

What do you do with an egg-sucking dog?

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Fred Nickols has one answer: "Shoot it." And, after querying the members of several Internet discussion groups about the costs and benefits of performance appraisal, he recommends that fate for the time-honored practice of reviewing employees.

Nickols, executive director of the operations staff at Educational Testing Service in Princeton, NJ, bases his conclusion on respondents' evaluations of "traditional" (boss passing judgment on subordinate) performance appraisals. His e-mail correspondents cited easily quantifiable hard costs, more difficult-to-tally soft costs, and a number of benefits.

Hard costs included such time-eating tasks as preparing appraisals, setting goals and objectives, and conducting the review sessions; designing, printing and shuffling the paper involved; and resources invested in training managers how to perform appraisals. After considering those costs, two of Nickols' more enterprising respondents calculated the annual cost of performance appraisal per employee in their organizations: One estimated the figure at \$1,945; the other at \$2,200.

Nickols suggests \$1,500 per employee as a conservative estimate of how much a company typically spends conducting performance appraisals each year. "If you think \$1,500 is too high, cut it in half and use \$750," he says. "But, I warn you, you won't like that result either."

The less-obvious tolls of performance appraisal range from temporary dips in productivity after review sessions to the performance degradation that results from setting "achievable" (read low) goals. Then there is the emotional anguish the practice can cause. Nickols' respondents cite worry, depression and stress on the part of those giving, as well as receiving, appraisals.

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Closely related to psychological impacts on the individual are effects on the organization's culture. Decreased morale and motivation often follow reviews, especially if employees see the performance-appraisal system as unfair. And they will, observed one TQM consultant, if performance appraisals are used to reward or punish people for what are really natural variations in the system or work processes.

Fear and mistrust of bosses and management in general are other common trickle-down effects. The result: Employees take a passive-aggressive stance of "tell me what you want and I'll do it." All of which violates W. Edwards Deming's dictum to drive fear out of the workplace, pointed out several respondents.

And what of the benefits? The respondents did, in fact, identify a few: The practice provides occasion for performance-related discussions, and thus the opportunity to set individual goals and objectives, align individual and organizational goals, identify training and development needs and process-improvement opportunities, discuss career paths, and better manage poor performers.

Feedback regarding performance, the most frequently cited benefit, was seen as leading to reduced error and waste; increased productivity; improved quality and service to customers; and enhanced employee motivation, commitment, and sense of ownership. Lastly, it affords some measure of legal protection against wrongful-termination lawsuits.

But many of these supposed benefits do not withstand serious scrutiny, says Nickols. What benefit, he asks, are career discussions in downsizing organizations? What benefit do standardized evaluation systems offer if they are subjective by their very nature? What legal protection do they afford when sugar-coated reviews often do the organization more harm than good in defending itself against lawsuits? And, perhaps most important, "if feedback is information about actual conditions compared with a set of referent conditions, and if the results are measurable and measured, what role does the manager really play?" Nickols asks. "If [results] are neither measurable nor measured, what role can the manager play?"

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Ultimately, Nickols concludes that benefits simply don't outweigh costs. "The typical performance-appraisal system does more harm than good," he says. "And it does so at great economic cost."

Still, he posed one final question to the discussion groups: What costs would be incurred if there were no performance-appraisal systems?

"To date," he says, "only one response has been received: 'None.'"