "quick-fix" or "fix-it" strategy, but a continuous planned effort over time to develop an organization that is more effective in accomplishing its desired goals. Planned change requires a "change agent" and collaboration across many elements of the organization. Organization development uses behavioral science knowledge and focuses on developing the structures and systems within the organization to improve organizational effectiveness through changing attitudes, behavior, and the performance of groups rather than individuals.

Organizational change will not be effected by treating symptoms, that is, trying to change individual members. It can only be achieved if the direction of change is toward the personality of the organization, not the personality of the individual.

The beginnings of OD were presented in Robert Blake's article (assigned for the Introduction). It is, however, paramount throughout your study of material concerning organizational change, to remember that the organization is the unit of change.
ENDNOTES


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-7, from Chap.9, p.355, M & N.

(b) Read the Incidents, pp.356-357, and be able to answer the questions that follow each incident. It is a good idea to review the questions before you do the reading.

(c) Answer the additional questions below.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

1. How does an activity-centred program compare/contrast to a results-driven transformation?

2. What is the key element of a results-driven change program?

3. Outline how and why you would use groups to achieve your change objectives.

4. Explain the evaluation process you would employ to determine if planned change has been achieved.

5. Why are most change efforts difficult and often unsuccessful?

6. What principles of change can be utilized to overcome resistance and roadblocks?

REVIEW

Carefully review the Summary for the chapter on pages 353-354 as it is a good synopsis of culture, an important part of organizational dynamics. Please make sure you can explain the Terms for Review on p.355.
TOPIC 3

PERSONAL & CAREER DEVELOPMENT

Objectives:

1. to ensure an alignment of individual career planning and organizational career management processes; and

2. to achieve an optimal match of individual needs with organizational requirements.

The primary emphasis of career development is the individual who performs and shapes his/her various work roles. Its major interventions are strengthening self-knowledge and expanding the processes that affect individual and organizational abilities to create optimal matches of people and work.

Content

* Learning Objectives

* Required Reading

* Introduction
  * Endnotes

* Learning Activities
  * Questions for Review
    * from the text
    * from additional readings
    * from the incidents
  * Terms for Review
  * Review

* As noted in "The Elements" model (p.13 in this Guide) the first three components of the model are grouped together as "development functions," with the primary focus being to optimize employee effectiveness within the organization.
TOPIC 3: PERSONAL & CAREER DEVELOPMENT

LEARNING OBJECTIVES

At the completion of this section, in addition to the objectives presented in the text (M&N), you should be able to understand:

1. the implications that life stages have for personal and career development;
2. the application of career anchors to personal and career development;
3. the implications of globalization on careers and the development of employees.

REQUIRED READING

INTRODUCTION

In an earlier era most career planning was done by the organization with personnel people, or managers, identifying capable employees for advancement and creating a plan or providing some attention to the individual's progress and development. More recently, however, this function has been democratized in the sense that the individual, his/her manager and/or the human resource person will "co-manage" the individual's career progress.

With the pressure increasing to retain quality staff, it must be recognized that the investment in an employee is continuously accumulating as the person interacts within the organization and as expenditures for training and development become significant.
ENDNOTES


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-11, from Chap.10, p.387 of M & N.

(b) As you read the Incidents, pp.388-389, you should be able to answer the questions for each incident. Review the questions before you read the items.

(c) Also, answer the additional questions below.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

1. What implications has a strength/weakness balance sheet and a like/dislike survey have for an individual's career planning?

2. As a human resource manager how would you approach and work with individuals who have "plateaued?"

REVIEW

Carefully review the Summary for the chapter and make sure you can explain the Terms for Review on p.387.

You should be able to provide a brief synopsis of each of the other items you were assigned.
TOPIC 4

SELECTION, STAFFING & PROMOTION

Objective:

(1) to meet organizational staffing needs for competent employees through recruitment, selection, promotion and succession planning activities; and

(2) to match people, their career objectives and competencies with jobs and career paths.

Content

* Learning Objectives

* Required Reading

* Introduction
  * Endnotes

* Learning Activities
  * Questions for Review
    - from the text
    - from additional readings
    - from the Incidents

  * Terms for Review
  * Review
LEARNING OBJECTIVES

At the completion of this section, in addition to the objectives presented in the text (M&N), you should understand:

1. the critical nature of the selection process and its importance to any organization;
2. the importance and application of selection tools (they are not really tests) and when and why they should be utilized;
3. that although many of the rules and regulations related to hiring as presented in the text are based on US law there may be future implications for Malaysia;
4. the importance of the interview process, as well as its limitations;
5. that reference and background checks are a necessary link in the selection process;
6. that negligent hiring and retention can be cause for legal action in the United States (and will eventually be in most other jurisdictions);
7. that selection is not a finite activity but one that introduces the candidate to the organization and starts the individual’s orientation and training program.

REQUIRED READING

Chap. 7. Selection. pp.207-263 (56).
INTRODUCTION

Although this is the first element in the 'management functions' section of the elements diagram (p.13) it is closely related to the 'development functions that precede it. Even though these two functions—development and management—have been identified as separate activities they are closely related and dependent on one another. For example, in this topic—selection, staffing and promotion—although identified as a management activity, much of what happens throughout the various processes contributes substantially to employee development and is critical to ongoing organizational success.

This area of human resources is one of the most critical as the success of the total operation depends on success in this area. The hiring process provides the bricks, the various human components, that contribute to building the organization, and has at least three components: recruitment, selection and socialization.

Recruitment is the process of generating a pool of candidates for a particular job. The organization must announce the job's availability to the market and attract qualified candidates to apply. The market from which the firm attempts to draw job applicants can be internal, external or a combination of the two.

Selection is the process of making a "hire" or "no hire" decision regarding job applicants. The process typically involves determining the characteristics required for effective performance on the job and then measuring applicants on those characteristics. The skills, abilities and characteristics required for effective job performance are typically based on a job analysis, which is a systematic study and summary of a job. Depending on applicants' scores on various measurements and/or the impressions made in interviews, managers determine who will and will not be offered a job.

Socialization involves orienting new employees to the organization and to the units in which they will be working. It is important that new employees be familiarized with the organization's policies and procedures and with performance expectations. Socialization can make the difference between a new employee's feeling like an outsider and feeling like a member of the team.
TOPIC 4: SELECTION, STAFFING & PROMOTION

LEARNING ACTIVITIES

(a) Answer Questions for Review 1-9, from Chap.6, p.201 and 1-12 from Chap.7, p.251 of M & N.

(b) As you read the Incidents, pp.202-203 & 253-254, you should be able to answer the questions that follow. Review the questions before you read each incident.

(c) Also, answer the additional questions below.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

1. Explain the critical nature of the selection process and why it’s so important in an organization.

2. (a) Why are selection tools such an important component of the selection process, and
(b) when and why should they be utilized?

3. Please explain the importance of the interview process, as well as its limitations.

4. What are the possible future implications for Malaysia of the hiring laws that now exist in the United States?

5. Why are reference and background checks such a necessary link in the selection process?

6. What are the implications for Malaysia if the negligent hiring and retention laws in the United States become part of Malaysian law?

7. Please explain why selection is not a finite activity but one that introduces the candidate to the organization and starts the individual’s orientation and training program.

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on pp.202 and 252.

You should be able to provide a brief synopsis of each of the other items you were assigned.
TOPIC 5

COMPENSATION, REWARDS & BENEFITS

Objective:

(1) to ensure that compensation and benefit packages are fair and consistent; and

(2) to reward people equitably for their contributions to organizational success.

Content

* Learning Objectives

* Required Reading

* Introduction
  * What Should be Rewarded?
  * Compensation
    * Figure 1: Major Phases of Compensation Management
  * Compensation and Strategy
  * Cost of a Compensation Package
  * Summary
    * Figure 2: Types of Reward
    * Figure 3: Consequences of Pay Dissatisfaction
  * UCLA/Malaysian HR Seminar Notes
  * Endnotes

* Learning Activities
  * Questions for Review
    - from the text
    - from additional readings
    - from the Incidents
  * Terms for Review
  * Review
TOPIC 5: COMPENSATION, REWARDS & BENEFITS

LEARNING OBJECTIVES

At the completion of this section, in addition to the objectives presented in the text (M&N), you should be able to understand:

1. the relationship between reward and performance;
2. the impact of organizational structure and systems on performance;
3. how strategy and compensation must be linked;
4. on people interpret systems differently.

REQUIRED READING


UCLA/Malaysian HR Seminar Notes on Compensation. Developed by Stern & Associates 1995 and UCLA. (36)**

* It may be a good idea to review the UCLA/Malaysian Seminar Notes prior to reading the two chapters from M&N, as the notes provide an overall perspective of the scope and importance of compensation to organizational success.

** This reference is 'on reserve' in the Resource Centre.
INTRODUCTION

No element in an organization communicates more clearly the kind of behavior and attitudes management seeks from its employees, and the kind of organization they are trying to create and maintain than the rewards, financial and otherwise, given for performance. This sentiment is expressed in the following comment by a senior manager in a US government agency:

The incentives for the performance any organization gets is the entire structure of the organization.¹

In other words, how well workers use any skill depends on the pay system, the kind of supervision, the technology, the physical layout, the relations among departments, the feedback provided, the commitment (or lack of it) to excellence, etc. All of these together make up the organization’s reward system. What motivates workers (up to and in the executive suite) is the total organizational situation they confront. Each individual has a good sense of what s/he wants and what must be done to get it.²

Also, any compensation structure is a financial expression of the relationship between two parties: one party represents the management system, the paymaster; the other the employee, whether full- or part-time. The reward system is structured to produce exactly the performance that’s occurring and people in an organization perform as they do because that’s what makes sense to them given the system that’s in place. Any action only makes sense to an employee when s/he has some motive for taking it.³

The conclusion is fairly simple: if an organization wants its workers, supervisors, managers, and executives to develop and use any particular set of skills, reward them for doing just that! The following serves as a guideline to achieve this end:

1. If a manager wants workers to gain and use multiple skills, s/he should organize them into teams, train them in each other’s skills, give them an opportunity to use these skills, and pay them for using them. “Skills-based pay” is an increasingly popular way of doing this.

2. If managers are to work together, base at least part of their pay and advancement on how well they work with one another, reassign them to each other’s functions (even temporarily), task them with significant
projects that require them to work as a team, and give out kudos for
team as well as individual achievement.

3. If the organization is to succeed at any major new program—TQM, JIT
inventory, reduced cycle time, self-managing teams—it must make it
clear that it means to accomplish the new behavior, by persisting and
allowing for major disruptions, by changing the standards and if
necessary the pay system, by providing quick feedback and
recognizing even the smallest new gain, and—whatever else—by
going the organization to the desired goal by praise and support, not
by threats and punishment. 4

As a reminder, the organization gets the level of skill and performance
that it’s structured to get. If motivated workers or a different skill are the
outcomes desired, then the entire structure of the organization must be
examined to determine what performance really is being rewarded and then
the necessary changes to get the new behavior must be invoked. 5

What Should be Rewarded?

Hewitt Associates 6 in a chapter on managing rewards presented an
outline of items to be analyzed for designing a balanced reward system:

(1) risk vs security  (2) long-term vs short-term
(3) cash vs non-cash  (4) discretion vs rigidity
(5) company vs individual performance
(6) cost vs value  (7) communication vs secret.

The underlying assumption is that people do not join organizations
solely on the basis of cash pay, nor stay just because they are well paid:
factors such as motivation, job satisfaction, location and career development
play a significant part, as well.

Hewitt claimed that every study ever done about the needs of and
satisfaction from work of industrialized people concluded that pay was not at
the top of the list. Usually the order varies slightly, but the top five are:

(1) the work is interesting to do (has variety, challenge)
(2) performance is recognized (what I do is appreciated, important)
(3) the climate is participative (I am included, consulted about things)
(4) the job is secure and permanent (not hire and fire)
(5) the pay is good (compared to others seen as doing equal work in
the firm, and outside, as far as it is known).
This research raises many questions: Is individual or group behavior rewarded? Is money used as an incentive to stimulate desired behavior or as an equitable recognition of effective performance? Are economic gains, such as profits or cost improvements, shared with employees or employee groups? Full consideration of these questions leads to the design and administration of an equitable and fair reward system to attract, motivate, and retain employees at all levels.

Decisions about participation and the mix of rewards offered must be consistent with organization strategy, management philosophy, employee needs and other HR policies. Considerations in this area influence greatly the kind of organization-employee relationship and the amount to which that relationship is based on an individual calculation of personal gains or on identification with the organization’s tasks and goals. The extent to which compensation is used as an incentive, the mix between extrinsic and intrinsic rewards, the manner in which rewards are tied to individual versus organizational performance, are vital questions for senior management.

Compensation

Lawler states that compensation is what employees receive in exchange for their work and without adequate compensation, employees are likely to look for other employment. Therefore, the role of the HR manager is very important in assisting and designing fair compensation practices. As an administrator, the HR manager must carry the responsibility of ensuring that the reward system is fair to all employees and this places the burden of minimizing real reward inequities of this office. There are many tools and techniques available to assist HR managers in this endeavor.

Compensation packages must meet several objectives if they are to serve both the goals of the organization and meet the needs of employees:

1. to acquire qualified personnel;
2. to retain present employees;
3. to reward desired behavior;
4. to control costs;
5. to comply with legal regulations; and
6. to further administrative efficiency.

Werther & Davis outline four major phases of compensation practice as presented in Figure 1: Major Phases of Compensation Management.
FIGURE 1

MAJOR PHASES OF COMPENSATION MANAGEMENT

PHASE 1: Identify and Study Jobs

JOB ANALYSIS

- Position Descriptions
- Job Descriptions
- Job Standards

PHASE 2: Internal Equity

JOB EVALUATION

- Job Ranking
- Job Grading
- Factor Comparison
- Point System

PHASE 3: External Equity

WAGE & SALARY SURVEYS

- Government Ministries/Agencies
- Employer Associations
- Professional Associations
- State Unemployment Offices
- In-house Surveys

PHASE 4: Matching Internal & External Worth

PRICING JOBS

- Job evaluation worth
- Match
- Labor market worth
- Rate range for each job

Phase 1: Job Analysis

In the job analysis phase, human resource managers collect information about jobs. This is done through surveys, observation, and discussions with workers and supervisors. From the job analysis, job descriptions are produced. Job standards are then formulated for performance appraisals and compensation decisions.

Phase 2: Job Evaluation

Job evaluation is a systematic procedure to determine the relative worth of the position. This evaluation must consider the responsibilities, skills, efforts, and work conditions. The purpose of this phase is to determine the pay rate for the job, or for the work done. There are four job evaluation methods that are usually employed: ranking, grading, factor comparison and the point system.

Job ranking is the simplest and least cost method of job evaluation. Each job is ranked subjectively according to its relative importance in comparison with other jobs. Job grading is a slightly more sophisticated method in which each job is assigned a grade level. Factor comparison requires the job evaluation committee to compare critical job components. These are the factors common to all jobs, e.g., responsibility, skills, mental effort, physical effort, etc. Each of these factors is compared, one-by-one, with the same factor in other jobs. In the point system, the critical factors of each job are evaluated in depth and assigned a value.

Phase 3: Wage & Salary Surveys

All job evaluation methods result in a ranking of jobs based upon their relative worth, i.e., jobs worth more will be paid more. To determine a fair rate of compensation, most organizations rely on wage and salary surveys.

Sources of compensation data can be found in several ways. One source is through government ministries and agencies who periodically conduct surveys in major labor markets, as well as compile wage and salary information for distribution to employers. If done frequently, the information may be current enough for use by compensation analysts. Employer associations are another source through surveys of member organizations. Likewise, professional associations may be the only source of compensation data for highly specialized jobs. Some HR departments also conduct wage and salary surveys. However, since surveys of all jobs are cumbersome and expensive, usually only key jobs are used with a sample of firms from the
labor market used. These organizations are contacted by phone or mail to
determine what they pay for their key jobs. Most organizations are willing to
cooperate since they also need this information.

Phase I: Pricing Jobs

To price a job, the job evaluation worth is matched with the labor market
worth. Two activities are involved in this process:

(1) establishing the appropriate pay level for each job; and
(2) grouping the different pay levels into a structure that can be
managed effectively.

Most organizations use "compensation adjustment policy" to give
nonunion workers the same raise given to union employees, and some
organizations have a policy of paying a premium above the prevailing wage
to minimize turnover or to recruit the best workers. Other compensation
methods practiced include: incentives, gain-sharing plans, and various
benefits—insurance, education allowance, conference supplements, etc.
Incentives, such as merit raises, piecework, commission, promotions, etc.,
are also utilized to give an organization an advantage over its competitors.

Compensation and Strategy

For reward management to be effective it must be in harmony with an
organization's fundamental management strategy. The package design is
the core element of effective reward management. It is a strategic tool that
can reinforce company business strategy, culture and performance.

Rewards also serve two major functions: they provide employees
with performance evaluation and feedback, plus actual rewards in the form
of raises, bonuses, promotions and other incentive stimulants. The structure
of a reward system can be based on a hierarchy model or be performance-
based.

The hierarchy model places a premium on the supervisor's evaluation
and definition of subordinate performance. Such quantitative factors as
interdivisional cooperation, team performance, long-term relationships with
suppliers and customers, and personal management style are often as
important as quantitative measures of performance, such as return on
investment (ROI) or sales quotas. The key to a hierarchy based reward
system is the relationship between supervisor and subordinate. Critical to
this superior/subordinate relationship in this type of indirect or subtle
performance evaluation system is the long-term effect it has on inculcating the organization's shared values. Obviously, this system is a vehicle for transmitting the values. The hierarchy-based system considers team-based effort and output as a means of emphasizing the importance of long-term commitment and relationship between individual and organization.

The performance-based reward system assigns unwavering priority to results measures such as the ROI, market share, sales quotas and other accounting or production-based criteria. Performance evaluation occurs frequently and through formal measures. Qualitative and other subjective considerations are usually ignored, placing an "arms length" market based approach between subordinate and superior. In a performance-based system, rewards are allocated according to an individual's results; team and corporate level performance is de-emphasized. A concern for subordinate development or long-term career progress is not strongly evident. Individual bonuses represent the core of this system and the transfer of values and norms to subordinates is secondary to meeting predetermined goals.

Cost of a Compensation Package

If reward management is truly to be effective, there needs to be mutual understanding of the costs of package provision. When an employee leaves an organization through financial dissatisfaction, it is frequently related to base pay level, perhaps through a perceived lack of equity.

Linking value with its monetary symbol is an emotionally charged issue and takes on the meaning of many more things to people than its intrinsic simplicity suggests. It will inevitably have wildly different meaning to people who otherwise might seem to have very much in common.7

Actual value is only part of the story, however; perceived value is equally important and often more so. Employers are often unaware of the perceived value of packages from an employee's perspective. Effective reward management means taking employees' perceptions of value into account as well as educating employees as to actual costs involved in package components. If these considerations are examined, both the employer and the employee will derive maximum benefit from the reward structures and costs.

Other factors such as expectancy theory suggest the reward has to be attractive. The individual sees outcomes as having a unique degree of
importance to her/him and offering levels of need satisfaction that differ from all others. Second, each individual has a unique understanding of how performing well will produce the attainment of the desired outcome. Third, the need to consider the effort-performance linkage. This is the probability perceived by each individual that exerting a given amount of extra effort on one's part would/could lead to the required increase in performance.  

Summary

A summary of types of reward is shown in Figure 2, presenting a comprehensive view of intrinsic and extrinsic, direct and indirect and non-financial compensation options. In addition, in Figure 3, a psychological view of the consequences of pay dissatisfaction is presented.

***

UCLA/Malaysian HR Seminar Notes

In November 1995 a group of human resource personnel traveled to the United States to participate in a special program arranged and conducted by UPM's Institute for Distance Education and Learning (IDEAL) in cooperation with the University of California, Los Angeles' (UCLA), Department of Business and Management Extension Program. The Seminar Outline and Notes for compensation are included as part of the required reading.
FIGURE 3
CONSEQUENCES OF PAY DISSATISFACTION

Desire for more pay

Performance

Strikes

Grievances

Search for a higher paying job

Absenteeism

Turnover

Psychological withdrawal

Dispensary visits

Poor mental health

Pay dissatisfaction

Lower job attractiveness
ENDNOTES

Please note: Any reference to another source, such as a journal article or book, can be found in the Bibliography at the end of this manual.

2. Ibid.
3. Ibid.
4. Ibid. p.130.
5. Ibid.
8. The Psychology of Pay and Rewards, pp.32-47.
TOPIC 5: COMPENSATION, REWARDS & BENEFITS

LEARNING ACTIVITIES

(a) Answer Questions for Review 1-12, from Chap.12, p.477 and 1-10 from Chap.13, p.518 of M & N.

(b) As you read the Incidents, pp.478-479 & pp.519-520 you should be able to answer the questions that follow. Review the questions before you read each incident.

(c) Also, answer the additional questions below.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

1. Explain the relationship between reward and performance.

2. An organization’s structure and systems greatly impact employee performance.
   (a) Explain how this happens; and
   (b) What should a manager do to utilize this outcome?

3. How must strategy and compensation must be linked to achieve the organization’s goals?

4. Why do people interpret systems differently?

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on pp.478 and 518.

You should be able to provide a brief synopsis of each of the other items you were assigned.
TOPIC 6

STAFF SUPPORT SERVICES

Objective:

to provide a range of programs for employees, from problem solving to wellness, that will enable them to perform optimally.

Content

* Learning Objectives

* Required Reading

* Introduction
  - Employee Assistance Programs
  - Problem Employees
  - Problem Behaviors
  - Health and Safety
  - Endnotes

* Learning Activities
  - Questions for Review
    - from the text
    - from additional readings
    - from the incidents.
  - Terms for Review
  - Review
LEARNING OBJECTIVES

At the completion of this section, in addition to the objectives presented in the text (M&N), you should understand:

1. the importance of Employee Assistance Programs;
2. the implications that problem employees and problem behaviors create for management;
3. management’s responsibility in creating an environment conducive to productive work.

REQUIRED READING

INTRODUCTION

As the objective at the beginning of this section implies this element was originally considered primarily as a means to support employees who are having personal problems. However, for this course, this section has been expanded to include all programs and services that will assist employees to perform optimally—a necessary condition as organizations move closer to the learning organization model. This can include a range of programs and activities from health and fitness, counselling, financial advice, etc.—any program that supports employees and assists them in their working and non-working lives. Obviously, all levels of management must work together closely to achieve the goal of this element.

Employee Assistance Programs

No matter what kind of organization or industry one works in, one thing is certain: at times, employees will have personal problems. Whether that problem is job stress, legal, marital, financial or health related, one commonality exists: if an employee experiences a personal problem, sooner or later it will manifest itself at the workplace through lowered productivity, increased absenteeism or turnover, inappropriate behavior, or by some other expression. To help employees deal with these personal problems, more and more companies are implementing employee assistance programs (EAPs)—specific programs designed to help employees with personal problems.¹

Problem Employees

There are employees who, regardless of what the organization has done in its efforts at selection, socialization, job design, performance standards, or even reward practices, create problems for management. These problem employees may be chronically late for work, have excessive absences, create conflict with co-workers, consume drugs and/or other substances on the job, refuse to obey directions, break safety rules, engage in other similar digressions, etc.
As these chronic offenders are disciplined or discharged, management must make sure the process is appropriate and handled with caution. There are few ramifications for the organization if action taken is consistent with the inappropriate behavior. However, at times, there are special cases who may react negatively and cause risk or damage to the organization and other employees.2

Problem Behaviors

As presented above, there are a range of problem behaviors that must be addressed by management if the goals of the organization are to be achieved. There are many of these, with only a few listed here as examples:

- Indiscipline—a condition in the organization whereby employees do not conduct themselves in accordance with the organization’s rules and standards of acceptable behavior;
- Attendance—lack of consistent attendance on the job may cause a number of serious problems. For example, relationships with co-workers, team efforts are disrupted, replacement/substitute staff must be obtained, consistency in production, etc.;
- On-the-job behaviors—including insubordination, horseplay, fighting, gambling, failure to use safety devices, carelessness, and abuse of substances such as alcohol and drugs—all create supervisory, as well as safety problems.
- Dishonesty—evidence that an employee has engaged in a single dishonest act reflects directly on the employee’s character and brings every action into question;
- Outside activities—any activity that employees engage in outside of work which either affect their on-the-job performance or generally reflect negatively on the organization’s image.3

Health and Safety4

Most employees, regardless of their position in the organization, status, or level of motivation, share one common requirement: they expect to work in an environment that is free from unnecessary hazards that can cause injury, illness, or even death.

Management has a legal responsibility in most jurisdictions to ensure that the workplace is free from unnecessary hazards and that conditions surrounding the workplace are not unsafe to employees’ physical or mental
health. Of course, accidents can and do occur, and the severity of these may be extreme.

From the turn of the century through the late 1960s, remarkable progress was made in reducing the rate and severity of job-related accidents and diseases, in the United States. Yet the most significant piece of legislation in the area of employee health and safety was not enacted until 1970. This law is called the Occupational Safety and Health Act (OSHA).

The chapter in the text that aligns with Topic 6 is entirely focused on the at-work concerns of a safe and healthy work environment.

ENDNOTES


2. Ibid. p.444

3. Ibid. pp.446-448.


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-9, from Chap.14, p.560, M & N.

(b) Read the Incidents, pp.561-562, and be able to answer the questions. Review the questions before you read each incident.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

REVIEW

Carefully review the Summary for the chapter and make sure you can explain the Terms for Review on p.561.
TOPIC 7

STRUCTURE & JOB DESIGN

Objective:

to define how tasks, relationships and systems will be organized and integrated across organizational units and in individual jobs.

Content

* Learning Objectives

* Required Reading

* Introduction
  * Designing the Organization
  * Endnotes

* Learning Activities
  * Questions for Review
    - from the text
    - from additional readings
    - from the Incidents.
  * Terms for Review
  * Review
TOPIC 7: STRUCTURE & JOB DESIGN

LEARNING OBJECTIVES

In addition to the objectives presented on p.109 in M&N, consider the Challenges presented in Gomez-Mejia, et al, p.79.

REQUIRED READING:


* The subject of this chapter is narrow compared to the scope of the topic. You are encouraged to check other references for more material on structure and job design than is included in the Study Guide write-up.

** These references are "on reserve" in each of the Resource Centres. Although "The Open-Book Revolution" article was assigned for Topic 1, it is very applicable to this topic.
INTRODUCTION

Organizations are fundamentally groups of people, with the relationships between people (or employees) structured in different ways. Organizational structure is the formal or informal relationships between people that develop or are deliberately established in an organization. Work flow refers to the way work is organized to meet the organization's production or service goals.

Work can be viewed from three different perspectives: the entire organization, work groups, and individual employees.

Designing the Organization

Designing an organization involves choosing an organizational structure that enables the company to achieve its goals most effectively. Three basic types of organizational structure are currently in use: bureaucratic, flat and boundaryless.¹

**Bureaucratic**: Organizations adopting a defender business strategy are most likely to choose the *bureaucratic organization structure*. This pyramid-shaped structure consists of hierarchies with many levels of management. It utilizes a top-down or "command and control" approach to management in which managers provide considerable direction to and have considerable control over their subordinates. The military and government are classic examples.

Characteristics of a bureaucratic structure are:
- top-down management approach
- many levels of management
- hierarchical career paths within one function
- highly specialized jobs
- narrowly specified job descriptions
- rigid boundaries between jobs and units
- employees or individuals working independently.

¹ Most of the material in this section is taken from the Gomez-Mejia, et al. text.
A bureaucratic concern is organized into units based on a functional division of labor—employees divided into divisions based on function. For example, production employees are grouped in one division, marketing in another, engineering in a third, etc. Rigid boundaries also separate workers from one another and from their managers because the bureaucratic structure utilizes work specialization—narrowly specified job descriptions clearly mark the boundaries of each employee's work. Employees are encouraged to do only the work that is specified in their job description, no more and no less. They spend most of their time working individually at specialized tasks. Another characteristic is that employees usually advance only within one function; that is employees who begin their career in sales can advance to higher positions in sales and marketing, but are less likely to switch into another function.

**Flat:** Organizations selecting a prospector business strategy are most likely to choose the flat organization structure. Such an organization has only a few levels of managers and emphasizes a decentralized approach to management. Flat organizations encourage high employee involvement in decisions and are likely to be organized into units that represent different products, services or customers. This is to create independent small units that can rapidly respond to customers' needs or changes in the business environment.

Characteristics of a flat organization structure are:
- decentralized management approach
- few levels of management
- horizontal career paths that cross functions
- broadly defined jobs
- general job descriptions
- flexible boundaries between jobs and units
- emphasis on teams
- strong focus on the customer.

The flat organization structure reduces some of the boundaries that isolate employees from one another in bureaucratic structures. Boundaries between workers at the same level are reduced because employees of flat organizations are likely to be working in teams. In contrast to workers in bureaucratic organizations, employees of a flat organization can cross functional boundaries as they pursue their careers. As well, job descriptions in flat structures are more general and encourage employees to develop a
broad range of skills. Boundaries that separate employees from managers and supervisors also break down in flat organizations, where there is a need for fewer managers because employees are empowered to make more decisions.

Flat organization structures can be useful for organizations that are implementing a total quality management (TQM) strategy that makes customer satisfaction the focus of business goals. The flat structure works best in rapidly changing environments because it enables management to create an entrepreneurial culture that fosters employee participation.

**Boundaryless**: A boundaryless organization structure enables an organization to form relationships with customers, suppliers, and/or competitors, either to pool organizational resources for mutual benefit or to encourage cooperation in an uncertain environment. Such relationships often take the form of joint ventures, which let the companies share talented employees, intellectual property, marketing distribution channels, or financial resources. Boundaryless organization structures are most often used by companies that select the prospector business strategy and operate in a volatile environment.

Characteristics of a boundaryless structure are:
- joint ventures with customers, suppliers and competitors
- emphasis on teams whose members may cross organizational boundaries
- shares many characteristics of flat organization structure.

Boundaryless organizations share many of the characteristics of flat organizations. They break down boundaries between the organization and its suppliers, customers or competitors, as well as strongly emphasizing teams, which are likely to include employees representing different companies in a joint venture. Such flat organizations are useful when (1) adopting a total quality management strategy, (2) entering foreign markets with entry barriers to foreign competitors, or (3) there is risk in developing an expensive new technology. The boundaryless organization is appropriate in these situations because it is open to change, facilitates the formation of joint ventures with foreign companies and makes it easier for a company to pool resources with other companies so that financial risk to any one is reduced.
TOPIC 7: STRUCTURE & JOB DESIGN

ENDNOTES


ADDITIONAL RESOURCES


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-9, from Chap.4, p.135, M & N.

(b) Read the Incidents, pp.136-137, and be able to answer the questions. Review the questions before you read each incident.

(c) Answer the Discussion Questions 1-7, from Chap.3, p.111, Gomez-Mejia, et al, and read the Critical Incidents, pp.111-112, and be able to answer the discussion questions.

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on p.313 in M&N and the Key Terms on p.79, Gomez-Mejia, et al.
TOPIC 8

PERFORMANCE MANAGEMENT SYSTEMS

Objective:
(1) to link individual and organizational goals; and
(2) to ensure that daily individual effort is consistent with organizational objectives.

Content

* Learning Objectives
* Required Reading
* Introduction
  * Performance Appraisal
  * Definitions
  * Endnotes
* Learning Activities
  * Questions for Review
    - from the text
    - from additional readings
    - from the incidents.
  * Terms for Review
  * Review
TOPIC 8: PERFORMANCE MANAGEMENT SYSTEMS

LEARNING OBJECTIVES

At the completion of this section you should be able to:

1. discuss and apply principles and concepts of human performance management in organizations;
2. apply principles and techniques of human performance management in diagnosing, planning and intervening in real performance problems;
3. relate current topics, such as process improvement and motivation to performance management systems.

REQUIRED READING


* This Tenaga Nasional manual is an excellent local source in this critical area.

** This reference is 'on reserve' in the Resource Centre.
TOPIC 8: PERFORMANCE MANAGEMENT SYSTEMS

INTRODUCTION

The purpose of this element is to provide a working knowledge base for the person designing, implementing or evaluating a performance management system, or any component of such a system. The underlying concept is that the performance of individuals, and groups of individuals, within the organization can be assessed and improved through a systematic, human-oriented approach. Following this approach, the goals of individuals, groups and the organization can be achieved.

Usually, the focus of this component of human resource activities is the performance appraisal (PA). However, as the objectives at the beginning of this section suggest, the goal is more than just appraising an employee’s work, it includes tying the purposes of the individual with those of the organization so that both achieve their aims—a much more difficult task than just evaluating performance.

Performance Appraisal

Most organizations must conduct performance appraisals of their staff periodically in order to make decisions about pay increases, assignments and promotions. However, performance appraisal has to be done systematically in order for the exercise to have the desired impact on the individual and the organization, especially for the decision making process.

Organizations are becoming increasingly dependent on PA to make decisions related to personnel and realize that well-developed PA systems can increase the probability of retaining staff, and motivating and promoting productivity.

Definitions

In its basic form, as defined by the text (Mondy & Noe):¹

Performance appraisal is a formal system of periodic review and evaluation of an individual's job performance.

Another source (Latham & Wexley)² describes it as:
...any personnel decision that effects an employee's retention, termination, promotion, demotion, transfer, salary increase or decrease, or admission into training programs.

Other sources have very similar definitions, all focusing on the evaluation of the employee's job performance:

PA is a systematic observation, evaluation and explanation of work behaviors (Hodgetts & Kroekck).[^3]

PA is a systematic explanation related to the strengths and weaknesses of the work of individuals and groups (Cascio).[^4]

Simply, PA is the process of measuring work performance (Milkovich & Boudreau).[^5]

PA is the process by which an organization evaluates work performance (Werther and Davis).[^6]

Performance Appraisal Outline

Uses:  - human resource planning  - recruitment and selection
       - career planning    - employee relations
       - human resource development
       - assessment of employee potential

Process:  - identify specific PA goals  - establish job expectations
          - examine work performed  - appraise performance
          - discuss appraisal with employees

Who should conduct PA?:
  - immediate supervisors  - subordinates
  - peers                - group appraisal
  - self-appraisal           - combinations

Period:  - prepared at specific intervals
          - annually     - semiannually

Method:  - ratings scales  - critical incidents
          - essay           - work standards
          - ranking         - ranking
          - forced distribution  - MBO
          - BARS (behaviorally anchored rating scales)
TOPIC 9

RELATIONSHIPS / INTERFACE

Objective:

to contribute to the development of appropriate relationships between employees and various stakeholders.

Content

* Learning Objectives
* Required Reading
* Introduction
  - Endnotes
* Learning Activities
  - Questions for Review
    - from the text
    - from additional readings
    - from the incidents.
  - Terms for Review
  - Review
TOPIC 9: RELATIONSHIPS / INTERFACE

LEARNING OBJECTIVES

At the completion of this section you should understand the impact and importance that unions represented in the early period in the industrial age.

REQUIRED READING

INTRODUCTION

Formerly, this area of HRD focused primarily on the relationships between management and their unionized workers. However, with the increasing professionalism of the workforce and its movement away from classically blue-collar toward white-collar activities, the requirements of the relationship have changed. The changes suggest that the century-old conflicts between worker and manager are shifting to another level, one requiring new attitudes and new perspectives.

A relationship is the communication between people. Interpersonal communication is the process of sending and receiving symbols with attached meanings from one person to another. These interpersonal foundations form the basis for discussing the larger issue of communication within the organization.

Organizational relationships are the processes by which entities exchange information and establish a common understanding. However, interpersonal relationships are a foundation for better communication throughout the organization. A major challenge for members of an organization is the handling of information exchanges to create shared meaning. Managers face the additional challenge of establishing and nurturing communication systems that create exchanges and establish a common understanding up, down, and across the organization.

The very nature of managerial work involves giving, receiving and sharing information on a daily and almost continuous bases. This is the basis for effectiveness in the numerous complex interpersonal networks in which managers interact. Managers should establish a vertical network, as well as a horizontal set of relationships. The basis of sound human relations and effective interpersonal communications lies in one’s attitudes and colors a person’s thinking and feelings, thereby influencing behavior towards self and others.

It should be noted here that the references above to managers and their behavior apply equally to workers as organizations move to flatter, more participative structures and rely less and less on managers to agents of communication.
The following are five communication modes commonly practiced in interpersonal relations.3

Superiority-Equality: The superiority mode emphasizes power, authority, status or position in human interaction. In contrast, a person who practices the equality mode focuses on the quality of what is related, rather than on the position or status of who presented the ideas.

Dogmatism-Open-mindedness: In the dogmatic mode, the speaker refuses to consider the ideas or suggestions of others, insisting that his/her way is the best, if not the only way. On the other hand, a person with an open-minded attitude, acknowledges the possibility of other approaches and is therefore receptive to ideas or suggestions from others.

Judgmental-Descriptive: The speaker in the judgmental mode focuses on judging, blaming or finding fault. In the descriptive mode, the emphasis is on describing the undesirable performance or behavior and its effects on others.

Manipulation-Spontaneity: A speaker who practices manipulations has an ulterior motive and tries to maneuver a situation to his/her advantage; while a person who is spontaneous behaves sincerely and naturally, without wearing a mask.

Indifferent-Empathic: In the indifferent mode, the speaker shows an uncaring attitude. S/he does not care, appears unconcerned for what others think or feel and is not prepared to be involved or committed. The empathetic speaker is concerned about how others think and feel and seeks to understand what it is like to be in the other person's situation.

In every conversation it is usual to employ several mixed modes of communication. That is, to use more than one type at a time, depending on the effectiveness of the relationship and how it is executed, not only verbally, but also the projection of body language, eye contact, tone of voice, and other gestures. Every gesture is a signal some believe, with a concealed message of its own. Human beings are controlled by moods and the environment. To effect successful relationships, we must learn to set the right climate in a communication. We cannot make people relate, but we can create a conducive atmosphere to create responsive conditions.
ENDNOTES

Please note: Any reference to another source, such as a journal article or book, can be found in the Bibliography at the end of this manual.


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-10, Chap.15, p.601, M & N; Questions 1-8, Chap.16, p.637; Questions 1-6, Chap.17, p.664; Questions1-10, from Chap.18, p.701.

(b) Read the Incidents, pp.602-603, Chap.15; pp.638-639, Chap.16; pp.664-665, Chap.17; pp.702-703, Chap.18; and be able to answer the questions that follow. First, review the questions before you read each incident.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on p.601 for Chap.15; p.637 for Chap.16; p.664 for Chap.17; p.701 for Chap.18.
TOPIC 10

HUMAN RESOURCE PLANNING

Objective:

to determine the organization's major human resource requirements, strategies and philosophies.

Content

* Learning Objectives

* Required Reading

* Introduction
  * Maintaining a Competitive Advantage
  * Endnotes

* Learning Activities
  * Questions for Review
    * from the text
    * from additional readings
    * from the incidents.
  * Terms for Review
  * Review
TOPIC 10: HUMAN RESOURCE PLANNING

LEARNING OBJECTIVES

At the completion of this section you should understand the critical role of human resource planning and the value-added features that the human resource function brings to the strategic development and success of the organization.

REQUIRED READING:


* The subject of this chapter is limited and only somewhat related to planning. You are encouraged to check other references for more material on HR planning.
INTRODUCTION

The primary task of human resource planning (people planning) is to decide if additional people are required, how many, and at what intervals. An organization's human resource plans are derived from corporate plans and represent forecasts of staff required to meet specific levels of activity. While such plans can never be wholly accurate, they provide valuable indicators of training and development needs, and related time-frames, at different levels within the organization.¹

An organization develops a strategy that defines what business it is in or wants to be in and clarifies the kind of organization it is or wants to be. Jackson and Schuller (1990)² defined human resource strategy as a set of processes and activities jointly shared by human resources and line managers to solve people-related business issues. Through HR strategy, management seeks to add value by identifying the issues, assessing them, and resolving those most critical to the organization's competitiveness and ultimately to its success.

In defining strategic management, Rue and Holland (1986)³ stated it was a process by which top management determined long-run direction and performance of the organization by ensuring that careful formulation, proper implementation and continuous evaluation of strategy takes place.

Human resource managers in their planning activities must work to achieve the organization's strategic intent and goals. In an earlier version of the text Mondy and Noe (1990)⁴ stated:

Human resource planning is the process of systematically reviewing human resource requirements to ensure that the required numbers of employees, the required skills, are available when they are needed.

Maintaining a Competitive Advantage

Any competitive advantage enjoyed by an organization is likely to be short-lived because other companies will imitate the advantage-giving feature. This is as true for human resource advantages as for technological and marketing advantages. The challenge from an HR perspective is to develop strategies that are unique offering the organization a sustained
competitive advantage. Such strategies may include compensation and reward systems, job design features, or other tactics that maximise the benefits from the organization's human resources.

ENDNOTES


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-7, from Chap.5, p.167, M & N.

(b) Read the Incidents, pp.168-169, and be able to answer the questions that follow. Review the questions before you read each Incident.

(c) Review the Discussion Questions 1-9, from Chap.5, p.187, Bernardin & Joyce, and complete Exercises 5.1 and 5.2, pp.191-207. These two exercises provide an excellent opportunity to practice the employee matching model and the Markov analysis.

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on p.168.
TOPIC 11

RESEARCH & INFORMATION SYSTEMS

Objective:

(1) to conduct research in support of the organization's human resource requirements; and

(2) to ensure a comprehensive information base is available on human resource practices, personnel and policies.

Content

* Learning Objectives

* Required Reading

* Introduction
  - Endnotes

* Learning Activities
  - Questions for Review
    - from the text
    - from additional readings
    - from the Incidents.
  - Terms for Review
  - Review
TOPIC 11: RESEARCH & INFORMATION SYSTEMS

LEARNING OBJECTIVES

In the Introduction to this Study Guide many conditions concerning both the present and future that will effect Human Resource Development were presented. As you consider the questions for this chapter, presented in the text, review the introduction and consider the implications.

REQUIRED READING:

INTRODUCTION

The purpose of ongoing evaluation, data collection and research, especially within the human resource context, is to provide diagnostic information so that the organization can maintain a pulse of the "heart" of its operation, its people.

When properly conducted, an HR evaluation performs a diagnostic role similar to that of a regular physical exam in assessing an organism's general health and identifies potential problem areas. Detected early, problems can be brought under control before they produce negative, perhaps fatal, results. The other specific benefits of such routine human resource "checkups" are that they:

1. encourage managers to examine the entire HRM system;
2. promote the idea that all managers are human resource managers;
3. place the HR department in its proper perspective as a service provider and business partner;
4. schedule specific times for examining the value of existing HRM practices;
5. provide a stimulus for change;
6. support total quality management and other efforts;
7. evaluate the contributions of human resource practices to the accomplishment of the organization's goals.1

In addition to the assigned reading in the text (M&A) it is advisable that you refer to other resources as the topic of research and information systems is becoming increasingly important as the value and potential of the organization's human resources is recognized.
ENDNOTES

Please note: Any reference to another source, such as a journal article or book, can be found in the Bibliography at the end of this manual.


LEARNING ACTIVITIES

(a) Answer Questions for Review 1-7, from Chap.19, p.739, M & N.

(b) Read the Incidents, pp.740-741, and be able to answer the questions that follow. Review the questions before you read each incident.

If you have difficulty in responding to the questions, review the related material in the text, the readings and in the Study Guide.

REVIEW

Carefully review the Summary for both chapters and make sure you can explain the Terms for Review on p.739.
BIBLIOGRAPHY

Please note: Any item listed in the Bibliography has been referred to in the text of this Study Guide.


A RESPECTED LEADER IN HRD

Memories of HRD

That Made the Field What It Is Today.

The field of human resource development defies definition and boundaries. It's difficult to put in a box. It has become so large, extensive, and inclusive that it's now greater than all outdoors.

And the field keeps growing. It continues to spread beyond where it was yesterday, not just domestically but worldwide. One of the few comparable examples, and even then on the physical side of things, is the microchip, which has spread in a few short years across borders and into every nook and cranny of human activity.

What are the objectives of HRD? Sensitivity, sharing, tolerance, courage, competence, character development, achievement, leadership, teamwork, organization transformation and development, conflict resolution, sports psychology, wellness training, human potential, new age, wilderness training, and spirituality mixing for business?

Yes, it is all of those, and always more. Whatever the specifics, the general category and focus of HRD seems to center on human betterment, whatever and in whatever domain of life HRD is interested. The problem is, as it may be judged in years ahead, at least in my 1994 view, the HRD field will be seen as crossing a great frontier, with the goal of bringing applications of the behavioral sciences and...
In the 1960s as a professor at the University of Iowa, he helped supervise a dissertation that compared two leadership cultures—autocratic and democratic—in a school setting. A third style, laissez-faire, was added. This experimental strategy was added because some of the graduate students who were acting in teacher roles were having trouble providing the students with a viable democratic model, and instead were focusing on passivity.

I believe that Leland Bradford, from the National Education Association, and Bonne, a professor of philosophy at Boston University, were also there. Several graduate students from MIT attended as observers and observers.

One participant—her name was Mrs. Brown—was driven by a slightly suspicious streak. After a few days, she felt uneasy about what the staff and graduate students were discussing into the night, every night. She demanded to be allowed to sit in on one of their nightly faculty discussions. They allowed her to.

By that point, the faculty discussions were being documented. Participants had intended to use the sessions to summarize content issues of the day. Instead, they had turned to discussions of hang-ups. What was blocking effective discussion? Was it tensions, frustrations, had attitudes, accusations of prejudice, or all of the above? The participants had to acknowledge that a shift had taken place in what they were addressing.

The discovery of HRR happened. The clinically centered group-dynamics process level gave rise meaning to the difficulties being encountered in discussing the content. The discovery offered promise of unlocking the content discussion, but no one knew at the time how to take advantage of the promise, particularly with adults.

Had HRR been discovered by Mrs. Brown? Or was it discovered by Lewin, Bradford, and the others? Or was it by chance? Whoever was responsible, I believe the insight opened up the new field; it was the inaugural event of human resource development.

The faculty had become keenly aware—conscious of what was occurring in block effectiveness implicitly. This had little to do with the intended goal of the conference. It had everything to do with the human dynamics underlying the content issues with which people were dealing (but in a frustrated manner).

Lewin and Bradford stood out as the faculty members who “got” the point. Lewin died the next year, 1947. Bradford became the Applied Group Dynamics leader, and stayed that way for the next 20 years.

Bradford, a psychologist, was employed by the National Education Association. At the time, NEA had 12 divisions. Bradford became the head of a 13th division, referred to as the Division of Adult Leadership. Thus, the two disciplines involved in the Connecticut Experiment were social psychology (through Lewin) and education (through Bradford).

Bradford was an unusual person; he could see and hear much of what others didn't even pay attention to. He was a direct descendant of Governor Bradford of the Plymouth Colony (he 1620 one). Lee said, “If you look at the governor's multivolume history of the Plymouth colony, each section begins with, 'The group met, and it was decided that...’ The governor had omitted the keys to the process history of the Plymouth colony, only referring to content, but ignoring arguments, tensions, animosities, polarities, etc. that resulted in things evolving as they did.’

T-groups are the Maine event.

The year 1947 marked another real beginning, the start of the National Training Laboratory in Group Development. It was conceived at Bethel, Maine, and its core activity was in the T-Group. I can affirm that "T" meant nothing, although it was more frequently associated meaning is training—not technique and not therapy.

Why Bethel? Three reasons:

1. Bradford and Bonne had been to a meeting in Canada. One thing they saw on their drive back was Bethel Academy, a resident high school in a sleepy little town, which students came from small villages in the Maine countryside.

2. It was an out-of-the-way place where a "learning culture" could be created in the summer when high school was out, and without much interruption or involvement from the community. This created it to be called a "colossal island."

3. A third matter may have been of equal or greater importance, just one block away was the Bethel Inn, which had a beautiful golf course. And Lee Bradford was an avocational golfer.

Where T-group to bring three different influences together into unity? The same though the golf course to be of over-riding influence on this wonderful design.

T-groups meet each morning for two hours. They were made up of 15 or 20 members. A T-group has specific agendas, but it did have an assigned
group leader. The members were from business, especially ESSO (now Exxon), and from education, government, and religion, especially the Episcopal Church. Most T-group leaders were professors with academic credentials, like myself, but many were administrators or other academics.

The group members had to find a topic to discuss. Then, usually toward the end, they would stop the discussion and talk about how they did it. "It means they got into a topic and began discussing how they dealt with the loudmouth or the silent member, how they made decisions, how they dealt with conflict, or how they recognized the discontent.

This, in my view, was the first conscious introduction to the use of feedback and critique for social learning in modern times—through these techniques back, in a discontinuous way, to the golden era of Greece (See the box, "HRD in Antiquity," for a discussion of ancient origins of HRD).

Critique had been a deliberate activity for learning in ancient Greece, particularly in composing the great dramas of the day. But critique in Athens 300 B.C.—as in the Plymouth Colony in 1620—had been lost in the dust of antiquity. Then, in 1943, HRD provided critique a new beginning.

The National Training Laboratory offered another critical distinction as to the conditions prevailing at the time of HRD's origin. Participants were normal people, within the normal range and scope of human effectiveness. They did not come, at least not deliberately, for therapy. This was very important, but the general phenomenon subject to change was process. The point was to treat the normally disturbed and ill by removing difficulties. The goal was to add skill, not to remove defects.

It was this way for several years. Then conflict began for Bethel and for NTL.

Twenty Frenchmen spell change

It happened in 1957, during the French revolution of the "people to people" fellowship era.

HRD in Antiquity

There is practical wisdom in tracing backward to the ancients for the origins for HRD. They, too, were concerned with human betterment.

Confucius saw it in strengthening the family unit, centered on the power/authority dimension based on aged wisdom, the norms/standards of family loyalties, and the cohesion/morale of family unity. (See the box on page 27 for descriptions of the seven dimensions.)

Socrates saw power/authority solutions residing in democracy and believed that norms/standards served as the basis of truth and justice.

Buddha told how detachment (differentiation/structure) could strengthen fulfillment and happiness (cohesion/morale).

Jesus saw the strengthening act in love and forgiveness (cohesion/morale).

Mohammed centered on norms/standards of equality and the strengthening of the brotherhood among Muslims, under power/authority from the absolute power/authority figure of Allah.

Twenty or so Frenchmen came to Bethel en masse, to learn about process. They included professors from the Sorbonne and elsewhere, and a few businessmen. The staff had to plan what to do.

That was the beginning of trouble for the National Training Laboratory, for it brought out some fundamental disagreements and sharp cleavages among the NTL staff. Lee's paternalism could no longer keep the faculty together as "one happy group of argumenative children."

NTL trainers were not all alike. Some saw the key problem as preventing society from getting better as bad uses of power/authority, which they saw as the source of fundamental blockages to human betterment. These people said, "Solve the power/authority problems, and cohesion will result."

Other trainers at NTL did not see it the same way. They saw cohesion/morale blockages to be at the center of social blockages to human betterment. These people said, "Create good morale, and problems of power/authority do not arise."

The division became permanent, but a great contribution to social psychology had been made. These terms—cohesion/morale and power/authority—serve to identify what we now know to be two of seven basic dimensions of culture in society (for more information on the seven dimensions, see the chart on page 27).

This was all so new to the Frenchmen that they also felt progress, and appreciated knowing that the experts did not agree among themselves.

But, to NTL, it was the end of Part One, 1947-1957. Part Two contained much more cohesion/morale emphasis and less concentration on power/authority. The drugs and love-ins of the 1960s found an early home in Bethel's cohesion environment, much to the disgust of the natives.

Another, but minor, accomplishment of the era was the participants' discovery of precursors to flipcharts, green boards, white boards, and other varieties of boards. How did that happen?

The T-groups found that they needed to record things on blackboards. No blackboard? What to do? Someone went to a nearby market and bought some butcher paper, the kind the corner store used in the 1950s to wrap meat, it was an excellent alternative to the blackboard, except that chalk wouldn't work on the slippery butcher paper. And, of course, there were no magic markers; those came much later, as did newspapers.

By the 1970s, a great many corporations were using such means of recording, from the executive suite on down. Now, display boards that emerge from mahogany wall panels are the solution in many firms. Lighting is embedded in the ceiling. The only aspect that has not changed much is the quality of what's written on the boards.
Beyond Bethel: swimming pools, movie stars

Groups in the Southwest United States and on the west coast of the country were duplicating NTL. Power/authority had been the central emphasis in Bethel, although morale/cohesion had become a new emphasis.

Morale/cohesion was the driving force for Western Training Laboratory, where the driving forces were Bob Tannenbaum of UCLA and Chuck Ferguson. Without being fully aware of it, WTL focused on still a different dimension of socioemotional standards and how they unintentionally operate to control behavior.

Norms of propriety had already met their match in the Hollywood of the 1930s and American "uprightness" was being undercut. WTL kept this up, challenging one norm after another in a process that--in order to learn about social control and freedom--some T-groups became marathon T-groups that ran continuously for something like 30 hours to investigate such issues as how conventional time norms work, how people deal with one another under extreme fatigue, and whether cohesion/morale was gained or lost and why, and if it was lost, how to repair it.

But the more significant experiment in WTL's HRD work came from the nude T-group. Participants stripped and met in the nude at the pool. How did they react to one another? From repugnant to ecstatic (cohesion/morale words).

But WTL also went further, creating the experience of "cradling." How do you re-create an early life experience? Here is one illustration. All of the nude participants form a circle in the water. One member volunteer and is cast about in the circle. Then he or she is gently rocked from one side to the other. The cradling experience is said to recapture early life experiences in a redintegrative way. You can appreciate why EST originated on the West Coast, not the East Coast.

The Southwest Training Laboratory went in a slightly different direction. SWTL was a consortium of SMU, Kansas State, and the University of Colorado, centered at the University of Texas at Austin.

SWTL created groups that were leaderless, at least in the sense of not assigning a leader. The power/authority problem had thus been solved by creating a vacuum; this in turn stimulated cohesion/morale. This was the origin of the self-regulated work teams that have spread far and wide in industry today.

More importantly, this was the beginning of a new method of education. Synergogy (which may eventually replace pedagogy) and androgogy emerged, with a goal of removing the traditional "leader" role and turning the power/authority over to the groups. The new method also turns over the learning achievement to the participants. It measures it quantitatively, on a team basis as well as an individual basis. And it evaluates and needed a person to play the infant of an unhappy married couple. The couple was there, trying to work out their difficulties. I became the infant, I found a sheet, and I invented a diaper to fit the occasion.

As the couple's baby, I enjoyed walking with the baby-sitter while the couple was out. When the husband and wife returned, they headed for the bedroom. The husband was anticipating an intensive cohesion/morale-building experience. But alas, I awakened and made a huge fuss, heard on both sides of the sidewalks of New York. Since I was but six months old, this was an approximate primal scream, itself a wonderful eman toward the bath trauma.

Actually, the baby had come over and pinched me, and my misbehavior put a damper on any cohesion for that evening. But she had already been found out.

These Friday nights were a great experience for everyone, including me.

Moreno soon recognized me as the American he had met at Tavistock Clinic. He knew I was a long-time "Bethelite." He bestowed reassurance on Bethel, but not on me. In his theater, he invited me to join him in his back office, where we then met frequently, in the meantime, he waived the $25 admission fee. Zerka, his wife, conducted the psychodramas while we were sitting back stage.

One Friday night, he said, "I want to play you a record." It had been made, I think, in 1934, it was a recording of a meeting between himself, Lee Bradford, Ken Bense, and possibly Kurt Lewin. The record was a recording with Moreno's contributions, particularly role playing, which became an aspect of Bethel's afternoon programs a decade later.

The other participants were there as students of Moreno.

Beginnings of HRD At this point, the tension was a very influential moment. In the final analysis, I think, Moreno saw it as an exploration from Freud, rather than something new arising from social psychology.

A strong case can be made for Moreno as the originator of Father of HRD, but I think the Connecticut Experiment was the better starting point for the modern history of HRD.
compares learning achievement across groups. All of these are powerful motivators for active learning.

I see synergy to be a future means to the resurrection and liberation of education. Synoptic methodology provides a clear anchor for optimal conditions in each of the seven basic dimensions of society within the miniature learning culture.

Malcolm Knowles invented modern andragogy. He had been at Bethel, and he took the T-group model of a professor/leader, helping people learn subject matter, not just process—except as it became an impediment to content learning.

Ed Schein, creator of process consultation, took the T-group in a different direction via members from study groups, sometimes actual work groups. The issues of their work lives were sometimes the discussion content. Schein introduced them to process issues using andragogy techniques, which tend to draw dependency from the group on the leader's guidance. Thus, the power/authority problem became exaggerated but muted, rather than being diminished or eliminated.

Mid-1950s again. The late Jane Menon, UT Psychology professor, joined in these NTL-type activities and became a significant contributor to NTLT. She was the senior author of Synergy: An Approach to Education, which may become the standard approach to education, from high school through college and beyond. She and I wrote 40 books and 200 journal articles from 1955 to 1987, many on human resource development: issues. We found writing to be the single best way to clarify our thinking. She was a great author.

OD Emerges from NTL

Now let's shift away from general development and discuss in more detail one area of specific application: organization development. In this area, we can see some of the outlines for the future of many other human resource areas.

Viewed from one angle, the emergence and spread of HRD was clearer, random, blind, and serendipitous, in a process far different.

By around 1960, four of the seven

Seven Dimensions of Organization Culture

The first word in each column is the psychology term; the second is more aligned in sociology. Thus, the same phenomena is viewed in each case from a double perspective.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Interpretation</th>
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<tbody>
<tr>
<td>Power/authority</td>
<td>How direction and control are implemented.</td>
</tr>
<tr>
<td>Norms/standards</td>
<td>The traditions, precedents, and past practices: norms and regulations that govern the uniform practices that take place; the uniformities in thought, feeling, and attitude that characterize members of any primary or reference group.</td>
</tr>
<tr>
<td>Cohesion/morale</td>
<td>Feelings of identification with or alienation from primary memberships.</td>
</tr>
<tr>
<td>Goals/objectives</td>
<td>The aims or purposes that characterize autonomous individuals, groups, and organizations.</td>
</tr>
<tr>
<td>Differentiation/structure</td>
<td>The formal arrangements set up to determine the responsibilities of individual groups and organizations.</td>
</tr>
<tr>
<td>Feedback/critique</td>
<td>Learning in order to improve or change performance, quality, innovation, and so forth</td>
</tr>
<tr>
<td>Interdependence/exchange</td>
<td>The character of relationships, if any, among autonomous units such as individuals, groups, or organizations.</td>
</tr>
</tbody>
</table>

basic dimensions of organization culture had already been investigated to some extent. Power/authority was understood at the concrete level. Norms/standards of conduct, as seen in real-life terms, had been subjected to inquiry, as had cohesion/morale, which people were beginning to appreciate. Feedback/critique became the new source of learning technology and insight.

And the answer to NTL's interdependence/exchange problem—in other words, NTL/Town relationship conflicts in sleepy Bethel—was reduced. Lee Bradford reduced it to a management problem, rather than considering it as a process issue; he kept it to a minimum the need for...
Meanwhile, people who think about these things for a living argue that even after a decade and a half of experimentation, something is still missing. A new paradigm, a central organizing idea. "The fundamental principles of a new managerial paradigm are far from clear," observes David H. Freedman in Harvard Business Review. Rosabeth Moss Kanter, one of the nation's best-known business thinkers, agrees. Each of the "management buzzwords and fads of the last decade," she argues, is "like a way station on the road to a comprehensive rethinking of the business organization."

But what the pundits haven't yet caught sight of is the growing number of companies that have been getting a lot farther down that road. I recently spent 18 months visiting many of these companies, and what they're coming up with seems to me to be as close to a new paradigm or a comprehensive rethinking of management as we're likely to get. They're calling it open-book management. The beauty of open-book management is that it really works. It helps companies compete in today's mercurial marketplace by getting everybody off payroll thinking and acting like a businessperson, an owner, rather than like a traditional hired hand.

The open-book companies are all over the map, in every kind of industry and business situation. Bob Frey, owner of a small Cincinnati packaging manufacturer called Cin-Made, turned his business around with open-book principles. So did Bob Arzibech, manager of Chesapeake Packaging's big corrugated-box plant in Baltimore. Macaco, an immensely successful consumer-products distributor headquartered near Cleveland, has built the open-book approach into its operations for years. Acumen International, a small but growing personnel-assignment company in San Rafael, Calif., adopted it just last year.

The best-known practitioner of the new approach is Springfield Remanufacturing Corp. (SRC), in Springfield, Mass., which calls its system the Great Game of Business. SRC's Great Game has spawned hundreds of emulators—who now gather once a year to swap stories and tips about implementing the open-book approach. (The third of the annual get-togethers is coming up in September.) Every month, another 30 to 35 companies send representatives to Springfield (at $950 a pop) for a two-day seminar on SRC's system.

By now the game-playing group includes some sizable organizations: Allstate's business-insurance unit, Sprint's Government Systems Division, Amoco Canada, and even—at of last year—the giant ZCCZ copper mine in Zambia, a 50,000-employee enterprise that is the economic motor of that struggling African nation. It also includes plenty of small everyday companies, as you can discover by visiting SRC's Springfield neighbors. Walk into the Pontiac-Cadillac dealership or into a local building-supplies store. Talk to the guy who runs the area's fastest-growing commercial-cleaning service or to the brothers who own a heating-systems manufacturer.

Open-book purists, all.

Nearly all the open-book companies can boast some startling business accomplishments. SRC transformed itself from a small, money-losing division of Interna-

n spreadsheet (now Navistar) into a moneymaking moneymaker with revenues near $100 million. The sales of Mid-State Technical, a staffing company headquartered in Davenport, Iowa, rose 79% in the two years after CEO Steve Wilson adopted the new approach; profits nearly tripled. Kelsey Fine Furniture, in Denver, saw return on assets jump from the 1%-to-2% range all the way to 9%—an astonishing figure for a retailer in a traditionally low-margin business.

Not surprisingly, the practitioners tend to wax evangelical about the approach. Just look behind the numbers. Kelsey’s Leslie Fishbein pronounces open-book management “the key to our competitive advantage in the marketplace.” Others concur with changing employee attitudes, building trust, and even with reducing stress. Outside observers don’t disagree, Chris Lee, managing editor of Training, a magazine for corporate-human-resources professionals—visited several open-book companies last year and came away dazzled. Open-book management, she wrote admiringly, is “some sort of lightning in a bottle.”

Granted, we’ve heard big claims before, especially from the TQM men and the reengineers and all those other mavens of modern management. But the practitioners of open-book management argue—convincingly, I have to say—that they have something the other approaches don’t. Open-book management not only gets people to act differently but gets them to think differently. It changes fundamentally the link between the employee and the company. Yet you don’t have to rip up your whole organizational chart and send everyone to some faraway training institute just to get started.

Another thing: open-book management comes with a built-in self-regulator that ought to still the hearts of owners who fear letting go—who worry that empowered employees will make stupid decisions and send the business south. The most important checks and balances—the numbers—are part of the system. If somebody makes a bad decision, its effects on the bottom line are right up where everybody can see them—and react accordingly.

There is no standard set of rules for implementing open-book management. But there are a few basic principles and, by now, a lot of people who have experience putting those principles to work in companies.

In the next few pages, I’ll share some of their experiences with you. And I’ll sketch out a blueprint for action that might just transform your business, too.

**What Is Open-Book Management?**

Open-book management is a way of running a company that gets everyone to focus on helping the business make money. Nothing more, nothing less. It throws out the old approach to management, in which bosses run the show and employees do what they’re told—or what they can get away with. It takes those trendy new management ideas—empowerment, TQM, teams, and so on—and gives them a business logic.

In an open-book company, employees understand why they’re being called upon to solve problems, cut costs, reduce defects, and give the customer better service. And they have a reason to do so.

If you could tear apart an open-book company and compare it with a conventional business, you’d see three essential differences:

• Every employee sees—and learns to understand—the company’s financials, along with all the other numbers that are critical to the business.

**SCENES FROM AN OPEN-BOOK AORL**

*Who Do You Think You’re Talking To?*

You can’t judge businesspeople by the color of their collars. Like a true new to open-book management, Bill Fatch had to learn that lesson.

Fatch is now a business adviser working with Jack Stack of Springfield Remanufacturing Corp., but not so long ago he was vice president for business development of SRC Corp., the big farm-machinery company. One day he flew down to visit SRC, which his boss had described to him as a “small but innovative upscale.”

Fatch had been heard that SRC employees knew the business inside and out, but he was skeptical. When he came across a guy who was polishing crankshafts journals, Fatch figured he would ask him a crucial question.

“Good morning,” said Fatch. “My name is Bill Fatch, I understand that many of SRC employees really understand their business.”

*List price or dealer net?* he inquired.

Then he went on to explain both prices, how they compared with SRC’s cost, and what his own component of the cost was.

“At that moment,” says Fatch, “I became a convert.”
A Reading List for Further Study


These are divisions already exist today.
Membership criteria—professional standards—will be called for. The day of the intuitive will no longer be. But that day is distant. It lies beyond the horizon—way beyond. Today, HRD is for all runaways, no qualifying questions asked—more or less.
Writing will also change, and for the better. Dialogue and story-telling will replace the endless monologues that today fill a typical 600 pages per book.
Already, at least four stories or novels reveal HRD initiatives. The (and Prelude are two industrial stories now in print. Then there are two stories about marketing and sales: The Quadrant Solution and Solution Selling. These are readable, novel-type books that convey concepts in story form, the near-term solution in the reader-friendly demands of today and tomorrow. Readable books may become a standard part of HRD criteria.
Now I want to appeal to your capacity for romantic illusion. Take the U.S. Senate and House of Representatives as a case study. You may agree that they look as crucial as a case of change: lecturing from the White House won’t cut it. Evangelist Billy Graham is not in a position to do the job. Even the electronic can’t do it—because congressional members are “bad guys” when they’re at home, where they are not under the norms/standards and power/authority structures of their respective bodies. They’re only “bad guys” when they’re in Washington.
Congressional OED? Yes, I think so. What’s the alternative? Only OD has the strength, the capacity, and the insight to help bring the urgently needed changes about.
We have presented this possibility in a senator’s office, with the senator, his legislative assistants, and others participating. Grandiose as it may sound, it is a practical approach, and it has no competitors. That’s where HRD may be going.
In the meantime, human behavior is definitely in our future!


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28 Training & Development March 1994
Invited Reaction: Performance Improvement: A Methodology for Practitioners

Alan P. Brahe, Geary A. Rummler

We are flattered that James Wimbiscus sees our work as "a model that provides a holistic view of improving performance." We have striven to have our work serve two fundamental needs: (1) to comprehensively treat all aspects of performance (helping our clients avoid the unidimensional nature of most improvement initiatives) and (2) to provide not merely theory or motivation, but tools, the true test of which is our clients' ability, over time, to successfully use them without our presence.

In most cases, Wimbiscus has appropriately captured our message. In other cases, he misunderstands. In yet other instances, he suffers from exposure to the 1980 thinking reflected in the first edition of Improving Performance. We've learned a lot in the last six years. The second edition of the book, which was written in late 1994 and is being published by Jossey-Bass in early 1995, directly addresses a number of the points made by Wimbiscus and his "school." We believe the best way to address Wimbiscus' assessments and conclusions is, in order, point by point. We quote from his article:

"The Brahe and Brahe performance improvement model is distinguished as a useful scholarly source . . . because the authors fail to support it with research from any of the disciplines cited above." We agree. We are practitioners and the book was written for practitioners, not scholars. We realize that the fact that it relies on our and others' research weakens it in the eyes of academics. We also recognize that the downside of a comprehensive model is that a single book cannot hope to cover all areas in depth. For example, Porter's three books of breakthrough thinking on strategy address two-thirds of one of the same grid in the matrix Wimbiscus uses as the foundation of his article. One of the limits of our book is that, in the interest of readability for the practitioner, we are more superficial in some areas than some of the more focused scholars cited by Wimbiscus. The theories and models of the scholars Wimbiscus selected for his analysis were not inputs to our constructs or to the models that we use in our practice. However, we agree that, in most cases, there are . . .
can provide insights into the cells in which he placed them. While we have not presented a body of research and we recognize that we have a lot to learn, our clients continually validate the soundness of the guiding theory of the general systems model and the three levels of performance.

"HRD professionals are grounded only in the psychology element and fail to incorporate the other elements of economic and systems theory in their performance improvement efforts." We couldn't agree more. Furthermore, we have no problem with Swanson's three legs of the HRD stool. However, we do not understand the value of rankin the importance of the "three elements" in each of the "three levels," as Wimbiscus does in Table 1. A holistic approach holds that all three factors are interrelated. Separating and assigning priorities to them is likely to lead to suboptimal interventions.

"The role of the external environment is not depicted in Rummler and Brache's model. "Their model... is confined to an internal view of the organization and lacks the important dimension of environment." It's true that the external environment is not displayed in the nine-cell diagram Wimbiscus has chosen to use. However, that matrix is not the Rummler and Brache model. Our model, shown in Figure 2.4 of our book and used repeatedly in the book, is of organization as an adaptive system. It prominently displays the external environment, which includes customers, competitors, capital, raw materials, technology, the job market, regulations, the economy, and the external culture. The second edition of the book adds shareholders to our picture of the external environment.

"While Porter's work expands well beyond Rummler and Brache's largely internal boundaries of the organization, he does provide essential tools for setting organization goals." Porter's perspective is invaluable in establishing strategy. However, Wimbiscus has missed Chapter Seven of our book ("Linking Performance to Strategy"); in which the systems model is shown again with fourteen strategic questions, four of which relate to the external environment.

"Like Rummler and Brache's model, the Nadler and Tushman model is descriptive rather than prescriptive." It depends on what Wimbiscus means by "descriptive." If he means that we approach a situation diagnostically, rather than going in with a predetermined solution (training is the answer, reorganization is the answer, information systems are the answer), he's right. If he means that all the model does is describe the current situation and leave it up to the user to design the improvement, that is not true. Our analysis of the "is" (current) state is designed to provide a platform for the real goal, which is the design and implementation of the "should" (future) state. Most of our time and our tools are directed toward facilitating "should" design.

"Rummler and Brache could argue that individual employees are addressed at the job/performer level, but there needs to be a strong, direct link from the organization level to the job/performer level." Yes, that link consists of the business processes.

"Tichy advises managers to consider the technical, political, and cultural areas of the organization when attempting to improve organizational perfor-
Rummler and Brache fail to consider these essential and powerful factors, which significantly affect the ability of an organization to implement organizational change aimed at improving organizational performance. Our analysis of the "IT state" focuses on an assessment of both strengths and weaknesses ("disconnects"). The disconnects our teams unearth are as likely to be political or cultural as they are to relate to policies, systems, or work flows.

The first edition of the book is light on the variables and challenges in implementation, many of which are political and cultural. The second edition, based on our learning during the last six years, treats them in more depth.

"Work moves away from work units defined by functional boundaries to teams built around business processes." Partially true. We recommend that cross-functional project teams formed around business processes design and implement performance improvements. However, as we state in the book, we do not typically recommend organizing around processes. There are usually compelling reasons to be organized functionally. One of our primary messages is that the work of functional units, and the way that work is measured, should be defined in terms of the cross-functional processes in which the units contribute.

"Unlike Rummler and Brache, Newport provides some guidance on which specific organizational processes to select for improvement efforts." In Chapter Ten ("Improving and Managing the Processes of the Organization"), we discuss selecting processes for improvement (in a step entitled "Central Processes Selected") and for ongoing management (in a section entitled "Selecting Strategic Processes"). We have strengthened the treatment of processes selection, including providing criteria, in the second edition.

"Juran supplies managers with numerous tools and techniques for setting and monitoring goals and improving company processes." We have found that Juran tools are somewhat more useful in establishing goals and very useful in deploying actual performance against process goals.

"Rummler and Brache employ a set of cumbersome tools." It is clear that W. Edwards Deming never saw these tools in practice. A cornerstone of our business is equipping our clients to use our methodology. As we continuously see our competitors, large and small, "dodge" our tools, we sometimes wish they were a bit more cumbersome.

"A control paradigm may be effective for jobs with low task variety and low task complexity, but for complex knowledge work, Rummler and Brache's treatment of the employees would be ineffective." All we can point out here is our library of two hundred performance improvement projects, almost all of which were with complex knowledge workers in organizations like M.I.T., Hewlett-Packard, Shell, GTE, and Citibank. We do relatively little work at the plant or back office level and would argue this work in those areas should not be knowledge work.

"The problem with the control paradigm is that people are intrinsically rewarded for their performance." We agree. Most of our reward systems work focuses on building towards into the work itself. We also have to believe...
in individual or team job definition and in accountability based on measurement, however, that belief is not inconsistent with a high degree of involvement. Even though we don't enter a performance improvement project with an objective to increase involvement, vertical and horizontal participation is increased in nearly every case.

"What Campbell adds to the Rummler and Brache model is an appreciation of the need to develop measurements for improving performance. I'm sure we could learn from Campbell. However, measurement is one of the pivotal success factors in the book, symbolized by the fact that Chapter Eleven ("Measuring Performance and Designing a Performance Management System") is the longest and most example-laden chapter. Our work during the six years since the first edition of the book, particularly with companies whose goals went beyond performance improvement to ongoing performance management, increased our focus on measurement."

Rummler and Brache acknowledge the psychological dimension associated with managing individuals. However, they address this by improving the system at the process level and managing the job/performer level with extensive documentation and measurement of key outputs. Yes, designing intelligent processes and measuring job outputs are necessary. However, the primary tool for managing the psychological dimension of the job/performer level is the Human Performance System, which deals with feedback, rewards, training, tools, and job design. We believe in only as much documentation and measurement as is necessary. Our work in the implementation of process improvements focuses more heavily on the human element than on any other.

"Hammer's methods are incoherent with Rummler's and Brache's philosophy and model." Not true. Our differences with Hammer are minor and technical. Our primary difference is in construction, while he effectively provides motivation and examples, we provide methodology. The Rummler-Brache tools have been used extensively to achieve Hammer's vision of radical breakthrough. (They also are used to bring about incremental improvements in situations in which the current process should not be discarded.) Hammer admits to providing no "how to." That's where we come in.

The clarifications and simplifications listed above should not obscure the useful service that Wombuscus has provided. He has noted the need for a comprehensive performance improvement model, has selected one as a "seamless," and has used the work of experts to critique that model. He has also laudably indicated that a comprehensive model needs to be supplemented by the integration of research, experience, and training in specific areas of performance management.
A Classification and Description of Human Resource Development Scholars

Jare J. Winship Jr

Scholars from various disciplines have written volumes of research aimed at improving the performance of individuals, processes, and organizations. With so many disciplines represented, human resource development (HRD) lacks a unifying model that practitioners and scholars may use to integrate and understand HRD issues. The Bumurt and Burke nine-cell performance matrix (1990) is used as a template to identify, classify, and describe major HRD scholars. In addition, a summary of the contributions made by the selected scholars is presented. In total, the comprehensive HRD model offers scholars and practitioners a synthesis and integration of the work of scholars from the disciplines that support HRD.

In the past ten years, the field of HRD has emerged as a discipline charged with the development of people, processes, and organizations so that all three may contribute to improved organizational effectiveness and success. The field has its beginnings in management principles (Taylorism), productivity improvement (Hawthorne studies), and teamwork and group dynamics (Tavistock Institute and T-groups). Scholars and researchers from various disciplines, including industrial psychology, organizational behavior, management, industrial relations, education, curriculum instruction, psychology, engineering, sociology, and human resource management have all contributed volumes of research aimed at improving the performance of individuals, processes, and organizations.

With so many disciplines represented, the field lacks a unifying model that practitioners and scholars may use to integrate and understand issues in HRD. The human resources wheel developed by McLean and the American Society for Training and Development...
for Training and Development (McLagan, 1983) provides a template for categorizing HRD's components but does not serve as a unifying model of the HRD discipline.

In Improving Performance: How to Manage the White Space on the Organization Chart, Rummel and Brache (1990) develop and present a model that provides a holistic view of improving organizational performance. They offer a three-by-three matrix of three levels of performance (organization, process, and job/performer levels) and three performance needs (goals, design, and management) from which they identify nine performance variables that scholars and practitioners must address to improve organizational performance. Their model allows scholars and practitioners alike to view organizations from the multiple perspectives afforded by the many disciplines that contribute to the field of HRD. The Rummel and Brache performance improvement model is diminished as a useful scholarly source, however, because the authors fail to support it with research from any of the disciplines cited above.

This article will enhance the Rummel and Brache model first by providing clear definitions of each of the nine performance variables, then by integrating the model to the three elements of the HRD field, and finally by using the model as a means of synthesizing the contributions of HRD scholars. The intent of this article is to examine the Rummel and Brache model in relevant HRD theory and research not to cite the research that supports each variable... Rather, I will identify, classify, and describe contributions by nine scholars in the field of HRD, using the Rummel and Brache model as a means of integrating their work.

Rummel and Brache's Nine-Performance-Variable Model

In their book, Improving Performance: How to Manage the White Space on the Organization Chart, Rummel and Brache develop a holistic view of improving organizational performance. They offer a framework for implementing performance improvement efforts at three levels: the organization level, the process level, and the job/performer level. They suggest that most managers understand the problems but “fail to understand the variables that influence both organizational and individual performance” (Rummel and Brache, 1990, p. 2). They combine the perspectives gained at the three performance levels with three performance needs—goals, design, and management—to form a cohesive matrix (see Figure 1). These performance levels are explained below.

According to the authors, managers perceive that the majority of their responsibilities fall within the task of managing the people and work within their own department or functional area. This results in a vertical view of the organization, or “silo structure,” which results in deep separation between departments. They suggest that the real challenge is to manage the processes and issues that lie between departments within the organization, that is, “to manage the white space on the organization chart” (p. 4).
Figure 1. The Nine Performance Variables

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Goals</th>
<th>Design</th>
<th>Management</th>
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<tr>
<td>Organization</td>
<td>Organization Goals</td>
<td>Organization Design</td>
<td>Organization Management</td>
</tr>
<tr>
<td>Job/Performer</td>
<td>Job/Performer Goals</td>
<td>Job/Performer Design</td>
<td>Job/Performer Management</td>
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Source: Rummel and Brache, 1990. Used by permission

Organization Level of Performance. The authors stress the importance of viewing the organization as an adaptive system in order to fully understand how it functions. The organization's leaders need to establish goals that reflect the organization's values and customers' requirements. These goals should be focused on strategy, be based on critical success factors for the company's industry, and be clear to all who have to implement these goals and manage by using them.

Process Level of Performance. The authors suggest that the greatest opportunities for performance improvement lie at the process level, first because the products of work are produced at this level, and second because it serves as the link between the goals, design, and management at the organization level and the job/performer level. Their basic premise is that "over the long haul, strong people cannot compensate for a weak process." Management relies on an individual or team to overcome fundamentally flawed processes (Rummel and Brache, 1990, p. 66). The authors put the onus on management to set appropriate process goals and then to design and manage the processes so that job performers may do their work. Management is responsible for ensuring effective processes, not individuals.

Job/Performer Level of Performance. The job/performer level focuses on the people and their jobs within the organization. Rummel and Brache offer a thorough treatment of organizational leaders' responsibility to this level of the organization, suggesting management of the factors that are barriers to performers' abilities to perform tasks according to job goals. Examples of such barriers include insufficient resources to accomplish job goals, lack of knowledge needed by the job performer to accomplish the job tasks, and negative consequences for doing the job well. They say, "If you put a good person against a bad system, the system will win almost every time" (Rummel and Brache, 1990, p. 64). Their model is a way to view an organization and improve the system in order to allow the performers within it to complete their tasks efficiently and effectively.

Having introduced the Rummel and Brache performance improvement
matrix, the balance of this article will provide clear definitions of each of the nine performance variables, integrate the model into the three elements of the HRD field, and use the model as a means to synthesize contributions by HRD scholars.

Definitions of the Nine Performance Variables

Rummler and Brache use their matrix and its nine cells as an organizer for their book. While they offer generous explanations of each level and each cell, they do not include definitions of the cells. They offer instead a matrix of questions to be asked and issues to be addressed for each cell. The matrix in Figure 2 provides definitions for each cell to increase the clarity of the discussion.

**Figure 2. Definitions of Nine Performance Variables**

<table>
<thead>
<tr>
<th>Organization Goals</th>
<th>Organization Design</th>
<th>Organization Management</th>
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<tr>
<td>state the mission, vision, strategy, and ends toward which an organization is directed. In short, they state where the organization is going and how it plans to get there.</td>
<td>is the arrangement of the critical components of an organization, including the organizational systems, structures, management processes, and technologies that comprise the total operational set of the firm (Koellner and Tushman, 1992)</td>
<td>is the day-to-day implementation of organizational activities necessary to accomplish organizational goals.</td>
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<td>state the purpose, intended product, and desired output of a given process. Rummler and Brache state that process goals should be &quot;derived from three sources: organization goals, customer requirements, and benchmarking information&quot; (p. 53)</td>
<td>sets forth the steps for the production of a given output.</td>
<td>is the day-to-day oversight of activities and coordination of the multiple functions necessary to accomplish process goals.</td>
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</table>

<table>
<thead>
<tr>
<th>Job/Performer Goals</th>
<th>Job/Performer Design</th>
<th>Job/Performer Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>identify the intended outcomes and the key, key job functions for each job or job performer in the organization</td>
<td>identifies the job tasks and responsibilities, the sequence in which these activities are performed, and the job policies and procedures relevant to the production of goods or services.</td>
<td>is the oversight of job goals and job design and interactions with individual job performance to ensure that their performance needs are met so that they can accomplish stated job goals.</td>
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Theoretical Foundations of Human Resource Development

The Rummler and Brache model serves as an organizer for essential elements of the HRD field. Another organizing model of the field consists of the three elements of HRD: economics, systems theory, and psychology (Swanson, 1989, 1994a). The model is displayed as a three-legged stool, with each of the elements as an essential component (see Figure 3).

Economic theory provides a tool that is essential for making performance-driven business decisions. For HRD functions to be valued and to receive continued support from the top management of an organization, they must provide an economic benefit to the organization. Too often, HRD managers and consultants implement programs that are not aimed at improving performance and that therefore are vulnerable to the cost-cutting scalpel.

Systems theory posits that organizations are complex, open systems where all the parts, or subsystems, work in a harmonious and interdependent fashion to achieve the purpose of the whole system (Swanson, 1994a). The HRD professional who approaches performance improvement efforts with a systems perspective will understand the interdependence of the many parts of the organization and recognize that improvement efforts must be incorporated at many levels of the organization.

Psychological theory offers the HRD practitioner tools to understand individuals and their cognitive, affective, and behavioral processes as they relate to organizations. Volumes of research done on organizations are focused on the individual. In order to improve performance, the HRD professional must understand how individuals learn, how they react to change initiatives, how they

Figure 3. Theoretical Foundations of HRD: A Three-Legged Stool

Source: Swanson, 1994a. Used by permission.
are motivated, and a multitude of other job performer-centered dimensions. Too often, HRD professionals are grounded only in the psychology element and fail to incorporate the other elements of economic and systems theory in their performance improvement efforts.

The Rummler and Brache model and the HRD theory stool are highly compatible in that each of the three levels of the model pays particular attention to one of the three elements of HRD even though all three elements are essential at each performance level (Table 1). The organization level is grounded in economic theory as top management strives to ensure the long-range growth and economic survival of the firm. The process level requires an understanding and application of systems theory in order to effectively and efficiently accomplish process goals, including managing the “white space” between departments and eliminating “disconnects.” Finally, the job/performer level requires an understanding of the needs of individual job performers to ensure that their performance needs are met so that they can accomplish stated job/performer goals.

Selection of the HRD Scholars and Contributors

Because HRD embraces many diverse disciplines, it is important to examine the work of scholars from many related fields at all three performance levels. For each of the cells of the matrix, one author will be highlighted as an example of a contributor to the field in the area identified by the cell. This article will present the authors’ backgrounds, identify their major works and field of research, and present their contributions to HRD in the area identified by the cell.

The criteria for the selection of scholars were as follows:

1. The scholar has made a significant scholarly contribution that adds to the understanding of HRD.
2. The scholar supports his or her theory with sound research and/or scholarly publications.
3. The scholar has made contributions to the field that fit within the cell as defined in this article.
4. The scholar is visible and highly recognizable.

Table 1. The Three Levels of Performance and the Three Elements of HRD

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Elements of HRD</th>
<th>Most Important No. 1</th>
<th>Least Important No. 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization</td>
<td>Economics</td>
<td>Systems Theory</td>
<td>Psychology</td>
</tr>
<tr>
<td>Process</td>
<td>Systems Theory</td>
<td>Economics</td>
<td>Psychology</td>
</tr>
<tr>
<td>Job/Performer</td>
<td>Psychology</td>
<td>Economics</td>
<td>Systems Theory</td>
</tr>
</tbody>
</table>
A Classification and Description of HRD Scholars

While many other scholars fit these selection criteria, for the purposes of this article, I chose one person for each cell. The purpose of this article is to use the Rummel and Brache model to compare and distinguish between scholars in the field. Future articles could consider other scholars, their contributions to the field, and where they might fit within the model.

The intent of the following sections is to use the Rummel and Brache model as a template to classify and describe the scholars named above and their contributions to the field of HRD. The authors who will be examined are presented in Figure 4. Some of the scholars do not fit neatly into any single cell of the matrix. For example, one could argue that Noel Tichy's work is more aligned with organization goals than organization management. It is not my intent to confine scholars by placing them in discrete boxes, but rather to use the defined cells as a means to classify and describe the individuals' scholarly contributions to the field of HRD. Because the work of the scholars at the job/performer level does not fit neatly into any one cell, dotted lines are used to denote the blurred distinction between the cells.

Organization Level of Performance

Rummel and Brache's model emphasizes the importance of addressing the organization's performance needs that are critical to performance improvement. To improve organizational performance, management must define what it intends to accomplish through organization goals. It then must support the achievement of these goals by putting a structure in the organization design cell. Finally, it must manage its goals, performance, resources, and interfaces in a manner that allows it to meet its organization goals. Based on Rummel and Brache's performance improvement process, all organizational improvements begin with an analysis at this level. In this respect, the model places power for organizational improvement in the hands of executives at top management levels in organizations. Because improvement efforts at other levels

Figure 4. The Nine Performance Variables and Selected HRD Scholars

<table>
<thead>
<tr>
<th>Performance Needs</th>
<th>Goals</th>
<th>Design</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization</td>
<td>Michael Porter</td>
<td>David Hadley</td>
<td>Noel Tichy</td>
</tr>
<tr>
<td>Functions</td>
<td>Joseph Juran</td>
<td>Thomas Davenport</td>
<td>Michael Hammer</td>
</tr>
<tr>
<td>Job/Performer</td>
<td>Edward Lawler III</td>
<td>John Campbell</td>
<td>Chris Argyris</td>
</tr>
</tbody>
</table>
are dependent on criteria set at this level, it is crucial that organization goals be carefully defined. The organization design be well suited to the achievement of those goals, and managers support the processes and job/performers in a manner that allows those goals to be accomplished.

While most scholars agree that organizational improvement efforts require support from top levels of the organization, not all experts begin their performance improvement efforts by first addressing organization-level concerns. Some ground the performance improvement efforts in involving those at the job/performer level (Lawler, 1986; Argiris and Schön, 1978). Others maintain that management must address process-level issues to drive performance improvements (Davenport, 1993; Deming, 1986; Hammer and Champy, 1993; Juran, 1988a). Rummelr and Brache's model requires that such efforts begin at the top executive level. This view is consistent with that of many HRD scholars (Donaldson and Lorsch, 1983; Mazur and Pfeiffer, 1984; Peters and Waterman, 1982; Tichy and Devanna, 1986).

Rummelr and Brache state clearly that "if the organization level of performance is not being defined, designed, and managed, there is no context for or driver of human and system performance." (p. 411). Unless managers align the goals, design, and management at the organization level to create an environment for organizational improvement, performance improvement efforts will fail. In the first chapter of their book, they acknowledge a need to consider the external environment, customers, and competition. Their model, however, is confined to an internal view of the organization and lacks the important dimension of environment. The external environment is a critical component in developing organizational goals because they must reflect the environment or the market in which the organization competes. While the role of the external environment is not depicted in Rummelr and Brache's model, they do offer limited treatment of it in their book.

Although scholars from a variety of disciplines lend support to each of the three cells at this level (organization goals, organization design, and organization management), much of the research takes place in schools of management and business administration. Scholars of the organization level tend to address an audience of top management, who are most concerned with the economic performance of their organization. The organization level, more than any other, embraces the economic leg of the HRD stool. Three scholars who lend strong support to the cells of organization goals, organization design, and organization management are Michael Porter, David Nadler, and Noel Tichy, respectively (Note: These are scholars whose research contributes to the organization management cell more directly than Tichy's; however, Tichy's work is well suited to this organization level in general and could join Porter's work in the organization goals cell.)

Michael Porter—Organization Goals. Michael Porter is an economist and professor of business administration at Harvard University whose focus is on competitive strategy and competitive advantage. His work, grounded in
economic theory, is intended for an audience of scholars and top executives. His three major books are Competitive Strategy (1980), The Competitive Advantage (1985), and The Competitive Advantage of Nations (1990). He has conducted extensive research on corporate diversification and has authored many articles, including "From Competitive Advantage to Corporate Strategy" (1987b) and "How Information Gives You Competitive Advantage," co-authored with Victor Millar (Porter and Millar, 1985). Both appeared in the Harvard Business Review.

Porter's work on competitive strategy and competitive advantage provides executives with observations based on scholarly research as well as with the methods and tools to develop their own strategies. While Porter's target audience is MBAs, financiers, and members of top management in larger corporations, his well-crafted tools are a valuable contribution to the toolbox of the HRD practitioner. Though Rummler and Brache do suggest that top management establish organization goals, their work would be improved by incorporating Porter's tools for setting goals and deciding what goals should receive priority, particularly as they relate to economic performance.

Porter encourages executives to abandon the mindless, annual ritual of corporate planning for a thoughtful, methodical process of strategic thinking (Porter, 1987a). He maintains that for strategic planning to be effective, it must "use a proper process, because strategy cannot be separated from implementation" (p. 40). He recognizes the importance of well-designed organizational processes and to ensure that implementation of a strategy will bring about inevitable tradeoffs. He sees these conflicts and ensuing discussions as essential for proper planning and future performance improvement.

According to Porter, top managers must possess at least a high-level understanding of the functions of the process level of organizations. He recognizes that it is difficult for executives to get accurate information from lower levels in the organization and suggests moving much of the planning effort along the organization chain to what Rummler and Brache call the job-performance level. He suggests that strategic planning should involve both managers and employees who work together to have the information necessary to understand the current process and that those people must be involved in strategic planning for process improvement.

Porter provides detailed models and tools for engaging in a strategic planning process. He suggests that a strategic plan should contain six elements (Porter, 1987a): (1) an analysis of the industry in which it competes, (2) sources of competitive advantage, (3) an analysis of existing and potential competitors who might affect the company, (4) an assessment of the company's competitive position, (5) selection or ratification of a strategy, and (6) actions taken to implement that strategy.

Competitive strategy is the degree to which a firm can succeed, given its particular industry and its positioning within the industry (Porter, 1980). Competitive advantage refers to the firm's ability to organize and perform activities
ities efficiently to gain an advantage over competing firms in its industry (Porter, 1985).

While much of Porter's work is focused on large corporations that are acquiring additional firms and diversifying to gain a competitive advantage, he recognizes the importance of communicating organization goals to all levels of the organization. He speaks of the importance of developing "links" between organizations (and presumably within organizations) that will lead to synergy (Porter, 1987b). This suggestion parallels Rummler and Brache's notion of managing the white space on the organization chart. While Porter's work expands well beyond Rummler and Brache's largely internal boundaries of the organization, he does provide essential tools for setting organization goals. He also demonstrates an awareness of the importance of understanding key organizational processes and involving members from all levels of the organization's hierarchy in the strategic planning process.

David Nadler—Organization Design. David Nadler earned both master's and doctoral degrees in psychology from the University of Michigan and also holds an MBA from Harvard University. He is a founding partner of Delta Consulting Group, Inc., and works with senior management of major corporations in instigate large-scale organizational change. His background in psychology affords him insight into the concerns of individuals, yet his MBA and consulting experience give him a solid understanding of systems and organizational structures.


In Organizational Architecture, Nadler, Gerstein, and Shaw describe organizational architecture as a fit between the organization and the environment, in which there is a high degree of congruence between the four design components of work, people, the formal organizational arrangements, and the informal structures and processes (Nadler, Gerstein, and Shaw, 1992). They claim that "the primary job of senior management is to design, build, and op-
erate organizations that function effectively" (p. 39). This role of senior management is consistent with the tasks within Rummler and Brache's organization design cell. Nadler and Tushman claim that organization design is the tool with the greatest potential for improving organizational performance. This contrasts with Rummler and Brache's claim that the greatest potential for performance improvement lies in managing the handoffs (or white space) between functional areas at the process level. Organization design includes addressing the systems, structures, and processes by which work gets done (Nadler and Tushman, 1992).

Nadler and Tushman developed a congruence model of organizational behavior that presents a clear view of an organization grounded in contingency theory (see Figure 5) (Nadler and Tushman, 1992). They state the basic hypothesis of the model in this way: "Other things being equal, the greater the total degree of congruence among the various components, the more effective will be the organization, effectiveness being defined as the degree to which actual organizational output is similar to expected or planned output as specified by strategy" (p. 52). The model is grounded in open systems theory, which takes inputs from the environment and transforms them through processes to produce output. A carefully planned strategy considers the three characteristics of organizational input—environment, resources, and history—and is executed in a process influenced by the four organizational components. The outputs contribute to organizational performance at three organizational levels as delineated by Nadler and Tushman: the system level, the unit or group level, and the individual level.

Nadler and Tushman identify four key components of the organization: work, people, formal organizational arrangements, and the informal organization. Work is the basic activity performed by employees. Understanding the work that is done is essential to gaining an understanding of the larger organization. The people employed by an organization are becoming increasingly important, especially in knowledge work, where, since employees are the ones who understand the work best, it is hard to observe when an employee is working effectively or ineffectively (Lawler, 1993). The most critical aspects to consider are individuals' knowledge and skills, their needs and preferences, their perceptions and experience of their work environment, and demographic factors such as age and sex. Each of these aspects can potentially influence individual performance in organizations. The formal organizational arrangements are the formally defined structures and procedures that are intended to get individuals to perform tasks consistent with organizational strategy. This component must be aligned with the type of work and the people in the organization. The final component is the informal organization, which is often understood as the organizational culture, it is the set of unwritten norms and roles in place in the organization. This informal culture has a far greater influence on organizations than most managers realize (Schein, 1992).

The strength of the congruence model is that it does more than merely
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Identify and describe the components as Rummel and Brach's model does. The model recognizes the nature of the interactions between components and how the relationships between them affect the processes that produce outputs.

The congruence between two components is defined as "the degree to which the needs, demands, goals, and structures of one component are consistent with the needs, demands, goals, and structures of another component" (Nadler and Tushman, 1992, p. 51). High congruence is characterized by an organizational design that fits well with the type of work done, the people, and the culture of the organization. Low congruence indicates a high degree of conflict in some or all areas with resulting reduced organizational performance.

Like Rummel and Brach's model, the Nadler and Tushman model is descriptive rather than prescriptive. Nadler and Tushman add to the Rummel and Brach model by introducing the organizational components that must be considered when improving performance. They support the Rummel and Brach model in reiterating the importance of congruence between organizational components and offer further discussion of organizational alignment and congruence.

Noel Tichy—Organization Management. Noel Tichy holds a Ph.D. degree in social psychology and is a professor in the Graduate School of Business at the University of Michigan. He has consulted extensively with a variety of organizations ranging from Fortune 100 companies to hospital systems in the Appalachian mountains of Kentucky. His research has been in the areas of strategic planning and managing organizational change. While Tichy's experience as a business professor and a consultant gives him insight into the organization level of the Rummel and Brach model, he has an appreciation for the external factors that influence organizations, organizational change, and the management of these organizations.

Tichy has written and co-written several books. They include Managing Strategic Change: Technical, Political and Cultural Dynamics (1983); The Transformational Leader, with Mary Anne Devanna (Tichy and Devanna, 1986); Globalizing Management: Creating and Leading the Competitive Organization, edited with Vladimir Preck and Carol Barnett (Preck, Tichy, and Barnett, 1992); and Control Your Own Destiny or Someone Else Will: How Jack Welch Is Making General Electric the World's Most Competitive Company, on which he collaborated with Jack Welch, CEO of GE (Welch and Tichy, 1992). His most recent article, "Creating the Competitive Organization of the 21st Century: The Boundaryless Corporation," appeared in Human Resources Management and was coauthored by Mary Anne Devanna (Tichy and Devanna, 1990).

Rummel and Brach pose a series of important questions for the organization management cell. They realize that organization management is a complex combination of essential tasks that determine the organization's success. They subdivide this cell into four dimensions: goal management, performance management, resource management, and interface management. Each of these dimensions provides fertile ground for research, and each merits a closer ex-
excellent tool for human resource managers who might be applying the Rummel and Brache model to their organization. It is a valuable addition to the organization management cell in that it more completely addresses the management of human resources.

To improve their work on Improving Performance, Rummel and Brache might consider developing an organization management cube similar to the human resource management cube developed by Tichy. They could replace the human resource axis with an organization management axis, including the management of goals, performance, resources, and interfaces. This would visually display the importance of considering the roles of the technical, political, and cultural dimensions of organization management.

Process Level of Performance

One of the strengths of the Rummel and Brache model is its treatment of the process level of the organization. For a process to be successful and efficient, managers must align the activities of the three cells of process goals, process design, and process management. At this level, the three performance needs (goals, design, and management) fall neatly into place. For a process to produce something, the specifications of the output must be defined as the process goals. To meet these goals, the process must be properly designed. And for that correctly designed process to produce, it must be managed properly through allocation and distribution of the necessary resources.

Figure 6. Human Resource Management Cube

Source: Tichy, 1983 p. 407 Used by permission
amendation by others. While all of these dimensions are crucial to improving organizational performance, the absence of a reference to individual job performers stands out. Rummel and Brache could argue that individual employees are addressed at the job/performer level, but there needs to be a strong, direct link from the organization level to the job/performer level. They could make a strong case that human resource management is a subset of resource management and individual performance a subset of performance, but the employee still deserves mention among the organization management dimensions.

Tichy's technical, political, and cultural (TPC) model of managing organizational change implicates managers to address what he calls "the three strands of the strategic rope" (Tichy, 1983, p. 10). These strands are the technical, political, and cultural views of organization and are the traditional lenses through which organizations are viewed. The technical view prescribes "change strategies based on empiricism and enlightened self-interest" (p. 7). The political view sees organizations as "political entities which can be changed by the exercise of power" and the emergence of a dominant group (p. 7). The cultural view sees organizations as grounded in values of "shared symbols and shared cognitive schemes" through which people are bound and a common organizational culture emerges (p. 7).

Tichy advises managers to consider the technical, political, and cultural areas of the organization when attempting to improve organizational performance. Rummel and Brache fail to consider these essential and powerful factors, which significantly affect the ability of an organization to implement organizational change aimed at improving organizational performance.

Tichy identifies three levels at which a firm must address issues: the strategic level, the operational level, and the managerial level (Tichy, 1983). These are analogous to Rummel and Brache's three performance levels: organization, process, and job/performer. At the strategic level, the organization is concerned with choosing and renewing business objectives, identifying major priorities, choosing major programs, and developing policies to achieve organizational goals. At the operational level, the organization concentrates on the successful completion of daily tasks and the ongoing production process. At the managerial level, the focus is on the acquisition and management of the resources required for organization processes to produce output. Managers are also responsible for the development of procedures for measuring performance. Of all the models presented in this article, Tichy's differentiation of the strategic, operational, and managerial levels is the most similar to the Rummel and Brache model.

At each of these levels, Tichy maintains, there are four human resource functions that must be addressed: staffing, development, appraisal, and rewards. These are critical to the successful management of the most important organizational resource: the human being. Tichy integrates his TPC model, three levels of organizations, and human resource functions into a human resource management cube, presented in Figure 6 (Tichy, 1983). This cube is an
nity, and the Uni. Stras of Chicago. He was director of information technology research at McKinsey & Company prior to joining Ernst & Young as a partner in their Center for Information Technology and Strategy. He has a background in information systems integration, has some experience with Total Quality Management, and was a part of a research team on process redesign, which was later renamed process innovation. Given his teaching and information systems background, Davenport's organizational audience is top management with a bias toward process design. Like many former information systems people, he is a competent "flowchartist.

Davenport, like Hammer, has only recently begun writing about process innovation. In addition to his 1993 book, Process Innovation: Reengineering Work Through Information Technology, he has written an article with James Short that appeared in the Sloan Management Review, titled "The New Industrial Engineering: Information Technology and Business Process Redesign" (Davenport and Short, 1990). Davenport explains that process innovation "involves stepping back from a process to inquire into its overall business objective," and "effecting creative and radical change to realize order-of-magnitude improvements in the way that objective is accomplished" (Davenport, 1993, p. 10). It differs from process improvement in that it produces a much more radical and abrupt change. Like Hammer's reengineering, it seeks to bring about significant improvements of 50 percent, 100 percent, or more. It also focuses on eliminating the barriers between functional areas and assigning process owners to responsibility for each step in the innovated process.

Davenport's work is far better grounded in theory than Hammer and provides usable tools and methods where Hammer provides only ideas. While both emphasize the benefits of information technology, not surprisingly, Davenport makes it a larger cornerstone of his improvement efforts. Davenport's five-step framework for process innovation provides a helpful step-by-step approach to process innovation (Davenport, 1993): (1) identifying processes for transformation, (2) identifying change levels, (3) developing process visions, (4) understanding existing processes, and (5) designing and prototyping the new process.

Unlike Hammer and Brache and Hammer, Davenport provides some guidance on which specific organizational processes to select for improvement efforts. He directs readers to identify the organization's ten to twenty key processes. He offers five key activities to identify the processes that serve as ideal candidates for innovation (Davenport, 1993, p. 27): (1) enumerate major processes, (2) determine process boundaries, (3) assess the strategic relevance of each process, (4) render high-level judgments of the "health" of each process, and (5) qualify the culture and politics of each process.

In the activities above, Davenport's awareness of economics (item 3), systems theory (items 1 and 2), and cultural and political concerns (item 5) suggests that his contribution to the field is not just a best-seller, but a thoroughly researched and carefully written scholarly work.
Davenport's models for process innovation bear more resemblance to Rumlter and Brache than to Hammer's. His chapter, "Understanding and Improving Existing Processes," requires process owners to focus on the "as is" processes before attempting to improve the process. Davenport's process reengineering is a much more methodical and participative approach to improving organizational performance than Hammer's radical approach of "blowing up the old and replacing with the new" (Hammer and Champy, 1993, p. 32). Davenport's work on process innovation is an excellent companion to Rumlter and Brache's performance improvement process.

Joseph Juran—Process Goals. Joseph Juran developed many principles for quality improvement and is regarded as one of the architects of the quality movement in Japan. He holds degrees in engineering and law from the University of Minnesota. He was a professor at New York University before becoming a career in consulting. Juran is perhaps the most thoroughly published of the quality gurus. Several of his most important books are: Juran on Planning for Quality (1989a); Juran's Quality Control Handbook (1988b); Juran on Leadership for Quality (1989); Juran on Quality by Design (1992), and Quality Planning and Analysis: From Product Development Through Use, with Frank Gryna (Juran and Gryna, 1991).

As an engineer, Juran's approach to improving performance focuses on improving critical business processes. Juran's approach to quality incorporates a need to link improvement efforts to economic goals, a need to achieve this by focusing on improving business processes, and a need to involve the employees closest to the work in improving the quality planning, control, and improvement processes. Although he advocates employee involvement, he holds management responsible for the quality improvement process, attributing 85 percent of quality problems to the systems for which management is responsible (Juran, 1988a). These tenets support the Rumlter and Brache model's three levels, and further reading of his works would lend support to the three needs of goals, design, and management.

One of the strengths of his approach as compared to those of other quality "gurus," such as Deming, is the methods and tools he provides to support what he calls his quality trilogy: quality planning, quality control, and quality improvement (Juran, 1988a). Quality planning involves the careful selection of processes in need of improvement. Quality control is not inspection of products after production, but rather the measurement and application of control charts and other measurement tools to determine the capability of the current process. Quality improvement occurs only after the first two steps have been carefully applied. Like other quality improvement efforts, improvements take place by reducing the variance inherent in processes.

Juran supports Rumlter and Brache's need for setting process goals by providing tools for selecting which processes are in need of improvement. He identifies a universal process for planning that will allow managers to meet quality goals (Brocka and Brocka, 1992).
1. Identify the customers. Anyone who will be affected is a customer, whether external or internal.
2. Determine the customers' needs.
3. Create product features that can meet the customers' needs.
4. Create processes that are capable of producing the product features under operating conditions.
5. Transfer the process to the operating forces.

Juran supplies managers with numerous tools and techniques for setting these process goals and improving company processes. Juran's work supports the Rummel and Brahe model and seems to offer a more moderate and methodological approach to process improvement than does the work of Hammer and Davenport. Juran's contributions to the model are the tools for setting process goals and for measuring the current process capabilities. While Walter Shewhart is credited with the "invention" of control charts, Juran advocates the use of them as part of a systemic process improvement effort. An application of Juran's methodology and techniques within the Rummel and Brahe improvement process would complement their existing battery of tools by adding tools for determining process goals and measuring the performance of processes.

Job/Performer Level of Performance

For performance improvement to occur, Rummel and Brahe depend upon integrating efforts at the organization and process levels into activities at the job/performer level. At this level, the three performance needs (goals, design, and management) logically progress toward the successful completion of a job or job task. For an employee to be successful at a given job, the specifications of the intended outcomes and necessary job functions must be defined as job/performer goals. For the employee to meet those goals, the job task and responsibilities, as well as the sequence of job tasks, must be properly designed. And even if a job is correctly designed, employees, individual managers, and management as a whole must provide the proper resources and create an environment in which the employees can successfully perform.

The job/performer level has probably received the most attention from scholars and researchers. Many fields study this level, including psychology, education, industrial relations, management, speech communication, anthropology, and sociology. Some industrial psychologists and other people grounded in this level champion the cause of improving performance through improving individual productivity. Productivity is not easily measured, however, and may be measured in many ways, including profit, sales and gross revenue, market share, quality, defects, and units produced (Mahoney, 1988). Another area of research is that of psychologists who seek to determine what motivates employees, and still another group investigates how to improve the quality of work life of employees. These interventions may have the competi-
ing goals of increasing economic performance through increasing productivity and increasing employee satisfaction through improving the quality of the work environment.

Three individuals who have supplied this level with valuable research are psychologists Edward Lawler III, John Campbell, and Chris Argyris. Lawler, a management professor, has done work spanning many areas of industrial and organizational psychology. His recent interest lies in employee compensation and employee involvement. Campbell's work in industrial psychology has focused on many areas of industrial psychology, including individual productivity, selection, and training. Argyris has focused on the field of organization development and on changing individual employee behaviors. Because the work of these three scholars does not fit neatly into the three performance needs at this level, no attempt is made to assign them to specific cells of job/performance goals, design, and management.

Edward E. Lawler III—Job/Performer Level. Edward Lawler III is a professor of management and organizational behavior at the University of California, Los Angeles, and director of the Center for Effective Organizations. His research interests include the changing workplace, labor unions, and their power base, employee and organizational productivity, work motivation, pay systems, organizational change, and participative management systems. While Lawler is adept at addressing issues at each of the three performance levels, his interest lies at the job/performer level.

Lawler is the author of numerous classic books and articles in the field of organizational behavior and industrial psychology. A few of his books are Behavior in Organizations, with Lyman Porter and Richard Hackman (Porter, Lawler, and Hackman, 1975); Employee Involvement and Total Quality Management: Practices and Results in Fortune 1,000 Companies, with Susan Albers Mohrman and Gerald E. Leidford, Jr. (Lawler, Mohrman, and Leidford, 1992); High-Involvement Management: Participative Strategies for Improving Organizational Performance (1986); Strategic Pay: Aligning Organizational Strategies and Pay Systems (1990); Organizing for the Future: The New Logic for Managing Complex Organizations, with Jay Galbraith (Galbraith and Lawler, 1993); and The Ultimate Advantage: Creating the High-Involvement Organization (1992). He has authored and collaborated on over a hundred articles as well.

Like Rummler and Brache, Lawler recognizes the need to align organization goals with job/performance goals (Lawler, 1988). Rummler and Brache employ a set of cumbersome tools to ensure consistency among organizational process, and job/performance goals. It seems as though they work from the assumption that the more a job is documented and the job performer is monitored, the more likely the job is to be properly linked to organization goals. These tools provide managers with a means to both monitor and control the work that employees do. Thus, the technique of monitoring performance emanates from what Lawler calls a "control paradigm" of managing workers (Lawler, 1988). This control paradigm may be effective for jobs with low task variety.
and low task complexity, but for complex knowledge work, Rummler and Brache's treatments of the employees would be ineffective.

Lawler's work on high-involvement organizations suggests that the best way to improve organizational performance is through creating a high-involvement organization (Lawler, 1986). This type of organization is characterized by a high degree of congruence or alignment between four organizational components: information, power, knowledge, and rewards. Many researchers have studied complex organizations and agree that organizations composed of multiple complex systems are effective only to the degree to which these systems are aligned (Galbraith, 1973; Katz and Kahn, 1966; Nadler, 1987). Lawler suggests that these four components be examined in each of eight organizational features: organization and work design, physical layout design, information systems, managerial roles, reward systems, training and development, staffing, and personnel policies (Lawler, 1986, 1993).

The high-involvement model assumes that most employees can figure out the right thing to do if they receive the proper training and resources. The high-involvement organization seeks to intrinsically motivate employees by assigning them tasks on issues about which they have considerable knowledge. Managers adopt a Theory Y view of individuals (McGregor, 1960), assuming that most employees want to do a good job and are capable of producing good ideas about how the business should be operated (Lawler, 1988). Rummler and Brache share the Theory Y orientation, blaming poor performance on bad systems rather than bad workers (Rummler and Brache, 1990).

Citing his background in psychology, Lawler employs expectancy theory as an argument for moving away from a control paradigm and toward an involvement paradigm (Nadler, Hackman, and Lawler, 1979). Expectancy theory, according to Lawler, has three tenets:

1. A person is motivated to behave in a particular way because he or she expects attractive outcomes or rewards associated with that behavior.
2. The person holds a perception that he or she can accomplish the behavior.
3. The person expects that the behavior will be rewarded.

The problem with the control paradigm is that people are not intrinsically rewarded for their performance. They work in a system in which they have little ownership or input. Members of management value compliance with organizational rules more than suggestions for improving processes. The high-involvement organization offers attractive intrinsic rewards by allowing employees to have ownership in the system in which they work.

Lawler claims that an organization has two ways in which it can change if it wants to improve its performance. It can do a better job of managing using its current paradigm or it can choose a new management paradigm. He concludes that most companies stick with the current approach, resulting in small, incremental changes (Lawler, 1988). The key to improving organizational performance is to adopt a high-involvement approach.
The high-involvement approach is especially well suited for organizations in which employees perform complex knowledge work (see Figure 7). Workers in these organizations tend to know more about the work processes or job tasks than their supervisors. They tend to be highly trained or educated and expect to have a high degree of control over the way they carry out their own tasks. The more interdependent an employee's work is with the work of others and the more dynamic the work environment, the more likely it is that a high-involvement strategy will increase organizational effectiveness (Lawler, 1986).

Lawler's blueprints for high-involvement organization can be integrated into Rummler and Brache's model. This is especially true for jobs held by knowledge workers. Rummler and Brache's tools for improving performance rely heavily on documentation of job tasks and regular measurement of employee performance. This reliance gives Rummler and Brache's methods a feeling of imposing a high amount of control of employees at the job/performer level. Lawler's research on organizational alignment supports Rummler and Brache's claims that performance needs must be linked at all three levels (Lawler, 1986). If Rummler and Brache were to attempt to improve their model, they would be well served to incorporate some of Lawler's research on

Figure 7. Performance Effectiveness of Management Approaches

![Diagram showing performance effectiveness of management approaches with axes for high control and compliance, high level of involvement, complex knowledge work, and simple repetitive tasks.]

Source: Lawler, 1986 Used by permission
motivation and the organizational components of information, power, knowledge, and rewards. Lawler's research lays a foundation for understanding the job/performer level of organizations.

John Campbell—Job/Performer Level. John Campbell is an industrial psychologist at the University of Minnesota who has focused on many areas of his field, including the areas of individual and organizational productivity, employee selection, and training. He has a background in psychology and industrial relations and has spent time working on training programs for the U.S. Army. He is recognized as a leader in the field of industrial and organizational psychology and advocates the need for research on productivity and performance in organizations.

Productivity in Organizations: New Perspectives from Industrial and Organizational Psychology (1988), by John Campbell, Richard Campbell, and Associates, is an invaluable contribution to the field of HRD. John Campbell has contributed chapters in numerous books in the field of industrial and organizational psychology. Other books include What to Study: Generating and Developing Research Questions, with Richard Daft and Charles Hulin (Campbell, Daft, and Hulin, 1992); and Measurement Theory for the Behavioral Sciences, with Edwin Ghiselli and Sheldon Zedeck (Ghiselli, Campbell, and Zedeck, 1981). The article, "Three Approaches to the Investigation of Subgroup Bias in Performance Measurement: Review, Results, and Conclusions," appears in the April 1992 issue of the Journal of Applied Psychology. It is co-authored with Scott Oppler, Elaine Pulakos, and Walter Borman and presents findings collected from a research project with the U.S. Army (Oppler, Campbell, Pulakos, and Borman, 1992).

Campbell, like many industrial psychologists, seeks to improve individual productivity by concentrating on the interface between the person and the machine or process. Rummler and Brache's performance improvement model addresses this interface by linking job/performer goals with process goals and jobs that are consistent with the processes that are in place. What Campbell adds to the Rummler and Brache model is an appreciation of the need to develop measurements for improving performance.

In the concluding chapter of Productivity in Organizations, Campbell concludes that "industrial and organizational psychology has virtually everything to do with productivity" (Campbell, Campbell, and Associates, 1988, p. 417). He limits this assertion to productivity involving people (as opposed to organizational productivity) and suggests that most studies of input-output psychology indirectly affect productivity. He claims that there is a need not only for a clearer definition of the constructs of productivity and performance but also for "a more complete conceptual understanding and measurement of the performance domain" (p. 418). He laments that much attention has been paid to assessing abilities and work motivation but very little to theories of performance.

Campbell's work on the Army Selection and Classification Projects recognizes that there are many performance variables in a work setting, he notes that
A Classification and Description of HRD Scholars

each of them must be properly addressed for each of the critical performance factors (Campbell, 1986). While this is an employee selection model and is not limited to business processes as Rummel and Brache's job/performer level is, the model's attention to measuring performance could be incorporated into the Rummel and Brache model.

Campbell indirectly endorses the Rummel and Brache model and process in the concluding chapter of Productivity in Organizations: "We have tried hard to make the point that articulating organizational goals and translating them into specifications for performance that will support or produce outcomes that the organization values is the key linkage between performance and effectiveness" (Campbell, Campbell, and Associates, 1988, p. 420). Campbell cites work done by McLaren (1988) and Guzzo (1988) as supporting this need for linking organizational goals to individual performance specifications.

One of Campbell's areas of expertise is the field of employee training. He offers a training design model with the following eight steps: (1) analyze goals and job design, (2) determine training needs, (3) specify training objectives, (4) specify training content, (5) specify learning methods and learning media, (6) account for individual differences, (7) specify conditions of learning, and (8) evaluate training outcomes.

Campbell's training model calls for integrating job design with organizational goals prior to developing a training program. Like Rummel and Brache, he is aware of the problem when conflicts arise at the job/performer level and of the need to resolve them in order to accomplish sufficient job performance. The first step of Campbell's training design model coordinates directly with the first two cells in the job/performer level of Rummel and Brache's performance improvement matrix (job goals and job design).

Both of Campbell's models are consonant with the Rummel and Brache model. However, his training design model fits so well one might guess that the authors were influenced by each other's models. Campbell's call for increased research in the area of performance measurement might serve as advice to Rummel and Brache as they seek to improve their model and tools.

Chris Argyris—Job/Performer Level. Chris Argyris is a professor of education and organizational behavior at Harvard University. He is considered by some to be a pioneer in the field of organization development. His work has focused first on individuals in organizational structures and then on organizational change and has continued with work done with Donald Schön on understanding human reasoning. His more recent works focus on understanding how individuals reason, make decisions, and change behaviors within organizations. As a consultant, he has worked with executives in many of the largest U.S. corporations. He has an understanding of the need for top management to manage organizations effectively but has developed a keen sense of the way individuals behave in organizations.

His books include Personality and Organizations (1957), Integrating the Individual and the Organization (1964), Organization and Innovation: Increasing

One of the strengths of Rummler and Brache's model is the importance it places on linking organization goals to process goals to job/performer goals. However, as noted earlier, the tools they provide for linking job tasks to process steps are cumbersome. An improved modus operandi would be one focused on improving individual performance. Their Human Performance System (Rummler and Brache, 1990, p. 65) allows a manager to focus on the environmental conditions necessary for optimal individual performance (see Figure 8).

Argyris's concept of single-loop and double-loop learning (see Figure 9) bears great similarity to Rummler and Brache's Human Performance System. (In fairness to Argyris, it is more accurate to say that Rummler and Brache's model bears resemblance to his work, which preceded theirs by over a decade; see Argyris and Schön, 1974.) According to Argyris, learning occurs whenever errors are detected and corrected. Essentially, the learner performs a gap analysis and corrects that gap. There are two ways to correct gaps. The first is to correct the behavior by changing the strategy of action. If negative consequences are still obtained, the individual enters a feedback loop of single-loop learning and continues to modify the action strategies until the desired consequences are reached. In double-loop learning, the individual may face undesirable consequences following an action strategy but the response is to change the governing values (or master programs) that drive the action strategy.

Figure 8. Human Performance System

![Diagram of Human Performance System]

Source: Rummler and Brache, 1990, p. 65 Used by permission
How does double-loop learning support or refute Rummler and Brache’s model? Rummler and Brache acknowledge the psychological dimension associated with managing individuals by saying, “Most people want to do a good job. However, if you put a good performer against a bad system, the system will win almost every time” (Rummler and Brache, 1990, p. 64). However, they address this by improving the system at the process level and managing the job/performer level with extensive documentation and measurement of key outputs. Argys and Schon’s model of double-loop learning addresses the way in which individuals learn and adjust to organizational changes. It adds to Rummler and Brache’s current system by addressing the human element in organizational change.

Conclusion

The Rummler and Brache model for improving performance offers scholars and practitioners a lens through which to view organizations and with which they may assess the variables associated with performance improvement. The model’s nine performance improvement variables encompass the multiple disciplines of economics and management at the organization level, systems theory and engineering at the process level, and psychology and education at the job/performer level. The comprehensive model offers HRD scholars and practitioners a tool with which they may synthesize and integrate the work of scholars from the disciplines that support HRD.

Organization Level of Performance. The three scholars examined at the organization level—Porter, Nadler, and Tichy—offer tools to enhance the Rummler and Brache model. Tichy’s human resource management cube is very similar to the Rummler and Brache performance levels and offers support to the matrix.

Process Level of Performance. The process level experts—Juran, Davenport, and Hammer—each offer a unique contribution to the process level. Juran’s engineering background explains his precision in identifying organiza-
tional goals and offers a quality improvement process well matched to Rummelr and Brache's methodology. Davenport's methods and tools for process innovation provide an excellent addition to the model. Hammer's philosophy of seeking significant process improvements is attractive but his methods are inconsistent with Rummelr and Brache's philosophy and model.

Job/Performer Level of Performance. The job/performer experts—Lawler, Campbell, and Argyris—offer a great deal of research on improving individual performance in organizations. Lawler's model of the high-involvement organization offers suggestions for the control-laden tools for measuring job performance. Campbell's call for further research may provide the necessary measurement piece to accompany the Rummelr and Brache model; his training model is a good fit for their model. Argyris's attention to and appreciation for the psychology of individuals provides insight into managing job performers, providing support for Rummelr and Brache's human performance system.

References


A Classification and Description of HRD Scholars


James A. Wondracz, J., was a doctoral student in the Human Resource Development Program at the University of Minnesota. On June 3, 1994, Jim was killed instantly in an air plane accident. This article is being published in his memory and as a tribute to what the field has lost with his death.
TOPIC 1
The Open Book
By John Case

REVOL
More and more CEOs have discovered what was missing from all the past decade's management cures—and have invented a new way of running a company that overturns a hundred years of managerial thinking. The new system gets every employee to think and act like a businessperson—to compete—and it gets astonishing results. It's called open-book management, and this is how it works.

Poke your head into enough companies these days and you come away with a sense that American businesspeople are earnestly, diligently, maybe even desperately searching for a new way to run their companies.

Even traditionalists—if there are any left—will recognize the buzzwords: Total quality management! Team Empowerment! Reengineering! The old top-down, chain-of-command style of management is out; today's boss is supposed to walk around, involve the troops, and encourage participation.

Gone, too, is the notion that employees are no more than tiny cogs in a machine. Workers are now supposed to take on big responsibilities—to solve problems, cut costs, and reduce defects. The language of business reflects the new ideas: Trendy companies don't have employees, they have associates. They don't have managers, they have coaches.

All this experimentation and exploration should come as no surprise. The old way of running a business was born a century ago, and it's showing its age. (See "Ending the Hundred Years' War," page 32.) And there's no comparison between today's white-hot global competition and the stable markets of even 20 years ago. In the past, businesses needed people who would show up for work every morning and do what they were told. Now they really do need employees who work as hard as possible—and who are looking out for the company, not just for themselves.

Trouble is, the best-known of the new managerial methods have a pretty sporty record.

Quality efforts, for example, often improve quality. They don't always improve the business. At Varian Associates Inc., a maker of scientific equipment, employees got so obsessed with quality-related measures that they quit returning customers'
Meanwhile, people who think about these things for a living argue that even after a decade and a half of experimentation, something is still missing. A new paradigm, a central organizing idea.

"The fundamental principles of a new managerial paradigm are far from clear," observes David H. Freedman in Harvard Business Review. Rosabeth Moss Kanter, one of the nation's best-known business thinkers, agrees. Each of the "management buzzwords" and fads of the last decade, she argues, is like "a way station" on the road to a comprehensive rethinking of the business organization.

But what the pundits haven't yet caught sight of is the growing number of companies that have been getting a lot farther down that road. I recently spent 18 months visiting many of those companies, and what they're coming up with seems to me to be as close to a new paradigm or a comprehensive rethinking of management as we're likely to get. They're calling it open-book management.

The beauty of open-book management is that it works. It helps companies compete in today's mercurial marketplace by getting everybody on the payroll thinking and acting like an entrepreneur, an owner, rather than like a traditional hired hand.

The open-book companies are all over the map, in every kind of industry and business situation. Bob Frey, owner of a small Cincinnati packaging manufacturer called Cin-Made, turned his business around with open-book principles. So did Bob Argubright, manager of Chesapeake Packaging's big corrugated-box plant in Baltimore. Manco, an extremely successful consumer-products distributor headquartered near Cleveland, has built the open-book approach into its operations for years. Acumen International, a small but growing personnel-assessment company in San Rafael, Calif., adopted it just last year.

The best-known practitioner of the new approach is Springfield Remanufacturing Corp. (SRC), in Springfield, Mo., which calls its system the Great Game of Business. SRC's Great Game has spawned hundreds of imitators—who now gather once a year to swap stories and tips about implementing the open-book approach. (The third of the annual get-togethers is coming up in September.) Every month, another 30 to 35 companies send representatives to Springfield (at $950 a pop) for a two-day seminar on SRC's system.

By now the game-playing group includes some sizable organizations: Allstate's business-insurance unit, Sprint's Government Systems Division, Amoco Canada, and even—as of last year—the giant ZCOM copper mine in Zambia, a $50,000-employee enterprise that is the economic mainstay of that struggling African nation. It also includes plenty of small everyday companies, as you can discover by visiting SRC's Springfield neighbors. Walk into the Pontiac-Cadillac dealership or into a local building-supplies store. Talk to the guy who runs the area's fastest-growing commercial-cleaning service or to the brothers who own a hearing-systems manufacturer. Open-book partisans, all.

Nearly all the open-book companies can boast some startling business accomplishments. SRC transformed itself from a small, money-losing division of Interna-
What Is Open-Book Management?

Open-book management is a way of running a company that gets everyone to focus on helping the business make money. Nothing more, nothing less.

It throws out the old approach to management, in which bosses run the show and employees do what they’re told—or what they can get away with. It takes those trendy new management ideas—empowerment, TQM, teams, and so on—and gives them a business logic.

In an open-book company, employees understand why they’re being called upon to solve problems, cut costs, reduce defects, and give the customer better service. And they have a reason to do so.

If you could tear apart an open-book company and compare it with a conventional business, you’d see three essential differences.

* Every employee sees—and learns to understand—the company’s financials, along with all the other numbers that are critical.

In the next few pages, I’ll share some of their experiences with you. And I’ll sketch out a blueprint for action that might just transform your business, too.
to tracking the business's performance. "That's why it's called "open book." The numbers are up on the wall, in the handouts, on the computer network. Training courses and regular meetings teach everybody what they mean. Salespeople know whether they're making money. They know how much. They know why.

- Employees know that, whatever else they do, part of their job is to move those numbers in the right direction. They may be salespeople or software designers, machine operators or telephone operators, engineers or stock assistants. They are also part of the business and are accountable to one another for their unit's performance.

- Employees have a direct stake in the company's success. If the business is profitable, they get a cut of the action. If it's not, they don't.

In effect, open-book management teaches people to quit thinking of themselves as hired hands (with all that implies) and to start realizing that they are businesspeople (with all that implies). Their job security, their chances for advancement, their hopes for the future all depend not on the whims of some boss or department head but on the company's success in the marketplace and each person's contribution to it.

Those are the bare bones. The stories of open-book management flesh things out: they show how the principles are implemented in real situations. Bob Frey told one such tale not long ago in the August Harvard Business Review.

Frey and a partner had bought Cin-Made in 1984. The little Cincinnati company was not what you'd call high tech: it made mailing tubes and other cardboard-and-metal containers on antiquated machinery. Nor was it a model of progressive labor relations. The previous owner, a pretty avaricious scholars, to vanishing point, had told her unionized workforce she couldn't afford the generous contract she had signed two years earlier. The response: Tough luck. No givebacks.

Not that Frey helped much when he took over. He stood around with a stopwatch, timing employees' moves. He once declared that the work looked like something a moon could do. By noon that day, he remembers, all the employees on the shop floor "had heard that I thought they were mentally retarded."

A few months later the contract expired. Frey said he'd have to have hefty wage cuts. The union went out on strike.

Frey and his partner tried to keep the factory going. That caused no end of mirth on the picker line. The obvious joke made the rounds: "Now there really was a moron running the machines." But the strike didn't last long. The workers got scared. When Frey threatened to hire permanent replacements, the union advised its members to return.

So Frey had won the battle—a 12.5% wage cut. But the war was raging as furiously as ever. The disgruntled workers stuck to their job descriptions like glue, he recalls. They filled grievances at the drop of a hat. Pevied, Frey quit buying dinner for those working overtime, ending a long tradition. Morale plunged.

At some point, says Frey, he woke up.

The constant skirmishing and bickering were making him miserable. If they didn't stop, his business would be in jeopardy. He began to see that the company really needed the loyalty and cooperation of its employees. When he began planning a change.

First he started holding monthly "state of the business" meetings, at which he showed everyone Cin-Made's financials and explained what the numbers meant. Then he instituted a generous profit-sharing program. The adversarial era was over, he said. Thenceforth everyone would get involved in helping the company succeed.

The employees were dubious—what the guy who had cut their pay? Periodically, Frey would ask them, "What would you do if you were in my shoes?" Sometimes they'd solve one or another problem and they'd shout back, "That's not my job." He'd lose his temper: "People had no understand that those were words they weren't allowed to utter."

But slowly—very slowly—the faces softened. Employees began paying attention to the numbers Frey kept showing them. They learned quality-control techniques. They began tracking scrap rates and labor efficiency. Before long, Frey and his employees were spending their meetings discussing year-to-year sales and operating efficiencies and profit projections. An employee committee took over scheduling. People began to solve problems on their own.

Half a dozen years after Frey's acquisition of Cin-Made, a new spirit was permeating the place. "I couldn't see how we were going to protect ourselves and keep our jobs if the company went...."
Ending the Hundred Years' War

Employees and managers have dwelled in separate camps since the dawn of the Industrial Revolution. Sometimes the schism between the two shows up as hostility—in union disputes, for instance. Mostly, it's just a matter of the different assumptions people bring to work every day. A manager's job is to run things; an employee's is to do as he or she is told.

But they were crystallized in the early years of large-scale industry, a century or so ago. The engineers of the day found they could boost output by bringing in new machinery and breaking production down into ever-simpler tasks. That was fine with plant managers, who had to cope with what modern standards were astronomical quitting rates. [One year Ford's Highland Park plant had to hire 56,000 to maintain a workforce of 13,000.] The simpler the tasks, the quicker a new hire could get up to speed.

An engineer named Frederick W. Taylor turned the trend toward specialization into a national movement dubbed scientific management. He and his followers scrutinized every worker's every motion, calculating time and output with a stopwatch. They set up central planning departments to standardize production methods, job descriptions, and pay rates. Workers were to do exactly as they were instructed. Managers were responsible for decision making and supervision. Over time, the two groups came to occupy separate worlds. They had different jobs, different clothing, kept different hours. They were paid by different methods, hourly wages versus salaries. Often, they ate in different cafeterias.

When employees formed unions, not surprisingly, they wanted nothing to do with management. They wanted more money and shorter hours. They wanted formal job classifications, so they wouldn't be at the mercy of abusive foremen. Running the business, someone else's problem. "The products to be manufactured, the location of plants, the schedules of production, the methods, processes, and means of manufacturing are solely and exclusively the responsibility of the corporation," read a typical contract between the United Auto Workers and General Motors Corp.

For nearly 15 years companies have been hearing from the guru of management reform who must break down that split—they must get employees involved in solving problems, making decisions, taking responsibility for their work.

First came In Search of Excellence, in 1982, a book that taught a startled publishing industry just how eager businesspeople were for new management ideas. Tom Peters and Robert Waterman offered all sorts of good advice in the book, but they emphasized the need to redefine how people worked together. "Treat people as partners," they preached. "Treat them with dignity; treat them with respect."

Next came the quality movement, culminating in what's known as total quality management. TQM might have been just a technical fix—new techniques and procedures, implemented by specialists. But most of the gurus seemed to understand that quality systems don't work unless frontline employees get involved.

"It isn't enough to design a whizbang assembly operation," writes Philip Crosby in Quality Is Free. "You have to help people want to participate in running it."

The third great wave of management reforms in recent years is reengineering—and the reengineers, too, argue for a redefinition of work. "At the points in a process where workers used to have to go up the managerial hierarchy for an answer, they must now make their own decisions," explain Michael Hammer and James Champy in Reengineering the Corporation, another runaway best-seller.

Change has been in the air, in other words, for more than a decade, and businesses have begun reshaping themselves accordingly. But how successful have they been? Sometimes quality programs and the like have helped transform companies. Often they have merely bumped into business obstacles or just sort of petered out. Meanwhile, some experts argue that all we've really been doing is tinkering with Taylorism. We haven't yet abolished that fundamental split between the people who think about whether the company is making money and the people who think about picking up this week's paycheck.

Open-book management, say its practitioners, provides the missing element it gets people to think about the business as their business, and thereby turns Taylorism on its ear. By that reckoning, it's truly a revolution—but a revolution with a century of history to overcome.
Chick-fil-A, a chain of restaurants in Atlanta. "But we forget about the 'want-to.'" TQM often peter out because nobody but the managers really cares about it. Once the first burst of enthusiasm wears off, why bother?

Open-book management, by contrast, reaches the want-to. Instead of telling employees how to cut defects, it asks them to boost profits—and lets them help figure out how. Instead of giving them a reengineered job, it turns them into businesspeople. They experience the challenge—and the sheer fun and excitement—of matching wits with the marketplace, raising the score, and sharing in the proceeds. As Bob Frey discovered, there's no better motivation.

Open-book management by itself isn't enough to turn a company around. Frey says he still needed a better product strategy and better marketing as well as better people management. No company can succeed without good leaders, adequate financial resources, and the ability to deliver a combination of price and value that appeals to customers.

But open-book management—"lightning in a bottle"—changes the essential logic of how people work together. It allows everyone to pull—each person is motivated to improve his own performance. Everyone pulls in the same direction—because all can see where they're going.

**How to Implement It**

There isn't any cookbook-style recipe for open-book management. "It's more a philosophy than a how-to-do-it, step-by-step program," says Ronnie Miller, a plant manager at Pace Industries' Cast-Tech Division, in Monarch City, Mo. Still, if you put all the open-book principles into a room and asked them what they do, I think they'd come up with four precepts—four steps you have to take before open-book management can work.

**STEP ONE**

Get the Information Out There

Tell employees not only what they need to know to do their jobs but how the division or the company as a whole is doing.

Every company has some pivotal operational numbers: On-time shipments, Customer service, Safety records. Managers must understand what these numbers mean and track those numbers if they're going to affect them. Operational numbers aren't just numbers, though, you've got everybody to think like an owner. Employees must keep a wary eye on the charts. But they're likely to feel as much resentment—"Big Brother is watching us!"—as motivation. People aren't lab rats; if they don't understand why they're supposed to lower the defect rate or take these calls faster, they won't work the change.

Open-book management is about the why—one and only business, the why it is told by the financials. So along with the operational figures, show people the income statement, the cash-flow statement, and the balance sheet.
What Are You Afraid Of?

Great Fear Number One of open-book management is simple: you're terrified of letting go. The day employees see the financials and start making decisions, you figure, is the day catastrophe strikes.

OK—read the main article and see if you still think that. In the meantime, let's take a look at Great Fear Number Two, which is that the numbers themselves will somehow be used against you.

But what, exactly, are you afraid of? Your employees, maybe. In companies in which labor costs management's got, yes, a union might take advantage of the figures. The whole point of open-book management is to get beyond that anxiety.

If you run a closely held company, you may be worried about something else, which is that employees will figure out how much you take home. If the number is large, you'll feel awkward and defensive—and that's none of their business.

Hate to tell you this: It's already their business.

They talk about you. They speculate—probably inaccurately—about how much you're making. Says Mike Chiles, co-owner of Heatway, a heating-systems manufacturer, "If they don't know what's going on and they see a $50,000 shipment go out, they think, 'Golly, Mike and Don Chiles are making a lot of money out of this—not realizing that at the end of the year there might be 3% left after taxes.'"

But what about the logic of earning a fair—on large—return on the investment and the risk you or your family took in setting up the company? If you don't think you can explain that logic, you're doing your employees an injustice. American business is full of risk-takers who are entitled to a reward. They believe company presidents should earn more—a lot more—than top executives and middle managers. Listen to Jim Sandstrom, former owner of Sandstrom Products, who says he has no trouble explaining a healthy profit: "There's money invested here! The investor has a right to a return. If the net return goes so low he can take the money and go buy stock at 7% with no risk, what is he entitled to get here, with risk?"

"I'm willing to debate that with anybody, including the employees. They're not a bunch of fools. So we share the financials. Yes, it's an ongoing learning process. They don't know, but they learn fast."

Or maybe it's your customers you're afraid of. If they find out your margins, they'll beat you down on price. And maybe you're right. On the other hand, you're presumably delivering value at a price they're prepared to pay; otherwise they wouldn't be your customers.

And presumably, they have an interest in keeping their vendors healthy.

Manco, a distributor of tape and other consumer products, keeps books that track its costs customer by customer—and actually shows the figures to customers, so each can see exactly what Manco makes on its business. It's a competitive advantage, explains president Tom Carlo—customers can see they aren't paying for somebody else's freight.

Finally, maybe your biggest fear has to do with competitors. On this score, it's OK to be a little paranoid. Many companies have a few numbers they don't want competitors to know. If employees see those numbers, you must explain why they need to be kept confidential—and how badly you'll be hurt if they leak out.

But don't be naive enough to think that everything needs to be stamped classified to keep it secret. How many secrets do you really have? Your competitors are in the same business. They know your technology and your costs. They watch what you're doing with prices. So they probably know your key numbers anyway. Here's what Leslie Fishbain, president of Kacey Fine Furnishings, has to say: "In furniture retailing, all you do is take your number of salespeople,multiply that number by the published—and generally accepted—averages of what a retail furniture salesperson sells every month, and you can tell the volume of almost any store in the country."

Mostly, though, open-book managers don't worry about competitors; they figure competitors will be too busy worrying about them. Says Patrick Bailey, CEO of Physician Sales & Service, which posts sales and profit figures inside every facility: "I want the competition to know we're eating their lunch."

* Will they understand those documents? Not until you explain them, a subject we'll take up later. But numbers alone send a powerful message, even if they don't yet make sense. Everybody is a part of the company. Everybody sees the same information.

Then too, chances are good that employees will readily understand some financial figures—the ones that are most important to your business.

* At Commercial Casework, a Fremont, Calif., furnishings and cabinetry company, the crucial number is variances on each job. So CEO Bill Palmer posts "Job Cost, Over and Under" up on the lunchroom wall. No one needs an MBA to know which directions are good.

* At Acumen International, the personnel-assessment company, employees keep a hawkeye on the company's weekly cash. "What hits everybody's gut! How much money we have in the bank," says one manager.

* At Sprague's Government Systems Division—it has operations in Kansas City, Mo., and Herndon, Va.—revenues per employee is one of several critical financial gauges. "It's one way of looking at how well the organization is doing," explains Rick Smith, director of services for state and major local government.

* Again, no MBA required.

How do you get the information out there? Put up scoreboards. Distribute them at meetings. Or ask yourself—this...
And You Think You Have a Suggestion Program...

It's easier to get workers to "think like owners" when they are owners—and when they understand the business, thanks to open-book management.

Phelps County Bank, in Roche, Mo., is owned by its employees through an employee stock ownership plan. Not long ago CEO Emara Lou Brant set up "The ESOP Challenge," a monthly contest for the best suggestion. Just another suggestion system, you might think, except that Phelps County's employees are vested in the hospital, so there's a lot riding on it.

An eager loan applicant arrives in a regular bank, for example, might suggest the bank offer electronic tax filing. Good idea, right? Peggy Linn of Phelps County thought it might be—until she analyzed costs and revenues. Her recommendation: not yet.

And an earnest customer-service representative might propose a marketing program aimed at senior citizens. Surely that's a good suggestion.

Well, yes. Except that before Porti Douglas dropped her senior-citizen suggestion in the bin, she spent nearly two years doing research. She dug up demographic statistics. She checked with every other financial institution in the area. She offered seminars. She tracked the bank's experience with its existing elderly customers. She costed out her proposal.

Forty Douglas's program has 325 customers over age 55, who belong to a club that gives them a special bank account and a variety of social activities. "It's a big success," says Brent.

goes into the computer as it's reported, creating an income statement on the spot. "Then our own accountants take the disk out and have copies run," explains-company president Chuck Mayhew. "In half an hour everybody has a copy. They take it back to their units and review it in their staff meetings."

As noted, this is the information age. Anderson & Associates, an engineering firm in Blackwood, Va., uses its financials on its computer network. Herman Miller, the big furniture maker based in Zeeland, Mich., distributes videos detailing and explaining the company's numbers. Commercial Casework always has some of its employees out on job sites. They can't come to meetings, so Bill Palmer's brother Tom calls them on their cellular phones and walks them through the company's weekly income statements.

**STEP TWO**

TEACH THE BASICS OF BUSINESS

It's amazing how few Americans know about business. Some believe that revenues are the same as profits. Or that "sales are whatever a company has in the bank. Not many employees can tick off the expenses a company must pay. Not many know how little is often left at the bottom line.

Companies pay for that ignorance in at least three ways.

**It hampers recruitment.** "When you're doing well, the question everyone asks is, 'Gee, that money must be stacked up in the basement—we want more of it,'" says Clarke Kawasaki of Black Diamond Equipment, a Salt Lake City maker of mtn-taingear and hardware.

"It leads to bad decisions. Should we throw out this part or redesign it? Does that customer deserve a refund? Should maintenance check the funny noise in the truck motor or just wait till it breaks? Companies these days expect employees to make those decisions, not to run to a supervisor (who has probably been let go, anyway). But if workers don't understand the financial impact of decisions, how can they make smart ones?

**Finally, ignorance takes the fun out of business. Every entrepreneur knows that business is fun. It's a game. You take on the competition and opportunities crop up as frequently as in a video game. Every month or quarter you tally up the results and see how you did. What's more, there's real money at stake. Employees can share in the excitement—and once they do, they'll give your company a kind of turbocharge. But not many people get excited about a process they don't understand.

How do you teach business? Start in a classroom—maybe the way Foldcraft's Mayhew does. He developed a six-hour course in the basics, which he teaches to employees in groups of 30 or 35 at a time.

First Mayhew focuses on employees' personal finances. The class compiles personal "income statements" and "balance sheets." It's an easy way to learn financial language.

Then he creates a fictional chocolate-cookie-cookie company, with simplified financials. Like Foldcraft, the company has bills of materials—ingredients—and routings, or the steps in the recipe. The class figures out standard costs and the effect of variances in, say, the price of flour, and compiles income statements and balance sheets for the cookie company.

Mayhew next brings out Foldcraft's actual financials and shows how the company's numbers correspond to the cookie company's simplified ones. At this point he delves into more complex matters, such as inventory costs. He explains the effect of purchasing variances, usage variances, and labor variances.

**Finally, he brings it all home.** "I go around the room and try to get an understanding of what's in there and what jobs they have. I actually try to talk to them individually in the classroom about what their jobs are and how they see them impacting profitability."

Classroom lessons won't stick, of course, unless they're reinforced every day—on the job.

That's why Web Industries, a Westborough, Mass., converter of roll materi-
als, often ask a frontline employee to explain the income statement at the monthly plant meeting. The designated teacher, usually a machine operator, sits down with someone in accounting a day or two before and, like any teacher, must know the material better than the students do.

And learning by doing is why Jim Jenkins of Jenkins Diesel Power, a Springfield, Mo., truck dealership, might give homework to his 18 service technicians. One recent exercise went something like this: You've learned how much the company bills for your time. You've learned what costs have to come out of the revenue you bring in. Now calculate how much the company could earn if you could do in 59 minutes what now takes you 60. (The answer: $21,000—"right to the bottom line.")

What reinforces the learning best, of course, is the open-book system itself. When people are important information regularly, they find ways to learn what it says. If part of their income depends on that bottom line (see step four), you can bet they will soon understand which numbers have the biggest impact on it.

STEP THREE
EMPOWER PEOPLE TO MAKE DECISIONS BASED ON WHAT THEY KNOW

 Plenty of companies give lip service to the concept of empowerment, or employee involvement. They want participation! They call meetings! They set up project teams, cross-functional teams, self-managing work teams—so many teams, a wag once remarked, that companies these days could be mistaken for bowling leagues. But since they don't share financial information, not many employees know how their work affects the bottom line.

That's like empowering someone to drive a truck—without giving that person a map or a destination. Open-book management provides both.

Of course, you can't just announce that people are now empowered. Any more than the Founding Fathers could just announce that the United States would have a democratic government. You need structures and procedures.

One approach, pioneered by SRC, and widely adopted by others, is the so-called huddle system. Representatives from SRC's departments and divisions meet once every two weeks to report their numbers and their opinions about the upcoming weeks and months. At Foldercraft (no coincidence—Foldercraft modeled itself after SRC), they generate an income statement, a cash-flow statement, and a forecast, which people take back to their own units.

In the units is where the work gets done. Managers help employees address problems. Every unit is accountable for its own numbers—and every man and woman in that unit shares in the accountability. The units report new numbers to the corporate offices each week. If they're on target, fine. If they're off, they're learning to keep their own books.

Gershman and other veteran managers oversee the teams, coach and train their members, and set companywide policies on matters such as compensation. But the teams' autonomy encourages members to think like businesspeople rather than like hired hands.

A third option: turning departments into business centers, so that every department becomes a company within a company. The units still have specialists, unlike the teams at Published Image. But they're responsible for sati

Eric Gershman, founder of Published Image, a newsletter publishing company in Boston.
How to Get Started

So you think there might be something to this open-book stuff? Here's what some companies actually do to get the ball rolling:

Announce the end of annual raises. "Cats, dogs and gentlemen, this company will pay no more across-the-board raises, even for cost of living. Starting now." Statements like that have a way of getting people's attention.

Unless you want a wholesale rebellion on your hands, of course, you'll have to offer something in return. In place of annual raises, president Bob Fury of Cor-Mode set up a generous bonus tied to profit sharing. Eric Gershman, CEO of published image, instituted a bonus tied to team performance. (See main story.)

Joe Jenkins, co-owner of Jenkins Diesel Power, added a couple of steps of his own. First he asked each of the 10 employees in his parts department to come up with 15 suggestions about how they'd improve the department and the company. In return, he gave them $50 each. Most of them went on to rank the suggestions. Together, they built the list down to the most important ones—such as frequent check of physical inventory and the "troubled" materialized records—then ranked them. In all, "first-month" was accountable. "An $3,000 investment in labor costs is worth $17 profit." Jenkins explains. Then he posted a target margin; the revenues the department had to bring in to cover its expenses. There would be no raises, he announced. But 25% of any revenues over the target would be divided up among the department's employees.

Talk about teaching employees to be businesspeople: the next year, the parts department had a 65% profit increase. And its employees made about $1 an hour more than they would have made with a raise.

But solving people's problems for them is the strategy of Rick Hartsock, who recently bought Sundrown Products, a specialty-coatings manufacturer. (See "Before and After" page 44.)

Hartsock remembers a worker coming to him and telling him that the company's pay system stank. Hartsock said, Gee, he thought his pay was pretty good. So it wasn't really his problem, whose problem did the guy think it should be?
The guy was silent. "He said, 'I don't know. I don't know what you're getting at. It's certainly not my problem.'" recalls Hartsock. Hartsock asked the guy if anybody else felt the way he did. A lot of people did, the worker told him.

Good, said Hartsock. "You get those people and form a pay-plan committee. He added that he would implement any reasonable plan that the committee came up with, the complaint actually stopped complaining and got to work. He and a dozen others spent seven months coming up with a new, computerized pay system—called Hartsock immediately implemented. It allows people to work up from $10 an hour to $15 by learning new skills.

Hartsock believes that experience helped prepare his employees for the responsibilities of open-book management. Today if they want a new machine, they expect to prepare a cost justification. And when the company began a profit-sharing program, an employee committee devised a plan for giving away the pool.

Play a business game. Like most professionals, says Smith & Co. Engineer, the company's president, Samuel Smith, set up a game. First he asked each professional how many hours he or she wanted to work for a month. He told up the responses, multiplied the sums by people's billing rates, and came up with a goal: so many dollars of revenue for each engineer, so many for the company as a whole. Hit the goal, he said, and we'll pay a bonus.

In the first month—it was December—the firm played for $100 a head. Everyone saw the weekly chart of hours billed, so all the employees knew where they stood. Practice: billable hours suddenly rose, up to and even beyond what people had said they would do. The company's morale rose. People got their bonuses; in January 1994, Smith upped the ante. Now the bonus would be 3% of salary, in the first six months of the year, that worked as well—the firm made so much money that he raised the reward to 10%. The company hit its profit goal for the whole year in November.
four quarters, they know if they have been successful—and they know why or why not.

Manko, for example, sets annual targets for net earnings and return on operating assets. If employees hit both targets, the company "makes bonus," meaning that employees collect paycuts ranging from 10% to 50% of their local compensation. Want to know the prospects? Check out that lunchroom wall.

A bonus is a reward; it's also a powerful educational tool. So a lot of open-book companies use the bonus to reinforce key business lessons. Engines Plus, a Springfield, Mo., company that buys diesel engines and converts them to stationary power plants, pays bonuses that are pegged both to profit before taxes and to inventory accuracy. The latter is a critical operational number for the company, and CEO Eric Paulson wants employees to focus on keeping it high. Kacey Fine Furniture paid a bonus in 1993 based on net profits and return on assets. Last year the company included a factor designed to minimize customer returns.

What about stock ownership? Open-book management can work without an equity stake—by seniority—but it works better when employees own stock in the company.

The reason: business is always a game of trade-offs between the short term and the long. Do we raise everybody's wages and salaries, or do we invest more in expansion? Do we pay a big profit-sharing bonus, or do we hold on to the cash and thus raise our share value? Long-term payoffs, of course, redound primarily to a company's owners.

"Equity is the basis for all long-term thinking," writes Jack Stack, CEO of SRC, in his book, The Great Game of Business. "It is the best reason for staying the course, for sacrificing instant gratification and going after the big payoff down the road. If you have equity and understand it, you know why it's important to build for the future. You can make the long-term decisions. You still pay attention to the day-to-day details, but you're doing it for the right reason: because it's the best way to achieve lasting success."

When you boil it all down, the goal of open-book management is to create what Chick-fil-A's Mark Miller calls "a business of businesspeople."

Most U.S. companies are companies of hired hands. Hired hands aren't just hourly workers. The category includes all employees, whatever their job, who assume that it's somebody else's concern whether their company succeeds in the marketplace.

Hired hands do as they're told. Businesspeople figure out what needs to be done and do that. Hired hands don't bear full responsibility for their actions. Businesspeople do. They know they're accountable to the marketplace and to one another.

Hired hands aren't expected to see or understand the big picture. Businesspeople know they have to.

"It's really pretty amazing when you stop to think about it. American employees live in a democracy. They're free, independent, responsible citizens. They raise families, manage their finances, elect the people who govern them. And yet they go to work at companies as if the assumption is that they can't understand the big picture, can't take responsibility for making money, and probably can't do much at all other than what the boss tells them to do."

It's also amazing how many have some companies jump through to get their employees to stop thinking like hired hands. They preach responsibility and accountability. They teach quality and teamwork and empowerment. They really try.

The new open-book companies do much more, though. They teach business. They provide employers with the tools they need to be businesspeople.

These are the companies that will succeed in the brutally competitive marketplace of today—and tomorrow.
Before
After

In the real world, open-book management works for one reason: It transforms human behavior.
It gives individuals reason to care, knowledge to work with, and
the power to act. It connects every worker with the ecstatic buzz of business and
enables ordinary people to perform better than anyone ever expected.
People like Leo Henkelman

By David Whitford

Leo Henkelman is built like a bear. He speaks slowly, and
his voice rumbles. His eyes have a way of making other
people say, yes, go, then, that for so many years.

His pride was in Sandstrom Products—a $5 million
manufacturer of paints, enamels, lubricants, and other chemical
products. Henkelman worked more than a strong back clashed
in a state-owned steel mill, attending to a mill all day, mixing
paints, same platform, same mill, for more than a decade. It
was his dream.

Lately, for Henkelman, though, Sandstrom Products lost
so much money for so long that eventually his bosses decided
they had no choice but to give open-book management a try.
The financial consequences of that decision were staggering.

Sandstrom Products rebounded from a loss of more than
$100,000 in 1991 to earn almost $800,000 in 1993. "Sales
were up. I was surprised. I was amazed," mused a founder Jim Sandstrom, now retired.

"No new product lines. No new customers. Just profits, lovely profits.
But why? How did that happen? Where did the profits come from? That's our story here. The source of open-book management's power is the ecstatic buzz of business and
enables ordinary people to perform better than anyone ever expected.
People like Leo Henkelman. Open-book management gave
Sandstrom Products a shot at sharing his destiny, and he made the
difference.

"I have a hard time remembering Leo being around when I
first started," admits Rick Harwood, a longtime manager at
Sandstrom Products who bought a big piece of the company in
1992. "Didn't say much, didn't talk to many people, didn't have
enjoyed the process." Now when Harwood looks at Henkelman,
he can only wonder. "Where have you been?" (Continued)
Leo Henkelman had needed a job after high school. He worked in a slaughterhouse. His dad—Leo senior—was a foreman there and had helped bring him in. That was in the mid-1970s, when manufacturing jobs were still plentiful in the Midwest. Henkelman’s particular task, when he started, was to stand at a certain spot on the production line and hammer purple USDA stamps in nine places on every side of beef that swung by carcass after carcass, five days a week, on a shift that began at 3 a.m. “An extremely boring job,” he says.

But the pay was good—so good that Henkelman never saw much point in going to college.

Not that college was ever really an option. There were eight Henkelman children—four girls and four boys. Leo was the oldest. When he was in 12th grade, Wendy, the youngest, was in kindergarten. For years, to keep food on the table, Leo’s mother, Betty Henkelman, worked in a grocery store. “She never really got a check,” says Henkelman—she just signed it over to pay the bills. Betty died of emphysema in 1989, the day before her 62nd birthday.

The family was forever on the move, following Leo senior, who was following the money—from Glidden, Iowa, where he worked on a farm for $180 a month, plus a house—through a succession of meatpacking jobs in tiny towns in western Iowa, ending up finally in Anacortes, Wash., a farming community on the Swale, River, just up the road from the huge Iowa Beef Packers plant in Joslin. There Leo junior completed high school and began his working life. “It was one of these choices,” he says now. “I could either go into the military or go to work.”

But then Henkelman got fired from the meatpacking plant for fighting with another employee (who ended up in the hospital). It made no difference that his dad was the foreman, it was Leo senior, in fact, who delivered the bad news.

Henkelman worked in construction for a while after that, but the pay was low. The boss kept promising him a raise, but the raise never happened. Then some friends who already had jobs at the company told Henkelman about Sandstrom Products in Port Byron, Ill. The base pay—$4.20 an hour—was $3 less than what he had been making at the meatpacking plant, but the work was steady and reasonable (no weekends). He got a raise, a 40-hour-a-week job, and that was what I was interested in.” And above all, it was available just then.

Henkelman put in an application and was hired as a painter’s assistant, the bottom job in the plant, no experience necessary. “Puttin’ paint in cans, and cans in boxes,” he says.

Shortly afterward, Henkelman moved out of his parents’ house and rented a one-bedroom apartment on Main Street in Port Byron, next door to Peacock’s Tavern, two blocks from the job.

Port Byron, population 1,002, is a Mississippi River town—the oldest river port in Illinois, according to a forlorn sign that faces the water. Today a visitor to Port Byron can still get a pretty good sense of what kind of company Sandstrom used to be just from the layout of the place, which hasn’t changed. There’s the plant, first of all, toward the south end of Main Street, a squat building with a sheet-metal skin that opens onto a loading dock, where the plant workers take breaks in the afternoon sun. The corner-block laboratory adjoins the plant, but it’s on a different level—lower in physical space, higher in the organizational hierarchy. Behind the plant and the lab, up on the hill, is the office, a handsome clapboard building with views of the plant and the river.

When the new office building was built, in 1982, so was a covered wooden staircase leading from the back door of the plant up the steep side of the hill to the office driveway on High Street. Forever after, to Henkelman and the other plant workers, management was “up on the hill.” To get there, you took “the stairway to heaven.”

Henkelman’s world, the plant floor, was dark and noisy and smelled strongly like a high school chemistry classroom. After about a year Henkelman became a mill operator, mixing paints in a giant blender, following formulas supplied by the lab. The pay was a little better and the work was more engaging, but there were frustrations at every turn. The problems that came up were somehow always different and always the same: Henkelman would think he had a better idea about how to do something, he’d take it to the guys in the lab (who had college degrees and carried business cards and wore suits to work, the kinds of clothes they could afford to go home and eat supper in), and they’d tell him, in so many words, to blow off. “It was like they hired me from the neck down,” says Henkelman. “Warm body, strong back, weak mind.”

Henkelman bristled. He had never been content to let others worry about the right way to do things. His father recalls how Henkelman, not much more than a toddler, hurled in while his dad was working on a piece of machinery in the yard one day to say, “Hey, Dad, let me wrench that a little while.”

Over time Henkelman learned to rely less on the formulas supplied by the lab (which were often no more than lists of ingredients, in no particular order) and more on his own knowledge and experience, which he stored in a shadowy set of formula cards. The mill operators all helped one another out. “We’d get their mistakes coming from the lab that you got to do it this way or else,” Henkelman says. “We did a lot of things under the cover of ‘Don’t tell anybody that we did this, but we’re gonna check this out to see whether it works, because we don’t believe the guys in the lab.’ And we would succeed, and we’d kind of start into..."
the lab and, you know, "Suppose we can try it this way once?" And they'd say, "Well, OK," begrudgingly. It's like we didn't know what we were talking about and what we were doing.

It was an elaborate game—costly, inefficient, demeaning to all parties, and increasingly untenable. As Sandstrom faced growing pressure from quality-conscious customers demanding consistent output, the war between the lab and the plant escalated. Profits suffered, and so did morale. Henkelman, after 13 years, was thinking about quitting.

Meanwhile, events were spiraling toward another crisis, one in Henkelman's personal life. Henkelman, you see, was a drunk, and also a hyper. Finding nothing at work to challenge him, he looked, he says, "into the bottom of a bottle." More and more, he lived for getting wasted. "That was the only reason I showed up for work."

There were days, more days than he can remember, when he showed up at work with a hangover, and the smell on the plant floor would overwhelm him and he would be sick. One day the alarm went off and he rolled out of bed and into his coat and down the stairs, nearly making it all the way to work before the strange quiet on Main Street led him to examine a newspaper box, which came to find out was filled with Sunday papers. And there was the day following too many last days spent driving around, drinking beer in his friend's convertible, when he noticed through a hole in his T-shirt a spot of meconium on his shoulder, and only then wondered how long it had been since he last changed his shirt. The wonder is that he managed to stay employed.

In 1987, after years of slurred roadside apologies to troopers (a wink with a warning to drive straight home was the standard reply), Henkelman finally got arrested and lost his license for three months. That shook him up. By then he was living in Rapid City, the next town downriver from Port Byron, one mile and seven-tenths from the plant. He knew the distance because he walked it every day. His friends offered him rides, but he always refused. He was thinking, "I'd better walk, because if I don't walk, I'm not gonna remember why I gotta ask for a ride."

For a time after that, things were a little better. What started out as a twice-daily 40-minute forced march was, by the end, taking him 25 minutes door-to-door, and he was enjoying the exercise. He lost 20 pounds. He completed a court-ordered counseling program and actually quit drinking for seven weeks. ("I didn't quit smoking dope. I couldn't give them both up," he says.) But then it happened, hardly six months after his conviction, that he woke up one morning in bed without the slightest idea how he'd gotten there. It was just like the old days. "It was like the cycle started all over again," he says.

He wasn't ready yet, that's all. What the situation wanted was more time. Time for Henkelman to face up to the fact—through the slow accumulation of failure, humiliation, and pain—that "this ain't living." Time to discover, if not a cure, then at least a means to help himself, a way out, which he later found in a 12-step program for substance abusers. Time, finally, for an alternative to present itself, a way to fill the void, if ever he could bring himself not to get wasted anymore...something else.

He found it at work, during the late winter of 1991, in the tantalizing promise of open-book management. "Here's a really good reason to not do this," he remembers thinking. "There's opportunities here."

But before things could get better, they had to get worse. Henkelman had back surgery in August, and missed three months of work. In early November his wife threw him out of the house. They'd been married less than three years, and there were no kids, but that didn't make it any easier for him. The plan had been to straighten his life out by starting a family—a big family, like the one he'd grown up in—but the plan had failed. Henkelman was looking into the abyss.

Meanwhile, up on the hill, Jim Sandstrom, Rick Harstock, and the rest were coming to terms with their own sad set of facts. The company was hemorrhaging cash, losing money for the third year out of the last five—years during which the company's aggregate income would be a negative number. The situation was dire and called for a radical fix. Sharing numbers, giving up power, letting other people make important decisions about your business; these are not easy things to do. Unless, as Harstock puts it, "it was do that or die. We didn't have any choice. We were gonna go broke."

So began, in January 1991, Sandstrom Products' experiment in open-book management. Henkelman was skeptical at first. He'd seen so many management fads come and go over the years. "What are they after?" he remembers wondering. "What do they really want?"

But what struck Henkelman early on about open-book management was the focus on results, not process—the simple but radical ideas that "we'll tell you what we want, and you guys figure out how to do it." It spoke of trust and respect, which Henkelman revered.

Like many other open-book companies, Sandstrom divided its workforce into teams. Actually, the word team is misleading, if only because it implies competition. The teams exist to divide up the work, but no team operates in a vacuum, and every team has the same goal: to maximize profits. On the third Thursday of every month, Harstock and vice-president of finance Jim Morrison host a company-wide meeting to go over the numbers. If the profits are there, everybody gets a gain-sharing check; if not, then the teams know what they have to do.

Henkelman signed up for three teams right away: plant equipment, process control, and merit pay. The first real test was a proposal by the plant-equipment team to buy a new $18,000 forklift. There was a meeting in the conference room next to the lab—foreign ground for the managers who had come down from the hill. The team members made
a compelling argument. The forklift they were using was more than 20 years old. It was unreliable and unsafe. (A month before, it had caught on fire.) And the data they assembled comparing the cost with the anticipated productivity gains made it plain that a new forklift would soon pay for itself. Still, the corporate triumvirate—Sandstrom, Harrocks, and Morrison—reacted badly. As in "jaws hit cheese," says Henkelman.

After the team finished its presentation, Jim Sandstrom spoke. He stressed a key point that the team members were still learning: resources were finite. While it might make sense to spend $18,000 on a new forklift, it might make even more sense to spend the same amount on, say, research and development, which after all was the lifeblood of the business. The management had to think about those things; so did everybody else now that the books were open. The message was clear: you can't always get what you want.

Listening, Henkelman squirmed. The big question in his mind coming into the meeting had been, "Is this gonna fly or not?" Not the forklift—that wasn't the issue. If the company had other, more pressing needs, so be it; common goals had to outweigh parochial ones in the pursuit of profit, Henkelman understood that. But he had to know that the process was more than just a teaser; that if a team did its homework and made its case, the management could be moved. That wasn't clear to him yet. After the meeting, as he filed out of the room with the other plant workers and headed back up the stairs to his platform, he felt a tremendous letdown. "It was like, 'God, what are they trying to do now? This is the same old story.'"

So it was both a surprise and a lift to learn a few days later that a new forklift was indeed on its way. "That definitely boosted some spirits— in my own case, for sure," says Henkelman. "Because it was like, 'This didn't fail apart. It gave me the idea that we can make a difference. It made me feel that we weren't doing all this work for nothing.'"

That helped. So did Henkelman's early experience with the process-control team. What had long made work such a deadening experience for him was the yawning gap between what he felt he had to offer and what he was asked—or allowed—to contribute. He was reminded of it every day, in the never-ending battle between the plant and the lab. What the lab ordered, the plant did, period. Knowledge was power, and the lab had it all. But during the spring of 1991, as Sandstrom set about transforming itself into a company of owners, mistrust slowly evaporated and the doors to knowledge began to open. For example, the conference room— its shelves lined with technical manuals—no longer off-limits to plant workers. If a batch of paint came out lumpy, Henkelman was free now to check the manuals and try to solve the problem himself.

Eventually, Henkelman got a password that gave him access to the formula menu on the computer. Before, the formulas had been the sacred texts of Sandstrom Products. Closely guarded by the priests in the lab, handed down like commandments to the workers in the plant. It made all the difference, Henkelman says, when he could finally "get in there and look around and update a formula, actually change it so the process was on file differently."

Henkelman was living now in a one-room apartment so small that the bed and the table folded up into the wall. And, as of November 19, 1990, he had stopped drinking. So he was alone, and he had a lot of time on his hands. He had his own key to the plant and took to coming in on weekends, just so he could log on to the computer and explore. It was a way to fill the empty hours, but it was more than that. Henkelman was filling himself— with knowledge about the business, with confidence in his skills and abilities, and with hope.

Once his whole world at work had been the mill he stood over and the platform it was bolted down on. Now his sense of what mattered—of what he could influence and what he was responsible for—was rapidly expanding. He was working hard, trying to absorb "the whole process," he says, "rather than just bits and pieces of it." Getting the password "was definitely a big step. It gave me, I don't know, self-esteem, I guess. I'd call it, It was like, 'Hey, they finally trust me.'"

In the summer of 1991 Henkelman and the other members of the merit-pay team took on by far the most challenging assignment yet: designing a new compensation system. In the past, deciding how workers would be paid had been the plant manager's prerogative: seniority and favoritism were the key variables. Many plant workers were unhappy with that. They thought pay should reflect usefulness on the job; period: the more things you knew how to do and the better you can do them, the more you should make. That was fine with Harrocks, who wanted basically the same thing: a highly skilled workforce with interchangeable skills.

By July the team was ready with a proposal that offered plant workers incentives to cross-train. But as Harrocks quickly pointed out to the team, it was unrealistic. Together they studied the numbers—looked at the cost of labor and its necessary relationship to raw materials, overhead, and packaging—and eventually came up with a figure for total payroll that made fiscal sense to everybody. Then Harrocks stepped aside, and the team went back to work. By now, though, he doesn't say it exactly this way, Henkelman was thinking like an owner. "It boiled down to realizing that there are constraints," he says. "and incentives aren't the only things to
the lab and, you know, ‘Suppose we can try it this way once.’ And they’d say, ‘Well, OK,’ begrudgingly, and it’s like we didn’t know what we were talking about or what we were doing.”

It was an elaborate game—costly, inefficient, deterring to all parties, and increasingly untenable. As Sandstrom faced growing pressures from quality-conscious customers demanding consistent output, the war between the lab and the plant escalated. Profits suffered, and so did morale. Henkelman, after 15 years, was thinking about quitting.

Meanwhile, events were spiraling toward another crisis, this one in Henkelman’s personal life. Henkelman, you see, was a drunk, and also a pushover. Finding nothing at work to challenge him, he looked, he says, “into the bottom of a bottle.” More and more, he lived for getting wasted. “That was the only reason I showed up for work.”

There were days, more days than he can remember, when he showed up at work with a hangover, and the smell on the plant floor would overtake him and he would be sick. One day the alarm went off and he rolled out of bed and into his coat and down the stairs, nearly making it all the way to work before the strange quiet on Main Street led him to examine a newspaper box, which came to find out was filled with Sunday papers. And there was the day following too many lost days spent driving around, drinking beer in his friend’s convertible, when he noticed through a hole in his T-shirt a spot of sunburn on his shoulder, and only then wondered how long it had been since he last changed his shirt. The wonder is that he managed to stay employed.

In 1987, after years of shuttered roadides apologies to troopers (a win with a warning to drive straight home was the standard reply), Henkelman finally got arrested and lost his license for three months. That shook him up. By then he was living in Rapids City, the next town downstream from Port Byron, one mile and seven-tenths from the plant. He knew the distance because he walked it every day. His friends offered him rides, but he always refused. He was thinking, “I’d better walk, because if I don’t walk, I’m not gonna remember why I got up to ride.”

For a time after that, things were a little better. What started out as a twice-daily 40-minute forced march was, by the end, taking him 25 minutes door-to-door, and he was enjoying the exercise. He lost 20 pounds. He completed a court-ordered counseling program and actually quit drinking for seven weeks. (“I didn’t quit smoking dope. I couldn’t give them both up,” he says.) But then it happened, barely six months after his conviction, that he woke up one morning in bed without the slightest idea how he’d gotten there. It was just like the old days. “It was like the cycle started all over again,” he says.

He wasn’t ready yet, that’s all. What the situation wanted was more time. Time for Henkelman to face up to the face—through the slow accumulation of failure, humiliation, and pain—that “this ain’t living.” Time to discover, if not a cure, then at least a means to help himself, a way out, which he later found in a 12-step program for substance abusers. Time, finally, for an alternative to present itself, a way to fill the void, if ever he could bring himself not to get wasted anymore...something else.

He found it at work, during the last three years, and there were no kids, but that didn’t make it any easier for him. The plan had been to straighten his life out by starting a family—a big family, like the one he’d grown up in—but the plan had failed. Henkelman was looking into the abyss.

Meanwhile, up on the hill, Jim Sandstrom, Rick Hartsock, and the rest were coming to terms with their own set of facts. The company was hemorrhaging cash, losing money for the third year out of the last five—years during which the company’s aggregate income would be a negative number. The situation was dire and called for a radical fix. Sharing numbers, giving up power, letting other people make important decisions about your business: those are not easy things to do. Unless, as Hartsock put it, “It was do that or die. We didn’t have any choice. We were gonna go broke.”

So began, in January 1991, Sandstrom Products’ experiment in open-book management. Henkelman was skeptical at first. He’d seen so many management fads come and go over the years. “What is it after?” he remembers wondering, “What do they really want?” But what struck Henkelman early on about open-book management was the focus on results, not process—the simple but radical idea that “we’ll tell you what we want, and you guys figure out how to do it.” It spoke of trust and respect, which Henkelman craved.

Like many other open-book companies, Sandstrom divided its workforce into teams. Actually, the word team is misleading, if only because it implies competition. The teams exist to divide up the work, but no team operates in a vacuum, and every team has the same goal: to maximize profits. On the third Thursday of every month, Hartsock and vice-president of finance Jim Morrison host a companywide meeting to go over the numbers. If the profits are there, everybody gets a gain-sharing check; if not, then the teams know what they have to do.

Henkelman signed up for three teams right away: plant equipment, process control, and merit pay. The first real test was a proposal by the plant equipment team to buy a new $18,000 forklift. There was a meeting in the conference room next to the lab—foreign ground for the managers who had come down from the hill. The team members made

Why open-book management? “We were gonna go broke,” says Hartsock. “It was do that or die.”

Before things could get better, they had to get worse. Henkelman had back surgery in August 1991 and missed three months of work. In early November his wife threw him out of the house. They’d been married less than a year.
A compelling argument. The forklift they were using was more than 10 years old. It was unreliable and unsafe. (A month before, it had caught on fire.) And the data they'd assembled comparing the cost with the anticipated productivity gains made it plain that a new forklift would soon pay for itself. Still, the corporate troika—Sandstrom, Harrocks, and Morrison—rejected badly. As in "jaws hit chew," says Henkelman.

After the team finished its presentation, Jim Sandstrom spoke. He stressed a key point that the team members were still learning: resources were finite. While it might make sense to spend $18,000 on a new forklift, it might make even more sense to spend the same amount on, say, research and development, which after all was the lifeblood of the business. The management had to think about those things, so did everybody else now that the books were open. The message was clear: you can't always get what you want.

Listening, Henkelman squirmed. The big question in his mind coming into the meeting had been, "Is this gonna fly or not?" Near the forklift—that wasn't the issue. If the company had other, more pressing needs, so be it; common goals had to outweigh parochial ones in the pursuit of profits. Henkelman understood that. But he had to know that the process was more than just a test; that if a team did its homework and made its case, the management could be moved. That wasn't clear to him yet. After the meeting, he filed out of the room with the other plant workers and headed back up the main to his platform, he felt a tremendous letdown. "It was like, 'God, what are they trying to do now?' This is the same old story."

So it was both a surprise and a lift to learn a few days later that a new forklift was indeed on its way. "That definitely boosted some spirits— in my own case, for sure," says Henkelman. "Because it was like, 'This didn't fall apart.' It gave me the idea that we can make a difference. It made me feel that we weren't doing all this work for nothing."

That helped. So did Henkelman's early experience with the process-control team. What had long made work such a
deedening experience for him was the yawning gap between what he felt he had to offer and what he was asked—or allowed—to contribute. He was reminded of it every day, in the never-ending battle between the plant and the lab. What the lab ordered, the plant did, period. Knowledge was power, and the lab had it all. But during the spring of 1991, as Sandstrom set about transforming itself into a company of owners, mistrust slowly evaporated and the doors to knowledge began to open. For example, the conference room—its shelves lined with technical manuals—was no longer off-limits to plant workers. If a batch of paint came out lumpy, Henkelman was free now to check the manuals and try to solve the problem himself.

Eventually, Henkelman got a password that gave him access to the formula menu on the company computer. Before, the formulas had been the sacred texts of Sandstrom Products, closely guarded by the process in the lab, handed down like commandments to the workers in the plant. It made all the difference, Henkelman says, when he could finally get in there and look around and update a formula, actually change it so the process was on file differently.

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consider. Then it became, 'How can we make this work... the way we were to take from some people.'

That was too big a leap for some of the original team members; rather than going back to the drawing board, they quit. But Henkelman stayed on and was joined by others. It was hard work, and it went on for months—the group was meeting formally once a week, debating continuosly with coworkers on the job, searching all the time for a balance between an incentive system ("whoever does a bad job should get the most") and what Henkelman calls the "union perspective of equal work, equal pay.

But one day, says Henkelman, "it all kind of fell together.

The new system identified 10 essential skills sets. Every plant worker was entitled to a peer evaluation three times a year, resulting in a numerical ranking in each skill set: one (experienced), two (qualified), or three (proficient). The higher the total score, the bigger the paycheck—more than $15 an hour for anyone who could demonstrate proficiency across the board—and the higher the multiplier for the gain-sharing checks. The shipping, maintenance, and purchasing employees were given special consideration, on the theory that the company was better served by not having those key personnel wasting time learning how to mix paints. Otherwise, no exceptions. Annual raises were out. Seniority no longer meant a thing.

"One of the things that clicked for me," says Henkelman, "was the fact that when it was all said and done, there were smiles on all but a couple of faces. And the ones that weren't smiling were the ones that were gonna be hurt by it."

Including, as it happened, a plant worker with 20 years at Sandstrom, who went straight up the hill to Hartsock and complained. When Hartsock advised him to speak to a member of the team, he admitted he saw one, that in fact he had voted to approve the new system. But, he said, only because he figured Hartsock would make an exception for a loyal employee.

It was a defining moment, Had Hartsock tried to circumvent the team's authority—and there were many on the team who feared he might—it would have undermined the whole concept of open-book management at Sandstrom. What Hartsock did instead was break a compromise, which the team approved: a grandfather clause affecting anyone whose pay was slated to go down, granting six months to make up the difference by acquiring new skills. For this particular disgruntled worker, the story does not have a happy ending: six months later his pay went down; a year after that, he quit. For the others, though, it was a confirming experience. Compromise was possible. Hartsock was not going to undercut them. Open-book management was real.

"That was probably the one that empowered us the most," says Henkelman. "Because of that I felt and still feel today that I have control of my own destiny."

Those were heady days, when open-book management was new, but they were also trying days. Hartsock breathed deeply of the new atmosphere and was swept up in the lifting of limits. No longer simply a mill operator, he took on added responsibilities. For a while Hartsock put him in charge of scheduling production, and for a while after that he was de facto plant manager. Neither suited him exactly. Henkelman was a doer; that was his strength. "All of my discussions with him seemed to center on the idea that, "Well, I'd rather do it myself than tell somebody else to do it,"" Hartsock explains. "In a nutshell, he found it really hard to delegate."

Thus, a year and a half ago, a technician job opened up in the lab, and a new, previously unimaginable future presented itself to Henkelman. It was a stretch. He should have had a college degree, and he hadn't even taken chemistry in high school. But Bob Sireno, the lab's technical director, was adamant. He wanted Henkelman, and Hartsock went along with it.

So last winter Henkelman left the plants, took off his blue-collared shirt, and moved down to the lab, to a desk in front of a window with a view of the Mississippi. In a sense, Henkelman's doing what he always did—making paint. Only new, instead of following orders and doing only the grunt work, he guides the process from beginning to end—working with customers, developing new products and refining old ones, and doing it all better and faster than others who don't have his hands-on experience. "In a year he's developed skills that most college graduates would take three to five years to develop," says Sireno.

Once the "Hunter Thompson of Sandstrom Products," Henkelman had made a new identity for himself since the transition to open-book management: clear thinking, capable, responsible, "a guy that I can depend on to throw into a really complex problem and solve it," says Hartsock. Today Henkelman can no more imagine going back to the old way of working than he can drinking again or smoking dope. "I would find it really difficult to go back for somebody else that wasn't doing this kind of stuff," he says. "It would be really, really tough. Because I have been allowed, I've been trusted."

Still, it seems almost incredible to him, the way things have worked out. He's still pinching himself. "I never would have dreamed 16 years ago coming down here that I would be sitting at a desk looking out over the rivers, watching the business grow," he says. "With me as a part of it."

On a late-winter Saturday morning, Henkelman stands in front of the picture window in his kitchen, a sheathed scientist-like: rugged thick, brown hair, muscular nose, balding on top but with a ponytail behind. He looks a little like James Carville—he's got the same ambling, mischievousness behind the eyes.

Henkelman got married again recently, to Debi, a nurse who has long brown hair and green eyes and a strength to match his (born of her own commitment to sobriety—two years and counting). They live together in a frame house (childless for now, but hoping) on two acres in tiny Cleveland, Ill., on the Rock River, with their black Lab, Molly; their cats, Little Bit, Cocoa, and Squeaky; and birds, lots of birds, drawn from distant parts to a yard filled with birdhouses, birdhouses, and bird feeders. "I like to watch 'em, listen to 'em, everything," Henkelman says.

He's "pink" to the birds, one by one, and names them: a cardinal, a black-capped chickadee, a common house sparrow, a purple finch, a white-breasted nuthatch. He talks about the sightings he's most proud of, a white-crowned sparrow that visits twice a year (it's the same one, he's certain), stopping for a day or two on the long flight between its summer nesting grounds above the Arctic circle and its winter home on the Gulf of Mexico. The bird itself is nothing special, it's the journey Henkelman thinks is so amazing.
Beyond high philosophy and grand themes lie the gritty details of practice.

Building a Learning Organization

by David A. Garvin

Continuous improvement programs are sprouting up all over as organizations strive to better themselves and gain an edge. The topic list is long and varied, and sometimes it seems as though a program a month is needed just to keep up. Unfortunately, failed programs far outnumber successes, and improvement rates remain distressingly low. Why? Because most companies have failed to grasp a basic truth. Continuous improvement requires a commitment to learning.

How, after all, can an organization improve without first learning something new? Solving a problem, introducing a product, and reengineering a process all require seeing the world in a new light and acting accordingly. In the absence of learning, companies and individuals simply repeat old practices. Change remains cosmetic, and improvements are either fortuitous or short-lived.

A few farsighted executives—Ray Staats of Analog Devices, GordonForward of Chaparral Steel, Paul Afzali of Xerox—have recognized the link between learning and continuous improvement and have begun to refocus their companies around it. Scholars too have jumped on the bandwagon, beating the drum for “learning organizations” and “knowledge-creating companies.” In rapidly changing businesses like semiconductors and consumer electronics, these ideas are fast taking hold. Yet despite the encouraging signs, the topic in large part remains murky, confused, and difficult to penetrate.

Meaning, Management, and Measurement

Scholars are partly to blame. Their discussions of learning organizations have often been reverential and utopian, filled with near-mystical terminology. Paradise, they would have you believe, is just around the corner. Peter Senge, who popularized learning organizations in his book The Fifth Discipline, described them as places “where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together.” To achieve this ideal, David A. Garvin is the Robert and Jane Clikir Professor of Business Administration at the Harvard Business School. His current research focuses on the general manager’s role and successful change processes. His last HBR article was “How the Bidders Realize Works” (November-December 1993).
these ends, Senge suggested the use of five "component technologies": systems thinking, personal mastery, mental models, shared vision, and team learning. In a similar spirit, Ikujirō Nonaka characterized knowledge-creating companies as places where "inventing new knowledge is not a specialized activity...it is a way of behaving, indeed, a way of being, in which everyone is a knowledge worker." Nonaka suggested that companies use metaphors and organizational redundancy to focus thinking, encourage dialogue, and make tacit, instinctively understood ideas explicit.

Sound idyllic? Absolutely. Desirable? Without question. But does it provide a framework for action? Hardly. The recommendations are far too abstract, and too many questions remain unanswered. How, for example, will managers know when their companies have become learning organizations? What concrete changes in behavior are required? What policies and programs must be in place? How do you get from here to there?

Most discussions of learning organizations finesse these issues. Their focus is high philosophy and grand themes, sweeping metaphors rather than the gritty details of practice. Three critical issues are left unresolved; yet each is essential for effective implementation. First is the question of meaning. We need a plausible, well-grounded definition of learning organizations; it must be actionable and easy to apply. Second is the question of management. We need clear guidelines for practice, filled with operational advice rather than high aspirations. And third is the question of measurement. We need better tools for assessing an organization's rate and level of learning to ensure that gains have in fact been made.

Once these "three Ms" are addressed, managers will have a firmer foundation for launching learning organizations. Without this groundwork, progress is unlikely, and for the simplest of reasons. For learning to become a meaningful corporate goal, it must first be understood.

What Is a Learning Organization?

Surprisingly, a clear definition of learning has proved to be elusive over the years. Organizational theorists have studied learning for a long time; the accompanying quotations suggest that there is still considerable disagreement (see the insert "Definitions of Organizational Learning"). Most scholars view organizational learning as a process that un-
naturally, the members wanted to know why their leader knew so much. He told them that he had been to the cave. The members reminded him, however, that a visit isn’t a reason for a guarantee that changing will improve the tribe’s quality of life or make the community safer, more prolific and impervious to outside threats.

The innovative tribe leader reminded them of the stories the elders told about the tribe living in the open, on the plains of the rains, flock then, a perspicacious elder convinced some of the tribe members to live under trees. He reminded them that the others who refused to change were eaten by the carnivorous creatures they now chased away from under the tree.

The tribe understands better now and agrees to undertake a feasibility study. The tribe leader is placed in charge of the project. The elders take him aside for a three-day planning session in which they tell him all they know and believe. The leader now must devise a plan that works and execute the plan successfully, or the tribe will execute him.

Does this scenario sound familiar? Although it’s logical to move into a cave that’s safe and only 50 feet from the tree, what’s so difficult about changing behavior? The tribe changed before, what’s stopping it from doing so now? Many human resources managers would agree that the same question can be asked of today’s employees when it comes to making changes. Here are some answers.

Generating receptivity to change requires that organization members understand the pressures both external and internal, that make change necessary. For example, is the organization (or tribe/community) threatened by market, regulatory or competitive pressures (environment)? Is top management (the elders involved in supporting and implementing change) operating, behavioral or organizational performance data available (the tribe) to convince the individuals to change? At times it is the change agent and not the client who must bring in outside experts to generate community self-doubt about current practices.

If enough self-doubt has been generated, the change agent may move to the next step: forming an action plan that includes strategic, tactical and evaluation components. The following 11-step model, which is a result of my 15 years of experience in the human resources field, simplifies the change process and the change agent’s role.

Step 1: Assess yourself. You’re the center of client focus at first. Your personality, attitude, communication skills, knowledge and experience as the expert are pivotal contributions to the project and design plan. By taking inventory of what you’re bringing to the intervention, you can determine the design’s strengths and weaknesses.

Look at how you can use your strengths best. Ask yourself: How can I best share and transfer my knowledge to my client(s)? How can I collaborate? Which areas in this situation trouble me and why? Who or what can help? What happened the last time a situation similar to this occurred? What went well and what needs work?

Step 2: Assess the system. The sponsoring organization, company or agency will subtly influence the process, who participates and the outcome of that process. What culture is at work here? Formal, conservative, liberal, academic, relaxed or competitive? What are the rules or engagement, protocols or social norms that will affect the design and implementation? What are the administrative constraints?

Step 3: Assess the client. Determine how you can get a clearer picture of your client. Can your colleagues help? If you have done this type of intervention before, who was there and who was not? What type of people will likely be involved (or need to be)? What will they expect, bring, hope to give or be pre-
Emilio's Reactions Toward the Group-Change Process

As you consider collaborative group problem-solving and decision-making in any change process, remember the following:

1. An anxious group member inhibits group functioning. Try to reduce anxiety by planning and evaluating.
2. People with special skills relative to the group task will have more influence on group decisions.
3. Participation in group tasks decreases with increases in group size.
4. The probability of a leader emerging increases with group size.
5. Participants usually rate small groups as more satisfactory, positive, and effective than larger groups.
6. The probability of group conformity to a unanimous majority increases with increasing group size.
7. The probability of social participation increases with the age of group members.

Step 6: Resources. Make a list and think about your needs far ahead of actual meeting dates. Supplies and technology may need to be ordered or back ordered. Important contributors may have other assignments they need to make the transition from.

Step 7: How do you know it's working? You and your participants must access the progress toward a final product. PERT, Multi-Attribute Decision Making, or whatever is acceptable. How will you distribute the objectives over the time allowable? Allow time for introductory or team building and evaluation sessions.

Second, make an agenda of objectives to be dealt with at each meeting. Make sure all involve and are copied. Publish and forward the results of each meeting to all members. The participants must share responsibility for communicating the outcome of each session. Comments regarding the behavior of group members are kept within the group and dealt with there.

Step 8: Actions. Careful planning doesn't guarantee staying above water, but it can give you confidence to keep afloat. Perhaps there's a certain element of sink or swim.

Planning will give you a view of the landscape to where you're going. As you act on the plan, enjoy the sights and feel good when you end your journey.

Step 9: Evaluate. Evaluate to calibrate. This can be the most exciting and important (as well as satisfying) part of the project process. You can obtain support for what you're doing and for those attributes that offer opportunity for change and further development.

Step 10: Celebrate. Celebrate your successes. Nothing encourages success more than feeling good about your success. Take time to communicate and congratulate milestones reached both inside and outside the group. Look at it as an opportunity to build community support. You can celebrate important successes or achievement alone the way and reap the benefits of positive reinforcement.

In addition, the organization or community norms of acceptance should be considered at this stage. For example, how do we know if something is good? Or what tells us it's beneficial? Acceptance rates, cost, factoring, utility analysis, and so on, may be used.

Step 8: The Plan. First, sketch out a time line using Critical Path Method.
TOPIC 2
Reduce Employee Resistance to Change

Even the earliest tribe leader knew how difficult it was to convince the tribe to accept change. Here's an 11-step plan that can help ease the process.

...
Activity-Centered Programs

1. The improvement effort is defined mainly in long-term, global terms. "We are going to see what it takes to produce one in quality in our industry."

2. Management takes action steps because they are "correct" and fit the program's philosophy. "I want every manager in the division involved in an action."

3. The program's champion(s) counsels patience and fortitude. "Don't be looking for results this year or next. This is a long-term process, not a quick fix."

4. Staff experts and consultants indoctrinate everyone into the mystique and vocabulary of the program. "It will be a Tower of Babel if we try to work on these problems before everyone, managers and employees alike, has been through the quality training and has a common vocabulary and a common tool kit."

5. Staff experts and consultants urge managers and employees to have faith in the approach and to support it. "The employee involvement will take a lot of time and a lot of effort, and though it may be a real struggle for managers, they need to understand that it is essential to become a total quality company."

6. The process requires management to make big investments up front—before results have been demonstrated. "During the first year, we expect to concentrate on awareness building and skill training. Then, while managers begin to diagnose problems and opportunities in their areas, a consultant will be surveying all of our customers to get their views on the 14 critical dimensions of service. And then . . ."

7. The process is repeated: many places that just to describe them all required a complex chart. Once top managers had made the investment and the public commitment, however, they "proved" their wisdom by crediting the programs for virtually any competitive gain the company made. But in fact, no one knew for sure which, if any, of the 50 activities were actually working.
When one company had little to show for the hundreds of dollars it invested in improvement activities, the chief operations officer rationalized, "You can expect to overturn 50 years of culture in just a couple of years." And he urged his management team to persevere in its pursuit of the activities.

He is not alone in his faith that, given enough time, activity-centered efforts will pay off. A company cited above, with almost $50 million invested in activities going on simultaneously, published with pride its program's timetable calling for three years of preparations and reorganizations, with major results expected only in the fourth year. And at an electronics company, the manual explaining management-empowerment process warned that implementation could be "painful" and that management should not expect to see results in "the long term."

4. Delusional Measurements. Having conveyed the false message that activities will inevitably produce results, the activities promoter commits suicide by equating measures of activities with actual improvements in performance. Companies proclaim their quality programs with the same pride with which they would proclaim real performance improvements—ignoring or perhaps even unaware of the significance of the differences.

In a leading U.S. corporation, we found the group of quality facilitators could not enumerate the critical business goals of their units. Surprisingly, we asked how they could possibly assess whether or not they were successful. Their answer: success is defined as getting 100% of each unit's managers and employees to attend the prescribed quality training—a centerpiece of the corporation's quality program.

The Malcolm Baldrige National Quality Award encourages such practices by devoting only 10 points out of a possible 1,000 points to quality results. The award gives high marks to companies that demonstrate outstanding quality processes and always demanding that the current products and services be equally outstanding.

5. Staff- and Consultant-Driven. The focus on activities as ends in themselves is exacerbated by the fact that improvement programs are usually signed by staff specialists, external consultants, or other experts, rather than by operating managers. Many cases, managers seek this outside help because they have exhausted their own ideas about improvement. So when staff experts and improvement gurus show up with their evangelistic enthusiasm and bright promises of total quality and continuous improvement, asking only for faith and funds, managers greet them with open arms.
But the capability of most of these improvement experts is limited to installing discrete, often generic packages of activities that are rarely aimed directly at specific results. They design training courses, they launch self-directed teams, they create new quality-measurement systems, they organize campaigns to win the Baldrige Award. Senior managers plunge wholeheartedly into these activities, believing themselves, momentarily at least, of the burden of actually having to improve performance.

The automotive-parts plant described earlier illustrates the pattern. Senior managers had become very frustrated after a number of technical solutions failed to cure the plant's ills. When a staff group then asserted that employee involvement could produce results, management quickly accepted the staff group's suggestion to initiate employee-involvement teams meeting - meetings that failed to deliver results.

The futility of expecting staff-driven programs to yield performance improvement was highlighted in a study conducted by a Harvard Business School team headed by Michael Beer. It analyzed a number of large-scale corporate change programs, some of which had succeeded, others of which had failed.

The study found that company-wide change programs installed by staff groups did not lead to successful transformation. As the authors colorfully put it, "Wave after wave of programs rolled across the landscape with little positive impact."

Results-Driven Transformation

In stark contrast to activity-centered programs, results-driven improvements bypass lengthy preparation rituals and aim at accomplishing measurable gains rapidly. Consider the case of the Morgan Bank. When told that his unit would have to compete on an equal footing with outside vendors, the senior vice president of the bank's administrative services (responsible for 20 service functions including printing, food services, and purchasing) realized that the keys to survival were better service and lower costs. To launch a response, he asked the head of each of the service functions to select one or two service improvement goals that were important to internal "customers" and could be achieved quickly. Unit heads participated in several workshops and worked with consultants to lay out a five-week plan to accomplish the goals.

They introduced a number of work-process innovations, each selected on the basis of its capacity to help achieve the 24-hour turnaround goal, and tracked performance improvements daily.

This project, together with similar results-driven projects simultaneously carried out in the other 19 units, yielded significant service improvements and several million dollars of cost savings within the first year of the initiative - just about the time it usually takes to design the training programs and get all employees trained in a typical activity-centered effort. The experience of the Morgan Bank illustrates four key benefits of a results-driven approach that activity-centered programs generally miss:
1. Companies introduce managerial and process innovations only as they are needed. Results-driven projects require managers to prioritize carefully the innovations they want to employ to achieve targeted goals. Managers introduce modifications in management style, work methods, goal setting, information systems, and customer relationships in a just-in-time mode when the change appears capable of speeding progress toward measurable goals. Contrast this with activity-centered programs, where all employees may be ritualistically sent off for training because it is the “right” thing to do.

In the Morgan Bank's microfilm department project, the three shift supervisors worked together as a unified team — not to enhance teamwork but to figure out how to reduce customer delivery time. For the first time ever, they jointly created a detailed improvement work plan and week-by-week subgoals. They posted this work plan next to a chart showing daily performance. Employees on all three shifts actively participated in the project, offering suggestions for process changes, receiving essential training that was immediately applied, and taking responsibility for implementation.

Thus instead of making massive investments to instill the organization with a hodgepodge of improvement activities, the microfilm department and each of the other administrative services introduced innovations incrementally, in support of specific performance goals.

2. Empirical testing reveals what works. Because management introduces each managerial and process innovation sequentially and links them to short-term goals, it can discover fairly quickly the extent to which each approach yields results. In the Morgan Bank’s microfilm department, for example, the creation of a detailed improvement work plan and week-by-week subgoals — which were introduced during the first two weeks of the program — enabled employees to experience success in their improvement programs — and build confidence and skills for continued incremental improvements.

3. Frequent reinforcement energizes the improvement process. There is no motivator more powerful than frequent successes. By replacing large-scale amorphous improvement objectives with short-term, incremental projects that quickly yield tangible results, managers and employees can enjoy the psychological fruits of success. Demonstrating themselves that they can succeed not only provides necessary reinforcement but also builds management's confidence and skill for continued incremental improvements.

The manager of the bank's microfilm department, for example, had never had the experience of leading a significant upgrading of performance. It was not easy for her to launch the process in the face of employee skepticism. Within a few weeks, however, when the chart on the wall showed the number of missed deadlines going down, everyone took notice in seeing it, and work went forward with renewed vigor. The manager's confidence grew and did employee support for the subsequent change she implemented.

In another example, a division of Motorola wanted to accelerate new product development. To get started, a management team selected two much-delayed mobile two-way radios and focused on bringing the products to the market within 90 days. For each product, the team created a unified, multifunction work plan; appointed a single manager to oversee the entire development process as the product moved from department to department; and designated an instructional team to monitor progress. With these innovations, both radios were launched on time. This success encouraged management to extend the innovations to other new product projects and eventually to the entire product development process.

4. Management creates a continuous learning process by building on the lessons of previous phases in designing the next phase of the program. Activity-centered and results-driven programs ultimately aimed at producing fundamental changes in the performance of the organization. But activity-centered programs that focus on structural changes, large-scale training programs, and massive process innovations, results-driven...
grams began by identifying the most urgently needed performance improvements and carving off incremental goals to achieve quickly.

By using each incremental project as a testing ground for new ways of managing, measuring, and organizing for results, management gradually creates a foundation of experience on which to build an organization-wide performance improvement. Once the manager of Morgan's microfilm department succeeded in meeting the 24-hour turnaround goal for one internal customer department, she extended the process to other customer departments.

In each of the other 19 service units, the same expansion was taking place. Unit managers shared their experiences in formal review conferences so that everyone could benefit from the best practices. Within six months, every manager and supervisor in administrative services was actively leading one or more improvement projects. From a base of real results, managers were able to encourage a continuous improvement process to spread, and they introduced dozens of managerial innovations in the course of achieving sizable performance gains.

Putting the Ideas into Practice

Taking advantage of the power of results-driven improvements calls for a subtle but profound shift in mind-set: management begins by identifying the performance improvements that are most urgently needed and then, instead of studying and preparing and gearing up and delaying, sets about at once to achieve some measurable progress in a short time.

The Eddystone Generating Station of Philadelphia Electric, once the world's most efficient fossil-fuel plant, illustrates the successful shift from activity-centered to results-driven improvement. As Eddystone approached its thirtieth anniversary, its thermal efficiency—the amount of electricity produced from each ton of coal burned—had declined significantly. The problem was serious enough that top management was beginning to question the plant's continued operation.

The station's engineers had initiated many corrective actions, including installing a state-of-the-art computerized system to monitor furnace efficiency, upgrading plant equipment and materials, and developing written procedures for helping operating staff use the plant more efficiently. But because the innovations were just built into the day-to-day operating routine of the plant, thermal efficiency tended to deteriorate when the engineers turned their attention elsewhere.

In September 1990, the superintendent of operations decided to take a results-driven approach to improve thermal efficiency. He and his management team committed to achieve a specific increment improvement of thermal efficiency worth about $500,000 annually—without any additional plant investment. To get started, they identified a few improvements that they could accomplish within three months and established teams to tackle each one.

A five-person team of operators and maintenance employees and one supervisor took responsibility for reducing steam loss from hundreds of steam valves throughout the plant. The team members started by eliminating all the leaks in one area of the plant. Then they moved on to other areas. As the process went on, they invented improvements in valve packing practices and devised new methods for testing leaks.

Another employee team was assigned the task of reducing heat that escaped through openings in the huge furnace. For its first subproject, the group ensured that all 96 inspection doors on the furnace walls were operable and were closed when not in use. Still another team, this one committed to reducing the amount of unburned carbon that passed through the furnace, began by improving the operating effectiveness of the station's coal-pulverizing mills in order to improve the carbon burn rate.

Management charged each of these cross-functional teams not merely with studying and recommending but also with producing measurable results in a methodical, step-by-step fashion. A steering committee of station managers met every two weeks to review progress and help overcome obstacles. A variety of communication mechanisms were built awareness of the project and its progress. For example, to launch the process, the steering committee piled two tons of coal in the station manager's parking space to dramatize the hourly cost of poor thermal efficiency. In a series of "own meetings" with all employees, managers explained the reason for the effort and how it would work. Newsletters reviewed progress on the projects—including the savings realized—and credited employees who had contributed to the effort.

As each team reached its goal, the steering committee, in consultation with supervisors and employees, identified the next series of performance improvement goals, such as the reduction of the plant's own energy consumption, and commissioned a number of teams and individuals to implement a new round of projects. By the end of the first year, efficiency improvements were saving the company over $1 million a year, double the original goal.
At a power station, two tons of coal dumped in the manager's parking space dramatized poor thermal efficiency.

Beyond the monetary gains—gains achieved with negligible investment—Eddystone's organizational structure began to change in profound ways. What had been a hierarchical, tradition-bound organization became more flexible and open to change. Setting and achieving ambitious short-term goals became part of the plant's regular routine as managers pushed decisions further and further down into the organization. Eventually, the station manager disbanded the steering committee, and now everyone who manages improvement projects reports directly to the senior management team.

Eddystone managers and workers at all levels continue to experiment and have invented a number of highly creative efficiency-improving processes. A change so profound could have never happened by sending all employees to team training classes and then telling them, "Now you are empowered, go to it." In the course of accomplishing its results, Eddystone management introduced many of the techniques that promoters of activity-centered programs insist must be drilled into the organization for months or years before gains can be expected: employees received training in various analytical techniques; team-building exercises helped teams achieve their goals more quickly; teams introduced new performance measurements as they were needed; and managers analyzed and redesigned work processes. But unlike activity-centered programs, the results-driven work teams introduced innovations only if they could contribute to the realization of short-term goals. They did not inject innovations wholesale in the hope that they would somehow generate better results. There was never any doubt that responsibility for results was in the hands of accountable managers.

- Philadelphia Electric and many other companies have launched their results-driven improvement process with a few modest pilot projects. Companies that want to launch large-scale change, however, can employ a results-driven approach across a large front. In 1988, chairman John F. Welch, Jr., launched General Electric's "Work-Out" process across the entire corporation. The purpose was to overcome bureaucracy and eliminate business procedures that interfered with customer responsiveness. The response to GE's $3 billion Lighting Business illustrates how such a large-scale improvement program can follow a results-driven pathway.

Working sessions attended by a large cross-section of Lighting employees, a key feature of Work-Out, identified a number of "quick wins" in target areas. These were initiatives that employees could implement right away to generate measurable improvements in a short time. To speed new product development, for example, Work-Out participants recommended that two separate functional review sessions be combined into one, a suggestion that was eagerly adopted. To get products to customers more quickly, a team tested the idea of working with customers and a trucking company to schedule, in advance, regular delivery days for certain customers. The results of the initial pilot were so successful that GE Lighting has extended the scheduling system to hundreds of customers.

Another team worked to reduce the breakage of fragile products during shipment—costly both in direct dollars and in customer dissatisfaction. One team, created to investigate package design and shipping pallet construction, followed sample shipments from beginning to end and asked customers for their ideas. Within weeks, the team had enough information to shift to remedial action. They tried many innovations in the packaging design, the modified work processes in high-risk areas, and reduced the number of times each product is handled. The payoff was a significant reduction in breakage within a few months.
Definitions of Organizational Learning

Scholars have proposed a variety of definitions of organizational learning. Here is a small sample:

Organizational learning means the process of improving actions through better knowledge and understanding. C. Marlene Beh and Marjorie A. Lyles, "Organizational Learning," Academy of Management Review, October 1985.

An entity learns if, through its processing of information, the range of its potential behaviors is changed. George P. Huber, "Organizational Learning: The Contributing Processes and the Literature," Organization Science, February 1991.


Organizational learning is a process through which learning takes place, others propose shared insights, organizational routines, even memory. Ray Stata, "Organizational Learning: The Key to Management Innovation," Sloan Management Review, Spring 1989.

...these ideas are the trigger for organizational improvement. But they cannot by themselves create a learning organization. Without accompanying changes in the way that work gets done, only the potential for improvement exists.

This is a surprisingly stringent test for it rules out a number of obvious candidates for learning organizations. Many universities fail to qualify, as do many consulting firms. Even General Motors, despite its recent efforts to improve performance, is found wanting. All of these organizations have been effective at creating or acquiring new knowledge but not as successful in applying that knowledge to their own activities. Total quality management, for example, is now taught at many business schools, yet the number using it to guide their own decision making is very small. Organizational consultants advise clients on social dynamics and small-group behavior but are notorious for their own infighting and factionalism. And GE, with a few exceptions like Saturn and NUMMI, has had little success in revamping its manufacturing practices, even though its managers are experts on lean manufacturing, JIT production, and the requirements for improved quality of work life.

Organizations that do pass the definitional test—IBM, Corning, and General Electric come quick-
What OD Practitioners Believe

By Donald F. Van Eynade, Allan Church, Robert F. Hurley, and W. Warner Burke

Some of us who work in organization development sense that its values are changing. You can plot this evolution by comparing the OD values during its early development, in the late 1950s and early 1960s, with the OD values of today.

Traditionally, OD values have fallen into two categories—humanistic and organizational effectiveness. Early on, the emphasis was humanistic. OD practitioners sought to improve people's quality of life in the workplace. And they sought to increase sensitivity to the social side of the sociotechnical concepts of organizations.

Organizational effectiveness is about helping employees establish and attain work-performance goals. The relationship between humanistic values and effectiveness was never an either/or proposition. But OD's founders emphasized the human side of the equation.

The core of OD consisted of such humanistic activities as sensitivity training, process consultation, the quality of 'worklife movement,' and survey feedback, which created dissonance and change in the organizational system.

Marvin Weisbord put it this way: "I must stop and remind myself that the people who created our field were driven by a passionate belief in open societies and in more rational, decent relationships across lines of color, class, nationality, hierarchy, and status."

It's not as clear as it once was what motivates OD practitioners. But experience and conversations with practitioners during the last 10 years have led some of us to suspect that there's been a waning interest in humanistic values. OD seems to have shifted in favor of the bottom-line values of productivity, performance, and profit.

Also, we sense that OD has become more specialized. Practitioners seem to focus more exclusively on specific issues and activities. They include process issues such as team building and meeting facilitation, organizational and business issues such as strategy and organizational design, and training activities that overlap or replace OD functions.

Some OD professionals shift their focus with the latest fad; today TQM, tomorrow empowerment.

In order to find out what OD professionals believe, we surveyed 1,000 experienced OD practitioners, including external and internal consultants. The survey was designed to determine what attracts people to the field, what activities they engage in, what values underlie OD work now, and what values will matter in the future.
The questionnaire
We decided to use a questionnaire as a survey instrument. We studied the literature to obtain a list of values associated with OD. Then an in-depth telephone interview with a sample of OD consultants to get additional values.

We ended up with a list of 31 values associated with OD.

The following questionnaire contained three questions:

1. What values do you think should be associated with OD work in the future?

2. What values do you think should be associated with OD work today?

3. What values do you think should be associated with OD work today?

Question 1 was open-ended. For Questions 2 and 3, we asked respondents to assess their feelings and reactions in several activities, rewards and statements about OD. The value questions required the respondents to rate how important each of 31 values is to OD practitioners. The results clearly point to a dual emphasis on organizational effectiveness and participative management. Effectiveness and productivity have to do with performance. Open communication, participation, and empowerment have to do with process. That separation of values is supported by a factor analysis of all 31 values.

A factor analysis is a statistical procedure that measures the latent structure of survey items, based on patterns in people’s responses. In this case, the analysis indicates that the 31 values separate into two factors of performance and process.

Among performance values, the highest rated item was “increasing effectiveness.” Respondents who had less than six years’ OD experience rated effectiveness and productivity as more important than all other values on the list.

We suspect that the emphasis on performance is stronger today than in 1982. Twenty years ago, this business environment in the United States was less concerned with OD work today.

Question 2: What values should be associated with future OD work?

Question 3: What values should be associated with OD work today?

We asked respondents to indicate how important each of 31 values is to OD practitioners in the future.

The five values that respondents rated highest, or most important:

1. Empowering employees
2. Creating open communication
3. Facilitating the ownership of process and outcome
4. Promoting a culture of collaboration
5. Promoting inquiry and continuous learning

All five relate to organizational processes. Values related to organizational outcomes—such as effectiveness, productivity, and profitability—were rated lower, or as less important. A possible conclusion is that process-related values are more important to OD practitioners than are outcome-related values.

Overall, the responses to Question 3 are consistent with the responses to Question 1 about what attracted people to the OD field. The response show a strong emphasis on organizational processes and humanistic values.

Overall findings
Three of the five highest-rated values that respondents said motivate OD work today are the process-oriented, traditional OD values of open communication, employee participation, and employee empowerment.
By looking at the value ratings, we discover the top five values that reflect the greatest disparity between what respondents believe motivates OD practitioners today and what they believe should motivate them:

1. Promoting a concern for the natural environment
2. Transferring OD skills and technologies to clients
3. Promoting corporate citizenship
4. Transferring OD knowledge
5. Promoting a concern for human dignity

The ratings suggest that OD practitioners believe they should be more concerned about the natural environment and the well-being of their clients, while they are currently more concerned with financial performance and the transfer of skills. This disparity might hinder OD practitioners in their work today.

In addition to the shift in values from process to performance, there appears to be a shift from traditional performance values to more broadly defined ones, such as social accountability and citizenship. In other words, performance may no longer mean just financial performance.

What does it all mean? A 29 percent survey-response rate may not be sufficient to make generalizations about all, or even most, OD practitioners. We have to wonder whether the practitioners who responded to the questionnaire are representative of the other 71 percent of our target group.

The demographic data indicate that the respondent group closely approximates the general population of OD practitioners. But the practitioners who responded may be those who adhere to more traditional OD values. Such practitioners might tend to be more willing to serve the field by answering the questionnaire.

Perhaps the other 71 percent didn't answer the questionnaire because they're not as humanistic. Maybe they're more representative of OD today. We can't know for certain.

But we can interpret and speculate about our findings from those who did respond. Their responses suggest a disparity between what OD practitioners believe should ideally motivate their work and what they believe actually does motivate it. At the very least, that's clearly the case among the survey respondents.
For example, effectiveness and productivity are linked among the five most important actual values that they don’t make the list of the five most highly valued ideal values.

The findings suggest a gap in the OD field between what is and what should be. Possibly, OD has added to its missionary zeal a bottom-line pragmatism—born of increasing competition, increasing pressure to demonstrate results, and a reaction to being viewed by some as touchy-feely types who care only about processes and not outcomes.

OD may be struggling to become "more relevant," as Dick Beckhard has said. In other words, OD practitioners may be seeking to make significant improvements in organizational effectiveness, productivity, and profitability. But they may also still seek to improve the quality of work-life for employees.

In the early days, we tended to believe that OD practitioners were inept at management. Perhaps human factors are important to an organization’s overall effectiveness. Linking OD interventions with competitiveness and profitability is almost thought of as selling out—some thought it compromised our professional integrity.

Also, some early OD practitioners may have cared little about an organization’s well-being. As long as they thought they were helping the employees, they failed to recognize the connection between humanization of the workplace and organizational effectiveness.

In their defense, there was no empirical evidence at the time to support a belief in a relationship between humanization and the bottom line. Today, growing evidence supports the link.

The challenge to OD in the future may be to find ways to be effective at satisfying many diverse values—such as enhancing performance, instilling more humane organizational processes, and advocating social and environmental reforms.

These are admirable ambitions. They may seem too ambitious to OD practitioners who just want to survive another day of change and pressure. But let us remember the OD founders. Their mission and sense of purpose imbued them with energy and resilience. And isn’t that what it takes to accomplish any goal?—

Donald Van Emden is an associate professor in the department of business administration at Trinity University in San Antonio, Texas. Allan Church is a doctoral candidate and Warner Burke is a professor of psychology and education, both at Teachers College, Columbia University, New York. Robert Hurley is a principal of W. Warner Burke Associates, 201 Wolfe Lane, Pelham, NY 10803.

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Definitions of Organizational Learning

Scholars have proposed a variety of definitions of organizational learning. Here is a small sample:

Organizational learning means the process of improving actions through better knowledge and understanding.

An entity learns if, through its processing of information, the range of its potential behaviors is changed.

Organizations are seen as learning by encoding inferences from history into routines that guide behavior.

Organizational learning is a process of detecting and correcting error.

Organizational learning is the creation, through shared insights, knowledge, and mental models, of new knowledge and experience that is, an amendment.

These ideas are the trigger for organizational improvement. But they cannot by themselves create a learning organization. Without accompanying changes in the way that work gets done, only the potential for improvement exists.

This is a surprisingly stringent test for it rules out a number of obvious candidates for learning organizations. Many universities fail to qualify, as do many consulting firms. Even General Motors, despite its recent efforts to improve performance, is found wanting. All of these organizations have been effective at creating or acquiring new knowledge but notably less successful in applying that knowledge to their own activities. Total quality management, for example, is now taught at many business schools, yet the number using it to guide their own decision making is very small. Organizational consultants advise clients on social dynamics and small-group behavior but are notorious for their own infighting and factionalism. And GM, with a few exceptions (like Saturn and NUMMI), has had little success in revamping its manufacturing practices, even though its managers are experts on lean manufacturing, JIT production, and the requirements for improved quality of work life.

Organizations that do pass the definition test—IBM, Corning, and General Electric come quick-
Building Blocks

Learning organizations are skilled at five main activities: systemic problem solving, experimentation with new approaches, learning from their own experience and past history, learning from the experiences and best practices of others, and transferring knowledge quickly and efficiently throughout the organization. Each is accompanied by a distinctive mind-set, tool kit, and pattern of behavior. Many companies practice these activities to some degree. But few are consistently successful because they rely largely on happenstance and isolated examples, by creating systems and processes that support these activities and integrate them into the fabric of daily operations, companies can manage their learning more effectively.

**Xerox’s Problem-Solving Process**

<table>
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<tr>
<th>Step</th>
<th>Question to Be Answered</th>
<th>Expansion/Convergence</th>
<th>Contraction/Convergence</th>
<th>What’s Needed to Go to the Next Step</th>
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<tr>
<td>1. Identify and Describe problem</td>
<td>What do we want to change?</td>
<td>Losses of problems</td>
<td>One problem statement agreed upon</td>
<td>Identification of the problem and the desired state</td>
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<tr>
<td>2. Analyze problem</td>
<td>Losses of potential causes identified</td>
<td>Key causes identified and verified</td>
<td>Key causes identified and ranked</td>
<td>Key causes identified and ranked</td>
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<tr>
<td>3. Evaluate</td>
<td>How well did we do?</td>
<td>Implementation and evaluation</td>
<td>Implementation and evaluation</td>
<td>Implementation and evaluation</td>
</tr>
<tr>
<td>4. Solve</td>
<td>What’s the best way?</td>
<td>Plan for making transfer of knowledge to others</td>
<td>Plan for making transfer of knowledge to others</td>
<td>Plan for making transfer of knowledge to others</td>
</tr>
<tr>
<td>5. Test and Implement</td>
<td>Lots of criteria for success</td>
<td>Plan for measuring success</td>
<td>Plan for measuring success</td>
<td>Plan for measuring success</td>
</tr>
</tbody>
</table>

1. Systematic problem solving. This first activity rests heavily on the philosophy and methods of the quality movement. Its underlying ideas, now widely accepted, include:
- Relying on the scientific method, rather than guesswork, for diagnosing problems (what Deming calls the “Plan, Do, Check, Act” cycle, and others refer to as “hypothesis-generating, hypothesis-testing” techniques).
- Insisting on data, rather than assumptions, as background for decision making (what quality practitioners call “fact-based management”).
- Using simple statistical tools (histograms, Pareto charts, correlations, cause-and-effect diagrams) to organize data and draw inferences.

Most training programs focus primarily on problem-solving techniques, using exercises and practical examples. These tools are relatively straightforward and easily communicated; the necessary mindset, however, is more difficult to establish. Accuracy and precision are essential for learning. Employees must therefore become more disciplined in their thinking and more attentive to details. They must continually ask, “How do we know that’s true?” recognizing that close enough is not good enough if real learning is to take place. They must push beyond obvious symptoms to as-
LEARNING ORGANIZATION

Xerox has mastered this approach on a company-wide scale. In 1983, senior managers launched the company’s Leadership Through Quality initiative, since then, all employees have been trained in small-group activities and problem-solving techniques. Today a six-step process is used for virtually all decisions (see the insert “Xerox’s Problem-Solving Process”). Employees are provided with tools in four areas: generating ideas and collecting information (brainstorming, interviewing, surveying), reaching consensus (list reduction, rating forms, weighted voting), analyzing and displaying data (cause-and-effect diagrams, force-field analysis), and planning actions (flow charts, Cant’ charts). They then practice these tools during training sessions that last several days. Training is presented in “family groups,” members of the same department or business-unit team, and the tools are applied to real problems facing the group. The result of this process has been a common vocabulary and a consistent, company-wide approach to problem solving. Once employees have been trained, they are expected to use the techniques at all meetings, and no topic is off-limits. When a high-level group was formed to review Xerox’s organizational structure and suggest alternatives, it employed the very same process and tools.

2. Experimentation. This activity involves the systematic searching for and testing of new knowledge. Using the scientific method is essential, and there are obvious parallels to systematic problem solving. But unlike problem solving, experimentation is usually motivated by opportunity and expanding horizons, not by current difficulties. It takes two main forms: ongoing programs and one-of-a-kind demonstration projects.

Ongoing programs normally involve a continuing series of small experiments, designed to produce incremental gains in knowledge. They are the mainstay of most continuous improvement programs and are especially common on the shop floor. For example, experiments continually with diverse raw materials and new formulations to increase yields and provide better grades of glass. Allegheny Ludlum, a specialty steelmaker, regularly examines new rolling methods and improves technologies to raise productivity and reduce costs.

Successful ongoing programs share several characteristics. First, they work hard to ensure a steady flow of new ideas, even if they must be imported
from outside the organization. Chaparral Steel sends its first-line supervisors on sabbaticals around the globe, where they visit academic and industry leaders, develop an understanding of new work practices and technologies, then bring what they've learned back to the company and apply it to daily operations. In large part as a result of these initiatives, Chaparral is one of the five lowest cost steel plants in the world. GE's Impact Program originally sent manufacturing managers to Japan to study factory innovations, such as quality circles and kanban cards, and then apply them in their own organizations. Today Europe is the destination, and productivity improvement practices the target. The program is one reason GE has recorded productivity gains averaging nearly 5% over the last four years.

Successful ongoing programs also require an incentive system that favors risk taking. Employees must feel that the benefits of experimentation exceed the costs; otherwise, they will not participate. This creates a difficult challenge for managers, who are trapped between two perilous extremes. They must maintain accountability and control over experiments without stifling creativity by unduly penalizing employees for failures. Allegheny Ludlum has perfected this juggling act: it keeps expensive, high-impact experiments off the scorecard used to evaluate managers but requires prior approvals from four senior vice presidents. The result has been a history of productivity improvements annually averaging 7% to 8%.

Finally, ongoing programs need managers and employees who are trained in the skills required to perform and evaluate experiments. These skills are seldom intuitive and must usually be learned. They cover a broad sweep: statistical methods, like design of experiments, that efficiently compare a large number of alternatives; graphical techniques, like process analysis, that are essential for redesigning work flows; and creativity techniques, like storyboarding and role playing, that keep novel ideas flowing. The most effective training programs are tightly focused and feature a small set of techniques tailored to employees' needs. Training in design of experiments, for example, is useful for manufacturing engineers, while creativity techniques are well suited to development groups.

Demonstration projects are usually larger and more complex than ongoing experiments. They involve holistic, systemwide changes, introduced at a single site, and are often undertaken with the goal of developing new organizational capabilities. Because these projects represent a sharp break from the past, they are usually designed from scratch, using a "clean slate" approach. General Foods's Topeka plant, one of the first high-commitment work systems in this country, was a pioneering demonstration project initiated to introduce the idea of self-managing teams and high levels of worker autonomy; a more recent example, designed to rethink small-car development, manufacturing, and sales, is GM's Saturn Division.

Demonstration projects share a number of distinctive characteristics:

- They are usually the first projects to embody principles and approaches that the organization hopes to adopt later on a larger scale. For this reason, they are more transitional efforts than endpoints and involve considerable "learning by doing." Mid-course corrections are common.
- They implicitly establish policy guidelines and decision rules for later projects. Managers must therefore be sensitive to the precedents they are setting and must send strong signals if they expect to establish new norms.
- They often encounter severe tests of commitment from employees who wish to see whether the rules have, in fact, changed.
- They are normally developed by strong multifunctional teams reporting directly to senior management. (For projects targeting employee involvement or quality of work life, teams should be multilevel as well.)
- They tend to have only limited impact on the rest of the organization if they are not accompanied by explicit strategies for transferring learning.

All of these characteristics appeared in a demonstration project launched by Copeland Corporation,

Successful programs require an incentive system that favors risk taking.

a highly successful compressor manufacturer, in the mid-1970s. Matt Diggs, then the new CEO, wanted to transform the company's approach to manufacturing. Previously, Copeland had machined and assembled all products in a single facility. Costs were high, and quality was marginal. The problem, Diggs felt, was too much complexity.
Stages of Knowledge

Scholars have suggested that production and operating knowledge can be classified systematically by level of understanding. At the lowest level of manufacturing knowledge, little is known other than the characteristics of a good product. Production remains an art, and there are few clearly articulated standards or rules. An example would be a Stradivarius violin. Experts agree that they produce vastly superior sound, but no one can specify precisely how they were manufactured because skilled artisans were responsible. By contrast, at the highest levels of manufacturing knowledge, all aspects of production are known and understood. All materials and processing variations are articulated and accounted for, with rules and procedures for every contingency. Here an example would be a "lights out," fully automated factory that operates for many hours without any human intervention.

In total, this framework specifies eight stages of knowledge. From lowest to highest, they are:

1. Recognizing prototypes (what is a good product)
2. Recognizing attributes within prototypes (ability to define some conditions under which process produces good output)
3. Discriminating among attributes (which attributes are important, experts may differ about importance of patterns, new operators are often trained through apprenticeships)
4. Measuring attributes (some key attributes are not measured, measures may be qualitative and subjective)
5. Locally controlling attributes (repeatable performance, process designed by expert, but technicians can perform it)
6. Recognizing and discriminating between contingencies (production process can be mechanized and monitored manually)
7. Controlling contingencies (process can be automated)
8. Understanding procedures and controlling contingencies (process is completely understood)

Adapted from work by Ramesh Chandurun Jayamur and Roger Bohn

At the outset, Diggs assigned a small, multifunctional team the task of designing a "focused factory" dedicated to a narrow, newly developed product line. The team reported directly to Diggs and took three years to complete its work. Initially, the project budget was $10 million to $12 million; that figure was repeatedly revised as the team found, through experience and with Diggs's prodding, that it could achieve dramatic improvements. The final investment, a total of $10 million, yielded unanticipated breakthroughs in reliability testing, automatic tool adjustment, and programmable control. All were achieved through learning by doing.

The team set additional precedents during the plant's start-up and early operations. To dramatize the importance of quality, for example, the quality manager was appointed second-in-command, a significant move upward. The same reporting relationship was used at all subsequent plants. In addition, Diggs urged the plant manager to ramp up slowly to full production and resist all efforts to proliferate products. These instructions were unusual at Copeland, where the marketing department normally ruled. Both directives were quickly tested; management held firm, and the implications were felt throughout the organization. Manufacturing's stature improved, and the company as a whole recognized its competitive contribution.

One observer commented, "Marketing had always run the company, so they couldn't believe it. The change was visible at the highest levels, and it went down hard."

Once the first focused factory was running smoothly—it seized 25% of the market in two years and held its edge in reliability for over a decade—Copeland built four more factories in quick succession. Diggs assigned members of the initial project to each factory's design team to ensure that early learnings were not lost; these people later rotated into operating assignments. Today focused factories remain the cornerstone of Copeland's manufacturing strategy and a continuing source of its cost and quality advantages.
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...ions, adaptations, and unforeseen events. The ability to control temperatures and pressures to align grains of silicon and form silicon steel is an example of knowing how, understanding the chemical and physical process that produces the alignment is knowing why.

Further distinctions are possible, as the insert “Stages of Knowledge” suggests. Operating knowledge can be arrayed in a hierarchy, moving from limited understanding and the ability to make few distinctions to more complete understanding in which all contingencies are anticipated and controlled. In this context, experiment and problem solving foster learning by pushing organizations up the hierarchy, from lower to higher stages of knowledge.

3. Learning from past experience Companies must review their successes and failures, assess them systematically, and record the lessons in a form that employees find open and accessible. One expert has called this process the “Santa Treeview,” citing the famous philosopher George Santayana, who coined the phrase “Those who cannot remember the past are condemned to repeat it.” Unfortunately, too many managers today are indifferent, even hostile, to the past, and by failing to reflect on it, they let valuable knowledge escape.

A study of more than 150 new products concluded that “the knowledge gained from failures is often instrumental in achieving subsequent successes... In the simplest terms, failure is the ultimate teacher.” IBM’s 360 computer series, for example, one of the most popular and profitable ever built, was based on the technology of the failed Stretch computer that preceded it. In this case, as in many others, learning occurred by chance rather than by careful planning. A few companies, however, have established processes that require their managers to periodically think about the past and learn from their mistakes.

Boeing did so immediately after its difficulties with the 737 and 747 plane programs. Both planes were introduced with much fanfare and also with serious problems. To ensure that the problems were not repeated, senior managers commissioned a high-level employee group, called Project Home- work, to compare the development processes of the 737 and 747 with those of the 707 and 727, two of the company’s most profitable planes. The group was asked to develop a set of “lessons learned” that could be used on future projects. After working for three years, they produced hundreds of recommendations and an inch-thick booklet. Several members of the team were then transferred to the 757 and 767 start-ups, and guided by experience, they produced the most successful, error-free launches in Boeing’s history.

Other companies have used a similar retrospective approach. Like Boeing, Xerox studied its product development process, examining three troubled products in an effort to understand why the company’s new business initiatives failed so often. Arthur D. Little, the consulting company, focused on its past successes. Senior management invited ADL consultants from around the world to a two-day “jamboree,” featuring booths and presentations documenting a wide range of the company’s most successful practices, publications, and techniques. British Petroleum went even further and established the post-project appraisal unit to review major investment projects, write up case studies, and derive lessons for planners that were then incorporated into revisions of the company’s planning guidelines. A five-person unit reported to the board of directors and reviewed six projects annually. The bulk of the time was spent in the field interviewing managers. This type of review is now conducted regularly at the project level.

At the heart of this approach, one expert has observed, “It’s a mind-set that... enables companies to
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ENTHUSIASTIC BORROWING IS REPLACING THE "NOT INVENTED HERE" SYNDROME.

I walked into Watson's office. The young man, thoroughly intimidated, began by saying, "I guess you want my resignation." "Wait a minute," I replied. "You can't be serious. We just spent $10 million educating you."

Fortunately, the learning process need not be so expensive. Case studies and post-project reviews like those of Xerox and British Petroleum can be performed with little cost other than managers' time. Companies can also enlist the help of faculty and students at local colleges or universities; they bring fresh perspectives and view internships and case studies as opportunities to gain experience and increase their own learning. A few companies have established computerized data banks to speed up the learning process. At Paul Revere Life Insurance, management requires all problem-solving teams to complete short registration forms describing their proposed projects if they hope to qualify for the company's award program. The company then enters the forms into its computer system and can immediately retrieve a listing of other groups of people who have worked or are working on the topic, along with a contact person. Relevant experience is then just a telephone call away.

4. Learning from others. Of course, not all learning comes from reflection and self-analysis. Sometimes the most powerful insights come from looking outside one's immediate environment to gain a new perspective. Enlightened managers know that even companies in completely different businesses can be fertile sources of ideas and catalysts for creative thinking. At these organizations, enthusiastic borrowing is replacing the "not invented here" syndrome. Miliken calls the process ISIS, for "Steal Ideas Shamelessly"; the broader term for it is benchmarking.

According to one expert, "benchmarking is an ongoing investigation and learning experience that ensures that best industry practices are uncovered, analyzed, adopted, and implemented." The greatest benefits come from studying practices, the way that work gets done, rather than results, and from involving line managers in the process. Almost anything can be benchmarked. Xerox, the concept's creator, has applied it to billing, warehousing, and automated manufacturing. Miliken has been even more creative: in an inspired moment, he benchmarked Xerox's approach to benchmarking.

Unfortunately, there is still considerable confusion about the requirements for successful benchmarking. Benchmarking is not "industrial tourism," a series of ad hoc visits to companies that have received favorable publicity or won quality awards. Rather, it is a disciplined process that begins with a thorough search to identify best-practice organizations, continues with careful study of one's own practices and performance, progresses through systematic site visits and interviews, and concludes with an analysis of results, development of recommendations, and implementation. While time-consuming, the process need not be terribly expensive. AT&T's Benchmarking Group estimates that a moderate-sized project takes four to six months and incurs out-of-pocket costs of $20,000 (when personnel costs are included, the figure is three to four times higher).

Benchmarking is one way of gaining an outside perspective, another, equally fertile source of ideas is customers. Conversations with customers invariably stimulate learning; they are, after all, experts in what they do. Customers can provide up-to-date product information, competitive comparisons, insights into changing preferences, and immediate feedback about service and patterns of use. And companies need these insights at all levels, from the executive suite to the shop floor. At Motorola, members of the Operating and Policy Committee, including the CEO, meet personally and on a regular basis with customers. At Worthington Steel, all machine operators make periodic, unescorted trips to customers' factories to discuss their needs.

Sometimes customers can't articulate their needs or remember even the most recent problems they have had with a product or service. If that's the case, managers must observe them in action. Xerox employs a number of anthropologists at its Palo Alto Research Center to observe users of new document products in their offices. Digital Equipment has developed an interactive process called "contextual inquiry" that is used by software engineers to observe users of new technologies as they go about their work. Miliken has created "first-deliv-
Each year teams that accompany the first shipment of all products, team members follow the product through the customer's production process to see how it is used and then develop ideas for further improvement.

Whatever the source of outside ideas, learning will only occur in a receptive environment. Managers can't be defensive and must be open to criticism or bad news. This is a difficult challenge, but it is essential for success. Companies that approach customers assuming that "we must be right, they have to be wrong" or visit other organizations certain that "they can't teach us anything" seldom learn very much. Learning organizations, by contrast, cultivate the art of open, attentive listening.

5. Transferring knowledge. For learning to be more than a local affair, knowledge must spread quickly and efficiently throughout the organization. Ideas carry maximum impact when they are shared broadly rather than held in a few hands. A variety of mechanisms spur this process, including written, oral, and visual reports, site visits and tours, personnel rotation programs, education and training programs, and standardization programs. Each has distinctive strengths and weaknesses.

Reports and tours are by far the most popular mediums. Reports serve many purposes: they summarize findings, provide checklists of dos and don'ts, and describe important processes and events. They cover a multitude of topics, from benchmarking studies to accounting conventions to newly discovered marketing techniques. Today written reports are often supplemented by videotapes, which offer greater immediacy and fidelity.

Tours are an equally popular means of transferring knowledge, especially for large, multidivisional organizations with multiple sites. The most effective tours are tailored to different audiences and needs. To introduce its managers to the distinctive manufacturing practices of New United Motor Manufacturing Inc. [NUMMI], its joint venture with Toyota, General Motors developed a series of specialized tours. Some were geared to upper and middle managers, while others were aimed at lower ranks. Each tour described the policies, practices, and systems that were most relevant to that level of management.

Despite their popularity, reports and tours are relatively cumbersome ways of transferring knowledge. The gritty details that lie behind complex management concepts are difficult to communicate secondhand. Absorbing facts by reading them or seeing them demonstrated is one thing; experiencing them personally is quite another. As a leading cognitive scientist has observed, "It is very difficult to become knowledgeable in a passive way. Actively experiencing something is considerably more valuable than having it described." For this reason, personnel rotation programs are one of the most powerful methods of transferring knowledge.

In many organizations, expertise is held locally: in a particularly skilled computer technician, perhaps, a savvy global brand manager, or a division head with a track record of successful joint ventures. Those in daily contact with these experts benefit enormously from their skills, but their field of influence is relatively narrow. Transferring them to different parts of the organization helps share the wealth. Transfers may be from division to division, department to department, or facility to facility; they may involve senior, middle, or first-level managers. A supervisor experienced in just-in-time pro-
duction, for example, might move to another factory to apply the methods there, or a successful division manager might transfer to a lagging division to invigorate it with already proven ideas. The CEO of Time Life used the latter approach when he shifted the president of the company’s music division, who had orchestrated several years of rapid growth and high profits through innovative marketing, to the presidency of the book division, where profits were flat because of continued reliance on traditional marketing concepts.

Line to staff transfers are another option. These are most effective when they allow experienced managers to distill what they have learned and diffuse it across the company in the form of new standards, policies, or training programs. Consider how PPG used just such a transfer to advance its human resource practices around the concept of high-commitment work systems. In 1985, PPG constructed a new float-glass plant in Chelys, Washington; it employed a radically new technology as well as innovations in human resource management that were developed by the plant manager and his staff. All workers were organized into small, self-managing teams with responsibility for work assignments, scheduling, problem solving and improvement, and peer review. After several years running

GTE proved knowledge is more likely to be transferred effectively when the right incentives are in place.

the factory, the plant manager was promoted to director of human resources for the entire glass group. Drawing on his experiences at Chelys, he developed a training program directed toward first-level supervisors that taught the behaviors needed to manage employees in a participative, self-managing environment.

As the PPG example suggests, education and training programs are powerful tools for transferring knowledge. But for maximum effectiveness, they must be linked explicitly to implementation. All too often, trainers assume that new knowledge will be applied without taking concrete steps to ensure that trainees actually follow through. Seldom do trainers provide opportunities for practice, and few programs consciously promote the application of their teachings after employees have returned to their jobs.

Xerox and GTE are exceptions. As noted earlier, when Xerox introduced problem-solving tech-

niques to its employees in the 1980s, everyone, from the top to the bottom of the organization, was taught in small departmental or divisional groups led by their immediate superior. After an introduction to concepts and techniques, each group applied what they learned to a real-life work problem. In a similar spirit, GTE’s Quality: The Competitive Edge program was offered to teams of business-unit presidents and the managers reporting to them. At the beginning of the 3-day course, each team received a request from a company officer to prepare a complete quality plan for their unit, based on the course concepts, within 60 days. Discussion periods of two to three hours were set aside during the program so that teams could begin working on their plans. After the teams submitted their reports, the company officers studied them, and then the teams implemented them. This GTE program produced dramatic improvements in quality, including a recent semifinalist spot in the Baldrige Awards.

The GTE example suggests another important guideline: knowledge is more likely to be transferred effectively when the right incentives are in place. If employees know that their plans will be evaluated and implemented—in other words, that their learning will be applied—progress is far more likely. At most companies, the status quo is well entrenched; only if managers and employees see new ideas as being in their own best interest will they accept them gracefully. AT&T has developed a creative approach that combines strong incentives with information sharing. Called the Chairman’s Quality Award [CQA], it is an internal quality competition modeled on the Baldrige prize but with an important twist: awards are given not only for absolute performance (using the same 1,000-point scoring system as Baldrige) but also for improvements in scoring from the previous year. Gold, silver, and bronze Improvement Awards are given to units that have improved their scores 200,
Measuring Learning

Managers have long known that "if you can't measure it, you can't manage it." This maxim is as true of learning as it is of any other corporate objective. Traditionally, the solution has been "learning curves" and "manufacturing progress functions." Both concepts date back to the discovery, during the 1920s and 1930s, that the costs of airframe manufacturing fell predictably with increases in cumulative volume. These increases were viewed as proxies for greater manufacturing knowledge, and most early studies examined their impact on the costs of direct labor. Later studies expanded the focus, looking at total manufacturing costs and the impact of experience in other industries, including shipbuilding, oil refining, and consumer electronics. Typically, learning rates were in the 80% to 85% range (meaning that with a doubling of cumulative production, costs fell to 80% to 85% of their previous level), although there was wide variation.

Firms like the Boston Consulting Group raised these ideas to a higher level in the 1970s. Drawing on the logic of learning curves, they argued that industries as a whole faced “experience curves.” Costs and prices that fell by predictable amounts as industries grew and their total production increased. With this observation, consultants suggested, came an iron law of competition. To enjoy the benefits of experience, companies would have to rapidly increase their production ahead of competitors to lower prices and gain market share.

Both learning and experience curves are still widely used, especially in the aerospace, defense, and electronics industries. Boeing, for instance, has established learning curves for every workstation in its assembly plant, they assist in monitoring productivity, determining work flows and staffing levels, and setting prices and profit margins on new airplanes. Experience curves are common in semiconductors and consumer electronics, where they are used to forecast industry costs and prices.

For companies hoping to become learning organizations, however, these measures are incomplete. They focus on only a single measure of output (cost or price) and ignore learning that affects other competitive variables, like quality, delivery, or new product introductions. They suggest only one possible learning driver (total production volume) and ignore both the possibility of learning in mature industries, where output is flat, and the possibility that learning might be driven by other sources, such as new technology or the challenge posed by competing products. Perhaps most important, they tell us little about the sources of learning or the levers of change.

Another measure has emerged in response to these concerns. Called the “half-life” curve, it was originally developed by Analog Devices, a leading semiconductor manufacturer, as a way of comparing internal improvement rates. A half-life curve measures the time it takes to achieve a 50% improvement in a specified performance measure. When represented graphically, the performance measure (defect rates, on-time delivery, time to market) is plotted on the vertical axis, using a logarithmic scale, and the time scale (days, months, years) is plotted horizontally. Steeper slopes then represent faster learning (see the insert: "The Half-Life Curve" for an illustration).

The logic is straightforward. Companies, divisions, or departments that take less time to improve must be learning faster than their peers. In the long run, their short learning cycles will translate into superior performance. The 50% target is a measure of convenience, it was derived empirically from studies of successful improvement processes at a wide range of companies. Half-life curves are also flexible. Unlike learning and experience curves, they work on any output measure, and they are not confined to costs or prices. In addition, they are easy to operationalize, they provide a simple measuring stick, and they allow for ready comparison among groups.
Yet even half-life curves have an important weakness: they focus solely on results. Some types of knowledge take years to digest, with few visible changes in performance for long periods. Creating a total quality culture, for instance, or developing new approaches to product development are difficult systemic changes. Because of their long gestation periods, half-life curves or any other measures focused solely on results are unlikely to capture any short-run learning that has occurred. A more comprehensive framework is needed to track progress.

Organizational learning can usually be traced through three overlapping stages. The first step is cognitive. Members of the organization are exposed to new ideas, expand their knowledge, and begin to think differently. The second step is behavioral. Employees begin to internalize new insights and alter their behavior. And the third step is performance improvement, with changes in behavior leading to measurable improvements in results: superior quality, better delivery, increased market share, or other tangible gains. Because cognitive and behavioral changes typically precede improvements in performance, a complete learning audit must include all three.

Surveys, questionnaires, and interviews are useful for this purpose. At the cognitive level, they would focus on attitudes and depth of understanding. Have employees truly understood the meaning of self-direction and teamwork, or are the terms still unclear? At PPG, a team of human resource experts periodically audits every manufacturing plant, including extensive interviews with shopfloor employees, to ensure that the concepts are well understood. Have new approaches to customer service been fully accepted? At its 1989 Worldwide Marketing Managers' Meeting, Ford presented participants with a series of hypothetical situations in which customer complaints were in conflict with short-term dealer or company profit goals and asked how they would respond. Surveys like these are the first step toward identifying changed attitudes and new ways of thinking.

To assess behavioral changes, surveys and questionnaires must be supplemented by direct observation. Here the proof is in the doing, and there is no substitute for seeing employees in action. Domino's Pizza uses "mystery shoppers" to assess managers' commitment to customer service at its individual stores. L.L. Bean places telephone orders with its own operators to assess service levels. Other companies invite outside consultants to visit, attend meetings, observe employees in action, and then report what they have learned. In many ways
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This approach mirrors that of examiners for the Baldrige Award, who make several-day site visits to semi finalists to see whether the companies' deeds match the words on their applications.

Finally, a comprehensive learning audit also measures performance. Half-life curves or other performance measures are essential for ensuring that cognitive and behavioral changes have actually produced results. Without them, companies would lack a rationale for investing in learning and the assurance that learning was serving the organization's ends.

First Steps

Learning organizations are not built overnight. Most successful examples are the products of carefully cultivated attitudes, commitments, and management processes that have accrued slowly and steadily over time. Still, some changes can be made immediately. Any company that wishes to become a learning organization can begin by taking a few simple steps.

The first step is to foster an environment that is conducive to learning. There must be time for reflection and analysis, to think about strategic plans, dissect customer needs, assess current work systems, and invent new products. Learning is difficult when employees are harried or rushed; it tends to be driven out by the pressures of the moment. Only if top management explicitly frees up employees' time for the purpose does learning occur with any frequency. That time will be doubly productive if employees possess the skills to use it wisely. Training in brainstorming, problem solving, evaluating experiments, and other core learning skills is therefore essential.

Another powerful lever is to open up boundaries and stimulate the exchange of ideas. Boundaries inhibit the flow of information; they keep individuals and groups isolated and reinforce preconceptions. Opening up boundaries, with conferences, meetings, and project teams, which either cross organizational levels or link the company and its customers and suppliers, ensures a fresh flow of ideas and the chance to consider competing perspectives.

General Electric CEO Jack Welch considers this to be such a powerful stimulant of change that he has made "boundarylessness" a cornerstone of the company's strategy for the 1990s.

Once managers have established a more supportive, open environment, they can create learning forums. These are programs or events designed with explicit learning goals in mind, and they can take a variety of forms: strategic reviews, which examine the changing competitive environment and the company's product portfolio, technology, and market positioning; systems audits, which review the health of large, cross-functional processes and delivery systems; internal benchmarking reports, which identify and compare best-in-class activities within the organization; study missions, which are dispatched to leading organizations around the world to better understand their performance and distinctive skills; and jamborees or symposiums, which bring together customers, suppliers, outside experts, or internal groups to share ideas and learn from one another. Each of these activities fosters learning by requiring employees to wrestle with new knowledge and consider its implications. Each can also be tailored to business needs. A consumer goods company, for example, might sponsor a study mission to Europe to learn more about distribution methods within the newly unified Common Market, while a high-technology company might launch a systems audit to review its new product development process.

Together these efforts help to eliminate barriers that impede learning and begin to move learning higher on the organizational agenda. They also suggest a subtle shift in focus, away from continuous improvement and toward a commitment to learning. Coupled with a better understanding of the "three Ms," the meaning, management, and measurement of learning, this shift provides a solid foundation for building learning organizations.

References


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lighten man’s burden tomorrow. So, one of the primary goals of education is to prepare man for the future. Because the society of which we are part is becoming too complex to imagine, man is always designing mechanisms to be able to cope with the changing society. The most potent instrument that can bring about the “disentanglement” of man from the growing “web” of problems around him is education.

Education also serves as a veritable instrument that gives purpose to life. To a large number of persons, life does not really have any purpose. To such persons, life seems to be “repetitive” and “colourless”. They see and talk about things that are the same on a daily basis. Life to such persons is not only repetitive and colourless but redundant. The essential purpose of education is to develop an understanding in man to be able to explain the purpose of life and to make life more meaningful. Education gives man the relevant capacity to reason and appreciate the basis for existence, and develop in man creative potential to alter societal values and norms to suit the needs of time.

Education entails a process of learning. One of the positive contributions which education can make in our lives is that it brings about knowledge that is cumulative, knowledge that maintains and knowledge that restructures society. Summaz[7] has consistently argued that learning, a product of education, is cumulative. We learn through education by laying scores of mental blocks which we may use in solving the problems of society. Learning helps us to maintain certain norms, values and standards in society. Learning through education could make us to restructure our society. This is one reason why learning, an aftermath of education, is described by Piaget[8] as a continuous growth. There cannot be an end to learning because man does not operate in a state of static equilibrium.

Education should be an instrument for liberating the mind, not enslaving it. The process of learning through education which expands the mind, according to Hinch[9] is destructive to a society. In such a situation, Hinch has argued that a process of de-schooling does no harm to such a society. This argument seems to have made Freire[5] characterise the traditional teaching that goes on in some educational institutions as the “banking theory” of knowledge. He went on to argue that most teachers simply deposit knowledge in the supposedly empty heads of their students. The students are not given the opportunity to explore their environments to enable them to name their reality. It becomes very difficult for learners, in such circumstances, to have opportunities for discovering or experimenting. Such learners can never master their environments but are conditioned in such a way that they continue to reinforce behaviors that are imposed on them. Such forms of education, according to Freire, are both “domesticating” and “oppressive”. Any educational system which is based on the domestication and oppression of the learner by teachers could erode the mind. But education in its real form should give the learners the opportunity to experiment with their environment and explore their habitats. Freire[6] has therefore argued that learners themselves must act, reflect and name their findings. When learners explore and name their reality, they can then act and write their scripts in their own language.

When we are educated, we go through a learning process which enables us to create our environments. The purpose of education is to acquire abilities and skills through learning. The purpose of learning according to Kautsky[7] is to improve performance and to master the environment. Piaget[8] argues that reality is constructed anew each time a learner acquires a new concept or structure. This argument has also led Chomsky[8] to conclude that learning should be not a static, but should emphasize generative processes through which learners create environments which they can master. Education plays a significant role in reconceptualizing the individual and society at large. The learner becomes aware of all the time of the existing structures and practices in that society. Freire[9] pedagogy of conscientization was essentially developed to awaken in Latin American masses their latent social, sub-cultural and cultural traits which they had almost given away for alien traditions and cultural practices. He made attempts, through education, to make the masses change their reality, not only to understand it. This kind of learning is revolutionary. This is because such learning challenges the existing structures. This learning is not always revolutionary. Conscientization, learning is evolutionary. When we simply add new knowledge to the existing stock of knowledge, learning is said to be evolutionary. Freire[9] approach to education and learning is that the process must be seen to make the masses understand their environments, and be able to manipulate them from time to time.

The Relationship between Education and Human Resources Development in Organizations

Education is the process of acquiring background knowledge in a particular discipline. Unlike training which is job oriented, education is said to be person oriented. Whereas training is concerned with acquiring specific skills as preparation for the performance of a particular job, education is that part of the socialization process organized specifically to ensure that learning takes place. Education as a phenomenon, therefore, is said to be planned and deliberate.

Education as an instrument for the organization of society is a very relevant aspect of our national life. Education broadens our horizons and perspective. The
acquisition of formal education confers on the individual recipient the opportunity to understand his or her environment and be able to predict that environment reasonably accurately. Formal education also helps individual learners to be philosophical in their reasoning. Formal education, to a very great extent, is seen as a gauge against which our actions are evaluated. Formal education has, in a lot of ways, improved man's activities in different aspects of organisational life. In industry and the public sector, formal education has significantly improved both the pace and content of work. Formal education has led to the introduction of newer insights in the management and organization of work. But before we go on to discuss the major contributions which formal education has brought to bear on the organization of work in different workplaces it is relevant to discuss or explain the concept of human resource development in organizations.

The term human resource development is used here in its most generic sense. The concept is used here to represent the systematic development of the attitude, attitude, knowledge and skill requirements of an individual so as to enable him or her to perform a specific or given task. The term human resource development as also used here as the process of preparing an individual for a particular job in the future. It is also concerned with changing the behaviour pattern of individuals in organizations. In a more specific sense, the term also includes, among others, a course of action designed to enable the individual to realize his or her potential for growth in organizations. Whereas training refers to programmes designed to teach individuals the acquisition of technical skills to non-managerial personnel, the development of the human resources of the organization focuses on programmes that are designed to improve the technical, human relations and conceptual skills of junior employees.

The relationship between education and human resource development in organizations is not entirely but visibly clear. The two concepts are intricably bound together. This phenomenon could be explained through the replication of current developments in the management of organizations. Modern organizations, over time, have increasingly become complex. Attempts have been made by researchers to advance newer ideas and insights as a means of facilitating the organization of work. Formal education has brought about the introduction of work organizational methods such as motivational theory, developed first by Maslow[10], followed later by other scholars such as Herberg[11], Alderfer[12], McGregor[13], John[14, 15]. These scholars, based on the acquisition of formal education, have advanced various strands of motivational theories to assist practitioners in organizing work as a means of increasing productivity and maintaining some forms of industrial peace and harmony at work. For example, Maslow was the first to develop formally the concept of the hierarchy of human needs in organizations. He argued that human needs move in an ascending fashion on a pyramid of human needs, from which lower-order needs at the bottom of the pyramid of needs to higher-order needs which are located at the top of the pyramid of human needs. The ability to conceptualise, to formulate and to develop theory was a result of the acquisition of formal education. And the ability of learners to use the knowledge acquired to define reality and to establish frameworks for managers in the organization of work seems to be the hallmark of formal education.

Other areas of human resource development in which formal education has made significant impact is the design of work. Formal education has assisted many researchers and practitioners to evolve better ways of designing work. The essence of job design at work is to introduce features and characteristics into a job so as to make the job easier to perform and also to make the job holder feel motivated in various forms. For example, in Taylor[16], scientific management system of job design, he advocated the fractionalization of jobs by breaking them into smaller units to create more for specialization and routinization. But advocated[7, 18] of the job enlargement system of job design believe in "putting back together" bits of the job that have been fractionalized. Beyond the system of job enlargement, the job enrichment techniques of job design also emerged. This simply involves the introduction of variations into a job to make it become more meaningful, interesting and rich to the job holder. Other contemporary advancements in job design were the seminal contributions of Turner and Lawrence[19], Bloed and Huise[20], Hackman and Lawler[21], and Hackman and Oldham[22, 23]. These studies, which were inspired by formal education, concentrated on what is generally referred to as the job characteristics approach to job design. The major feature of this approach is the "determination of specific sorts of characteristics of jobs that influence people's response or reactions in their work". These techniques have been widely used and taught in many workplaces. The major tool used in imparting knowledge was through teaching. The relatively improved educational background of the workforce has made possible the development of the creative potentials of employees in organizations.

One of the greatest problems experienced both in industry and the public sector is the part has been faced relating to communication. Lack of sufficient communication skills, as a result of low levels of formal education in the past, made most employees take inappropriate decisions at work. But the advent of formal education has sharpened the intellect of a great number of employees in organizations. Thus development has assisted management to develop more sophisticated communication tools through employee training and development programmes organized at work. For example, research[24-29] on communication between superiors and
subordinates at work has been able to develop new ideas and concepts which were used in organizations to develop the creative abilities of workers. The most common tool that assisted employees in organizations to understand these ideas is as a result of the increasing popularization of formal education in organizations. The quality of decision taken in modern organizations has improved remarkably. Modern organizations have consistently emphasized the importance of formal education. A large number of organizations have gone as far as establishing schools in centers for learning, and pathways through which workers could assimilate the culture of learning and understand their environments. The knowledge acquired by workers would assist employees to develop themselves at work.

One phenomenon which had consistently created setbacks for African organizations is the question of the use of inappropriate leadership styles at work. The problem does not seem to be limited to some segments of society. The problem has been found in almost all segments of society both in industry and public sector organizations. The proliferation of formal education in society and organizations at large has made employees develop more sophisticated skills in the identification of appropriate leadership styles in the management of organizations. In a wide-ranging study involving the examination of the biographies of 388 executives of some corporations between 1973 and 1977 in Bangladesh, Yusuf[29, p. 217] found that a majority of the executives had minimal leadership skills. The research concluded in the high level of educational attainment, Subban and Alam[30, p. 540] also studied the educational background of 474 management staff in 39 organizations between 1972 and 1975, and found that 93 per cent of the staff of public corporations and 45 per cent of enterprise management staff had bachelor degrees. They also attributed the quality of leadership to the high level of educational attainment. If we are to go by the results of these studies, the evidence clearly points to the fact that formal education does not only improve the quality of leadership styles adopted by managers but also assists in the development of the human assets of the organization.

Another interesting development both in industry and the public sector is the increasing awareness on the part of the employee in the area of the individual contract of employment. Formal education has made it possible for employees to study the various provisions of the law as applied in their rights and obligations at work. Formal education has helped to develop the capacity of the employee to be able to understand and appreciate the relevance of labor laws at work. A second dimension of the law which has become increasingly important is the provisions of the Factories Act. The Factories Act clearly spells out, in Britain, three main provisions at work. The law states that, in any industrial organization where productive activities are carried out, it is mandatory for such organizations to provide conditions for safety, health and welfare. In the area of safety, the law states that the environment in which it operates is safe, so as to ensure that the lives of workers are not endangered in any form. The law also provides that every workplace be designed in a manner such that substances which may be harmful to the health of employees are not inhaled or contacted physically by employees. The third provision of the law states in categorical terms that all employers must provide certain basic welfare facilities at work. In some organizations, welfare facilities such as canteens, sports grounds and equipment, transport services and other items of both intrinsic and extrinsic value are provided.

Another important dimension of labour law of which education has been able to assist both employers and employees is the major provisions set out in the Workmen's Compensation Act. This law makes it mandatory on the part of the employer to pay some form of compensation to employees who are involved in some form of industrial accident. This law focuses on employers who attempt to avoid the full weight of the law after an accident has occurred. Formal education has made it possible for employers to understand the vital role it plays in circumstances where employees are involved in industrial accidents or workplace accidents.

If we closely examine the various aspects of work organization discussed in this article, it becomes increasingly clear that there exists a symbiotic relationship between formal education and human resource development in organizations. Without formal education the organization of work, both in industry and the public sector, would have become a more difficult task to accomplish. The complexities which are encompassed in organizations today are all fall-outs of formal education. But more sophisticated techniques are constantly being introduced through the process of learning to counteract these complex phenomena at work. Formal education and learning, therefore, will continue to advance both in form, method and approach as a catalyst for human resource development in organizations.

Epilogue

Formal education seems to be the "end of domination" in organizations. Formal education has become a "hotel switch for the discovery of buried treasure". This is because formal education seems to have virtually altered the framework of both technical and conceptual skills of
employees in organizations. Formal education appears to have significantly changed the horizons and perspective of the worker.

Formal education has made the employee more knowledgeable in the art of motivating subsections at work. Formal education has made employees introduce better ways of designing jobs at work by either enlarging or enriching jobs. Formal education has also made it possible for managers and all those who supervise the work of others to develop more appropriate leadership skills in organizations. Formal education has created the necessary pathway for workers to be able to communicate more effectively at work. Formal education as an instrument for change has also made employees more sensitive to the various problems of labour laws at the workplace. This development will continue to grow progressively as long as the search for knowledge is made relevant as a result of the growing needs of society.

References

The Lightning Business has launched dozens of results-oriented projects quickly, and as each project achieves results, management has launched additional projects and has even extended the projects to its European operations.

Opportunities for Change

There is no reason for senior-level managers to acquiesce when their people plead that they are already accomplishing just about all that can be accomplished or that factors beyond their control—company policy, missing technology, or lack of resources—are blocking accelerated performance improvement. Such self-limiting ideas are universal. Instead, management needs to recognize that there is an abundance of both underexploited capability and dissipated resources in the organization.

This orientation frees managers to act about translating potential into results and to avoid the cul-de-sac of fixing up and reforming the organization in preparation for future progress. Here is how management can get started in results-driven programs:

1. Ask each unit to set and achieve a few ambitious short-term performance goals. There is no organization where management could not set performance goals quickly with the resources at hand—even in the face of attitudinal and skill deficiencies, personnel and other resource limitations, unstable market conditions, and every other conceivable obstacle. To begin with, managers can ask unit heads to commit to achieve in a short time some improvement targets, such as faster turnaround time in responding to customers, lower costs, increased sales, or improved cash flow. They should also be asked to test some managerial, process or technical innovations that can help them reach their goals.

2. Periodically review progress, capture the essential learning, and reorient strategy. Results-driven improvement is an empirical process in which managers use the experience of each phase as data for shaping the next phase. In scheduled work sessions, senior management should review and evaluate progress on the current array of results-focused projects and learn what is and what isn’t working.

Fresh insights flow in from these early experiments; how rapidly project teams can make gains, what kind of support they need, what changes in work methods they can implement quickly, what kinds of obstacles need to be addressed at higher levels in the organization. Managers and employees develop confidence in their capacity to get things done and in their ability to overturn obsolete practices.

Armed with this learning, senior management can refine strategies and timetables and, in consultation with their people, carve out the next round of business goals. The cycle repeats and expands as confidence and momentum grow.

3. Institutionalize the changes that work, and discard the rest. As management gains experience, it can take steps to institutionalize the practices and technologies that contribute most to performance improvement and build those into the infrastructure of the company. In Motorola’s Mobile Division, for example, in its new product development project, a single manager was assigned responsibility for moving each new product from engineering to production and to delivery, as opposed to having this responsibility handed off from function to function. This worked so well it became standard practice.

Such change can also take place at the policy level. A petroleum company, for example, experimented with incentive compensation in two sales districts. When the trials produced higher sales growth, senior management decided to install throughout the marketing function a performance-based compensation plan that reflected what it had learned in the experiments. In this way, a company can gradually build successful innovations into its operations and discard unsuccessful ones before they do much harm.

4. Create the context and identify the crucial business challenges. Senior management must establish the broader framework to guide continuing performance improvement in the form of strategic directions for the business and a “vision” of how it will operate in the future. A creative vision can be a source of inspiration and motivation for managers and employees who are being asked to help bring about change. But no matter how imaginative the vision might be, for it to contribute to accelerated progress, managers must translate it into sharp and compelling expectations for short-term performance achievements. At Philadelphia Electric, for example, the Eddystone improvement work responded to top management’s insistence call for performance improvement and cost reduction.

A results-driven improvement process does not relieve senior management of the responsibility to make the difficult strategic decisions necessary for the company’s survival and prosperity. General Electric’s Work-Out process augmented but could not substitute for Jack Welch’s dramatic restructuring and downsizing moves. By marrying long-term strategic objectives with short-term improvement projects, however, management can translate strategic direction into reality and resist the temptation to inculcate the rein dance of activity-centered programs.
TOPIC 5
MAYLASIAN HUMAN RESOURCES SEMINAR

SEMINAR OUTLINE

1. Compensation and organizational goals
   - Elements of total compensation
   - Organizational purposes served by compensation
   - Employee purposes served by compensation
   - Economic and psychological perspectives
   - Compensation philosophy and development of goals
   - Changes in economy and organization shaping compensation
   - Aligning compensation planning with strategy

2. Job analysis and documentation
   - Definition and purposes of job analysis
   - Approaches to conducting a job analysis
   - Definition and purposes of a job description
   - Preparing and maintaining a job description
   - Job specifications
   - Legal issues in the U.S. (FLSA, ADA...)

3. Labor markets and compensation surveys
   - Demand/supply dynamics of labor markets
   - Determining the competitive markets
   - Purposes of compensation surveys
   - Deciding between generic and customized surveys
   - Process for conducting a customized survey
   - Analyzing, interpreting, and using survey data
   - Possible legal issues

4. Determining job worth
   - Purposes of job evaluation
   - What is internal/external equity?
   - Approaches to determining job worth
   - Selecting an approach(es)
   - Process of developing a factor-based plan
   - Person/competency-based approaches
   - Comparable job worth and other issues

5. Developing and using pay ranges
   - Purposes for using salary ranges
   - Guidelines for developing traditional salary range structure
   - Strengths and weaknesses of traditional pay structures
   - Broadbanding, career banding, maturity curves
   - Total cash compensation ranges
   - Purposes for multiple structures
   - Decision-making tied to ranges

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6. Motivation, performance, and economic and noneconomic rewards
   - The basics of human motivation
   - The variety of economic and noneconomic motivators
   - How economic rewards drive performance
   - Linking individual, group, and organizational goals
   - Motivating a team
   - Psychological considerations in designing pay plans
   - Noneconomic motivators and intrinsic motivation

7. Performance management and merit pay
   - Defining performance
   - Purposes of performance management
   - Types of performance appraisal techniques
   - Selecting criteria and setting standards and goals
   - Conducting performance reviews
   - The performance management concept
   - Legal issues/implications
   - Motivation and pay-for-performance

8. Variable compensation
   - Definition and reasons for using
   - Business purposes and forms of variable pay
   - Qualities of an effective variable/incentive plan
   - Considerations in choosing to use variable compensation
   - Long-term vs. short-term plans
   - Ownership/stock-based plans

9. Process of designing an incentive plan
   - Staffing the project/employee involvement
   - Defining the purposes
   - Determining the information needed
   - Information gathering
   - Designing the incentive plan concept
   - Linking the plan to market data
   - Simulating and testing
   - Communicating and implementing
   - Monitoring and revising

10. Specialized compensation plans/packages and unique circumstances
    - Unionized workforce
    - Executives
    - International
    - Board of directors
    - The flexible workforce (employees and contract workers)
    - Special challenges of the virtual workplace (e.g., home-work)
    - Flattening, downsizing, cost-cutting, and other special goals

11. Managing and administering the total program:
    - Secrecy vs. openness in pay philosophy
    - Communicating with employees
    - Employee involvement

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• Assessing/measuring program success
• Planning and budgeting
• Working issues in a business context
• Uses of information systems
• Laws, regulations and court rulings

12. Compensation, organization, and business strategy:
• Aligning individual, group and organizational goals/performance
• Relationship between reward system and culture
• Establishing a total compensation strategy
• External/internal forces driving the need to change strategy
• Characteristics and qualities of an effective compensation function
• Compensation as a competitive weapon
• Future trends in a radically changing world

INTRODUCTION TO COMPENSATION

COMPENSATION AND ORGANIZATIONAL GOALS

Organizational Purposes for Compensation

In order to attract, retain and motivate people to use their skills and knowledge to accomplish the organization’s goals, companies must offer a competitive compensation package and reward their employees with various forms of compensation.

Compensation Elements

There are two major categories of compensation:

1. direct compensation (cash)
   • base pay (hourly wages or annual salary)
   • incentive compensation, (commissions, bonuses, special one-time cash awards, etc.)

2. indirect compensation (in-kind payments)
   • employee benefits, (health insurance, pensions, cars, etc.)

The sum of the all forms of direct compensation is referred to as total cash compensation. By adding all forms of indirect compensation...
tion to the total cash (direct) compensation we derive total compensa-
tion or what is sometimes called a total compensation package.

Employee Purposes and Perspective of Compensation

Books and articles on compensation tend to take a management
viewpoint, downplaying the purposes and views of employees. To
understand the field and practice of compensation in its totality, it is
vital, however, to appreciate the subject from the standpoint of em-
ployees as well as the organization’s ownership and top executives.

In return for their time, performance and commitment, employ-
ees expect to be fairly compensated by their employer. “Fairness” is
extremely important. Employees have many different and subjective
ways of deciding on what is fair and what is not fair. Fairness, how-
ever, is most commonly evaluated by employees in terms of both ex-
ternal and internal standards.

External standards concern how much other companies are pay-
ing employees for performing the same job, with the same level of
authority and responsibility, under similar working conditions. In-
ternal standards are based on how important the employee’s job is
viewed to the success of the company, relative to other jobs in the
company, as well as the job’s level of difficulty, the skills and the
length of training and experience that are required to perform the
job, and the degree of danger to which the job may expose the job
incumbent (the person performing the job).

Internal standards of fairness are also based on the employee’s
view of their performance and contributions in doing the job in
comparison to the performance of others and the rewards that they
receive.

One major challenge for management is to develop a compensation program that employees view as fair or equitable.

Employees also view compensation from the standpoint of their needs. At the most fundamental level, employees expect their compensation to provide a baseline of security, i.e., food, drink, shelter, warmth, and safety. They also look to their compensation as a means by which to measure their personal worth to the organization.

Compensation Philosophy

In deciding how much to compensate their employees, companies have to find a balance between the amount that they can afford to pay and the amount that will keep their employees satisfied and motivated to ensure the achievement of the organization's strategic goals and financial objectives. This balance, in turn, is influenced by such external factors as macroeconomic conditions, competitors' practices, governmental regulations and societal changes, as well as such internal factors as organizational demographics, business strategy, profitability, and union contracts. To guide decision making in compensation in alignment with organizational strategy and goals, management should devote some time and effort to developing a clear statement, in writing, of compensation philosophy and objectives.

Once philosophy is established, an organization can proceed to develop and manage its compensation programs and policies. The remainder of this overview will be devoted to exploring the many aspects of compensation planning and administration.
JOB ANALYSIS AND DOCUMENTATION

Definition and Purposes for Job Analysis

One cannot assess the value of a job, internally or externally, without knowing what the job is all about. This process is known as "job analysis."

Job Analysis

Job analysis is the process of analyzing the detailed elements that compose the job. The process breaks the job down into its components. To analyze a job, one might interview the job incumbent (in person or by using a questionnaire), do a desk audit (observe the person doing the job), or interview the person who supervises the job incumbent or potential job incumbent (in person or via a questionnaire). Since a single job often has several incumbents, job analysis is done by using a sampling methodology.

Job Descriptions

Once you have analyzed the job (found out what the job incumbent(s) does) you are able to document what you have learned in the form of a "job description." Job descriptions contain the title of the job, describe its purpose and role within the organization which includes: the job that it reports to; the jobs that it is responsible for supervising; the department, unit, branch or function of which it is a part; and its basic function and specific responsibilities, as well as the requirements needed to adequately perform the job (skills, knowledge, credentials, experience).

Well-written job descriptions are extraordinarily useful: they enable employers to clearly communicate their job expectations to their
employees, can serve as a basis of performance appraisal, and are used to evaluate job worth and compare the rate of pay to market data.

LABOR MARKETS AND COMPENSATION SURVEYS

Supply and Demand

As is the case for all resources, the monetary value of human resources (workers) is ultimately driven by the law of supply and demand. When the labor market has an ample supply of people skilled in a trade or function that is not in high demand, pay levels demanded and received will be drawn downward. Conversely, organizations seeking workers with much needed skills who are in short supply, will pay salaries that reflect the rarity of the sought-after worker.

Over time, and from one geographic market to another, these demand/supply situations will change. Labor market surveys are a means of periodically tracking these market conditions and determining, at any one time and area, the value the market places on a job.

Determining the Competitive Markets

Stern & Associates has identified six ways to find the external or market-determined worth of the jobs in your company:

- Advertise the job and salary and count the number of competent applicants you get and the pay they are at and are asking for (legitimate efforts to recruit people for the job will, and should, be used to serve this purpose) or monitor ads of others.
- Advertise the job without mentioning the salary and ask the applicants how much salary they expect to receive
- Survey professional recruiters
- Survey your labor market competitors
- Purchase a salary survey
- Conduct a custom survey

Comments on These Survey Approaches

Let's consider the six methods, listed above, for determining the monetary value of jobs.

Trial and Error

The first two methods rely on trial-and-error. You may eventually hit on the optimal salary to pay for the jobs you need to fill, or have filled, but it is a long, drawn-out and imprecise approach. Additionally, people actively in search of work seldom accurately reflect typical or average pay levels of the total population of people who are employed doing the job(s) in question.

Recruiters

Recruiters may be able to furnish you with the information you need, depending upon whether they have recently hired people to do the same jobs, with the same levels of responsibility and authority, for companies similar to yours. They would have to go back into their files, record the salary data, compute the average salaries and report back to you. Or they can hunt through surveys in their corporate libraries and share that information with you.

If you have used these consultants on a regular basis, or have them on a retainer, they may not charge you for their time. If they
are not compensated, they may ha: d a guess, which may or may not be better than your own guess. But recruiters tend to be more in touch with pay levels typical for those in the market looking for work rather than the whole population of such job incumbents.

**Competitors**

You can ask your labor market competitors to directly share their salary data with you. Unless you enjoy a close, personal relationship with your competitors, it is most unlikely that they will give you the information you need to steal their best workers. To get such data from competitors you would have a better chance of success by using a third party to conduct a custom survey, discussed below.

**Published Surveys**

Purchasing a salary survey is the easiest and fastest way to get the information. However, there isn't always a salary survey available for your industry, the jobs you are seeking to price, or your geographic labor market. Or, when a salary survey is available for your industry, area, and jobs, it may not report the specific information that you need or be as current as you need.

**Published, Participant-only Surveys**

Some surveys are only available to companies who have participated in the information-gathering process. If they have been sponsored by your competitors and you are a participant, you will usually be able to get a survey report gratis. If they are conducted by a trade association or researcher, the cost for conducting the survey will be shared among its participants. These surveys are often a wonderful source of information on salaries and human resource practices, but often you must wait several weeks to months for the
data to be recorded, analyzed and reported.

**Custom Surveys**

Sometimes the only way you can get current and accurate information is by hiring an independent outside consultant to conduct a confidential, custom survey for your company. The consultant is referred to as third-party.

Competitors who would not furnish you with data are likely to furnish an outsider with the information you need in exchange for promises of confidentiality and reciprocity. Let's examine how such a survey is conducted.

**Conducting a Salary Survey**

At the very outset, clearly define the purposes of the survey. This can be done by listing the jobs to be surveyed, the data you want, and the organizations you want to gather data from. To do this, your first step is to create three lists:

1. **benchmark jobs** for which you need salary data
   ("benchmark jobs" are jobs whose content is basically the same in most companies, e.g., receptionist, computer programmer, clerk-typist, chief financial officer)
2. **data** that you need, e.g.,
   - base salary
   - incentive compensation
   - benefits
   - total compensation
   - pay practices

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3. **Your Labor Market Competitors**

   (Companies who employ the talent that you need and have the benchmark jobs you are targeting)

Next, you need to contact your prospective survey participants and ask them if they are willing to share their salary data with you. To increase your chances for success, you would be well advised to employ an independent, outside consultant who is experienced in gathering, analyzing and reporting data on your behalf.

The consultant, as third-party, is in a position to guarantee participating companies complete confidentiality of their pay data. This means that the report of survey findings (your copy as well as all of the other participants) only provides statistical summary analyses, with no possibility that specific data can be attributed to any one participating company.

As an added incentive to participants, you may instruct your consultant to prepare reports for participants that extract their data from the findings, then compares their data to the survey averages. Your consultant will, of course, provide you with the comparisons (expressed as percentages or ratios) of your job to those in your competitive labor market.

**Analyzing Survey Data**

Once all of the data has been gathered and entered in a spreadsheet (preferably computer), the analysis may begin. Basic analysis consists of determining a mean (average) for every column of information (base salary, bonus, payment frequency, etc.), for each surveyed job. Other analyses includes the determination of medians (50th percentile) and other percentiles (usually 10th, 25th, 75th and...
90th) plus minimum (the lowest amount reported by any company) and maximum (the highest amount reported by any company) of the data range. As indicated above, the most important analysis for your company will be the comparison of your salaries (and other data) to average survey findings.

Pay careful attention to when the survey data was gathered. If you plan to use this data to update your pay ranges, you must ensure yourself that the reported data is current. If data gathered are historical (e.g., salaries that were paid last year) rather than current data, you should update these findings by adding a percentage to each salary which is equivalent to trend data reported in surveys of merit pay and cost-of-living budget increases for the current year or, less precise but still useful, your country’s most recent reports on changes in the cost-of-living. In some countries, the cost-of-living increases are substantial and are the primary force driving pay trends. In recent years, the cost-of-living has not risen much in the United States which, in large part, explains why many companies pay little attention to this factor and place most of their emphasis on merit pay increases.

Using Survey Data

Adjusting Your Pay Structure

The comparison of your companies data to survey findings will tell you how well your company is paying its employees in comparison to your labor market competitors. If these results reflect your company’s pay levels (e.g., you are paying at the 40th percentile, but that is precisely where your company intended to be) then you can be confident about your structure and your position in the market.
If there is a disparity between your company’s pay levels and your current position in the labor market, you would use these findings to adjust your pay ranges.

Making Other Pay Decisions

Survey data are used to guide companies in setting budgets for pay increases in the next fiscal or plan year. Survey data also can provide a basis for setting merit pay and/or cost-of-living adjustments. It is common practice in the United States for companies to survey each other annually on planned adjustments in base salary range structures, merit increase guidelines and budget, and cost-of-living adjustments, in addition to other surveys that focus on the level of pay for benchmark jobs.

Combining Survey Results

If you have chosen to use more than one survey report, you might give some thought to whether they are all of equal value. The job descriptions in one survey may closer match your jobs than those provided in another survey; the participants of one survey may include more of your direct labor market competitors than the participants of another survey; the data recorded in one survey may be closer to the data you need than that provided by another survey. Whatever your reason, you may want to favor the findings of one survey over another, but still use all of the surveys at your disposal. You may do that by weighting the various surveys before compiling your own set of combined survey averages. Your judgment is used in weighting survey results in terms of the relevance of the survey to your company.
Other Considerations
A word of caution: you must take other factors into account before rushing to judgment. For example, if the average salary paid to secretaries is $30,000, whereas you are paying an average of $45,000, check to see if the secretaries in your company have especially long tenure, are more highly skilled than the average secretary, or are valued more by your company than other companies value their secretaries.

DETERMINING JOB WORTH

Purpose of Job Evaluation
Labor market surveys are not the only determinants of job worth. Your company has its own business goals and needs. Sometimes skills sets or talents that are not highly valued in the external labor market are exactly what you need to achieve your business goals. Conversely, you may have very little need for talents and skills that are prized in the external labor market.

The salaries that you offer your employees should, therefore, also reflect the internal, relative worth (equity) of the jobs they perform for you. Of course, no organization can ignore the realities of the marketplace; consequently, internal job values (or worth) can not deviate too far from the prevailing pay rates in the market without risking the loss of your qualified people or, conversely, overpaying to the point at which you become unable to be competitive in pricing your product(s) or service(s).

Internal / External Equity
People need to believe that they are being treated fairly in all
ways — including their pay. They measure the equity of their compensation externally by checking to see how much other people in their profession or trade are earning for doing the same job for someone else, and by checking to see what people in other professions or trades are earning in their companies. Internally, if they believe that their job is more valuable to their company, usually in terms of their impact on company revenues, than someone else’s job, they will be dissatisfied if the other job receives more compensation than theirs. They will also be dissatisfied if a peer (someone performing the same job, at the same level, with the same tenure) receives more compensation.

People who believe that they are treated unfairly will usually seek restitution. They may do so by: leaving your employ for a better-paying job; sabotaging the work they are doing for you or the work of others, for example, reducing their effort or cutting corners on quality of work; or, depending upon your country’s labor laws and/or the power of employee unions, electing to seek restitution for perceived inequities.

Overall, a sense of fairness in pay is viewed as highly important to good employee relations, productive effort, attention to quality, and commitment to the organization. For these reasons, as well as compliance with employment laws in the United States, many companies devote considerable care to achieving internal equity using some method of job evaluation in addition to labor market data.

How to Determine Job Worth

There are many methods used to evaluate jobs or determine ineq
nal job worth. The following briefly describes the most commonly used techniques.

**Whole Job Ranking**

After preparing job descriptions, all jobs in the organization are compared to one another by a team, usually composed of managers from all major departments. Using this approach, jobs are ranked, or clustered into pay grades according to their relative value as viewed by this job evaluation team.

**Factor Comparison**

This approach evaluates each job against other jobs using specific job evaluation factors. Factors are measures of job worth. Typical factor used include: scope of responsibility, level of authority, challenge of problem solving, the complexity and impact of decisions, and the difficulty of interpersonal contacts. Illustrations of job evaluation factors are provided below.

**Point Factor Plans**

Plans of this type use job evaluation factors but add a scale to each factor. The scale is a measuring device which used words or brief sentences to describe levels of challenge or job worth. Each level on a scale carries a value expressed in job evaluation points. These points are eventually translated into money or pay ranges when the jobs are placed in pay grades. It is important to understand that although such plans use numerical values, job evaluation is not a science; it reflects human judgment about value. The plan only serves to systematize the decision making process and increase the amount of objectivity—some subjectivity is always present. The fol-
lowing shows an illustration of a typical job evaluation factor used in a point factor plan:

**FACTOR: SKILLS AND KNOWLEDGE**

An Illustration of a Job Evaluation Factor With Eight Levels or Degrees
(Note: each of the degree statements presented below would have a job evaluation score (numerical value) that would be given to the job which is matched to the statement. Using several factors, each job achieves a total job evaluation score used to place the job in an appropriate pay grade and salary range.)

*Knowledge applied can best be described as:*

1. Series of highly structured steps or actions requiring no choice making other than taking basic safety precautions. Communication: exclusively simple data and instructions. Typical creativity: only occasional minor suggestions.

2. Tasks or a simple procedure composed of several steps or actions involving minor choice making. Communication: exclusively data and instructions. Typical creativity: minor suggestions.

3. Complex procedure composed of multiple, interrelated tasks. Communication: primarily data; some information. Typical creativity: possibly suggestions to improve efficiency of own tasks or improve some minor aspect of service to customers.

4. Process composed of several interrelated procedures. Communication: somewhat complex data and information. Typical creativity: suggestions to improve the quality or efficiency of departmental activities or improve some important aspect of service to customers.

5. Specialized field or technical area composed of several processes or sub-specializations. Communication: primarily information requiring some analysis. Typical creativity: development of modifications of a process.

6. Area of technical expertise, composed of several specialized fields. Communication: complex information requiring analysis. Typical creativity: development of plan of action or of a process, or method subordinate to a larger system.

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7. Field of knowledge, interrelating several areas of expertise. Communication: highly complex information, requiring analysis and interpretation. Typical creativity: Development of a complex plan, system or methodology.

8. Major functional area, advance: field of knowledge, or profession, requiring thorough understanding of several fields of knowledge and in-depth understanding of at least a single field. Communication: highly complex information and abstract concepts. Typical creativity: Developing a strategy or conceiving a new approach to a key business activity.

The results of applying a job evaluation plan are combined with survey findings to develop a base salary structure. The evaluation plan and the survey data together yield a base salary range for each job that is both externally competitive and internally equitable.

Once an organization has established its base salary structure, it can turn its attention to incentive compensation. We will deal with two forms of incentive or variable pay: merit pay and cash bonuses plans. These are discussed below.

**Merit Pay**

Merit pay plans provide a system for increasing an employee's base salary in recognition of the employee's performance. The philosophy underlying merit pay is referred to as pay-for-performance. Unlike cost-of-living adjustments, there is nothing automatic about merit increases. They depend entirely upon what an individual does and how well he or she does it.

Merit pay plans, therefore, require some method of measuring and evaluating employee performance. This type of system is known
as performance appraisal. The quality of the performance appraisal program is the key factor that determines how successful an organization can be in carrying out a pay-for-performance approach or a merit pay program.

**Bonus Plans (Incentive or Variable Pay)**

About two-thirds of all employers in the United States have some form of cash bonus plan. Most of these are annual plans. The bonus or reward is paid out on the basis of individual or group performance and results. Results are usually measured against goals. In developing a bonus plan some basic guidelines will be helpful. Remember that the key to plan success is motivation. Here are a few such guidelines that concern both the basics of motivation as well as incentive plan design:

**Key Points on Motivation and Incentives**

1. Motivation and action are driven by needs.

2. Only a not-fully-satisfied need can motivate. The higher the need, the less likely it will be fully satisfied.

3. Lower order needs must be reasonably satisfied before higher order needs can be activated. (Maslow’s need hierarchy: prepotency of needs)

4. One must believe that:
   a. one has the skills and resources to do the job
   b. if one makes the effort, one can achieve the desired performance
   c. if one performs well, one can achieve the desired results

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d. if one achieves the desired results, one will be rewarded

e. the reward is desirable (has positive valence)

5. Positive experiences must outweigh negative experiences for motivation to take place.

6. Goals must be viewed as achievable, realistic, reasonably challenging and fair to all participants. Accordingly, the goal-setting process must be seen as fair and realistic.

7. Participants must feel they have a significant degree of control over their performance, results and the value of their reward(s). The perception of one's ability to affect results is known as a line-of-sight relationship.

8. In general, the longer rewards are deferred, the more difficult it is for an individual to see the line-of-sight relationship between effort, performance, results and rewards.

9. All goals, including those that are qualitative, are measurable.

10. Participants must fully understand how and why an incentive plan works.

11. The degree of participant risk in an incentive plan, and the amount of effort (and possibly sacrifice) that will have to be put forward to achieve the goal(s), must be balanced with the perceived value of the upside opportunity (incentive).
12. The more control a person has over all factors, the less the perceived risk.

13. During the course of a performance period, there should be no changes in the rules of the game.

14. The goals of the plan, and the outcomes it encourages and rewards, must be in alignment with the goals of the work unit and the total organization. All incentive plans must, ultimately, be financially sound.

15. Incentive plans should never be relied upon to replace good management practices or serve as the exclusive basis for motivation.

16. Incentives must be tested before they are implemented and monitored for effectiveness after implementation.

17. Every incentive plan should be periodically re-evaluation and changed, as needed. No plan is perfect. No plan is optimal forever.

18. Incentive plan design is an art that involves intuition and subjective judgment.

*Stern & Associates* find that when managers in U.S. corporations follow these guidelines, the resulting incentive plan is usually successful in motivating employees at any level. While some companies still choose to limit participation in bonus plans to senior managers, many are now including employees at all levels. And the more that U.S. firms use teams and encourage employee empowerment and involvement, the more inclusion of everyone in some type of incentive
plan proves worthwhile to company success.

What follows is a set of crucial questions that need to be addressed in designing a successful plan. Stern & Associates, 11260 Overland Avenue, Suite 16A, Culver City, CA 90230, Tel. (310) 838-0551 • Fax (310) 838 2344, created this write-up as a special hand-out in our presentations to groups of managers on the topic of incentive plan design. We believe that this material will be of additional value to you.

Designing Incentive Plans That Work!

A FEW KEY QUESTIONS

1. What are the purposes of the plan?
2. Who will be involved in developing the plan?
3. What is the external environmental situation?
4. Who will participate?
5. Should emphasis be placed on individual, group or organization-wide performance – or on some combination?
6. What are the performance criteria?
   6a. To what extent can participants impact performance criteria?
   6b. Is the degree of impact sufficient to justify the extent of pay at risk?
   6c. Can goals be set with sufficient credibility?
7. How much of total cash compensation should be put at risk?
8. How much should a typical payout be at target?
   How often should payments be made?
10. How is the plan going to be tested?
11. How will the plan be communicated?
12. What will be the administrative rules and mechanics?
13. How will the plan be monitored for success?
14. How will plan glitches be fixed?

Additional key questions for incentive plan design

Here are some further questions to help you create a powerful incentive plan:

Is the plan in alignment with organizational goals and strategy?
Are the purposes of the plan clear and logical to all participants?
Does the plan have the support of senior management?
Are each of the components of the plan explained in detail?
Are plan mechanics (calculations) easy to understand?
Is the process for setting goals clear and fair?
Does the goal setting process lead to realistic and challenging goals?
Before introducing, has the plan been tested?
Has the plan’s projected impact of total cash compensation been validated against competitive market data?
Is the plan clearly documented and available to all participants?
Has the plan been well communicated:
  • when first introduced?
  • to each new participant?
Is the administration of the plan streamlined?
Are rewards determined and paid in a timely manner so participants easily see the effort-results-outcomes connection?
Does the plan generate rewards that are meaningful and a source of satisfaction to participants?
Is the plan periodically reviewed against its purposes and the changing
realities of the organization?
Are plan modifications tested?
Are plan modifications made promptly in response to changing situations or identified weaknesses?

Communicating the Compensation Program to Employees

Many firms in the United States have become increasing open about compensation programs with employees. The traditional approach of maintaining secrecy in pay has been giving way to a philosophy of openness and honesty with people. This has been increasingly the trend in the United States as more companies are trying to motivate employees to become involved and participate in decision making. This part of the movement to empower employees at all levels and reduce the level of management and decrease management's traditional style of making decisions without employee involvement and communicating downward rather than allowing an upward flow of communications as well.

To illustrate the more open approach to communication, an example of a communication to all employees announcing a new compensation program will be useful. This illustration comes from a large project which Stern & Associates conducted for a major company a few years ago.

This illustration will make much of what we have covered in this material more realistic. As you read the illustration, you will note a lot of the type of thinking that is commonly found in compensation efforts of this type, which involve job evaluation, pay ranges, merit pay, and policies and practices. In short, you can learn a lot from reading what the top management of a major organization decided to
share with all of their employees.

The illustration deletes reference to the client and is included here with their permission. As you read this illustration, keep in mind that it (1) is an excerpt from a larger communication presentation and (2) was specifically designed for one organization and only reflects the particular compensation program and policies that Stern & Associates designed for this organization to meet their compensation objectives and needs.

ILLUSTRATION OF A COMMUNICATION TO EMPLOYEES INTRODUCING A NEW COMPENSATION PROGRAM

Job Evaluation Plan

Our new job evaluation plan helps us establish the value of all of our jobs and assists us in placing jobs in appropriate grades and salary ranges. The plan works together with our salary survey data, to ensure equitable and competitive salaries for all of our employees.

Who developed the Plan?

Plan Development

The plan was developed by members of management throughout our company, with the counsel of Human Resources. Initially, senior management selected the criteria by which job value would be measured. These factors were chosen because they reflect the values of our organization. They are the criteria that our company finds essential in serving its business needs.

How evaluated our jobs?

Evaluation Process
Next, the plan was used by several committees, composed of representatives from all divisions and key staff areas of the company - to evaluate all of our jobs. The process took about one year. Every evaluation was reviewed with great care to ensure consistency in the application of the plan throughout every area of the company.

How does the job evaluation plan work?

Measuring Job Worth

The plan is a systematic process for determining fair and equitable salary ranges for our jobs. The plan is used for deciding on the value of each job by applying four measures of job worth. Each measure has a scale for evaluating jobs. The four measures - or job evaluation factors - used by the plan are described in the next section.

What are our job evaluation factors?

Skill and Knowledge

Skill and Knowledge measures the complexity and difficulty of thinking which is required to perform the duties and responsibilities of the job. This factor takes into account:

- the types of information that must be processed;
- the nature of calculations that are made;
- the use of reasoning; and
- the extent to which thinking needs to be innovative.

Skill and Knowledge applies a scale that ranges from understanding simple instructions and limited problem solving to the highest levels of analytical reasoning and creative thinking needed to solve a diversity of the most complicated problems.

Customer Service

Customer Service measures the difficulty or challenge of providing service tocus
omers, both external and internal (other employees). The skills involved in interpersonal communication are a key aspect in using this factor. Providing service to others can involve courtesy, tact and persuasiveness. Some jobs require building a level of trust and confidence, and gaining commitment to an idea or action. This factor takes these interpersonal skills into account.

The scale applied by the Customer Service factor ranges from providing or exchanging simple information to providing direction, guidance and expertise to broad and diverse groups of customers, requiring strategy and the highest levels of diplomacy.

Decision Making

Decision Making measures the difficulty of the decision making process that is involved in performing the responsibilities of the job. This factor examines how closely decision making is guided or restricted by policy, procedure and practice. It also takes into account the functional or organizational scope and time horizon (short-term or long-term) of decisions.

Decision Making applies a scale that ranges from occasional latitude for making routine choices or very limited decision making responsibility to making the most complex and long-term strategic decisions.

Accountability

Accountability measures the extent to which the job is responsible for results… the impact that performing the job well, or poorly, can have on our company. Using the factor, the value of every job is measured by (1) the scope and level of its responsibility and (2) the degree of impact the job has on the operational effectiveness and business success of our company.

The Accountability scale ranges from the minimal or most limited level of responsibility with limited impact on only the smallest section or part of the company to the highest level of responsibility, with impact on the whole company.

Each job is assigned a number of points, depending on how it is valued against...
each of these factors. The result of this process is a job evaluation score: the total number of points determining the job’s appropriate grade and salary range.

Job Evaluation Score

We use competitive survey information to establish the value of a single job evaluation point. Using this dollar-value-per-point and the number of points a job is given (its job evaluation score), we are able to assign the job to the right grade and salary range.

Our Link to the Market

Now here is the bottom line... we merge our system for achieving internal equity (our Job Evaluation Plan) with external survey data, assuring that we are competitive in the labor market.

Meaningful Promotions

Jobs with similar scores are grouped together into a pay grade. There is significant differences in job value from one grade to another. Consequently, when an employee is promoted from one salary grade to another, there will be a significant increase in the value of the job. In short, promotions reflect meaningful increases in the value of job responsibilities.

Evaluating Jobs – Not People

Using the job evaluation plan, we have evaluated every job classification and placed it into a pay grade with a salary range. This is not an evaluation of the person doing the job. The work of the employee is appraised using our Performance Appraisal Program, which is entirely separate from the job evaluation plan. Make this clear to your employees.

Optimal Number of Job Levels

Before discussing pay grades, salary ranges, and merit pay, we want to go back to an important point made in the video concerning the consolidation of some job fun-
Precision in Placement

Having more pay grades allows us to be more precise in determining the appropriate grade for your job in relation to other jobs. We have developed a new pay grade system, with new pay grade numbers and salary ranges. Every job has been assigned to a grade in the new system.

New Grades/Range Structure

Exempt and non-exempt jobs were assigned separate salary structures in order to achieve a more statistically accurate fit between job evaluation points and competitive market data. We now have 26 grades/salary ranges for exempt jobs, and 11 for non-exempt jobs.

Communication

Every employee will know their pay grade and the salary range and control points of their grade.

What is our new approach to merit pay?

Inflexibility of Old Approach

Our old system gave managers no latitude for making pay decisions. This tended to place undue pressure on the performance appraisal program.

Managerial Leeway

Now, in an effort to link pay to performance, the merit increase guide charts will give managers leeway in the amount of merit increase they may grant to an employee. Under the old system, an employee, in a given quartile of the range, having earned a given performance score, could only receive a Y% merit increase. Under the new system, the same employee may receive from X% to Z% merit increase, depending upon the discretion of his/her manager.

This approach recognizes the fact that making a decision about a pay increase...
to take a lot factors into account. And not everything that should be given consideration can be summed up in a single rating, such as “exceeds standards” or “meets standards.”

Pay-for-Performance

We believe that this approach will result in more realistic and equitable decisions about merit pay. And it will help to strengthen our ability to appraise performance fairly and realistically, and achieve the goal of having an effective pay-for-performance program. Employees will now be told what their performance score is, and how that score relates to their merit increase.

Merit Pay Reviews

How often will I receive a merit pay review?

Old Schedule

Under our old system, some merit reviews were given on a 6-month cycle. This schedule was only for employees who were in the first or second quartiles of their job’s salary range. All other employees were on a 12-month merit review cycle.

New Schedule

Under our new system, all employees will be placed on a 12-month merit review cycle, regardless of position in range.

Transition

To transition from our old schedule to the new schedule, all employees’ next merit increase reviews will be held as previously scheduled. The date of that review will become the employee’s annual merit review date. This date will only change if the employee receives a promotion or job change (excluding changes made due to job consolidation).
Impact of Change

Employees who are transitioning from a 6-month merit review cycle to the new 12-month will have to wait longer for a pay adjustment. But they will receive the full amount of their percentage increase, rather than a prorated amount. For example, employees earning a 4% increase will get a full 4% at their 12-month review instead of 2% at their first 6-month review and 2% at their next 6-month review.

What is my new title, grade and salary range?

Confidential Letter

Starting March 1, 1992, the new system will be in effect. But before then, each of your employees will be receiving a confidential letter telling them their new title, salary range and grade. In some instances their title will be new. This is due to the consolidation of some job families.

One-on-One Meetings

After receiving their personal letter, you will meet individually with each of your employees. You will have the information they receive. At that time the employee can ask you an question that he or she may have. If you are not sure about the answer, you can contact your manager. Questions that can not be answered at the next level will be addressed to the Compensation Department.

Commentary on Communication

Stern & Associates developed this communication material for a specific client and was custom designed for their needs. The material, however, does show how extensive and open communication can be about compensation. We believe that a great deal can be learned from this example of direct communication to all employees about new compensation and pay-for-performance program.
TRENDS IN COMPENSATION AND BENEFITS IN THE UNITED STATES

In concluding this overview, Stern & Associates has prepared brief highlights of some of the key trends U.S. companies are establishing. This are:

1. Increasing attention to compensation philosophy, objectives, and planning

2. Viewing all forms of pay as the elements of total compensation

3. Linking compensation and organization strategically in planning

4. Applying a flexible compensation philosophy to compensation planning

5. Increasing emphasis on incentive compensation, for individuals, teams, organizational units, and company-wide, including: project- and program-based incentives, gainsharing, profit sharing, and employee ownership

6. Approaching the design of incentive compensation plans starting with organizational analysis, and focusing on motivation factors, longer-term performance, and organizational development

7. Revising approaches to merit pay to improve motivational impact
8. Using pay for knowledge to establish individual pay on the basis of individual skills and abilities

9. Experimenting with the broad banding concept, involving the use of fewer and very wide pay ranges

10. Empowering managers in making pay decisions and reducing restrictive policy

11. Complying with new Securities and Exchange Commission directives for fully disclosing, and explaining the reasoning behind, executive compensation

12. Increasing awareness and use of international comparisons in evaluating executive compensation

13. Using the market data, stock, and long-term variable rewards in designing board of director's compensation, and using the recommendations of a third party specialist to make decisions on outside and inside director's compensation levels and programs

14. Continuing to use flexible plans and emphasize communicating to employees about the value of benefits

15. Increasing involvement of top management, and the board's compensation committee, in compensation planning and assessment

16. Transforming the role of the director of compensation from administrator to change agent, concerned with total organizational strategy, motivation, and performance
RECOMMENDED READING MATERIAL:


The following books are available through the American Compensation Association, Scottsdale, Arizona, U.S.A.:

- ACA and the Society for Human Resource Management, *Elements of Sound Base Pay Administration*
- Hackett, Thomas J., *Documenting Job Content*
- Meehan, Robert H., *Determining Compensation Costs*
- Lister, Brenda J. and Mercier, Andree, *Evaluating Job Content*
- Overton, Bruce B., *Designing Management Incentive Plans*
- Pursuotham, Daniell P. and Wilson, Stephanie Y., *Building Pay Structures*
- Rubino, John A., *Communicating Compensation Programs*

For more sources of information on compensation and all other human resource management topics see:

*Stern's SourceFinder: Human Resource Management*
by Gerry Stern and Yvette Borcia, ISBN 879162-20-2

Available through:

Michael Daniels, Publishers,
11260 Overland Avenue, Suite 16 A,
Culver City, California 90230 U.S.A.
Tel. (310) 838-4437 or Facsimile (310) 838-2344.
TOPIC 8
Performance Management System

Manual for Executives

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Appendix 1 - Performance Planning Worksheet
Appendix 2 - Sample Performance Planning Worksheet (Distribution)
Appendix 3 - Sample Performance Planning Worksheet (Transmission)
Appendix 4 - Sample Performance Planning Worksheet (Generation)
Appendix 5 - Executive Performance Appraisal Form
Appendix 6 - Guidelines For Completing Executive Appraisal Form
Performance Management System

Introduction

1. Performance management is an integrated approach that consists of a series of processes which include:
   - Performance Planning
   - Performance Coaching
   - Performance Evaluation
   - Rewarding Performance.

   Together, these processes strive to improve staff and organisational performance.

2. The main objectives of performance management are to:
   - ensure that TNB's goals and objectives are met
   - improve and maintain performance of employees
   - develop leaders and employees
   - reward and ensure fair compensation

3. TNB has adopted performance management as part of its efforts to improve Company performance.

4. The purpose of this document is to communicate to employees:
   - the processes and procedures pertaining to performance management
   - the responsibilities of managers, supervisors, subordinates and HR departments.

Continuous improvement

5. Performance management systems have to be 'tailor made' in implementing performance management, TNB has adopted the strategy of continuous improvement to the system.

The introduction of performance appraisal in 1991/92 and rewarding employees according to performance were initial steps taken towards implementing performance management in TNB.
Performance Management System

Introduction, Continued

The performance management process is a continuous process. The main stages are illustrated in the diagram below:

Performance Management Process

1. Performance Planning
   Manager/Supervisor and Subordinate set and agree on targets/objectives and expectations

2. Performance Coaching
   Manager/Supervisor monitors, coaches and provides ongoing feedback to Subordinate

3. Performance Evaluation
   Manager/Supervisor assess actual performance against expectations

4. Rewarding Performance
   Management makes decisions on rewards

Implementation

Although performance management involves all levels of employees within TNB, for the time being implementation of the complete system will be applicable to executives.

The existing performance appraisal of non-executives shall continue
Performance Management System

Performance Planning

What is performance planning

Performance planning is a process in which the manager/supervisor and the subordinate get together to set targets/objectives and expectations for the subordinate for the coming year.

Note:
For the rest of the document:
- 'manager' shall mean all levels of managers and supervisors of executives
- 'targets' shall mean targets/objectives.

When to plan

2.2 Performance planning should be completed before the start of the financial year, i.e. in July or August. If delayed, it should not extend beyond September.

Agreement

2.3 The manager and the subordinate should strive to reach an agreement on the targets set and performance expectations.

Employees who shall have targets/objectives

2.4 For the time being, targets shall be set for all managers and executives.

Non-executives

2.5 Eventually, targets will be set for non-executives as well especially those in grades JG14 to JG16. The setting of targets for other non-executives is at the discretion of the manager. The decision will depend on:

* nature of job
* practicality of setting targets
Performance Planning, Continued

Planning process The stages in performance planning are shown below:

1. Review Job Description
2. Analyse Department's Business Plans
3. Set Targets/Objectives
4. Determine Performance Standards
5. Determine Priorities
6. Document Performance Plans

Performance planning A sample of the worksheet to be used for documenting performance planning is given in Appendix 1. Part of the worksheet is shown below:

Performance Planning Worksheet
Treese National Herland

<table>
<thead>
<tr>
<th>Area of Performance</th>
<th>Action Plan</th>
<th>Performance Standards</th>
<th>Teamwork</th>
<th>Weightage</th>
<th>Performance Standards</th>
</tr>
</thead>
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</table>
Review of Job Description

Why review 3.1
An employee’s performance plan depends on his/her job. Over the course of the year, jobs are expected to change according to organisational needs; therefore a review of the job description is necessary as part of performance planning.

Components of job description 3.2
A job description can be documented in many ways. For the purpose of performance planning, job descriptions are expressed using the headings below:

- Key Results
- Major Supporting Actions
- Performance Indicators.

Key results 3.3
Key results are the main results expected of a job. For consistency, key results should be expressed in two parts:

- an action verb which describes what is done
- an object which describes to what.

Examples of key results are:

<table>
<thead>
<tr>
<th>Action Verb (What is done)</th>
<th>Key Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure high plant availability</td>
<td>Implementation of business plan</td>
</tr>
<tr>
<td>Ensure adequate and trained personnel</td>
<td></td>
</tr>
<tr>
<td>Ensure timely implementation of projects</td>
<td></td>
</tr>
<tr>
<td>Produce long-term district development plan</td>
<td></td>
</tr>
<tr>
<td>Maintain all substations in district</td>
<td></td>
</tr>
<tr>
<td>Implement distribution projects</td>
<td></td>
</tr>
</tbody>
</table>

Number of key results
As a guide, the number of key results for most jobs should not exceed five.
Review of Job Description, Continued

Each key result is elaborated by major supporting actions. Major supporting actions describe how or by what means key results are to be achieved. Like key results, major supporting actions are expressed in two parts, an action verb and an object.

Examples of major supporting actions that support key results are shown below:

<table>
<thead>
<tr>
<th>Key Results</th>
<th>Major Supporting Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure high plant availability</td>
<td>* scheduling plant outages</td>
</tr>
<tr>
<td></td>
<td>* carrying out plant maintenance policies</td>
</tr>
<tr>
<td></td>
<td>* paying immediate attention to all plant defects</td>
</tr>
<tr>
<td>Ensure timely implementation of</td>
<td>* seeking budget</td>
</tr>
<tr>
<td>transmission projects</td>
<td>* issuing tenders on time</td>
</tr>
<tr>
<td>Maintain all substations</td>
<td>* monitoring progress of projects</td>
</tr>
<tr>
<td></td>
<td>* scheduling maintenance</td>
</tr>
<tr>
<td></td>
<td>* allocating resources (manpower, equipment)</td>
</tr>
<tr>
<td></td>
<td>* supervising maintenance</td>
</tr>
</tbody>
</table>

A performance indicator provides an indication of how well key results are performed. Performance indicators should preferably be observable and/or measurable.

Examples of performance indicators of key results are shown below:

<table>
<thead>
<tr>
<th>Key Results</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure high plant availability</td>
<td>* Plant availability</td>
</tr>
<tr>
<td></td>
<td>* Energy sales</td>
</tr>
<tr>
<td></td>
<td>* Number of defects</td>
</tr>
<tr>
<td>Ensure timely implementation of</td>
<td>* Deviation from target dates</td>
</tr>
<tr>
<td>transmission projects</td>
<td>* Meeting budgets</td>
</tr>
<tr>
<td>Maintain all substations</td>
<td>* Number of breakdowns</td>
</tr>
<tr>
<td></td>
<td>* Substations maintained per year</td>
</tr>
</tbody>
</table>
### Analysis of Department's Business Plans

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>TNB’s business plans are published each year in a formal document which contains:</td>
</tr>
<tr>
<td></td>
<td>• the Corporate mission</td>
</tr>
<tr>
<td></td>
<td>• a review of the previous year's business plans</td>
</tr>
<tr>
<td></td>
<td>• SBU's and Divisions' business plans.</td>
</tr>
<tr>
<td>4.2</td>
<td>Departments or operational units should develop and derive their own plans from their SBU's or Division's business plans</td>
</tr>
<tr>
<td>4.3</td>
<td>The manager's tasks are to:</td>
</tr>
<tr>
<td></td>
<td>• analyse the Department's or Unit's business plans</td>
</tr>
<tr>
<td></td>
<td>• communicate the business strategies to subordinates</td>
</tr>
<tr>
<td></td>
<td>• show the relationship between each job and the business plans</td>
</tr>
<tr>
<td></td>
<td>• discuss, set and achieve agreement on goals with subordinates</td>
</tr>
</tbody>
</table>
Setting Targets / Objectives

5.

What determines targets
5.1
An individual's targets for the year are determined by:

- the key results of his/her job
- the Department's or Unit's business plans.

Changing targets
5.2
An individual's targets may change from year to year depending on:

- the organisation's goals
- the environment
- customers' needs
- priorities, etc.

Agreement
5.3
An individual's targets should support his/her manager's targets. There should be discussions and agreement on the targets set.

'Top-down' process
5.4
Target setting is a 'top-down' process. The figure below illustrates the sequence of target setting.

```
Corporate Mission

Company's Targets

SRU's / Division's Targets
(General Manager's Targets)

Department's Targets
(Department Manager's Targets)

Individual's Targets
```

Realistic and achievable
5.5
Targets set should be challenging, realistic and achievable.

(Continued on next page)
### Setting Targets / Objectives, Continued

5.

**How to set targets / objectives**

At least one target shall be set for each key result. The performance indicator(s) for each key result will provide a basis for the setting of targets.

**Quantitative and qualitative targets / objectives**

Targets can be either quantitative or qualitative. Quantitative targets are preferred because they can be measured. Examples of quantitative and qualitative targets are:

- **Quantitative Targets**
  - Reduce staff by 10%
  - Reduce cost by RM200,000

- **Qualitative Targets**
  - Propose an acceptable scheme for early retirement
  - Positive feedback from internal customers

**Examples of targets together with their key results and performance indicators are shown below:**

<table>
<thead>
<tr>
<th>Key Results</th>
<th>Performance Indicators</th>
<th>Targets / Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure high plant availability</td>
<td>* Plant availability&lt;br&gt;• Energy sales&lt;br&gt;• Number of defects</td>
<td>* Improve availability to 79%&lt;br&gt;• Generate 150,000 GWh&lt;br&gt;• Reduce number of defects to 5%</td>
</tr>
<tr>
<td>Ensure timely implementations of transmission projects</td>
<td>* Deviation from target dates&lt;br&gt;• Meeting budgets</td>
<td>* Complete all projects within target dates&lt;br&gt;• Expenditures not to exceed 3% of budget</td>
</tr>
<tr>
<td>Maintain all substations</td>
<td>* Number of breakdowns&lt;br&gt;• Substations maintained per year</td>
<td>* Reduce no. of substation breakdowns to 7&lt;br&gt;• Maintain 78% substations</td>
</tr>
</tbody>
</table>
## Determining Performance Standards

### What are performance standards

Performance standards are standards by which an employee is evaluated for each target set. Performance standards are set in order to:

- let the employee know what has to be achieved for each level of performance
- enable the manager and subordinate to measure and determine (at the end of the year) the performance level achieved.

### Rating scale

A five-point rating scale has been adopted for measuring performance. The rating scale is shown below:

<table>
<thead>
<tr>
<th>Rating Scale</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 - Outstanding (Outstanding Performance)</td>
<td>Consistently exceeds most requirements associated with position. Accomplishments are outstanding compared to the standards expected for the position and sustained over the review period.</td>
</tr>
<tr>
<td>4 - Superior (Superior Performance)</td>
<td>Exceeds some requirements associated with the position. Accomplishments are very good (superior) and are more than the standards required for the job.</td>
</tr>
<tr>
<td>3 - Competent (Fully Acceptable Performance)</td>
<td>Meets all requirements associated with the position. Accomplishments are clearly in accordance with job demands.</td>
</tr>
<tr>
<td>2 - Fair (Partly Acceptable Performance)</td>
<td>Meets some of the requirements associated with the position. Accomplishments are below expectations demanded of the job.</td>
</tr>
<tr>
<td>1 - Poor (Unsatisfactory Performance)</td>
<td>Does not meet most of the requirements associated with the position. Consistently fails to meet expectations and standards in most areas.</td>
</tr>
</tbody>
</table>

### How to set performance standards

In setting performance standards, the levels of performance standards should correspond to the rating scale.

For each target set, determine the performance required for each of the five levels of performance.
Determining Performance Standards, Continued

Examples of performance standards are shown below:

<table>
<thead>
<tr>
<th>Targets / Objectives</th>
<th>Performance Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve availability to 79%</td>
<td>5 - Availability above 80 %</td>
</tr>
<tr>
<td></td>
<td>4 - Availability 79.5 to 79.99 %</td>
</tr>
<tr>
<td></td>
<td>3 - Availability 79 to 79.49 %</td>
</tr>
<tr>
<td></td>
<td>2 - Availability 78 to 78.99 %</td>
</tr>
<tr>
<td></td>
<td>1 - Availability below 78 %</td>
</tr>
<tr>
<td>Maintain losses at 4.3 %</td>
<td>5 - Losses less than 4.25 %</td>
</tr>
<tr>
<td></td>
<td>4 - Losses 4.25 to 4.29 %</td>
</tr>
<tr>
<td></td>
<td>3 - Losses 4.30 to 4.37 %</td>
</tr>
<tr>
<td></td>
<td>2 - Losses 4.38 to 4.5 %</td>
</tr>
<tr>
<td></td>
<td>1 - Losses above 4.5 %</td>
</tr>
</tbody>
</table>

Continuous improvement to process

Initially the setting of targets and standards will be difficult because of the lack of experience and means of measurement.

After a few cycles, with continuous improvements, the setting of targets and standards gets easier and becomes more 'accurate'.
Determining Priorities

7.

Method of prioritising

7.1

To prioritise the targets set, each target is given a weightage. The procedure to determine weightage is:

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prioritise targets according to importance</td>
</tr>
<tr>
<td>2</td>
<td>Assign higher weightage to the more important targets / objectives</td>
</tr>
<tr>
<td>3</td>
<td>Adjust all weightages so that the total adds up to 100</td>
</tr>
</tbody>
</table>

Example

7.2

Examples of assigned weightages are shown below:

<table>
<thead>
<tr>
<th>Targets/Objectives</th>
<th>Weightage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce SUI by 30%</td>
<td>30%</td>
</tr>
<tr>
<td>Reduce no. of breakdown by 20%</td>
<td>20%</td>
</tr>
<tr>
<td>Reduce written complaints by 30%</td>
<td>20%</td>
</tr>
<tr>
<td>Reduce cost per customer by 2%</td>
<td>25%</td>
</tr>
<tr>
<td>Reduce system losses by 2%</td>
<td></td>
</tr>
<tr>
<td>Reduce ACP to 23 days</td>
<td>10%</td>
</tr>
<tr>
<td>Utilise 95% of capital budget</td>
<td>15%</td>
</tr>
<tr>
<td>Complete all capital projects as planned</td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>100%</td>
</tr>
</tbody>
</table>

Purpose of weightage

7.3

Knowing the weightage for each target, the employee can concentrate on the more important targets.

Who determines weightage

7.4

Weightage is determined jointly by both the manager and the subordinate.
### Documenting Performance Plans

#### Form to use

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>The performance plan should be documented using the performance planning worksheet shown in Appendix 1</td>
</tr>
</tbody>
</table>

#### Examples

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.2</td>
<td>Examples of completed performance planning worksheets are shown in Appendices 2, 3 and 4.</td>
</tr>
</tbody>
</table>

#### Documenting targets/ objectives in performance appraisal form

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.3</td>
<td>Targets, weightage and performance standards are also documented in Section 8 of the performance appraisal form - refer to sample appraisal form (Appendix 5).</td>
</tr>
</tbody>
</table>
Coaching

9. What is coaching

Coaching is an on-going process in which the manager and subordinate informally:

- discuss progress against targets
- reinforce effective behaviours
- identify actions needed to achieve established targets.

The manager plays the role of a coach to assist the subordinate in achieving the targets set.

9.2 Reference to targets / objectives

The targets that were set and documented during performance planning should be continuously referred to throughout the year by the subordinate to determine his/her day-to-day activities.

9.3 Continuous feedback

Throughout the year the manager shall continuously monitor the performance of the subordinate against the targets set and provide feedback. The manager should not wait until the end of the year to give feedback at the annual appraisal interview.

Feedback should be provided for good as well as poor performance. Whenever good performance is encountered, the manager should:

- immediately provide positive feedback
- encourage the subordinate to sustain the good performance

Whenever poor performance is encountered, the manager should:

- immediately provide feedback
- provide assistance and guidance to enable the subordinate to achieve the targets

9.4 Training needs

Training is needed if the subordinate is unable to perform because of lack of knowledge and skills. Training needs are identified:

- throughout the year as and when performance is monitored
- during the annual appraisal interview
Coaching, Continued

Responsibilities

All employees are fully responsible for their own training and development

The manager's responsibilities are to

- assist in the identification of training needs
- provide or arrange for training

Methods of training

Apart from the attendance of formal courses and seminars, training can be in the form of

- on-the-job training
- coaching, i.e., one-to-one training by the supervisor
- learning from manuals and circulars
- visits
- discussions and meetings

Quarterly review

Apart from on-going coaching, the manager and the subordinate shall meet at least once every three months to review

- targets
- achievements and
- training requirements

Documenting feedback

Managers should maintain a record of

- feedback given to the subordinate
- training provided
- notes of the quarterly meetings
- other achievements and contributions

The records can be referred to during the appraisal interview
Performance Evaluation

10.

Purpose
10.1 At the end of the year, performance evaluation is done at a formal appraisal interview. The objectives of the interview are to enable the manager (appraiser) to

- rate the performance of the subordinate (appraisee)
- solve performance-related problems
- promote communications
- identify training and development needs
- review job descriptions and plans for the following year.

Rating performance
10.2 The subordinate's performance rating shall depend on

- how much he/she had accomplished compared to the targets set
- his/her competencies exhibited and
- additional accomplishments during the year not included in the performance plan

Solving problems
10.3 The annual appraisal interview is also a session at which

- problems pertaining to performance are identified
- possible solutions are explored
- decisions are made on actions to be taken

Communications
10.4 The open discussions on problems will promote better communications between managers and their subordinates

Training needs
10.5 Training and development needs are identified (during the appraisal interview) for the achievement of

- better performance in future
- career goals
Executive Performance Appraisal

Sample of form
11.1 A sample of the appraisal form for executives is shown in Appendix 5. Guidelines are attached to each form. (Refer to Appendix 6.)

Parts of form
11.2 The first page of the form contains the appraisee's and appraiser's personal particulars and a table describing the performance rating scale. The rest of the form is divided into the following sections:

<table>
<thead>
<tr>
<th>Section No.</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Review of targets / objectives</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Evaluation of performance factors</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Additional accomplishments / contributions</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>Overall evaluation and comments by appraiser</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Appraiser's comments</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Strengths and developmental needs</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Training plan</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Targets / objectives for following year</td>
<td>9</td>
</tr>
<tr>
<td>9</td>
<td>Reviewer's comments</td>
<td>10</td>
</tr>
</tbody>
</table>

Rating scale
11.3 The rating scale used for evaluation is shown below:

<table>
<thead>
<tr>
<th>Rating Scale</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 - Outstanding (Outstanding Performance)</td>
<td>Consistently exceeds most requirements associated with position. Accomplishments are outstanding compared to the standards expected for the position and sustained over the review period.</td>
</tr>
<tr>
<td>4 - Superior (Superior Performance)</td>
<td>Exceeds some requirements associated with the position. Accomplishments are very good (superior) and are more than the standards required for the job.</td>
</tr>
<tr>
<td>3 - Competent (Generally Acceptable Performance)</td>
<td>Meets all requirements associated with the position. Accomplishments are in accordance with job demands.</td>
</tr>
<tr>
<td>2 - Fair (Fairly Acceptable Performance)</td>
<td>Meets some of the requirements associated with the position. Accomplishments are below expectations demanded of the job.</td>
</tr>
<tr>
<td>1 - Poor (Insatisfactory Performance)</td>
<td>Does not meet most of the requirements associated with the position. Consistently fails to meet expectations and standards in most areas.</td>
</tr>
</tbody>
</table>
Executive Performance Appraisal, Continued

The stages in the appraisal process are shown in the table below:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Appraiser prepares a draft appraisal of the appraisee</td>
</tr>
</tbody>
</table>
| 2     | Appraiser discusses the appraisal with the reviewer  
Note: This is to ensure understanding and agreement or to highlight differences in perception that may require probing |
| 3     | Appraiser completes the appraisal form (Sections 1, 2, 3 and 4) |
| 4     | Appraiser discusses the completed appraisal form with the appraisee |
| 5     | Appraiser enters comments regarding the appraisal and signs the form (Section 5) |
| 6     | Appraiser discusses with the appraisee and completes Sections 6, 7 and 8 |
| 7     | Appraiser forwards the form to the reviewer |
| 8     | Reviewer reviews the appraisal, signs (Section 7) and forwards the form to the Departmental Manager |

Section 1 of the form is for the evaluation of results achieved against job requirements. The procedure is tabulated below:

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Write the Targets / Objectives and weightage</td>
<td>Extract the information from section 8 of the previous year's form or from the performance planning worksheet</td>
</tr>
</tbody>
</table>
| 2    | Review appraisee's accomplishments of the targets / objectives and write down the actual results accomplished and your comments | Include in your comments:  
- any modifications to the targets and reasons for the modifications  
- factors beyond the control of the appraisee which prevented the accomplishment of the targets |
| 3    | Evaluate appraisee's achievement of the targets (or modified targets) on a scale of 0 to 1 | Use the rating scale provided on page 1 of form  
- Consider factors beyond the control of the appraisee which prevented the accomplishment of the targets |
Section 2 of the form is for the evaluation of performance factors which reflect the competencies and behaviour of the appraisee. The procedure is tabulated below:

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Study the factors, their definitions and behavioural indicators</td>
<td>Refer to Guidelines for completing executive appraisal form (Appendix 6) for behavioural indicators.</td>
</tr>
</tbody>
</table>
| 2    | Mark "Critical" or "Important" or "Not Applicable" for each of the performance factors to be rated | Consider:  
- The percentage of the employee's time spent on this element  
- Impact on the department's division's/Company's goals  
- Consequence of error - how critical it would be if the appraisee did not perform to expectation. |
| 3    | Assess the appraisee's performance for each factor using the rating scale on page 1 of form | The assessment:  
- Should be based on data collected throughout the year  
- May include feedback from both internal and external customers who may be familiar with the appraisee's work. |
| 4    | Write comments which substantiate the rating given for each performance factor | Comments must be written for all factors  
- Note improvements or weaknesses of performance with respect to each performance factor. |
| 5    | Assess other factors that are not included in the form but are critical or important to the job | Use the bottom half of page 8 if the space provided is insufficient. |

Additional behavioural indicators  
11.7

The behavioural indicators that elaborate the performance factors in the "Guidelines for Completing Executive Appraisal Form" are general indicators. The appraiser should identify other indicators that are more specific or relevant to the appraisee's job.
Executive Performance Appraisal, Continued

Section 3: Additional accomplishments/contributions

Section 3 of the form is for additional accomplishments/contributions achieved during the year.

Include accomplishments/contributions such as:
- incidental work that arose during the year which was not part of the targets/objectives
- contributions as members of committees related to TNB's business
- contributions to training and developmental activities such as TQM and QCS.

Exclude:
- sports, social and cultural or related activities.

Section 4: Overall evaluation

Section 4 of the form is for overall evaluation of performance. The process is tabulated below:

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Assess the overall rating and put a tick in the appropriate box</td>
<td>The overall rating should be based on a combination of Sections 1, 2 and 3. The weightage given to each of the 3 sections will depend on the job and shall be decided by the appraiser. If targets are easy to set and achievements can be measured, Section 1 should be given a higher weightage. If targets are difficult to set and achievements cannot be measured, Section 2 should be given a higher weightage. Take into consideration factors beyond the control of the appraisee which prevented the accomplishment of the targets. Use the rating scale given on page 1 of the form.</td>
</tr>
<tr>
<td>2</td>
<td>Write the overall comments</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Sign and date the form</td>
<td></td>
</tr>
</tbody>
</table>

Section 5: Appraisee's comments

Section 5 of the form is for the appraisee's comments. The appraisee is encouraged to share his/her views regarding the ratings of any matter pertaining to the appraisal.

Continued on next page.
Executive Performance Appraisal, Continued

Section 6: Strengths and developmental needs 11.11

Section 6 of the form is for noting the appraisee's strengths and developmental needs. The information is used for:

- career planning
- determination of training plans (Section 7).

Section 7: Training plans 11.12

Section 7 of the form is for recording the appraisee's training plans which may comprise:

- training and developmental activities such as courses, seminars, attachments, coaching etc.
- target date
- actions to be taken by appraiser or appraisee.

Section 8: Following year's targets 11.13

Section 8 of the form is for documenting the targets / objectives for the following year. Refer to Section 5 of this document.

The 'contribution' or weightage of the achievement of targets towards the overall evaluation should also be discussed.

Section 9: Reviewer's comments 11.14

Section 9 of the form is for the reviewer's rating and comments. The procedure is tabulated below:

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Study the employee and comments given by both the appraiser and appraisee</td>
<td>Use the rating scale given on page 1 of the form</td>
</tr>
<tr>
<td>2</td>
<td>Assess the overall rating and put a tick in the appropriate box</td>
<td>If reviewer's rating is different from appraiser's rating</td>
</tr>
<tr>
<td>3</td>
<td>Write the overall comments</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sign and date the form</td>
<td></td>
</tr>
</tbody>
</table>
Always communicate your acceptance of the receiver as a worthwhile person who has a right to be different, while at the same time maintaining the company's standards and expectations. Most of all, listen, listen, listen.

Close the appraisal interview on a sincere, positive note, but remember to be real. Many supervisors feel just as uncomfortable praising employees as they do giving them constructive feedback. The traditional "starchy" technique can be sterile and manipulative, ruining an otherwise successful appraisal interview. There is no formula for what to say, or how often, when acknowledging an employee's value and successful performance. Knowing the necessity for expressing appreciation to each employee is the first step, and recognizing that supervisors are only as effective as their entire support staff makes them what they are, not as facts.

Feedback should be focused on those things over which an individual has some control or in which he or she can make improvements or plan alternative actions. If emotions become aroused or defenses mechanisms kick in, deal with the reactions rather than trying to convince or reason with the individual.

Meeting the challenge

As a property management company, it refines its personnel policies and procedures, it should include a performance appraisal system that meets legal, ethical, and business standards. Gradually, the theory of managing people will become a reality as more and more property management company executives join their colleagues in creating a system of effective performance management with a performance appraisal system as its central component. The end result will be more productive employees and better property management.

Karen L. Gris has a B.A. in education and an M.S. in human resources. She is an executive assistant with Emerald Heights, a long-term care management company in Renton, Washington. She recently completed TRF's personnel policies and procedures manual and employee information booklet.

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Performance Appraisal Effectiveness: A Matter of Perspective

Clinton O. Langenzecker, and Stephen J. Golf, The University of Toledo

Performance appraisals have become a fact of organizational life. Recent research estimates that over 90% of all large organizations in the U.S. employ some form of systematic employee appraisal and review. This widespread use can be attributed to human resource specialists, academics, and consultants who proclaim that performance appraisal is a critically needed tool for effective human resource management. This, in turn, is based on the belief that an effectively designed, implemented, and administered performance appraisal system can provide the organization, the manager, and the employee a myriad of benefits. The literature on performance appraisals generally suggests that the appraisal process can 1) increase employee motivation and productivity, 2) provide a solid basis for wage and salary administration, 3) facilitate discussions concerning employee growth and development, 4) provide data for human resource decisions, and 5) provide managers with a useful communication tool for employee goal setting and performance planning.

In theory, the merits of the formal appraisal process are numerous and, indeed, attractive to any organization considering their use. In practice, however, the problems associated with the design and implementation of formal performance appraisal systems are well documented and continue to frustrate both practitioners and academics. Organizations continually struggle to find an "ideal system" that will be accepted by managers and subordinates alike and also fulfill the needs of human resource departments. Some studies have even gone so far as to suggest that only a small percentage of appraisals are actually effective and accomplish the goals for which they were intended.

In this vein, serious questions have been raised concerning the functions actually served by the appraisal process. Are formal appraisals worth the time and effort devoted to them? What do organizations actually accomplish in conducting formal appraisals? The functions effectively served by the appraisal process are a source of ongoing debate, as academics seek to better understand the appraisal process and organizations seek ways to increase its effectiveness.

Research suggests that having a technically sound appraisal system and procedure is no guarantee that the process will be effective. To be effective, managers and subordinates must have a shared perception of the purposes and functions of the process and a shared belief that it is useful to them on an individual basis. Thus, an effective appraisal system is one that satisfies the needs of the parties involved in the process.

In addition, for a system to be effective, managers must have not only the skills necessary to conduct effective appraisals but also the willingness to do so.

Both research and organizational practice suggest, however, that managers and subordinates have different needs and expectations concerning appraisals. In a recent study conducted at a medium-sized organization, researchers found that managers and subordinates differed significantly in their perceptions of both the role and effectiveness of the appraisal process on such key issues as the basic purpose, the level of fairness, the link between pay and performance, honesty of communication, completeness of feedback, means to improve the manager-subordinate relationship, and the extent to which appraisal lets subordinates know where they stand. The overall effectiveness of the process received mixed reviews.

In addition, others have found that employees reacted more favorably to the appraisal process when it satisfied their needs and included...
opportunity to state their side of the issue; when factors on which they were being evaluated were job-related; and when objectives and plans were openly discussed. While managers and subordinates may not agree on what constitutes an effective appraisal, the subordinate’s acceptance of the appraisal increased when managers and subordinates shared an understanding of its purpose and the role of each party.  

Performance appraisals have been characterized by employees as acceptable, fair, and effective when 1) opportunities to challenge or reframe evaluations exist, 2) two-way communication is encouraged, 3) raters are familiar with the work of subordinates, and 4) there is a consistent application of performance standards. Collectively, research makes it clear that it is critically important for managers and their subordinates to have shared perceptions regarding the appraisal purpose and process.

With this background, we asked a basic question that strikes at the heart of why organizations conduct formal performance appraisals: How effective is the formal performance appraisal system in a typical, large organization in the U.S.? To investigate this issue, we conducted research designed to answer four questions that focus specifically on the appraisal process as a manager/subordinate interaction. These were:

1. What specific functions (purposes) do managers and subordinates believe are served by the formal appraisal process?
2. How effective is the appraisal process at fulfilling these functions?
3. Do managers and subordinates differ in their perceptions of appraisal effectiveness?
4. What are the primary causes of appraisal ineffectiveness and failure?

The Study

The project had two parts. In a pilot study, in-depth taped recorded interviews were conducted with 60 managers from seven large organizations that currently used formal performance appraisal systems. Managers were asked to identify and discuss the functions and purposes served by the appraisal process from their perspective as both a rater and ratee. The average interview time was 101 minutes. The transcripts were analyzed for content, and frequencies were tabulated to identify the performance appraisal functions mentioned most often by respondents.

The key functions identified in the study were then developed into an eight item questionnaire designed to assess managers’ and subordinates’ perceptions of appraisal effectiveness of each issue. The questionnaire employed a five point rating scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Two additional questions were added to assess the respondents’ understanding of the appraisal’s purpose and their willingness to participate in the process. The final item was an open-ended question to identify the factors seen as inhibiting performance appraisal effectiveness: “From your experience, what factors cause the annual performance appraisal and review to be ineffective?”

The questionnaire was administered to all 401 members of a division of a midwestern Fortune 100 company. The following criteria were used to select the company: 1) the organization viewed the pilot study findings as compatible with the mission and functions of its current appraisal system; 2) the organization had a professionally developed and technically sound performance appraisal system that included a formal appraisal procedure, formal rater training, a standardized MBO/JOB DESCRIPTION-based rating instrument; and 3) the organization required all managers to conduct an annual appraisal with each subordinate. The overall response rate was 66.8%, which included 74.8% of managers (n=113) and 62% of subordinates (n=155). The respondents average tenure was 15 years for managers and seven years for subordinates.

In analyzing the data, two criteria were used to assess performance appraisal effectiveness. The first criterion was that a significant majority of both managers and subordinates had to agree that the function was being fulfilled by the appraisal process. It has been suggested that an appraisal system has more potential to be effective (i.e., accomplish its intended purpose) when a significant majority of the organization’s members hold a favorable attitude towards the system. In this study, a significant majority was considered to be 65% of both managers and subordinates who responded.

The second criterion pertained to the level of agreement between managers and subordinates on each function, since managers and subordinates need a shared perception of how well the appraisal process serves its intended functions. The appraisal was considered to be less than effective when there was a statistically significant difference in the proportion of managers and subordinates who agreed that the function in
question was being served by the appraisal process.

Finally, to identify the primary factors limiting appraisal effectiveness, the responses to the open-ended questions were content analyzed. Responses were classified according to their content and frequency.

The Findings

Table 1 summarizes the key functions that respondents believed were served by the formal appraisal process. The percentages correspond to the number of respondents (n=660) that identified each particular function. It is important to note that the high level of consistency among respondents and how closely the issues raised overlap with the current appraisal literature on the functions of appraisals in modern organizations.

Table 2 presents a summary of responses to the questions relating to the functions potentially served by formal performance appraisal and the response frequencies to each of these questions. To simplify the presentation of these results, the strongly agree (Strongly Disagree; Agree (Disagree) anchors were collapsed into one category on either side of the neutral point. The asterisks signify that perceptual differences between managers and subordinates were statistically different using a Chi-square analysis (df=4).

Table 1

<table>
<thead>
<tr>
<th>The Key Functions Potentially Served by the Formal Appraisal Process (n=660)</th>
<th>Percentage of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lets the Subordinate Know Where They Stand</td>
<td>100%</td>
</tr>
<tr>
<td>2. Facilitates Subordinate Development</td>
<td>96.6%</td>
</tr>
<tr>
<td>3. Improve Subordinate Motivation and Performance</td>
<td>95%</td>
</tr>
<tr>
<td>4. Vehicle to Link Pay to Subordinate Performance</td>
<td>95%</td>
</tr>
<tr>
<td>5. Establishes and Clarifies Work Goals and Objectives</td>
<td>93.3%</td>
</tr>
<tr>
<td>6. Facilitates Manager/Subordinate Communication</td>
<td>90.9%</td>
</tr>
<tr>
<td>7. Improve Manager/Subordinate Working Relationship</td>
<td>86.9%</td>
</tr>
<tr>
<td>8. Allows Employee Input About Their Jobs</td>
<td>86.9%</td>
</tr>
</tbody>
</table>

Table 3 shows the summary of responses to the open-ended question regarding causes of ineffective appraisals. Managers generated 3.9 responses to this question (n=443) while subordinates averaged 4.4 responses (n=660). Table 3 shows both the frequencies and percentages of individuals identifying each cause of appraisal ineffectiveness. For better focus, only the top ten causes of appraisal failure are presented for both managers and subordinates. The balance of this paper focuses on the implications of these findings.

Discussion

While no one would argue that performance appraisal is a panacea, it appears that its benefits and merits can be frequently overstated. The items in Table 1 represent an excellent cross-section of functions that the appraisal process would seem well equipped to fulfill. While it is easy to suggest that the process can serve each of these important functions, the question remains as to whether it can do so effectively, especially since most organizations have multiple goals for their system.

In regard to our second research question, "Is this particular appraisal system effectively accomplishing the diverse and complex goals that are typically ascribed to the appraisal process?", the results are mixed. Both managers and subordinates believe that the appraisal process lets the employee know where he or she stands, is effective in establishing and clarifying employee work-related goals, and allows employee input about their jobs. Given an employee's need for feedback, direction, role clarity, and job involvement, these are positive findings.

Conversely, the appraisal process was viewed as ineffective by both parties as a vehicle for linking pay to performance, helping improve employee motivation and performance, and improving the manager/subordinate working relationship. These findings are particularly noteworthy, since two of the most frequently cited reasons for doing appraisals include merit pay administration and improving employee motivation and performance. In each of these cases the appraisal system received disastrous ratings, especially from subordinates.

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Finally, as a tool to facilitate employee development and as a communications tool the appraisal process received a split review. Managers believed the appraisal process was effective on both counts while subordinates
Table 2
The Functions Served by the Formal Appraisal Process

<table>
<thead>
<tr>
<th>Function</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>(Percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. PDRS lets the employee know where they stand</td>
<td>1.0</td>
<td>16.3</td>
<td>81.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.5</td>
<td>22.3</td>
<td>73.2</td>
<td></td>
</tr>
<tr>
<td>2. PDRS facilitates the discussion of employee development</td>
<td>8.9</td>
<td>17.0</td>
<td>74.1**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>32.0</td>
<td>29.4</td>
<td>38.6</td>
<td></td>
</tr>
<tr>
<td>3. PDRS helps improve employee motivation and performance</td>
<td>21.3</td>
<td>23.0</td>
<td>55.7**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>47.1</td>
<td>36.8</td>
<td>16.1</td>
<td></td>
</tr>
<tr>
<td>4. PDRS establishes and clarifies employees' work related goals</td>
<td>10.6</td>
<td>24.4</td>
<td>65.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.8</td>
<td>25.3</td>
<td>69.6</td>
<td></td>
</tr>
<tr>
<td>5. PDS successfully links pay to performance</td>
<td>34.5</td>
<td>29.2</td>
<td>36.3**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>68.9</td>
<td>19.5</td>
<td>11.7</td>
<td></td>
</tr>
<tr>
<td>6. PDRS is an effective communications tool</td>
<td>12.6</td>
<td>21.6</td>
<td>65.8**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>45.1</td>
<td>21.3</td>
<td>33.5</td>
<td></td>
</tr>
<tr>
<td>7. PDRS helps improve the manager/subordinate relationship</td>
<td>13.3</td>
<td>26.5</td>
<td>60.2**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>38.3</td>
<td>29.8</td>
<td>32.1</td>
<td></td>
</tr>
<tr>
<td>8. PDRS allows employees input about their jobs</td>
<td>4.7</td>
<td>19.1</td>
<td>76.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14.7</td>
<td>12.4</td>
<td>72.9</td>
<td></td>
</tr>
<tr>
<td>9. I clearly understand why we do PDRS</td>
<td>8.0</td>
<td>11.5</td>
<td>80.6**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>25.8</td>
<td>22.6</td>
<td>51.6</td>
<td></td>
</tr>
<tr>
<td>10. I would participate in the PDRS even if it was not</td>
<td>8.1</td>
<td>17.9</td>
<td>74.0**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>28.1</td>
<td>12.6</td>
<td>59.4</td>
<td></td>
</tr>
</tbody>
</table>

*PDRS (Performance Development and Review System — the name of the organization’s formal appraisal system.

** P < .01 Chi-Square statistic (df=4)

* P < .05 Chi-Square statistic (df=4)

viewed it as ineffective. Given the importance of employee development and effective manager/subordinate communications, these findings are problematic. They suggest that managers might not be aware that the appraisal process is not meeting the needs of their subordinates. In addition, the process by its very nature forces the manager to communicate with the subordinate, where the reverse is not necessarily true. Thus, the merits of the appraisal process as an employee development and communications tool are called to question by the very individuals it was supposed to benefit.

Our third research question focused on the degree of congruence or agreement between a manager’s and subordinate’s perceptions of the appraisal process. To start, note the responses to questions 9 and 10. While eight of ten managers clearly understood the purpose of appraisals, only five of ten subordinates did. This suggests that organizations and managers need to better communicate appraisal goals and purposes to their subordinates. An overall indicator of satisfaction with the process is the respondents willingness to participate voluntarily in the appraisal process. In response to question 10,
<table>
<thead>
<tr>
<th>The Managerial Perspective (n=643)</th>
<th>Percentage</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Lack of information on subordinate’s actual performance</td>
<td>65.5%</td>
<td>(74)</td>
</tr>
<tr>
<td>2) Employee defensiveness/bad attitude</td>
<td>56.6%</td>
<td>(64)</td>
</tr>
<tr>
<td>3) Taking insufficient time to prepare</td>
<td>52.2%</td>
<td>(59)</td>
</tr>
<tr>
<td>4) Not being honest with the subordinate</td>
<td>46.0%</td>
<td>(52)</td>
</tr>
<tr>
<td>5) Unclear standards by which to judge performance</td>
<td>36.3%</td>
<td>(41)</td>
</tr>
<tr>
<td>6) Lack of skill/insufficient rater training</td>
<td>32.7%</td>
<td>(37)</td>
</tr>
<tr>
<td>7) Process not taken seriously by superiors</td>
<td>18.6%</td>
<td>(21)</td>
</tr>
<tr>
<td>8) Insufficient resources to reward performance (money/promotions)</td>
<td>16.3%</td>
<td>(19)</td>
</tr>
<tr>
<td>9) Unrealistic expectations on the part of the subordinate</td>
<td>13.3%</td>
<td>(10)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Subordinate Perspective (n=684)</th>
<th>Percentage</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Process not taken seriously by the manager</td>
<td>57.4%</td>
<td>(89)</td>
</tr>
<tr>
<td>2) Unclear performance standards/subjective ratings</td>
<td>51.6%</td>
<td>(80)</td>
</tr>
<tr>
<td>3) Manager has insufficient knowledge of subordinate’s performance</td>
<td>49.0%</td>
<td>(76)</td>
</tr>
<tr>
<td>4) Lack of ongoing performance feedback</td>
<td>40.6%</td>
<td>(63)</td>
</tr>
<tr>
<td>5) Manager lacks sincerity/honesty</td>
<td>39.4%</td>
<td>(61)</td>
</tr>
<tr>
<td>6) Manager not being prepared</td>
<td>36.1%</td>
<td>(56)</td>
</tr>
<tr>
<td>7) Ineffective discussion of employee development</td>
<td>30.9%</td>
<td>(29)</td>
</tr>
<tr>
<td>8) Manager lacks skills in doing appraisals</td>
<td>25.2%</td>
<td>(39)</td>
</tr>
<tr>
<td>9) Too much criticism/negativism</td>
<td>20.6%</td>
<td>(32)</td>
</tr>
<tr>
<td>10) Inexistent/ambiguous language</td>
<td>18.7%</td>
<td>(48)</td>
</tr>
</tbody>
</table>

Managers are significantly more willing to be involved in the appraisal process. These two questions reflect a trend in the responses to the functions being effectively served by the appraisal process.

In five out of the eight appraisal functions, managers hold a statistically more favorable view of the process than do their subordinates, and this appears to be typical. This process makes managers feel as if they are fulfilling their responsibility to communicate with their subordinates and encourage them to improve their performance. It causes them to be encouraged also (and perhaps relieved) when the process is completed. In sum, the company’s appraisal system (which was designed by the boss and appeared technically sound) is not accomplishing its intended purposes on a number of counts, although its managers are less likely to think so.

At this point, the key question is: What are the primary causes of appraisal ineffectiveness? A close inspection of the results in Table 3 reveals that managers and subordinates each have their own ideas as to why appraisals fail but also share much common ground. Both parties agreed that appraisals will be ineffective when: 1) performance standards are unclear, 2) the manager lacks knowledge of the subordinate’s actual performance, 3) the manager is not prepared for the appraisal, 4) there is a lack of honesty on the part of the manager, 5) the manager lacks skill in conducting the appraisal, and 6) the appraisal is not taken...
Managers also identified three subordinate-based causes of appraisal failure and one cause that could be attributed to the organization. According to these managers, employees with unrealistic expectations or defensive or bad attitudes can ruin the appraisal process. They also reported that the appraisal becomes ineffective when the employee fails to get involved in the discussion. Finally, a lack of resources to reward good performance, including both merit money and promotional opportunities, was identified as frustration in managers' attempts to reinforce the behaviors of good performers.

Subordinates' unique frustrations with the appraisal process tended to focus on their need for growth and development. Lack of ongoing performance feedback suggests subordinates want to be appraised more than once a year in a formal review setting. In the formal review, employees can be frustrated by both ambiguous language and an emphasis on negative feedback. Finally, an appraisal is ineffective when the discussion of employee improvement and development does not meet the employee's needs. From the subordinate's perspective, an effective appraisal process 1) has clear performance standards, 2) takes place in an environment of honesty with unambiguous language, 3) is preceded by ongoing performance feedback during the year, and 4) is conducted by a manager who is prepared, who takes the process seriously, and who has sufficient knowledge of the subordinate's actual performance.

Recommendation
In this study, we learned that formal appraisals are not always as effective as we might be led to believe. At the same time, appraisals do serve a number of useful purposes for the organization, manager, and subordinate, many of which fall into the category of scheduled (or forced) communications. If an organization is serious about improving the effectiveness of its appraisal system, the following guidelines are recommended:

- *Assess the effectiveness of your current appraisal system. What are the functions that you hope your appraisal system serves? Identify them and construct a questionnaire to assess the degree to which organization members perceive the appraisal process to be effective. You are then in a position to develop a strategy to address your shortcomings if any are found to exist.*

- *Organize this study was both surprised and shocked to learn that its appraisal system was not as effective as they thought.*

- *Arrange appraisal skills training for your managers. For any appraisal system to be effective, training must focus on helping managers develop specific skills and confidence in their ability to effectively evaluate others. These skills should include goal setting, communicating performance standards, observing subordinate performance, coaching, giving feedback, completing the rating form, and conducting the appraisal review. Appraisals without training is a sure route to ineffectiveness, frustration, and dissatisfaction. Table 3 provides an excellent tool for appraisal training, planning, and discussion.*

- *Make sure your employees understand the appraisal system. Everyone in the organization needs to understand why appraisals are being conducted and how the system operates. The more clearly stated the organization's purpose for appraisals, the less confusion and ambiguity surrounding the process. The goal should be that everyone knows why you are conducting appraisals.*

- *Increase your managers' willingness to conduct effective appraisals. This study clearly revealed two key issues that will strongly influence your appraisal system's effectiveness. First, more managers than subordinates believe the appraisal system is effective in fulfilling the functions for which it is designed. Thus, they may feel less need to improve as raters. Secondly, the primary causes of appraisal ineffectiveness fall squarely on the managers' shoulders. Thus, the organization needs to make the manager more willing to conduct effective appraisals. Once skills training has been completed, and to realize that they might not be as effective as they think. Survey feedback is an effective tool to let them see where their employees stand. Then the organization must take active steps to enhance its managers' willingness to conduct effective appraisals. Conducting appraisals with your managers and providing regular refresher training have both been found to improve rater effectiveness. Also, managers must be rewarded for effectively evaluating their subordinates.*

- *Start with effective performance planning.*

SAM ADVANCED MANAGEMENT JOURNAL.
Effective Employee Appraisals

by Karin L. Grice

A property management firm with fewer than 50 employees has its advantages and disadvantages when it comes to managing employee performance. On one hand, individuals in small organizations usually have closer relationships with each other and with their supervisors, work rules are often more flexible and informal, and employees often are more in tune with the company's goals.

On the other hand, employees in today's small company are frequently limited in their options: "No" means are never empty. Managers find it difficult to take any significant amount of time for employee communication and development. Yet, when supervisors neglect to acknowledge their employees, give them feedback on a regular basis, and performance suffers. Individuals without common sense productive work habits. Organizations where no one gives any good work performance evaluations, or poor management skills, who want to improve employee performance and satisfaction can look to their larger counterparts in other industries. There, one consistent element links employees to a common goal and enhances their effectiveness and productivity: an ongoing and meaningful performance appraisal process.

Without such a system, property management firms not only dilute employee enthusiasm and productivity, but run the risk of violating both legal and ethical mandates. Supervisors or lower supervisors who want top performance from their employees come to realize that performance appraisals must be included as a part of their managerial repertoire.

More than just the act of taking time for performance appraisals as bad, using ineffective methods during reviews is not much better. Performance appraisals should be more than an annual conversation between the supervisor and the employee, with the supervisor doing most of the talking. That mistake is common among many companies. However, this approach limits the many possibilities available in a carefully designed appraisal system.

In an broader application, an employee appraisal includes any personnel decision affecting an employee's status, including rotation, termination, promotion, demotion, transfer, salary increase or decrease, and merit pay. As such, appraisals are a powerful administrative tool for planning and controlling work and allows supervisors to identify areas where employees are performing adequately and areas in which employees need to improve.

Implementing a performance appraisal system is a challenge for small companies. However, let's face it, many companies are in need of either internal or external performance evaluations. If the organization is already successful and employees loyal, stable, and productive. Why bother?
Even when supervisors believe in theory that employee evaluations are necessary, appraisal time is often regarded with as much eagerness as a dental checkup.

The necessity of evaluations may be recognized, but if time must be spent in a continuing program of observing job performance and giving feedback, when does the real work of hands-on managing, budgeting, marketing, and leasing properties get done? Shouldn’t the property management staff already know how it’s doing? Why not wait until the employee needs to hear that performance is below standard and termination is a possibility?

The answer is simple; even though evaluating employees takes time and effort from other activities, performance appraisals are always good business for companies large and small.

Legal and Ethical Considerations

Once the necessity for company-wide performance appraisals is accepted, supervisors need to understand the legal guidelines for an appraisal process. Because two of the most important functions of appraisals relate directly to the company’s decisions regarding the employee’s status, appraisals are subject to scrutiny in both employment discrimination and wrongful termination suits. For legal reasons alone, then, employers should regard employee evaluations as an essential part of their company’s policies and procedures.

Federal civil rights laws and related court cases on discrimination clearly require that employee evaluations must be formalized, standardized, and, as objective as possible. Care should be taken through the choice of measures and through training to ensure that ratings are not biased by prejudice regarding race, sex, or religion. Vague and subjective ratings are not adequate. Supervisors must always be fair and equitable in the evaluative process and base their appraisal on solid criteria.

Talking to employees about their performance is not only a legal but an ethical obligation. That is, employers have the right to information about the company they hire, and the quality of their work. Treating employees with respect and fairness and valuing them as much as...
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There really should be no surprises during a discussion

Annual schedule

Are many of your performance appraisals due at one particular time during the year? This is because we tend to hire in quantity during certain busy times during the year (for a particularly busy season or for a trade show for instance) and then the performance appraisals of these employees come due all at the same time. Or perhaps your organization does not administer appraisals based on the employees' dates of hire, but during a set date each year. In either case, develop an annual schedule for yourself so you are aware in advance when performance appraisals will be coming up. Add new employees to your schedule as you hire them. With a self-administered schedule, if a performance appraisal (or several performance appraisals!) is due during another busy season you will know to complete it in advance and just make necessary adjustments before the discussion, rather than have it hit you during your busiest time. Your regularly scheduled meetings will help you up front with the bulk of the appraisal and identifying areas for improvement and areas that have shown growth, while any additional strides made toward the end of the performance appraisal time frame and a summary of overall performance can be added just before your discussion.

Use a simple format so the employee can remember the areas you see needing development and the areas in which you see strength. Be sure to point out both — merely discussing weaknesses will deflate the employee, and it will be more difficult to help them improve, than if you point out all the good things they bring to their position and some specific instances which deserve extra recognition, too. The following categories are good examples of simple but thorough topics for discussion: quality; timeliness; initiative; adaptability; communication; service; knowledge of job; productivity.

Are your performance appraisals canned or planned? Be different in your approach with each employee. Be as different in your evaluation as each employee is different. For maximum effectiveness, show that you care. There are a lot of ways to do this. For one, give the appraisal the time it deserves. take the time to make sure each section of the performance appraisal form is completed thoroughly. Second, allow adequate time for the discussion with the employee. Rushing through the discussion will give the impression that you don't value the process. When wording your summary of each section determine what kind of worker your employee is irrelevant of the other sections in the appraisal. Consider your words choice as well. For example, is your employee a really, good hard worker? If so describe their efforts as "fabulous, stupendous, tremendous, terrific, outstanding." OK, so they aren't performing that well, but they are doing a good job. How about "good, thorough, consistent, helpful?" You get the point. There are a lot of ways to tell the employee about performance without just stating "you meet standards." Of course there is a limit to your truth. It's called tact. Telling an employee that they have won the dork of the year award won't motivate them. Neither will a good employee be motivated further by being told that since they are doing so well you will just be dumping more work on them. Remember to have a sense of humor with employees; humor makes our jobs fun, rather than routine, but tact is actually more important.

"Give the appraisal the time it deserves. Take the time to make sure each section of the performance appraisal form is completed thoroughly."

What value are performance appraisals after the discussion? Often we have a meaningful discussion during the appraisal, but it stays in that room and has no real meaning afterwards. If your communication is regular, rather than yearly or when something goes wrong, your appraisal will continue regularly. Make your expectations realistic. Remember that nobody has the perfect job in regards to individual strengths and weaknesses. Consider whether the employee is developing weak areas and growing in their job. Weaknesses can be a good thing; they keep the employee challenged which alleviates boredom and burnout. Performance is a very personal issue for most people. Make sure your expect-
Planning is required to set the stage for effective performance. More than half of the subordinates in this study cited unclear performance standards as a cause of ineffective appraisals. Meaningful and accurate evaluation and feedback requires that clear goals be established beforehand. Therefore, a large part of the appraisal process should be devoted to determining what actions are needed in the future. It is harder to correct the results of poor planning than to do it correctly the first time.

- Appraisals must be ongoing. Annual appraisals are only as effective as what happens during the rest of the work year. Managers can increase their appraisal effectiveness by scheduling regular mini-appraisals with their subordinates. These encourage honest communication, give the manager an opportunity to monitor employee progress, provide the employee with an ongoing source of feedback, and help catch little problems before they become big problems.
- Provide resources necessary to link pay to performance. The function that fewest managers and subordinates believed the system served was linking pay to performance. While the popularity of merit pay is growing, companies must reflect on whether merit pay in practice lives up to its theoretical potential. If performance appraisal is to be used as a vehicle to administer a pay-for-performance program, managers and subordinates must perceive that sufficient funds are available and that the administration of the plan is done fairly. When the availability of merit monies either does not allow the subordinate to receive too much or does not allow for differentiation between various levels of contribution in the organization, the system will be viewed as a sham. Should this occur, the appraisal process will lose its ability to improve employee motivation and may create a lack of trust in the process, thus undermining its potential to effectively fulfill other desired functions.

It is said that anything worth doing is worth doing well. Nevertheless, effective appraisals are not assured just by having a technically sound system. This study, which strongly suggests that a technically sound system is no guarantee of effectiveness, should serve as a case study for organizations wishing to assess their own appraisal systems. Organizations must continually look for ways to keep effective appraisal behavior in the forefront of managerial consciousness, or the things worth doing won't be done well.

Dr. Longenecker has published numerous articles on human resource management and performance appraisal. Dr. Goff's research interests include compensation and work-family conflict. Both are also management consultants for a variety of organizations.

References
Effective performance appraisals (really!)

by Debbie Pennock

When you read the title of this article and thought about conducting performance appraisals in your own organization, about one-third of you thought you'd skim the article while also planning tonight's dinner; one-third started feeling guilty — you know you should be more on top of managing performance appraisals, but they always seem to get buried on the bottom of your "to do" list. And the remaining third wondered, so what's new about performance appraisals? Many of you wish your boss would just grant immunity to performance appraisals once and for all. Although at times they might seem a hindrance to productivity, if managed correctly there actually are ways to make performance appraisals a valuable tool in your organization that is productive and easy to accomplish.

We know that performance appraisals can cause frustration, fear, intimidation and the list goes on. These negative feelings generally come from mismanagement of the performance appraisal system and your conveyance of their importance and relevance. We must try to turn frustration and fear around and diffuse intimidation so we can have meaningful performance appraisal discussions. Negative feelings provide a barrier to effective communication. First, we need to explore ways in which you can manage the process of performance appraisals to help alleviate the hesitation employees have in approaching your performance appraisal discussions, and second, we need to realize the potential performance appraisals have both during the time of the evaluation and after.

Regularly scheduled, private one-on-one meetings with each of your employees are extremely beneficial. Performance appraisals are only a continuation of this communication process. Performance appraisals are not a formal meeting to discuss performance and especially not to discuss issues the employee was not aware of before the performance appraisal meeting. They are merely an extension of your regular, on-going communication. If they aren't a continuation, then to write an appraisal, you have to remember every strength, accomplishment, area for development and goal for the past six months or even a whole year! Doesn't this sound ridiculous? But this is what we tend to do. With regular meetings, we would know exactly what strengths the employee has made during the past review period and could compile the information more accurately and consistently. When employees know what to expect at their review meeting, they won't be nervous, and they will be able to contribute towards a meaningful and productive appraisal.
tations are clear to avoid surprises and differences of opinion. Look at the expectations, the whole performance issue — don't single out only the bad points to help the employee improve. Then again, don't single out only the employee's strengths — not only is that untruthful, it doesn't help the employee.

**Effective communication**

Allow the employee to give their input. You need to know if your communication means the same to both of you. If your organization allows it, give the employee a copy of the form you will be completing prior to your meeting. This will give the employee time to consider their own input and will allow them to view what specific areas will be evaluated. Have the employee start the discussion by telling you their strengths. Then add to the list if you can. Ask the employee what areas they think need improvement. Discuss ways to reach a specific level of improvement by the next appraisal. If they see a strength that is actually a weakness, discuss why you may have a differing opinion. For example, if the employee views their forward approach towards others as a strength, you may discuss how they have been directly offending co-workers with blunt opinions and causing some departmental discord.

Develop goals toward effective communication without disrupting the employee's outgoing nature. There really should be no surprises during this discussion. If there are, it may be that your previous discussions of weaknesses may have been too soft. If the employee is unsure of their strengths, it may be that you don't give praise often enough. Make sure all your conversations are balanced.

> **"Some people are happy doing the same, routine job every day. Others require diversity."**

End the conversation with specific goals — not just areas needing improvement, but also for new areas, things the employee can learn and be challenged with. In setting goals, realize that not everyone has the same goals. Again, allow the employee to give most of the input. Determining goals together will allow for more realistic and fulfilling goals for each individual employee. Some people are happy doing the same, routine job every day. Others require diversity. Consider these differences when trying to motivate employees. We want to make our employees successful and help them achieve success, but success does not mean the same thing to everyone. Make the goals specific and set realistic time frames. Set time frames for the goal to be accomplished in steps so it is attainable and you can meet regularly to determine trouble areas before the goal becomes impossible. Ensure that the employee understands not only the specific steps for the goal but why it is being set. Simply handing the employee a goal that you set without their input will lead back to the frustration and intimidation mode of operation, rather than productive and encouraging. Make sure your goals are realistic, small enough to be achievable, motivate the individual and are appropriate for the position.

Last, don't end the appraisal with false promises. Unless you are promoting the employee right then and there, don't predict promotions, responsibility changes, salary increases or anything else you are not delivering that day. Things change: Performance might change; budgets might change; position opportunities might change; you just never know what might happen, so don't set up false hopes.

In summary, we can use performance appraisals to actually reduce anxiety rather than create it, if we make the process a complete, on-going communication tool, rather than a one-time discussion. We need to have regularly scheduled individual meetings with our employees and be up front; if we take the discussions lightly, so will the employee. We need to praise regularly and reprimand appropriately. Keep the format simple, so it is easily remembered; and set realistic goals for the employee to achieve. Have a schedule so performance appraisals don't creep up on you, and prepare them in advance so only minor adjustments are necessary during hectic times. Monitor achievements and assign with trouble areas after the appraisal in order to continue the advantages of your performance appraisal discussion. Now you can plan dinner for tonight.
This article examines the correlates of perceived effective performance appraisal systems with special emphasis on the role of perceived rater and rater acceptance. The sample consists of 540 municipal government performance appraisal systems and is the first attempt to test the relationships using a large sample. This study is congruent with recent research that emphasizes the importance of process variables over technique and instrumentation. The results indicate that perceived rater and rater performance appraisal system acceptance explain the greatest amount of the variance in perceived appraisal system effectiveness.

Linkages Between Performance Appraisal System Effectiveness and Rater and Ratee Acceptance

Gary E. Roberts

Prior to the early eighties, the vast majority of theoretical and empirical studies focused on improving the psychometric characteristics of the rating instrument (Feldman, 1981). Psychometric research has continued to be very influential, but in the early eighties alternative conceptualizations emerged. A rating instrument can be psychometrically sound, but ineffective in practice, hence the increased interest in studying the process of performance appraisal (Bernardin and Beatty, 1984).

This article examines the correlates of perceived performance appraisal system effectiveness with special emphasis on the role of perceived rater and ratee acceptance. User acceptance is critical for the successful implementation of a performance appraisal system (Carmil and Schoeler, 1982; Bernardin and Beatty, 1984; Roberts, 1990). The goal of this research is to determine if perceptions of rater and ratee acceptance are correlated with perceptions of performance appraisal system effectiveness as reported by a national sample of municipal government personnel officials.

The study population is drawn from a national sample of municipal government performance appraisal systems. Of the reviewed literature, this is the sole attempt to address the influence of process variables and employee attitudes on assessments of performance appraisal system effectiveness across a large sample of organizations. Thus, it will enhance the generalizability of previous findings that have been developed from single samples. In addition, mu-
municipal government performance appraisal systems have received sparse research attention.

THE CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

The majority of performance appraisal research is conducted in private sector or laboratory settings. Performance appraisal can be conceptualized as a management tool designed to increase the municipality's managerial capacity (Feister and McGowan, 1984). The antecedent variables that are associated with producing perceptions of acceptability and fairness are discussed fully by Roberts (1990, 1992) and are based upon a conceptual framework derived from the procedural justice literature (see Folger and Greenberg, 1985; Greenberg, 1986a, 1986b, 1986c; Greenberg and Tyler, 1987; Folger, 1987; Greenberg, 1987). The complete framework is presented in Figure 1.

Folger discussed the process of producing accurate and comprehensive performance appraisal information and isolated its role in producing perceptions of fairness. The task of the rater in the appraisal process is to consistently observe and generate accurate and comprehensive performance appraisal information, with the goal of producing a fair and accurate rating. A perception of procedural injustice occurs if the employee perceives that the rater gathered inaccurate or incomplete information.

Greenberg and Folger (1983) state that when allocation decisions are made with the absence of participation, these decisions are more likely to be seen as improper, whereas participation can enhance the perception that the decision represents a calculated, rational judgment. Folger and Greenberg (1985) state that voice reflects confidence and trust in the opinions and abilities of employees and is a valued psychological outcome.

In addition to participation, goal setting and feedback are the other formal means for injecting employee voice into the appraisal process. Employee voice enables the rater to express opinions, correct misconceptions or inaccuracies, present additional information, and increase the amount and quality of rater-employee communication (Folger, 1987). Employee voice, directly or indirectly, enhances the rater's ability to influence decision making.

Numerous studies have found that participation enhances perceptions of performance appraisal fairness (see Greenberg, 1986a; Greenberg, 1987; Landy, Barnes-Farrell, and Cleveland, 1980; Lovrich, Shaffer, Hopkins, and Yale, 1980; Lissak, 1983; Kanfer et al., 1985). Another beneficial outcome of performance appraisal interview participation is an increase in employee satisfaction with the performance appraisal process (Lissak, 1983; Meyer, Katz, and French, 1965; French, Kay, and Meyer, 1966; Greier, 1975; Taylor and Zawacki, 1977; Lovrich, Shaffer, Yale and Hopkins, 1980; Lovrich, Hopkins, Shaffer, and Yale, 1981; Lovrich, Bishop, Hopkins, and Shaffer, 1983; Dipboye and de Pontbriand, 1981; Stew, 1983; Ammon, 1987; Giles and Moosholder, 1990) and an increase in employee acceptance and trust (Lissak, 1983). The use of goal
Figure 1. The Role of Employee Voice, Information Validity and Performance Appraisal Effectiveness

<table>
<thead>
<tr>
<th>VOICE VARIABLES</th>
<th>RATER/RATEE ACCEPTANCE</th>
<th>PERFORMANCE APPRAISAL SYSTEM EFFECTIVENESS</th>
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<tbody>
<tr>
<td>Participation</td>
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<td>Appraisal Interview</td>
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<td>Self Rating</td>
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<td>Goal Setting</td>
<td>Specific Goals</td>
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<td></td>
<td>Difficult Goals</td>
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<td>Feedback</td>
<td>Specific, Timely</td>
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<td></td>
<td>Performance Counseling</td>
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<tr>
<th>INFORMATION VALIDITY VARIABLES</th>
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<tr>
<td>Performance Observability</td>
<td></td>
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<tr>
<td>Take External Factors into Consideration</td>
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<td>Performance Documentation</td>
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<td>Rater Training</td>
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<td>Rater the Rater</td>
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<tr>
<th>POTENTIAL MODERATOR VARIABLES</th>
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<tr>
<td>Other Appraisal Characteristics</td>
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<td>Specific/Communicated Performance Standards</td>
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<td>Link between Performance and Personnel Decision Making</td>
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<td>Appraisal Appraisal Process</td>
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<td>Rater Format</td>
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<td>System Implementation Time</td>
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<td>Organizational Characteristics</td>
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<td>Type of Government</td>
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<td>Unionization, Labor Relations Climate</td>
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<td>Budget Size, Fiscal Stress</td>
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<td>Personnel Officer Education Level</td>
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<td>Community Characteristics</td>
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<tr>
<td>Location/Population/Economic Base</td>
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setting within performance appraisal has been linked to performance appraisal satisfaction (Greller, 1972; Dipboye and de Pontbriand, 1981; Dobbin, Cardy and Platz-Viome, 1990; Giles and Moosholder, 1990; Pooyan and Eberhardt, 1989), and ratee job satisfaction (Greller, 1973).

The explicit assumption behind the employment of the voice variables is that they will produce higher levels of acceptance and fairness which are critical factors in ensuring the ultimate effectiveness of the appraisal system. Effectiveness entails producing high-quality performance appraisal information, increasing employee motivation and productivity, retaining good performers, and removing or rehabilitating poor performers.

Roberts (1992) found that personnel professionals perceived that employee voice and information validity explained the most variance of perceptions in employee acceptance and fairness. Information validity consists of ensuring that raters take into consideration external factors that influence performance (Ilgen and Feldman, 1984), ensuring that raters observe a representative sample of the employee’s performance (Ilgen and Feldman, 1984). This requires that raters maintain adequate documentation (Bernardin and Beatty, 1984; Mohrman, Resnick-West and Lawler, 1989; Denil, Robbins and Cafferty, 1989), complete comprehensive rater training (Ilgen and Feldman, 1984) and hold raters accountable for how well they administer the performance appraisal process (Mohrman, Resnick-West and Lawler, 1989).

Performance Appraisal System Acceptance

One of the reasons weaknesses in existing performance appraisal research is a lack of clarity and consistency in the definition and operationalization of appraisal system acceptance. The most detailed conceptual treatment of the variables that comprise employee and managerial acceptance is by Carroll and Schneier (1982). Rater acceptance is maximized when the performance measurement process is perceived to be accurate, the system is administered fairly, the appraisal system is congruent or doesn’t conflict with the employer’s personal goals and values, and when the appraisal process does not exceed the rater’s authority (the psychological contract). Rater acceptance is high when raters understand the rationale justifying the system and its goals, are confident in their ability to effectively administer the system, the perceived benefits exceed the costs, the appraisal system does not conflict with other personnel systems or the rater’s values, and the manager’s employees have favorable attitudes toward the system.

Roberts (1992) employed the Carroll and Schneier (1982) acceptance framework in a sample of 214 municipal government “personnelists.” The analysis basically confirmed the Carron and Schneier framework. Perceived employee acceptance was defined by perceptions of rater-rater agreement on the definition of good performance and rater-rater consensus in interpreting performance appraisal information. Managerial acceptance consisted of perceived managerial understanding of the appraisal system and the rater’s confidence in
using the system. Regression analysis showed that the information validity variables and the voice variables of participation, goal setting and feedback were positively associated with higher levels of perceived rater and ratee acceptance and explained the greatest amount of the variance.

Performance Appraisal Outcome Variables
Jacobs, Kafry, and Zedeck (1980) developed a system that established three categories of appraisal effectiveness criteria. First are the traditional psychometric criteria of reliability, validity, halo, central tendency and leniency. The second set of appraisal effectiveness criteria are called utilization criteria. Performance appraisal systems generate information for personnel decisions including merit pay, promotions, demotions and training. Accurate and valid performance information is invaluable in making effective personnel decisions. The third set of appraisal effectiveness criteria are called qualitative criteria. These include the degree to which raters and ratees accept and perceive of raters' fairness and employee acceptance (Roberts, 1992).

The Jacobs, Kafry and Zedeck (1980) model is still incomplete, however. The ultimate goal of most performance appraisal systems is to increase employee motivation and productivity. In addition, organizations desire to reduce absenteeism, retain exceptional performers, and either rehabilitate or release poor performers. The conceptual model assumes that perceptions of employee acceptance and fairness will have a strong influence on judgments of appraisal system effectiveness. The higher the perceived level of acceptance and fairness, the higher the level of perceived effectiveness.

RESEARCH DESIGN AND METHODOLOGY
The methodology employed to reach the research objectives was a national mail survey of municipal government officials managing performance appraisal systems. Questionnaires were sent to 800 municipal governments selected from lists provided by the International City Management Association. Cities with populations over 10,000 were targeted because cities of this size were more likely than smaller cities to possess the resources and expertise to support formal appraisal systems. Responses were received from 214 municipalities for a response rate of 29.5 percent. Of these 214 responses, 210 responses were from municipalities that possessed at least one non-public safety appraisal system. The personnel manager or other municipal official responsible for personnel administration served as the survey respondent. This was mandated by the provisions of the grant that partially funded the research.

Statement of Hypotheses
Based upon the foregoing literature review, six specific hypotheses are...
tested with the survey data collected among municipal personnel officials. The overall level of perceived performance appraisal system effectiveness was the object of the first hypothesis. Each individual item that constitutes effectiveness was tested separately. The following hypotheses were tested:

H1. There will be a significant association between perceived user acceptance and the perceived effectiveness (global measure) of the performance appraisal system.

H2 thru H7. There will be a significant association between perceived user acceptance and the perceived ability of the system to motivate employees, a favorable influence on productivity (two items), ability to reduce absenteeism, and the ability to remove poor performers.

Given the complexity of the model in Figure 1, and the large number of variables to be tested, stepwise multiple regression was employed to determine which of the variables explained significant amounts of variance in the dependent variable measures. The item means indicated that most respondents rated their performance appraisal systems to be somewhat effective in generating consensus on the definition of performance and the degree of information congruence (1.83 and 1.84, respectively). Other items that were related to perceived employee acceptance were the ability of the system to encourage employee growth and development, and the ability of the system to improve inter-rater relations. Systems were judged to be somewhat effective (1.84 on a three-point scale) in producing employee development and somewhat effective in improving rater-rater relations (1.87).

Managerial acceptance was
defined by three items. These were assigning satisfactory ratings regardless of performance, managerial understanding of the appraisal system, and the rater’s confidence in their ability to use the appraisal system effectively. The item means are between 2.54 and 2.62 (four-point scale) with deviations of .5 to .8, indicating that most systems don’t give satisfactory ratings regardless of performance, managers understand the system and are confident in their rating abilities.

There were two items that assessed perceptions of appraisal fairness with one item measuring agreement with statements declaring that ratings were being determined by favoritism and a second on advancement being determined by favoritism. The item means indicated 3.00 and 2.89, respectively, little overt rating bias. This low level of observed bias may have understated true levels because many incidents of bias may go unreported.

The description of the development of the voice and information validity measures was discussed by Roberts (1992). Systems that had higher levels of perceived voice were associated with higher levels of perceived acceptance. For feedback to be effective, it must be frequent and specific (Latham and Wexley, 1981). The item means indicated that most systems were judged to be somewhat effective in providing feedback (an average of 3.4 for three items on a five-point scale). Another important voice variable is goal-setting. Goals should be specific, moderately difficult and partly developed (Locke et al., 1981). Results indicated that goals were somewhat specific (1.83), and were judged somewhat effective in encouraging joint goal development (1.61).

Participation in performance appraisal is comprised of participation in the rating interview, self-appraisal, and participation in system development. Roberts (1992) found that perceptions of the effectiveness of participation in the interview and self-appraisal formed a separate factor with goal setting, and participation in system development formed a second distinct factor. Only a few systems performed self-appraisal (1.97), while interview participation was judged to be somewhat effective (2.37). Ratee participation in developing performance standards and the rating form was judged not effective at all (1.12 and 1.36, respectively). Rater participation was judged more effective than ratee participation, with means of 1.73 for developing the rating form and 1.80 for participating in the development of performance standards.

The information validity variables are designed to maximize the accuracy of performance appraisal information (Roberts, 1992). The item means indicated that the average appraisal system was judged to be somewhat effective in considering external factors that influence performance (1.70), ensuring that raters directly observe employee performance (2.20), ensuring comprehensive performance documentation (2.0), and providing rater training (1.97). Performance appraisal systems were not deemed effective at holding raters accountable for how well they administered the rating process (1.41).

The prescriptive literature concludes that, in addition to the voice and information validity variables, a number of other appraisal

tion of performance appraisal information, good rater-rater relations, and perceptions that the appraisal system enhanced employee growth and development.

Perceived managerial acceptance was defined primarily by the perceived degree of managerial confidence in the appraisal system and the perceived degree of rater confidence in their ability of rater to use the system effectively. This was congruent with the work by Sackett (1977) who states that perceptions of efficacy are important in increasing confidence and enhancing expectancies for effective administration of the appraisal process. Another important constituent indicator of acceptance is the degree of central tendency. Appraisal systems that have high levels of central tendency indicate a lack of trust in the performance appraisal process, hence lower levels of system acceptance (Bennis and Borto, 1980).

It is also essential that measures of perceived performance appraisal system effectiveness appear to be valid. The items that measured the influence of the appraisal system on employee motivation, productivity, absenteeism, and termination all clustered together. This clustering together reflects the multidimensional nature of performance appraisal system effectiveness and indicated that effectiveness may not be dependent on any one attribute. All of the scales exhibited satisfactory degrees of reliability with levels in excess of .79.

MULTIPLE REGRESSION ANALYSIS
Performance Appraisal System Effectiveness Regressions Without Acceptance

If user attitudes are extremely important in determining the perceived effectiveness of the performance appraisal system, inclusion of perceptions of user acceptance should increase the explanatory power of the regression model. Therefore, the first set of regressions included all of the variables except for perceived user acceptance. The results of the regressions are presented in Table 3. Five variables were significant predictors of variance in the overall perceived effectiveness of the appraisal system. The most influential variable was the quality of performance standards, with an adjusted r-square of .28 from a total r-square of .43. The quality of performance standards consisted of the degree of specificity in performance standards, whether they were based upon job analysis, and the degree to which performance standards were clearly communicated. An examination of the individual items indicated that the quality of performance standards was the most significant variable in explaining the appraisal system’s favorable productivity impact. The information validity variable was the most influential variable in explaining perceptions of employee motivation, reducing absenteeism and removing poorly performing employees. The link between performance and personnel decision making was the third most significant variable in explaining perceived appraisal system effectiveness and the second in five of the six individual item regressions. Goal setting and participation was the fifth most significant variable in explaining perceived
### TABLE 1. Item Means and Standard Deviation

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>MEAN</th>
<th>SD</th>
<th>RELIABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation and Goal Setting Scale</td>
<td>8.45</td>
<td>3.73</td>
<td>.80</td>
</tr>
<tr>
<td>Goals are tailored to workers</td>
<td>1.59</td>
<td>1.04</td>
<td></td>
</tr>
<tr>
<td>Specific performance goals</td>
<td>1.85</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Joint development of goals by ratenates</td>
<td>1.83</td>
<td>1.05</td>
<td></td>
</tr>
<tr>
<td>Performance appraisal interview participation</td>
<td>2.36</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>Self-rating of performance</td>
<td>1.00</td>
<td>1.06</td>
<td></td>
</tr>
<tr>
<td>Rating Form and Performance Standard Scale</td>
<td>6.08</td>
<td>3.68</td>
<td>.85</td>
</tr>
<tr>
<td>Raise rating form development participation</td>
<td>1.15</td>
<td>1.13</td>
<td></td>
</tr>
<tr>
<td>Raise rating form development participation</td>
<td>1.74</td>
<td>1.11</td>
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<tr>
<td>Raise performance standard participation</td>
<td>1.79</td>
<td>1.10</td>
<td></td>
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<tr>
<td>Feedback Scale</td>
<td>5.42</td>
<td>2.10</td>
<td>.58</td>
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<tr>
<td>Frequent informal performance feedback</td>
<td>1.78</td>
<td>92</td>
<td></td>
</tr>
<tr>
<td>General performance feedback</td>
<td>1.62</td>
<td>84</td>
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<tr>
<td>Regular performance counseling session</td>
<td>2.02</td>
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<tr>
<td>Employee Acceptance Scale</td>
<td>9.45</td>
<td>2.65</td>
<td>.82</td>
</tr>
<tr>
<td>Providing employee growth and challenge</td>
<td>1.84</td>
<td>67</td>
<td></td>
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<tr>
<td>Raise initial performance definition agreement</td>
<td>1.87</td>
<td>77</td>
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<tr>
<td>Raise appraisal appraisal congruence</td>
<td>1.94</td>
<td>66</td>
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<tr>
<td>System enforces raten and rate returns</td>
<td>1.87</td>
<td>65</td>
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<tr>
<td>Degree of employer acceptance</td>
<td>1.93</td>
<td>71</td>
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<tr>
<td>Managerial Acceptance Scale</td>
<td>7.70</td>
<td>1.78</td>
<td>.79</td>
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<tr>
<td>Satisfactory ratings regardless of performance</td>
<td>2.54</td>
<td>79</td>
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<tr>
<td>Managerial understanding of appraisal system</td>
<td>2.62</td>
<td>.73</td>
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<tr>
<td>Managerial rating system confidence</td>
<td>2.54</td>
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<tr>
<td>Appraisal Fairness Scale</td>
<td>5.87</td>
<td>1.21</td>
<td>.83</td>
</tr>
<tr>
<td>Getting ahead is determined by who you know</td>
<td>3.06</td>
<td>66</td>
<td></td>
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<tr>
<td>Performance rating is determined by appraisal</td>
<td>2.89</td>
<td>65</td>
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<tr>
<td>Information Validity Scale</td>
<td>9.28</td>
<td>2.93</td>
<td>.74</td>
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<tr>
<td>Consider external factors</td>
<td>1.70</td>
<td>.85</td>
<td></td>
</tr>
<tr>
<td>Direct performance observability</td>
<td>2.20</td>
<td>.66</td>
<td></td>
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</tbody>
</table>
TABLE 1 (continued)

| Rating supervisory rating performance | 1.44 | .99 |
| Retraining | 1.87 | .99 |
| Performance rating documentation | 2.00 | .76 |
| Performance Standard Quality | 5.29 | 2.73 | .82 |
| Specific performance standards | 1.74 | 1.29 |
| Job analysis based performance standards | 1.58 | 1.17 |
| Communication performance standards | 1.94 | .92 |

* Pert. and Personnel Decision Making
  Promotion is determined by performance
  Rep's are determined by performance
  No relationship between pay and performance

* 4-point scale, all others employ a 2-point scale

Perceived Performance Appraisal Effectiveness
Regressions with Acceptance and Fairness

Table 4 presents the regression results for the perceived effectiveness variables including perceived employee and managerial acceptance. The adjusted r-square for the regressions including perceived acceptance was .63 versus .42 without perceived acceptance and employee fairness, a very significant improvement. The analysis for each of the individual items produced similar r-square increases ranging from .08 to .18. The most influential variable in explaining perceived performance appraisal system effectiveness was perceived employee acceptance, followed by perceived managerial acceptance. Employee acceptance explained 34 percent of the total variance while managerial acceptance contributed an additional 13 percent. Almost half of the total variance was explained by perceived employee and managerial acceptance. The data clearly showed a strong positive relationship between perceived user attitudes and perceived measures of performance appraisal systems effectiveness. Thus, the analysis supported the hypothesis that the perceived effective reactions of appraisal system participants were extremely important factors in the perceived ability of the appraisal system to motivate employees, enhance productivity, reduce absenteeism, and eliminate poor performers. The other variable that made a major contribution to overall performance appraisal system effectiveness was the link between performance and personnel decision making, explaining an additional seven percent of the var-
### TABLE 2. Factor Analysis for Acceptance, Fairness and Effectiveness

<table>
<thead>
<tr>
<th>Factor 1: System Effectiveness</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
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</thead>
<tbody>
<tr>
<td>&quot;Weeding out&quot; poor performers</td>
<td>.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Little productivity impact</td>
<td>.75</td>
<td>.42</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>System motivates employees</td>
<td>.74</td>
<td>.36</td>
<td>.36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System helps raise productivity</td>
<td>.57</td>
<td>.49</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effectiveness in reducing absenteeism</td>
<td>.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.35</td>
</tr>
<tr>
<td>System policy congruence</td>
<td>.56</td>
<td></td>
<td></td>
<td>.51</td>
<td>.43</td>
<td></td>
</tr>
<tr>
<td>&quot;Resources well spent&quot;</td>
<td>.56</td>
<td></td>
<td>.47</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Have good employees&quot;</td>
<td>.52</td>
<td>.38</td>
<td>.53</td>
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<td></td>
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</tbody>
</table>

<table>
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<tr>
<th>Factor 2: Employee Acceptance</th>
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</thead>
<tbody>
<tr>
<td>System provides challenge/growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.85</td>
</tr>
<tr>
<td>Raters/rate performance agreement</td>
<td>.77</td>
<td></td>
<td>.75</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Raters/rate evaluation agreement</td>
<td>.75</td>
<td>.42</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve rater/rate relations</td>
<td>.69</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee system acceptance</td>
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<th>Factor 3: Managerial Acceptance</th>
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</thead>
<tbody>
<tr>
<td>Same ratings regardless of perfor.</td>
<td>.80</td>
<td>.80</td>
<td>.80</td>
<td>.80</td>
<td>.80</td>
<td>.80</td>
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<tr>
<td>Rater understanding of system</td>
<td>.71</td>
<td>.78</td>
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<td></td>
</tr>
<tr>
<td>Rater confidence in system</td>
<td>.75</td>
<td>.34</td>
<td></td>
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<table>
<thead>
<tr>
<th>Factor 4: Appraisal Fairness</th>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connections don't determine advancement</td>
<td></td>
<td></td>
<td>.55</td>
<td>.55</td>
<td>.55</td>
<td>.55</td>
</tr>
<tr>
<td>Ratings determined not by who you know</td>
<td>.38</td>
<td>.64</td>
<td>.64</td>
<td>.64</td>
<td>.64</td>
<td>.64</td>
</tr>
</tbody>
</table>

*Item dropped from scale*

The remaining four significant variables explained nine percent of the variance. Effective information for delegation and discharge decisions, more recent system implementation time, lower average monthly salaries, and the quality of performance standards explained the final nine percent of the variance. The only somewhat surprising finding was the negative relationship between system implementation time and appraisal system effectiveness. Generally speaking, management innovativeness requires varying degrees of time to reach optimum effectiveness; thus...
systems that are still in the early stages of implementation have not reached peak effectiveness. However, in the implementation of performance appraisal systems, only the more recent systems were likely to possess the voice and information validity variables because the research base was generally twelve years or less in age. A second possibility was that older systems were not as effective because fewer resources and effort were invested.

An examination of the individual items indicated perceived employer acceptance was the most influential variable in explaining perceived employee motivation and productivity. Perceived managerial acceptability explained the greatest amount of variance in the ability to reduce absenteeism and enhance productivity. The link between performance and personnel decision making was a significant variable in all six individual regressions. In order to check for the existence of a regression method bias, the same equations were analyzed using alternative methods. The results were similar to the step-wise regressions and there was no indication of a regression method bias in the data analysis.

DISCUSSION

Regression Results
The final set of regressions lent strong support to the original conceptual framework. When perceived employee and managerial acceptance are introduced into the model, they become the two most influential variables in explaining variance in perceived appraisal system effectiveness. It appears that procedures for ensuring procedural fairness are associated with higher perceptions of acceptance which then became the most significant predictors of the system’s perceived effectiveness. Thus, personnel managers perceive that rater and rater attitudes determine to a large degree how the system will motivate employees, enhance productivity, reduce absenteeism, and weed out incompetent employees. It is no accident, however, that favorable employee attitudes are generated. These perceptions of acceptance appear to be the direct result of specific attributes of performance appraisal systems. These are the attributes that are designed to ensure that information is accurate, comprehensive, and fair. The means for enhancing acceptance is to employ measures to increase performance appraisal information validity and employee voice.

Participation, goal setting and the indicators of appraisal information validity are perceived by personnel managers to help increase consensus between rater and ratee on the definition of good performance and the interpretation of performance appraisal information (Roberts, 1990; Roberts, 1992). In addition to the previously discussed factors, perceived acceptance consists of improvements in employee-supervisor relations and the provision of growth and challenge through performance appraisal. Perceived employee acceptance appears to consist of more than a single attitude, but rather represents a series of distinct components that combine to create a global attitude or affective orientation. These components appear to have clear antecedents that are composed of specific attributes and procedures.
TABLE 3. Appraisal System Effectiveness Without Acceptance

APPRaisal SYSTEM EFFECTIVENESS SCALE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>Performance standard scale</td>
<td>.30</td>
<td>.11</td>
<td>.28</td>
<td>.27</td>
<td>.28</td>
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<tr>
<td>Average monthly salary</td>
<td>.003</td>
<td>.001</td>
<td>.26</td>
<td>.33</td>
<td>.34</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>.28</td>
<td>.15</td>
<td>.16</td>
<td>.19</td>
<td>.18</td>
</tr>
<tr>
<td>State of labor relations</td>
<td>.121</td>
<td>.52</td>
<td>.19</td>
<td>.24</td>
<td>.24</td>
</tr>
<tr>
<td>Goal setting &amp; participation scale</td>
<td>.19</td>
<td>.08</td>
<td>.23</td>
<td>.23</td>
<td>.23</td>
</tr>
</tbody>
</table>

Overall F = 15.8 (p < .0001) Standard Error = 2.28 N = 100

APPRaisal SYSTEM'S IMPACT ON EMPLOYEE MOTIVATION

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<tbody>
<tr>
<td>Information validity scale</td>
<td>.05</td>
<td>.02</td>
<td>.25</td>
<td>.23</td>
<td>.19</td>
</tr>
<tr>
<td>Rating term &amp; performance standard scale</td>
<td>.03</td>
<td>.01</td>
<td>.19</td>
<td>.18</td>
<td>.23</td>
</tr>
<tr>
<td>State of labor relations</td>
<td>.19</td>
<td>.08</td>
<td>.15</td>
<td>.17</td>
<td>.25</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>.06</td>
<td>.03</td>
<td>.15</td>
<td>.16</td>
<td>.26</td>
</tr>
</tbody>
</table>

Overall F = 16.76 (p < .0001) Standard Error = 56 N = 179

APPRaisal SYSTEM HAS LITTLE PRODUCTIVITY IMPACT (REVERSE CODED)

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</thead>
<tbody>
<tr>
<td>Rating term &amp; performance standard scale</td>
<td>.04</td>
<td>.01</td>
<td>.23</td>
<td>.22</td>
<td>.18</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>.08</td>
<td>.03</td>
<td>.19</td>
<td>.21</td>
<td>.23</td>
</tr>
<tr>
<td>State of labor relations</td>
<td>.24</td>
<td>.08</td>
<td>.18</td>
<td>.22</td>
<td>.26</td>
</tr>
<tr>
<td>Information validity scale</td>
<td>.04</td>
<td>.02</td>
<td>.19</td>
<td>.18</td>
<td>.26</td>
</tr>
</tbody>
</table>

Overall F = 19.56 (p < .0001) Standard Error = 58 N = 190
### APPRAISAL SYSTEM AIDS PRODUCTIVITY

<table>
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<tr>
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<tbody>
<tr>
<td>Performance standard scale</td>
<td>.07</td>
<td>.02</td>
<td>.27</td>
<td>.25</td>
<td>.22</td>
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<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>.07</td>
<td>.03</td>
<td>.17</td>
<td>.19</td>
<td>.27</td>
</tr>
<tr>
<td>System implementation</td>
<td>-.02</td>
<td>.01</td>
<td>.17</td>
<td>-.20</td>
<td>.30</td>
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<tr>
<td>Goal &amp; participation scale</td>
<td>.03</td>
<td>.01</td>
<td>.19</td>
<td>.17</td>
<td>.32</td>
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</table>

Overall F=21.86 (p<.0000) Standard Error=.54 N=181

### ABILITY OF THE SYSTEM TO REDUCE ABSENTEEISM

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<td>.26</td>
<td>.26</td>
<td>.12</td>
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<td>1.5E-04</td>
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<td>-.17</td>
<td>.19</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>.10</td>
<td>.03</td>
<td>.22</td>
<td>.22</td>
<td>.16</td>
</tr>
</tbody>
</table>

Overall F=14.82 (p<.0000) Standard Error=.62 N=177

### ABILITY OF THE SYSTEM TO REMOVE POORLY PERFORMING EMPLOYEES

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</thead>
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<td>1.7E-04</td>
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<td>-.15</td>
<td>.23</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>.11</td>
<td>.03</td>
<td>.24</td>
<td>.23</td>
<td>.19</td>
</tr>
<tr>
<td>Union resistance</td>
<td>.27</td>
<td>.11</td>
<td>.15</td>
<td>.18</td>
<td>.22</td>
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<td>.07</td>
<td>.02</td>
<td>.30</td>
<td>.30</td>
<td>.15</td>
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</table>

Overall F=16.12 (p<.0000) Standard Error=.63 N=203
### TABLE 4: Effectiveness Regressions Including Acceptance

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<thead>
<tr>
<th>APPRAISAL SYSTEM EFFECTIVENESS SCALE</th>
<th>Variable</th>
<th>B</th>
<th>SE B</th>
<th>Beta</th>
<th>Partial</th>
<th>Adj, R-sq.</th>
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</thead>
<tbody>
<tr>
<td>Employee acceptance</td>
<td>.23</td>
<td>.08</td>
<td>.22</td>
<td>.28</td>
<td>.34</td>
<td></td>
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<tr>
<td>Managerial acceptance</td>
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<td>.11</td>
<td>.34</td>
<td>.45</td>
<td>.47</td>
<td></td>
</tr>
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<td>Performance &amp; personnel decision making scale</td>
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<td>.33</td>
<td>.54</td>
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</tr>
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<td>Demotion &amp; discharge information</td>
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<td>.24</td>
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</tr>
<tr>
<td>System implementation time</td>
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<td>.03</td>
<td>.12</td>
<td>.18</td>
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<tr>
<td>Average monthly salary</td>
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<td>8.2E-04</td>
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<tr>
<td>Performance standard scale</td>
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<td>.08</td>
<td>.16</td>
<td>.31</td>
<td>.63</td>
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</tr>
<tr>
<td>Overall F=29.82 (p=.0000) Standard Error=.190 N=101</td>
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</table>

<table>
<thead>
<tr>
<th>ABILITY OF THE SYSTEM TO MOTIVATE EMPLOYEES</th>
<th>Variable</th>
<th>B</th>
<th>SE B</th>
<th>Beta</th>
<th>Partial</th>
<th>Adj, R-sq.</th>
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<tbody>
<tr>
<td>Employee acceptance</td>
<td>.08</td>
<td>.02</td>
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<td>Managerial acceptance</td>
<td>.11</td>
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<td>.26</td>
<td>.28</td>
<td>.35</td>
<td></td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>.06</td>
<td>.02</td>
<td>.14</td>
<td>.16</td>
<td>.39</td>
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<tr>
<td>System implementation time</td>
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<td>.006</td>
<td>.16</td>
<td>.19</td>
<td>.41</td>
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<tr>
<td>Specific information to improve performance</td>
<td>.12</td>
<td>.06</td>
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<td>Appraisal fairness</td>
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<td>Overall F=23.97 (p=.0000) Standard Error=.50 N=100</td>
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TABLE 4. (continued)

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<tbody>
<tr>
<td>Employee acceptance</td>
<td>0.04</td>
<td>0.02</td>
<td>0.17</td>
<td>0.18</td>
<td>0.20</td>
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<tr>
<td>Rating form &amp; performance standard scale</td>
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<td>0.01</td>
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<td>0.27</td>
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<td>0.19</td>
<td>0.23</td>
<td>0.31</td>
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<tr>
<td>Performance &amp; personnel decision making</td>
<td>0.06</td>
<td>0.03</td>
<td>0.15</td>
<td>0.17</td>
<td>0.35</td>
</tr>
<tr>
<td>State of labor relations</td>
<td>-0.20</td>
<td>0.06</td>
<td>0.15</td>
<td>-0.18</td>
<td>-0.37</td>
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<td>Marital pay information</td>
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<td>0.38</td>
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<td>0.01</td>
<td>-0.14</td>
<td>0.17</td>
<td>0.40</td>
</tr>
<tr>
<td>Overall F= 19.19 (p&lt;.0000) Standard Error=.53 N=193</td>
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<td>0.02</td>
<td>0.28</td>
<td>-0.45</td>
<td>-0.27</td>
</tr>
<tr>
<td>Performance standard scale</td>
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<td>0.01</td>
<td>0.26</td>
<td>0.31</td>
<td>0.41</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>0.08</td>
<td>0.02</td>
<td>0.20</td>
<td>0.26</td>
<td>0.45</td>
</tr>
<tr>
<td>System implementation time</td>
<td>0.02</td>
<td>0.001</td>
<td>0.15</td>
<td>0.20</td>
<td>0.47</td>
</tr>
<tr>
<td>Demotion &amp; discharge information</td>
<td>0.10</td>
<td>0.05</td>
<td>0.13</td>
<td>0.16</td>
<td>0.48</td>
</tr>
<tr>
<td>Overall F= 34.87 (p&lt;.0000) Standard Error=.48 N=183</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 4. Effectiveness Regressions Including Acceptance (continued)

#### Ability of the System to Reduce Absenteeism

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial acceptance</td>
<td>12</td>
<td>.03</td>
<td>.27</td>
<td>.30</td>
<td>.19</td>
</tr>
<tr>
<td>Average monthly salary</td>
<td>-4.3E-04</td>
<td>1.7E-04</td>
<td>15</td>
<td>.18</td>
<td>.29</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>12</td>
<td>.03</td>
<td>.29</td>
<td>.32</td>
<td>.25</td>
</tr>
<tr>
<td>Demotion &amp; discharge information</td>
<td>.19</td>
<td>.06</td>
<td>.23</td>
<td>.25</td>
<td>.27</td>
</tr>
</tbody>
</table>

Overall F=19.07 (p<.0000) Standard Error=.58 N=140

#### Ability of the System to Remove Poor Performers

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average monthly salary</td>
<td>-3.1E-04</td>
<td>1.5E-04</td>
<td>11</td>
<td>.14</td>
<td>.38</td>
</tr>
<tr>
<td>Performance &amp; personnel decision making scale</td>
<td>11</td>
<td>.03</td>
<td>.24</td>
<td>.29</td>
<td>.29</td>
</tr>
<tr>
<td>Management acceptance</td>
<td>11</td>
<td>.03</td>
<td>.24</td>
<td>.28</td>
<td>.35</td>
</tr>
<tr>
<td>Employee acceptance</td>
<td>.05</td>
<td>.02</td>
<td>.18</td>
<td>.19</td>
<td>.37</td>
</tr>
<tr>
<td>Demotion &amp; discharge information</td>
<td>.27</td>
<td>.05</td>
<td>.30</td>
<td>.34</td>
<td>.20</td>
</tr>
</tbody>
</table>

Overall F=25.98 (p<.0000) Standard Error=.56 N=205
enhance employee voice and appraisal information validity.

The data indicates a clear link between performance and personnel decision making. This variable is consistently either the second or third most influential predictor variable. Instrumentalities need to be clearly specified if an appraisal system is to be effective. This is consistent with expectancy theory and procedural justice theory (Lawler, 1973; Folger, 1987). There are two expectancies involved. The first is the expectancy that good performance will be accurately observed and that the rating information will be accurately processed and recorded by the rater, producing a fair and accurate rating (Folger, 1987). The second expectancy is that this information will be used to allocate organizational rewards and other valued outcomes (Folger, 1987).

A large number of variables were examined to identify potential moderator impacts. There are a number of significant moderator variables, but they explain only a small percentage of the variance in comparison to the main variables of interest. The variables that determine the perceived effectiveness of municipal performance appraisal systems are not dependent on geographic location, budget size, type of government or other community and organizational characteristics. The perceived effectiveness of municipal performance appraisal systems are determined by the indigenous performance appraisal system characteristics. This should be reassuring to developers of performance appraisal systems, since uncontrollable variables such as geographic location or type of government appear not to inhibit the development of effective systems.

In terms of theory, this research has supported findings from a variety of research settings including procedural justice, the general performance appraisal literature and the cognitive performance appraisal literature. The research on the cognitive processes that underlie the processing of performance appraisal information describes the inherent biases in the processing of information by raters and rates (Feldman, 1981; Ilgen and Feldman, 1984). A partial solution to these biases is to ensure that the rater has a direct opportunity to present his or her views and perspectives on their performance. This will help to offset any biases, misconceptions or incompleteness of information possessed by the rater. The procedural justice literature recommends that employees be given the opportunity to directly participate in the appraisal process and the setting of performance objectives, and emphasizes two-way communication and feedback (Folger, 1987; Greenberg, 1987). Performance should be conceptualized, external factors taken into consideration, and the rater given the opportunity to observe performance. The regression analysis shows that the hypothesized positive outcomes occur when municipal appraisal systems are perceived to be highly effective in these areas. Respondents report a greater consensus on the interpretation of performance appraisal information, greater agreement on the definition of good performance, improved rater-rater relations, and greater perceptions of growth and development through the appraisal process. In short, there are greater levels of perceived employee ac-
ceptance and fairness. Perhaps the most important contribution of this research is the evidence that directly associates perceived employee and managerial acceptance with the ultimate effectiveness of a performance appraisal system. The responses of personnel managers indicates that perceived employee attitudes toward the system make a difference in perceived rater and ratee motivation and behavior. Systems that have higher levels of perceived acceptance are more likely to report higher perceived employee motivation and productivity. This supports the reconceptualization of the performance appraisal process that emphasizes the importance of the total process over the narrow psychometric orientation (Bernardin and Beatty, 1984; Ilgen and Feldman, 1984). Both process and technique must be appropriately combined in order to develop and administer an effective performance appraisal system. It too soon in the development of this line of research to create a full model of the determinants of effective performance appraisal systems. It is clear, however, that any developed model must include the means for ensuring employee voice and safeguards to increase appraisal information validity.

Implications for Practitioners
This research has a number of important implications for the development and administration of performance appraisal systems. Congruent with recent research (see Bernardin and Beatty, 1984; Ilgen and Feldman, 1984), the choice of rating format is not a significant variable in determining the perceived effectiveness of an appraisal system. This is congruent with the cognitive appraisal literature, which states that it is how raters process information, not the rating instrument, that determines rating effectiveness (Feldman, 1981). Since how raters process information is one of the key ingredients of appraisal system success, strategies and means for increasing the effectiveness of information gathering and processing strategies should be employed (Ilgen and Feldman, 1984). Raters must also be instructed in how to maintain accurate and comprehensive methods for documenting employee performance, preferably through a diary-keeping system (Greenberg, 1987), and on the importance of involving the ratees in the appraisal process through a genuine invitation to participate who, in turn, can reframe the process from an adversarial to a cooperative coaching or counseling atmosphere, thereby reducing tension, defensive behavior and ratee-rater conflict.

Suggestions for Future Research
As was stated previously, one of the main limitations of this study was that direct participants in the performance appraisal process could not be surveyed. What is needed is to survey rater and ratee directly on the variables of interest. Raters and ratees possess different perspectives on the appraisal process from that of personnel managers. Before the validity of the research findings are determined conclusively, a survey or quasi-experimental design must be completed, with raters and ratees as the research subjects. Further research is needed to refine and define the measures of the constituent factors of employee and managerial accep-
tance along with performance appraisal system effectiveness. Do employees and raters define employee and managerial acceptance and effectiveness differently than do personnel managers? It is likely that rater acceptance is influenced by rater reactions, and this proposition needs to be tested directly.

CONCLUSION
This study has addressed the need for theory-based research on the influence of perceived user acceptance and fairness on perceived appraisal system effectiveness. This research indicates that perceived rater and rater attitude toward the performance appraisal system is likely to influence the perceived effectiveness of the performance appraisal system. The creation of a more just and humane work environment is quite likely facilitated by employing voice and information validity processes in the performance appraisal system. It is hoped that these factors may contribute to reduction in the conflict and tension that typically occurs in the appraisal process.

NOTES
In the present study, the objective of the research was not to develop valid inferences about the characteristics of all municipal governments, but to test hypotheses concerning the impact of the voice variables on perceived system acceptance and effectiveness. Thus, the overall representativeness of the sample was not a central research objective. The sample size certainly was large enough for statistical analysis and had a representative distribution of cases by geographic region, population, and type of government.

The grant was a University of Pitts-

burgh faculty development grant.

Stepwise regression is most appropriate for analyzing experimental data and relationships where there is little a priori knowledge about the interaction between the independent variables and the dependent variables (Pindyck and Rubinfeld, 1983).

Multicollinearity can be a serious problem inherent in many types of data. The tests produced by the SPSS-X regression procedure indicated that none of the regressions are degraded by excess levels of multicollinearity. Each of the regression equations were assessed for violations of the classical assumptions of linear regression and the analysis indicated that the assumptions of linear regression were met.

Stepwise multiple regression is the most common regression method (Stokes, 1990) and combines the features of backward and forward selection. The main use for stepwise regression is the examination of data with a large number of variables (Pindyck and Rubinfeld, 1981). The default entry and removal criteria were employed in the SPSS-X stepwise regression program.

To test the generalizability of the conclusions and to guard against a regression method bias, the same regressions were run using the enter method. Different methods of regression (e.g., stepwise versus enter), using the same data, can produce different parameter estimates and significant predictor variables (Norusis, 1983). This is due to differences in order of variable entry. If different regression methods produce the same significant predictor variables and regression parameters, the confidence that can be placed in the statistical results and conclusions is increased. The results produced similar adjusted r-square values and levels of significance for all of the regressions.

REFERENCES
Ammons, D. N. (1987). "Executive


Traditional appraisal systems often rely on a limited number of sources to assess an individual’s performance. Peter Ward takes a comprehensive look at 360-degree feedback methods, which aim to provide the complete picture.

### A 360-degree turn for the better

Since I introduced 360-degree feedback onto Tesco as director of training in 1987, I have watched with interest the development of this method of performance measurement. My feeling is that it will soon become a very popular and important measurement tool whenever companies need to accurately and comprehensively assess competence in good areas of performance.

I am not talking just about management skills. There are now 360-degree instruments which measure such things as individual effectiveness and selling skills, and the technique is being expanded to measure competence in other areas of work.

As trainers adopt the role of "enabler" and "catalyst" rather than instructor - promoting self-development rather than mere attendance - there is a growing need for accurate performance information which delegare can act on and which is presented in a compelling format.

But what's in a name? Unlike some recent innovations, such as competency development, 360-degree feedback parlades under several names - multi-rater interview and multi-source assessment being the most common. It is a generic term rather than a satisfying of older techniques.

The basis on which 360-degree feedback can be described using this example. As a manager, John has five direct reports, four of his colleagues (peers) with whom he often interacts, and a boss. When he were asked to comment on John's management abilities, his boss said: 'Traditional performance appraisal systems would say no, but what is the bottom line of such feedback?'

The feedback is provided by full-time and part-time associates, by the people you work with on a daily basis. The location is a real event in the training centre of a hotel, a specially set aside for the purpose, but your everyday place of work. The circumstances would be which you are unsure of nothing to do with exercise or simulations - the activity at your normal work. You cannot get closer to real life than real life itself.

There are barriers - the amount and variety of the assessors or respondents, the balanced nature of the feedback, and the facts validity of the activities measured; make it easier for the participants to accept what is said and use it as a basis for change and development.

The second key question might be: who do you want to speak? Specific workers, a group, a team, or the entire organisation? Some 360-degree systems are multi-purpose, but you will need to consider how the results are displayed and how you will use an adequate sample if you are measuring groups.

Remember also that 360-degree feedback can be used at any level in the organisation, from the chief executive to the car park attendant.

The feedback is provided by full-time and part-time associates, by the people you work with on a daily basis. The location is a real event in the training centre of a hotel, a specially set aside for the purpose, but your everyday place of work. The circumstances would be which you are unsure of nothing to do with exercise or simulations - the activity at your normal work. You cannot get closer to real life than real life itself.

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concerning are finding that tailor-made feedback is an excellent way of measuring the extent to which people perform against them.

Another matter that needs to be addressed is whether feedback should describe behaviour or judge it. The most useful instruments are those that measure actual performance, because these are what respondents can actually observe. Most of us have seen ourselves on television at some time and we know that we have come, like it or not, what they were, feedback of the sort is easier for the respondent to accept because it is not judgmental.

Look at these two ways of giving feedback on a person's selling skills:

"I notice that you don't look at people when they are talking to you."

"I think your listening skills are bad."

Both these comments apply to the same situation, but the first describes what is happening, whereas the second is judgmental. The first goes on to say which the other person would find difficult or disruptive, but the other person can act on it. The second is more likely to provoke a defensive response, with both parties no good understanding and learning.

I asked in a previous article the question of whether the sales service or personal feedback should be used. Some instruments will describe behavior and others will add conversations. This will develop separate areas of action. Others will provide solutions — ranging from simple advice to do more or less of a specific action, to suggesting what to do to improve performance.

The present or absence of ready-made solutions, together with the amount of detail to be interpreted, may determine the role that the facilitator should play. There is a range of options from systems requiring detailed, individual counseling to those which can be interpreted on a self-instructional basis.

**FEEDBACK** can be presented in a number of ways. One method is as a comparison of behaviour against national, functional, industry or company norms based on a single-scale presentation. In other words: "How do I as an individual stack up against what other people do?" It can be handled through a comparison of what the individual does now, as opposed to what the responses actually would like to see, based on a dual scale. Or the results can be presented graphically, numerically or in narrative form, with or without summaries.

An additional feature provides information on the importance of each skill in the job. For example, if a participant's performance is rated low in communication, this need not be a primary development area, if there is a consensus that this competency is not important at the job. This process can reveal differences in opinion between respondents. If I were planning an evaluation of my job, but my boss rates it as high, we clearly need to clarify our different points of view.

There are a number of possible sources of feedback:

- The boss is an obvious source, but what about the functional boss, or anyone else who supervises this person in the organization? What about a previous boss?
- Direct reports (if they exist) if there are a large number of respondents can divide them into sub-groups of, for example, experienced, new people, lateral.
- Peers/forecasts must people interact with others within an organization, either as members of a team, or as those receiving or providing services. Feedback on what they observe can be very accurate and useful.
- Customers: how many telephone calls really know what their customer thinks of them? If they did know, they would have a basis on which to improve sales technique, interpersonal skills, customer service, and so on.
- Self: All forms of 360-degree appraisal require people to rate themselves, which can lead to some interesting comparisons. Participants who are able to act themselves in terms of what we will get lower scores than those who have only a reference or comparison view of themselves.

In terms of how many respondents should be, current opinion says that around
competences are finding that tailor-made 360-degree environment are an excellent way of measuring the extent to which people perform against team.

Another matter to be addressed is whether feedback should describe behaviour or judge it. The most useful instruments are those that measure actions or behaviour, because these are what respondents can actually observe. Most of us have seen ourselves on television at some time and I am sure that many have cringed, like me, at what they see. Feedback often seems to center for the participants to accept because it is non-judgmental. Look at these two ways of giving feedback on a person's leaning skills:

"I notice that you don't look as people when they are talking to you."
"I think your leaning skills are bad."

Both these statements can apply to the same situation, but the first describes what is happening, whereas the second is judgmental. The second gives an answer which the other person would find difficult to dispute, but relatively easy to take action on. The first is more likely to provoke a defensive reaction, with little chance of any improvement resulting from it.

I asked in the questionnaire whether you want description or prescriptive feedback. Some respondents will describe behaviour and state it: the participants land often to develop improved actions. Others will provide solutions - coming from simple advice to do more or less of a specific action, to suggesting what to do to improve performance.

The presence or absence of ready-made solutions, together with the amount of detail to be interpreted, will determine the role that the facilitator should play. There is a range of options, from systems requiring skilled, individual counselling to those which can be interpreted on a self-instructional basis.

**FEEDBACK can be presented in a number of ways. One method is as a comparison of behavior against national, functional, industry or company norms based on a single-case progression. In other words: "How do I as an individual stack up against what other people do?" It can be handled through a comparison of what the individual does now as opposed to what the respondent actually would like to do, based on a dual scale. Or the results can be presented graphically, numerically or in narrative form, with or without commentary.

An additional feature provides information on the importance of each skill in the job. For example, if a participant's performance is rated low in supervising, this may not be a primary development area if there is a consensus that this competency is not important in the job. This process can reveal differences of opinion between respondents. If I were planning on the importance of performance, I would be interested in what people think themselves, which can lead to more meaningful comparisons. Participants have said that an important skill is in assessing the impact of others' performance; those who have undergone training in this area may well be more sensitive to others' opinions of themselves.

In terms of how many respondents there should be, current opinion says that around