LEARNING OBJECTIVES

By the end of this chapter, you will be able to do the following:

2. Describe the strengths and weaknesses of trait, behavioural, and outcome performance measures.
3. Describe characteristics of effective feedback.
4. Describe the multi-source or 360-degree feedback technique.
5. Describe strategies for managing performance, including correcting poor performance, coaching, counselling, and mentoring.
6. Compare and contrast various fixed and variable reward systems.
7. Compare and contrast individual and team-based variable rewards.
8. Outline examples of employee recognition programs.
The Toronto Community Housing Corporation (TCHC) is a city-owned social housing corporation that was created through the amalgamation of the Toronto Housing Company and the Metro Toronto Housing Corporation. The new company has 57,500 units across 351 sites, is home to nearly 164,000 Torontonians, and employs 1,578 people. Soon after, to support the business plan, a performance management planning (PMP) team was formed with a mandate to design a process to develop, manage, and measure individual and team performance.

The PMP team had representatives from each of the seven divisions of TCHC and it had four objectives: to ensure individual accountability for business plan outcomes, to support individual and team performance excellence, to provide a link to pay, and to contribute to a healthy organization. The process begins with team and individual planning and is followed by a mid-year check-in and a year-end assessment. It is viewed as an ongoing process with informal continuous feedback, briefings, and coaching.

The PMP team also identified and defined a set of core capabilities, which are used for performance planning, development, and assessment for all managers and exempt staff (about 180). These core capabilities are accountability, initiative and responsibility, communication, and engagement. In addition, the plan calls for each person to agree, with his or her manager, on a set of between one and nine individual outcomes to work toward.

As part of the performance assessment for all senior managers, multi-source feedback is solicited, rather than relying on feedback from only the employee’s immediate supervisor. This approach, also known as 360-degree feedback, has become popular in recent years and has proved to be very effective. Participants create a list of up to 20 respondents who are peers, superiors, or employees, and these people are asked to complete anonymous questionnaires that solicit feedback pertaining to the participants’ core capabilities. (Read more about TCHC’s approach to multi-source feedback later in the chapter.) Results from the multi-source feedback inform the person’s development plan and are used as input, in conjunction with the outcomes and capabilities assessment, to the person’s overall rating and subsequent compensation for the following year.

To keep employees motivated and performing to their potential, supervisors need to know how to manage performance, give feedback, and reward effectively. As competition increases and organizations become more dynamic and complex, many private and not-for-profit organizations like the Toronto Community Housing Corporation have invested heavily in improving the way they manage performance. Only performance that is measurable can be managed and rewarded properly, so the chapter begins with an overview of the different approaches to performance measurement. The second section explores the characteristics of good feedback and the technique called 360-degree (multi-source) feedback. The third section addresses how to manage employee performance, including how to correct poor performance, coach, counsel, and mentor. The final section explores the different types of individual and team rewards, including fixed, variable pay for skill, variable pay for performance, and recognition.

MEASURING PERFORMANCE

While the performance of employees who work on the front line, such as salespeople or machine operators, is relatively easy to measure, jobs removed from the front line, such as managers, analysts, or administrators, are often harder to measure. It is very difficult to manage something you cannot measure, so we begin by exploring the topic of how to measure employee performance.

Relative and Absolute Measurement Methods

When approaching the challenge of measuring human performance, one has to decide whether to compare people to each other or to a common standard. First, we will discuss “relative judgment” methods, which ask a manager to compare an employee’s performance with other employees doing the same job; second, we will explore “absolute judgment” methods, which are those that ask supervisors to compare each employee’s performance to a performance standard.

RELATIVE MEASUREMENT METHODS

The most common type of relative judgment methods is called “forced rankings.” These are used when measures are required to decide on how to distribute a limited salary budget or bonuses. Also, companies sometimes use forced ranking because they think it will help them screen out poor performers in a layoff situation. An example of a relative judgment measurement system in education would be when marks on a test are bell-curved. This type of measurement occurs in industry as well. At GE, for instance, 20 percent of employees are rated outstanding each year, 70 percent are grouped in the middle, and 10 percent are in need of improvement.

Proponents of forced ranking say that it is the best way to identify high-potential employees who should be given training, promotions, and financial incentives. In addition, they claim that it is a vital tool to identify the bottom performers who should be helped up or out. But forced ranking is controversial, because stereotypes about older workers might come into play. In fact, a number of class-action lawsuits, at Ford and Goodyear, have been filed claiming discrimination. About 34 percent of U.S. companies used forced ranking in 2003, up from 13 percent in 1997, according to a study by Development Dimensions International. According to Ed Lawler, director of the Centre for Effective Organizations at the University of Southern California, “Typically you’ll see forced ranking when upper management feels the need to get tough.” Read about the experiences with forced ranking at GE and Ford in Organizational Reality 15.1.

ABSOLUTE MEASUREMENT METHODS

While relative judgment methods compare the performance of one employee to another, doing the same job, absolute methods compare all employees doing a certain job to a set of predetermined factors. These factors fall into three categories: the traits, behaviours, or results (outcomes) that would be expected from a top performer. See Exhibit 15.1 for an overview of the strengths and weaknesses of these three types of absolute measurement methods.
Performance Reviews and Forced Rankings at GE and Ford

General Electric and Ford are among the companies that have employed forced-ranking systems in employee performance reviews, not always with positive results. While Ford and GE are among the companies that find them a valuable management tool, a slew of employees beg to differ.

Ford’s recent experience suggests that these systems may trigger class-action lawsuits and significant conflicts with groups of employees. The Ford system uses forced ranking from A to C, with C being the lowest grade under Ford’s new performance evaluation system. Ford employees who receive a C are not eligible for bonuses in that year of evaluation. While two Cs in a row at Ford is grounds for dismissal, it does not necessarily lead to termination. Some companies set a fixed percentage, such as 5 percent, company-wide who will receive their lowest grade.

Critics of the forced-ranking systems argue that they often lead to scapegoating, discrimination against older workers, and perhaps penalizing a good performer who is part of a superstar team. Proponents of the systems argue that they facilitate budgeting and guard against weak managers who are afraid to terminate poorly performing employees. Jack Welch’s argument in support of forced rankings was that it encouraged poor performers to leave GE early and move on to alternative successful careers.

Source: M. Boyle, “Performance Reviews: Perilous Curves Ahead; Grading Employees via Forced Rankings Is a Valuable Management Tool Say Many Companies,” Fortune, May 28, 2001, 187. © 2006 Time Inc. All rights reserved.

### EXHIBIT 15.1

<table>
<thead>
<tr>
<th>Measure</th>
<th>Description</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traits</td>
<td>• Measures employee characteristics such as attitude, dependability, and initiative</td>
<td>• Easy and cheap to develop and change</td>
<td>• Subjective, vague, open to rater bias and errors</td>
</tr>
<tr>
<td></td>
<td>• Rated on a graphic rating scale</td>
<td></td>
<td>• Often perceived as unfair</td>
</tr>
<tr>
<td></td>
<td>• Usually includes an essay section</td>
<td></td>
<td>• Not useful for improvement planning</td>
</tr>
<tr>
<td>Behaviours</td>
<td>• Measures desired and undesired behaviours, such as “Approaches a customer within 5 minutes of him or her entering the store”</td>
<td>• Objective; based on observable behaviour</td>
<td>• Time-consuming and complex to develop</td>
</tr>
<tr>
<td></td>
<td>• Rated according to written examples of behaviours at various standards or according to learning goals</td>
<td>• Useful for giving feedback and improvement planning</td>
<td>• Does not include outcome measures or results</td>
</tr>
<tr>
<td></td>
<td>• Perceived as fair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results, Outcomes, or Objectives</td>
<td>• Measures employee accomplishments in terms of quantity, quality, and timeliness, and/or in relation to set outcome goals</td>
<td>• Objective; based on observable outcomes</td>
<td>• Employee may have no control over external events that influence outcomes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Employee empowered in terms of means used towards ends</td>
<td>• May use questionable means to attain desired ends</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Perceived as fair</td>
<td>• May ignore hard-to-measure outcomes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Encourages mutual goal setting</td>
<td>• May encourage short-term perspective</td>
</tr>
</tbody>
</table>

When performance is measured by evaluating a person’s traits, such as dependability, leadership, or initiative, raters are often perceived as unfair if they give a low rating. This is because trait descriptions tend to be vague and full of assumptions. However, because these types of measurement systems are relatively easy and cheap to develop, they are quite common. When performance is measured by observing a person’s behaviours, such as “maintaining eye contact” or “approaching a customer,” the person being rated will perceive more fairness and the feedback can help the person improve on the job. Behaviourally anchored rating scales (BARS) have become very popular in recent years for this reason. Finally, when performance is measured by observing a person’s results or performance to a set of goals, the process is seen as fair, so long as the employee has control over the factors that influence the outcomes. You learned about effective goal setting and management by objectives (MBO) in Chapter 4. Measuring performance by observing results is similar to measuring outcome goals that provide clear direction as to a desired end or outcome. Measuring performance using behaviours is similar to using learning goals that provide clear markers of progress toward the desired outcome. They also reduce the risk of demoralization that can occur when current accomplishments are only gauged against outcome goals. It is generally believed that a combination of behavioural and outcome-oriented measures work best.7

GIVING EFFECTIVE PERFORMANCE FEEDBACK

Once accurate performance measures have been developed, there is still the challenge of appraising the employee and giving feedback. Feedback is defined as any information that people receive about their behaviour or performance, its effect on others, or how it compares to a standard or expectation.8 Verbal feedback sessions are among the more stressful events for supervisors and employees. Early research at General Electric found employees responded constructively to positive feedback and were defensive over half the time in response to critical or negative feedback. Typical responses to negative feedback included shifting responsibility for the shortcoming or behaviour, denying it outright, or providing a wide range of excuses for it.9 Reviews of feedback reports reveal that most of us hate getting negative feedback, and we don’t like to give it either.10

DEVELOPING ABSOLUTE MEASURES TO EVALUATE A RETAIL SALESPERSON’S PERFORMANCE

Develop one behavioural measure and one outcome measure to evaluate the performance of salesperson in a retail clothing store:

Behavioural measure: ________________________________________________
Outcome measure: ___________________________________________________

Evaluate these measures using the following criteria:

1. How clear or subjective is the measure? Is it open to interpretation?
2. Does the measure lend itself to judging performance level—that is, excellent, good, or poor?
3. Will communicating your rating on the measure to the salesperson help him or her improve his or her performance?
4. Does the salesperson have control over the measure?
5. Would you be able to relate the salesperson’s pay raise to this measure?

Characteristics of Effective Feedback

Clear and accurate performance feedback helps to identify the employees’ developmental needs, to make promotion and reward decisions, to make demotion and termination decisions, and to develop information about the organization’s selection and placement decisions.11
A large majority of Canadian companies have some formal or informal means of measuring (appraising) their employees’ performance. There are many characteristics of effective feedback as summarized in Chapter 6 and Exhibit 6.9. We will elaborate here on three of the characteristics of effective feedback. First, feedback is most effective when it is specific rather than general. For example, the supervisor might say, “I liked the way you asked the customer what she was looking for,” rather than “Good job!” Own your feelings by making “I” statements and describe your own emotional response to the person’s behaviour with words for actual feelings (“angry,” “worried,” “disappointed”).

Second, feedback is more effective when it is non-personal and focused on the problem or behaviour rather than on personality traits. For example, instead of saying, “You have a bad attitude,” it is better to refer to the other person’s observable behaviour or verbatim statements in clean, neutral words and sentences like: “When you failed to reprimand employees,” “I get confused when you do not speak up in meetings,” “It was embarrassing when you told Joe he was an idiot yesterday in front of his employees.” Avoid mentioning intrinsic or personality-based attributes like “lazy” or “rude.”

Third, feedback should be given regularly and promptly (immediately after the event whenever possible). Constructive criticism is part of life, but it is far better received where there is regular communication between managers and employees and no surprises. Also see Chapter 7 for more information on supportive interpersonal communication strategies. Use Self-Assessment 15.1 to assess your competence in giving feedback.

Self-Assessment 15.1

GIVING FEEDBACK

Circle the response that most closely correlates with each item below:

Rating Scale: 5-Agree; 3-Neither; 1-Disagree

1. I give constructive, as opposed to negative, feedback. 1 2 3 4 5
2. I make a habit of debriefing my teammates throughout the project’s duration. 1 2 3 4 5
3. I give feedback that is specific and not general. 1 2 3 4 5
4. I give feedback that is purposeful, focusing on only one or two topics at a time. 1 2 3 4 5
5. I give feedback that is about the person’s behaviour and not the person or his or her personality. 1 2 3 4 5
6. I give feedback regularly rather than storing things up. 1 2 3 4 5
7. I give feedback that could be construed as negative in private, not in front of others. 1 2 3 4 5
8. I give feedback in an interactive way, dialoguing with the receiver. 1 2 3 4 5

If your score was less than 24, use the guidelines in Exhibit 6.9 to consider making a specific plan to improve in the area of giving feedback.

The Multi-Source (360-degree) Feedback Technique

Numerous formal techniques for measuring performance have been developed over the years, and human resources departments are usually responsible for designing them in collaboration with managers, then training them in how to use them effectively. While the actual measures and standards designed for use in appraisals are critical to the success of the process, it also helps to have multiple evaluators contribute to the final appraisal, rather than rely on the person’s supervisor alone. Also, it is important that the person being assessed conduct a self-assessment using the same measures. This encourages the person being evaluated to reflect on his or her own strengths and weaknesses, and to compare the self-assessment with the assessments of others. In recent years, multi-source or 360-degree feedback, whereby structured feedback is received from one’s supervisor, subordinates, peers, and customers (shown in Exhibit 15.2), has become very popular.

Rogers Communication Inc., for example, began using 360-degree performance reviews with the leadership team in its cable division in 1999. The Toronto-based University Health Network (UHN) has also been using 360-degree feedback since 2001. While in most workplaces multiple raters remain anonymous, at UHN respondents are asked if they want their feedback to be anonymous or attributed. The Bank of Montreal uses multi-raters, as do most of the other top Canadian financial institutions. As you saw in the opening vignette about the Toronto Community Housing Corporation, the 360-degree feedback method is an effective way of providing a well-rounded view of performance. See Organizational Reality 15.2 for an overview of the multi-source feedback process used at TCHC.

MANAGING PERFORMANCE

In order to effectively manage an employee’s performance, managers need to understand and be able to identify and correct performance problems, coach their employees to help them improve, as well as sometimes counsel and mentor them. In this section, we explore each of these areas in more depth.
Correcting Poor Performance

In addition to having proper performance measures and giving timely and regular feedback, when performance does not meet the standard, managers need to explore the cause(s) of the poor performance. Poor performance may result from a variety of causes, such as poorly designed work systems, poor selection processes, poor supervision, lack of clarity regarding expectations, inadequate training and skills development, lack of personal motivation, and personal problems intruding on the work environment. Carefully identifying the causes of the poor performance should come first, and should be done in communication with the employee. If the problem is with the system and the supervisor can fix it,

FedEx knows how to walk the walk when it comes to service quality. This is internally driven, in part, by giving employees a chance to evaluate their managers through a survey–feedback–action system.

organizational reality 15.2

Multi-Source Feedback Process at the Toronto Community Housing Corporation

At the TCHC, multi-source feedback was introduced to support the new business plan and the performance management planning initiative, as described at the beginning of the chapter. With the help of a Toronto firm, Berkeley Consulting Group, a questionnaire with 70+ questions in 15 competence areas was designed. Subsequently, all TCHC managers have been using the questionnaire in a 360-degree feedback process that includes the following key steps:

1. Meetings are held with participant managers to explain process and timing of survey feedback and communication to potential respondents, outlining their responsibilities.
2. Consultants help managers develop a broad and varied list of respondents. These respondents will be receiving surveys and will be asked to give the managers feedback.
3. Consultants meet with each manager to explore career background, nature of the role, issues and challenges faced, as well as discussion on the kinds of themes he/she expects to get from the 360-degree feedback process.
4. Questionnaires distributed, completed anonymously, and returned to consultants who summarize raw data and compile numeric results and text for each individual.
5. Consultants lead a training session with group of respondents to brief people on how to interpret feedback report and develop a draft of the key messages.
6. Consultants prepare a draft third-party summary (two-page narrative) of the main messages for discussion with each subject and conduct a 1½-hour coaching session privately with each subject, to compare main messages and discuss implications for development.
7. Summary report edited and each subject reviews it and adds “subject’s response section.”
8. Discussion between boss and subject in person to define development needs and implications.

then everyone wins as a result. If the poor performance is not attributable to work design or organizational process problems, then attention should be focused on the employee.

When diagnosing the causes of a performance problem it is important to remember the perceptual errors discussed in Chapter 3. In particular, consider the human tendency to make the fundamental attribution error (FAE). This is the tendency to make attributions to internal rather than external causes when focusing on someone else's behaviour. In the context of diagnosing the causes of an employee's poor performance, the FAE means that supervisors have to be aware of the tendency to see the employee as the cause of a performance problem, rather than seeing aspects of the situation, or even their own management style or actions, as possible causes.

**Coaching, Counselling, and Mentoring**

In addition to requiring managers to diagnose causes of poor performance, give feedback, and develop improvement plans, effective performance management also requires managers to provide ongoing coaching, and sometimes counselling or mentoring. These performance management practices improve employee retention and attract employees looking for growth and development. Coaching is a means for managers to provide guidance, insight, and encouragement to their employees for improved work performance through frequent interactions. Counselling is advising that is used to address personal or attitudinal problems rather than those related to an individual's ability (or lack thereof). Mentoring is a unique interpersonal relationship between two individuals, a mentor and a protégé, in which the mentor is a higher-ranking employee who has advanced organizational (or industry) experience.

**COACHING AND COUNSELLING**

The skills of coaching and counselling are especially important to supervisors in rewarding positive performance and correcting performance problems. Effective coaching and counselling rely on many of the communication skills that are discussed in detail in Chapter 6. These skills include active listening, supportive communication, and congruent nonverbal communication. Dr. Dan Ondrack, professor at the University of Toronto's Rotman School of Management, argues that "Like a sports coach leading a team to victory, managers should consistently develop employees' skills, monitor their progress and give them feedback and rewards." Corporate coaching has also become very popular in recent years, especially for dealing with high-potential people and particularly leaders who are seeking external help with leadership challenges.

**MENTORING**

Mentoring can be both formal and informal and includes coaching and counselling. While coaching and counselling often imply a boss–subordinate relationship, mentoring is often found outside the traditional hierarchy. At Siemens Westinghouse Power Generation in Orlando, Florida, 50 mentoring pairs have been created. Employees have been matched up on the basis of a half-day training session and a personality assessment test, and are encouraged to meet monthly. Mentors are upper-level managers who volunteer to work with high-potential, first-line managers and experienced engineers who are nominated for the program. The only rule is that you cannot be mentored by your own boss.

Mentor relationships typically go through four phases: initiation, cultivation, separation, and redefinition. The relationship can significantly enhance the early development of a newcomer and the mid-career development of an experienced employee. Career development can be enhanced through peer relationships as an alternative to traditional mentoring relationships. The Calgary law firm Bennett Jones made the “Top 50 Employers” list partly because of all the time it spends mentoring and teaching its employees. Executive coaching is increasingly being used as a way of outsourcing the business mentoring functions. Informational, collegial, and special peers aid the individual's development through information sharing, career strategizing, job-related feedback, emotional support,
and friendship. Hence, mentors and peers may both play constructive roles in correcting an employee’s poor performance and in enhancing overall career development.

**Bloom Box**

**PERFORMANCE MANAGEMENT IN A SPORTS TEAM**

Apply the various performance management concepts to the behaviour of a sports coach. Under what circumstances might a sport coach correct poor performance, counsel, mentor, and coach their athletes? When might a coach be more likely to make the fundamental attribution error about one of the players?

**GLOBAL REALITY 15.1**

**Performance Management at Great Britain’s Virgin Group Ltd.**

Sir Richard Branson grew up in the 1960s, a product of the democratizing ideals of that period. While leading Virgin Group more than 25 years later, he has not given up either his ideals that all people should be treated with respect or his great belief in people power. He has built his business on the premise that people—both customers and employees—come first. Actually, he likes to refer to Virgin employees as belonging to a large extended family. Everyone in the company continues to call Branson by his first name, and he still eschews the trappings of status and power, as he has from the very start.

Branson’s personal approach is reflected in how a British Airways (BA) libel settlement was handled: Branson used a classic touch by sharing the £610,000 settlement from the libel suit against BA. The money was divided equally among all Virgin staff, each receiving £166. This was known as the “BA Bonus.” The message was that they had all conquered BA together.

Virgin Group, Ltd. does not always follow the conventional wisdom, conventional approach, or traditional pathway to business success and achievement. This is true for Virgin’s legal team, which is not a muscular, in-house one. Helena Samaha is Virgin’s legal director who works in the group’s London headquarters. Rather than a large in-house legal staff, Samaha oversees Virgin’s relationship with external lawyers who do about £10 million in legal work annually. In addition, she does Virgin’s legal work on new ventures.

Across the entire company, there are only 14 in-house lawyers, some housed in the group’s companies such as Virgin Atlantic, Virgin Trains, its hot-air-balloon company, or its myriad of other smaller companies. In her words, Samaha does not dictate behaviour to the lawyers or executives in these groups. Rather, she uses and encourages a collaborative style of relationship that fits Virgin’s entrepreneurial culture, not the combative, antagonistic style stereotypical of the legal profession and courtroom dramas. In this view, she does not evaluate the performance of Virgin’s lawyers within the companies but rather leaves that to the executives who are actually managing the companies. This approach opens up a way of macromanaging Virgin’s legal work rather than micromanaging the behaviour of its lawyers.

Samaha’s management style does not mean she’s disengaged from performance evaluations and performance management. On the contrary, she conducts a full review of Virgin’s external legal panel annually. Because Virgin outsources 80 percent of its legal work to external lawyers, they must be kept motivated and performing well for the company. Samaha achieves this by annual evaluations of the external legal panel. In addition, she looks carefully at the possibility of renegotiating fees with the external lawyers. This activity is all aimed at enhancing both motivation and performance among the external lawyers because of the contingent rewards offered.

While many companies put into place formalized performance management systems that focus on observable and measurable behaviours, Virgin is a counterpoint in its personal and familial ways of treating employees. Branson considers keeping faith with his employees to be extremely important. This does not mean that no one at Virgin loses his or her job or that no one is ever fired. Employees are fired occasionally, and the company is always interested in avoiding redundancies for its own benefit. However, the employee who believes that he or she was unjustly fired can appeal directly to the chairman. Branson has been known to intervene personally if he thinks the appeal is justified.

REWARDING PERFORMANCE

When employee performance is being defined, measured, and managed effectively, reward systems can sustain motivation, help retain good performers, and reduce negative employee turnover. Reward systems can have a huge impact on human behaviour when they are well designed, well managed, and appropriate to the work itself and the people involved. However, designing and managing reward systems can be complex, and systems need to be continually updated as the external environment or goals change. Strategic rewards help motivate behaviour and actions that advance the organization toward specific business goals.28

Reward systems operate on many of the principles discussed in Chapter 4, like identifying employee needs, effective goal setting, ensuring perceptions of equity, and strengthening employee E–P expectancies. Another important model that underlies the design and implementation of reward systems is behaviour modification. This is also referred to as operant conditioning or reinforcement, defined as modifying behaviour through the use of positive or negative consequences following specific behaviours.29 Learn more about the classic model of behaviour modification in OBXtra 3.

Types of Reward Systems

If an organization wants certain behaviours, then it must reward those behaviours. In general, reward systems fall into two categories: fixed reward systems and variable reward systems. As well, reward systems can be further categorized in terms of whether they are individual or team-based, and skill or performance-based. First we discuss fixed rewards, which are given regardless of skill level or performance. Then we discuss variable rewards, which depend upon either performance or skills. Recognition programs can be used in conjunction with all types of variable reward systems and will be discussed at the end of the chapter. See Exhibit 15.3 for a summary of the different types of reward systems.

FIXED REWARD SYSTEMS

Fixed reward systems offer rewards that are based on membership or seniority and are granted without consideration of employee performance or additional skill mastery. These are hygiene factors in Herzberg’s terms, and meet the lower-level needs for existence, safety, and security in Maslow’s and Alderfer’s models. Fixed rewards fall into the two categories of

<table>
<thead>
<tr>
<th>Fixed Rewards</th>
<th>Variable Rewards: Pay-for-Skill or Competency (PFS)</th>
<th>Variable Rewards: Pay-for-Performance (PFP)</th>
</tr>
</thead>
</table>
(1) employee benefits and (2) direct fixed compensation. Employee benefits are fixed rewards that offer indirect payment to employees. Examples of employee benefits are legally required benefits like employment insurance, company-sponsored benefits like vacations and sick leave, life and health insurance benefits, retirement benefits, and employee services like flexible hours and employee assistance plans.30

When leaders confront decisions about pay every day, they should know that it is a myth that people work only for money.31 While pay and rewards for performance are valued, so too are other nonfinancial rewards such as flexible hours and telecommuting options.32

Direct fixed compensation refers to all direct financial rewards that are granted without consideration of employee performance or skill mastery. This include fixed hourly rates, biweekly pay, across-the-board increases, cost-of-living allowances (COLA), and, finally, pay increases that result from promotion to a job category with a higher job evaluation.

Problems with Fixed Reward Systems

In general, fixed reward systems have been found to reduce employee turnover, but, as discussed in the motivation chapter, fulfilling lower-level needs for safety and security have little effect on motivating extra effort or passion for the job. Further, when rewards are fixed and there is no apparent link between performance and rewards, people may begin to believe they are entitled to rewards regardless of how they perform. The concept of entitlement is very different from the concept of earning, which assumes a performance–reward link. The notion of entitlement at work is counterproductive when taken to the extreme, because it counteracts the power of earning.33 Thus many companies are moving away from fixed rewards or are combining them with variable rewards, as discussed next.

VARIABLE REWARD SYSTEMS

In recent years, many organizations have been shifting away from fixed reward systems to more variable, performance-based ones.34 The Conference Board of Canada reported in 2002 that 86 percent of medium-to-large nonunion corporations had a variable pay plan in place. Their study also discovered that more than 30 percent of unionized workplaces have variable pay plans as “add-ons” to the employees’ base salary.35 Variable reward systems, also called incentive pay plans, offer rewards based upon demonstration of an individual’s increased skill set or desired performance. They fall into two categories: reward systems based on performance, called pay-for-performance or PFP plans, and those based on mastery of new skills or competencies, called pay-for-skill or PFS plans.
Pay-for-Performance (PFP) Reward Systems: Individual and Team-Based

Organizations get the performance they reward, not the performance they say they want, and performance management and reward systems are successful when they demonstrate clear connections between performance and rewards. Pay-for-performance systems are based on motivation theories such as goal setting, expectancy theory, and behaviour modification, and as you can see in Exhibit 15.3, they can be either individual- or team-based. Systems that reward *individuals* are common in Canadian companies. One of the strengths of these systems is that they foster autonomous and independent behaviour that may lead to creativity, to novel solutions to old problems, and to distinctive contributions to the organization. Examples of individual PFP rewards are sales incentives, individual recognition programs like “employee of the month,” individual bonuses, and merit pay. Examples of *team-based* PFP rewards are employee stock options programs, also called ESOPs, gain-sharing plans, team bonuses, and profit-sharing plans. Team reward systems solve the problems caused by individual competitive behaviour. These systems emphasize cooperation, joint efforts, and the sharing of information, knowledge, and expertise. At the group level, gain-sharing plans emphasize collective cost reduction and allow workers to share in the gains achieved by reducing production or other operating costs. In such plans, everyone shares equally in the collective gain. For example, Canadian Pacific Railway and its seven unions all have variable compensation plans, based on safety, service, and productivity. Each plan has specific performance indicators related to different business units. Over a three-year period, $62 million was saved and $21 million was paid out to employees under the plan.

Problems with Variable Reward Systems

Research and experience has shown that in spite of the many productivity gains that can be achieved through PFP reward systems, problems also exist:

- **Rewards may be based on inaccurate measures.** Merit pay is the most common form of individual variable reward, but it hinges on having a performance review with fair measures. If this is not the case, merit pay may be greeted with suspicion by employees. For example, at Hudson's Bay Company Limited, 800 workers revolted against management's plans to introduce the system and went on strike for two weeks. The strike did not end until management backed down and resurrected the flat-wage system. A spokesperson for Local 1000 of the Canadian Union of Autoworkers at Hudson's Bay said that he objects to merit pay because he feels it breeds favouritism, unfairness, and dissension.

- **Weak links** between individual behaviour and the outcome measure, for example, company profits or stock values. Most employees, other than executives, do not feel that they have direct impact on company profitability.

- **Unintended consequences.** PFP variable reward systems often have unintended consequences. Stephen Kaufman, a senior lecturer at the Harvard Business School and retired chairman of the board of Arrow Electronics, has experienced these unintended consequences firsthand. He writes, “It’s very difficult to define the right metric and anticipate exactly how your people will react to it.” For example, when Arrow warehouses began to receive incentives to ship all orders received by 4 p.m. the same day, employees pulled the plug on the printer at 3 p.m.! Also, as discussed in Chapter 2, PFP reward systems can lead to intentional unethical behaviour, especially when performance falls just short of reaching the goal.

- **Individual PFP plans work against collaboration and may encourage competitive striving within a work team.** Although motivation and reward techniques in the United States and Canada are individually focused, they are often group-focused in other parts of the world.
• Team PFP plans sometimes result in free-riding (see Chapter 7) and uneven performance among team members. Inequity is often perceived if some team members put in more effort but receive the same reward.

**PAY-FOR-SKILL (PFS) REWARD SYSTEMS**

Proponents of pay-for-skill (PFS) reward systems argue that they can improve organizational performance through horizontal upskilling, which is the acquisition by employees of more technical and self-management skills. For example, Gala Clubs, a British bingo company, pays its 6500 hourly staff incentives based on the mastery of required competencies. The plan progression scheme “provides for an initial recruitment rate with advancement through three further stages, based on proven acquisition of department-based competencies.” While PFS systems became popular in the 1990s they are less common than the PFP rewards. More than a few HR/compensation managers have been thwarted in their attempts to make PFS reward programs work. The difficulties with them are that they are often complex, vague, or disconnected from the labour market. Also, they tend to be labour-intensive and time-consuming to manage. Finally, with executives tending to be more used to and comfortable with PFP plans, skill-based plans tend to be tentatively championed and poorly communicated.

**Recognition Programs as Rewards**

According to Mary Kay Ash, founder of Mary Kay Cosmetics, “There are two things people want more than sex and money . . . recognition and praise.” Recognition programs are effective positive reinforcers that complement all types of reward systems. While money is important to employees, thoughtful recognition motivates them to perform at higher levels. For example, at FedEx Express, in addition to formal recognition programs, managers reward employees by washing their cars, shovelling snow for couriers, and putting retirees’ names on banners hung in warehouses.

Formal recognition programs that are common in Canada include “employee of the month,” trips for top salespeople, certificates for mastery of new skills, team and individual photographs in company newsletters, and gifts to mark milestones such as ten years with a company. These are just a few of the many examples. Research has shown that recognition programs tend to be highly motivating. The World Trade and Convention Centre in Halifax won the 2002 HR Innovation Award for their “Catch a Star” recognition program. In this program, which is similar to WestJet’s program mentioned in Chapter 4, if an employee goes beyond the call of duty, a co-worker, manager, or client can refer the person for an award. Recipients get a scratch card worth a value of $5 to $50, or they can get a mystery prize. The scratch cards are entered into a grand prize draw, maximizing the power of variable schedules as discussed earlier.

**IMPLICATIONS FOR ORGANIZATIONAL EFFECTIVENESS**

In order for organizations to keep their employees motivated and performing to their potential, they need to define the various jobs and measure performance of those jobs. Good performance evaluation systems are a valuable tool for providing employees with clear feedback on their actions. Managers can improve the validity and reliability of performance measures by following some of the examples in our opening vignette of the Toronto Community Housing Corporation. By developing behavioural descriptions of required capabilities, identifying key result areas, and soliciting multi-source feedback, managers can help their employees correct poor performance and develop their potential.
Effective organizations have coaching, mentoring, and counselling processes in place whereby managers can manage the performance of their employees. The strategic use of training and educational opportunities, stock options, and recognition awards is instrumental to successful organizational reward systems.

Rewards can have powerful positive consequences for shaping employee behaviour. If rewards are to improve performance, managers must make a clear connection between specific performance and the rewards. Employees should be expected to earn the rewards they receive; they should expect rewards to be related to performance quality and skill development. Depending upon the managerial goals, rewards can be based on performance, as in the case of TCHC, or based on acquisition of additional skills. Each type of reward system has associated advantages and disadvantages and neither comes with out a price. The more managers understand the benefits and problems associated with different types of reward system, the more able they will be to foster learning and manage the performance of their employees.

**Chapter Summary**

1. Performance can be measured using either a relative or absolute judgment system. Relative judgment systems, such as forced rankings, ask a manager to compare an employee’s performance with other employees doing the same job. In absolute judgment systems, employee performance is compared to a predetermined standard.

2. Standards can be expressed in three different ways: by measuring traits, by measuring behaviours, or by measuring outcomes or achievement of objectives. Each approach has various strengths and weaknesses.

3. In addition to defining a job and being able to measure employee performance, it is important that managers be able to give feedback effectively. Effective feedback has a number of characteristics, including that it be specific, non-personal, and timely.

4. Feedback is more effective when it is collected from multiple sources, as is done in multi-source (also called 360-degree) feedback.

5. When correcting poor performance, it is important to diagnose the source of the performance problem and to avoid, as the rater, making perceptual errors including the fundamental attribution error (FAE). Coaching, counselling, and mentoring are critical managerial skills for managing employee performance.

6. Effective reward systems help sustain motivation and manage employee performance. Reward systems fall into the two categories: fixed rewards and variable rewards. Fixed rewards include both direct and indirect compensation like employee benefits. The advantage of fixed rewards is that they fulfill the lower-level needs for safety and security and reduce turnover. However, fixed rewards may lead to feelings of entitlement and do not motivate people to improve performance. Variable rewards are linked either to performance (PFP) or to mastery of additional skills (PFS). Pay-for-performance is highly motivating and can reward either individual or team performance. Variable rewards for performance also have associated problems such as unintended consequences. Variable rewards based on acquisition of additional skills are less common but studies have shown promising results. PFS systems are, however, labour-intensive and time-consuming to manage.

7. Examples of individual PFP rewards are sales incentives, individual recognition programs such as “employee of the month,” individual bonuses, and merit pay. Examples of team-based PFP rewards are employee stock options programs, also called ESOPs, gainsharing plans, team bonuses, and profit-sharing plans.

8. Recognition programs can be used in conjunction with all forms of reward systems and appear to be highly motivating when well managed.

**Key Terms**

- coaching (p. W-10)
- counselling (p. W-10)
- direct fixed compensation (p. W-13)
- employee benefits (p. W-13)
- feedback (p. W-6)
- fixed reward system (p. W-12)
- fundamental attribution error (FAE) (p. W-10)
- horizontal upskilling (p. W-15)
- mentor (p. W-10)
- multi-source (360-degree) feedback (p. W-8)
- reinforcement (p. W-12)
- variable reward systems (p. W-13)
Review & Discussion Questions

1. What are the purposes of creating a job description and developing performance measures?
2. What are the two possible attributions of poor performance? What are the implications of each?
3. How can managers and supervisors best provide useful performance feedback?
4. How do mentors and peers help people develop and enhance their careers?
5. What are the advantages and disadvantages of 360-degree feedback?
6. If you were designing a performance appraisal system for the classroom performance of a university instructor, which of the three absolute measurement methods would you use and why? Give an example.

Ethics

Ethics Questions

1. Suppose a team of behavioural scientists was asked to enhance the motivation of military personnel to kill their enemy. Is this request ethical? Is it socially desirable? Should the team accept the assignment? Explain.
2. Assume you are an experienced technical employee with a better understanding of your work than your manager has. Further assume that your supervisor sets such high performance standards for an inexperienced co-worker that the person cannot ever meet them and therefore is fired. What should you do? Is your manager’s action ethical? Explain.
3. Suppose your company announced that it would pay bonuses to employees who met a certain performance standard. The company did not realize, however, that many employees would be able to reach the standard with hard work and that the bonuses would cost the company much more than expected. Is it fair to lower the bonus rate? Is it fair to increase the performance standard for bonuses after the fact? Explain.

Ethical Dilemma

Donna Hermann shuffled the papers on her desk. She was very surprised by what she read. On her desk sat the annual evaluations of Julie Stringer, an employee in Donna’s department. Both worked for Telecom Solutions, a large call centre in the Midwest where it was the policy to do 360-degree annual reviews on all employees. Each individual was evaluated by his or her supervisor, peers, and subordinates if the person was in a management position. As Julie’s supervisor, Donna was looking at the evaluations completed by three of Julie’s peers and three of her subordinates.

Julie’s peers’ opinion of her performance closely matched Donna’s. Working at Telecom was intense and the managers had worked hard to create an environment where they supported each other. They felt that Julie was not supporting this environment. She never got in anyone’s way, but she never pitched in to help either. Julie came to Telecom everyday to work, nothing else. She never cared to make friends or to be a part of the team. Donna felt this was not good for the morale of her department, and had hoped this annual evaluation would help her start the process of replacing Julie. However, the problem was Julie’s employees loved her. Quite frankly, Donna had never seen such glowing reviews by anyone’s subordinates.

Obviously, Julie was not remote with her team. One of Julie’s highest ratings from her team was her willingness to pitch in at any time for any reason. This was a very different perception from the management team.

Donna had no personal problem with Julie; she was concerned about her entire department. Since Julie joined the company, things had not been the same. However, was it more important for Julie’s peers to be happy or her employees? Her group was always productive. Also, was it fair to punish someone for coming to the office to work? But, on the other hand, was it right to let Julie’s behaviours to continue chipping away at the culture that Donna and the other managers had worked so hard to achieve?

QUESTIONS

1. Does Donna have a greater responsibility to her direct reports or to those one level down?
2. Use the guidelines for ethical decision making discussed in Chapter 2 to decide what the most ethical approach would be for Donna to take in this situation.
CORRECTING POOR PERFORMANCE

Purpose: This exercise provides an opportunity for you to engage in a performance diagnosis role-play as either the assistant director of the Academic Computing Service Centre or as a member of a university committee appointed by the president of the university at the request of the centre director.

Group size: The instructor will form the class into groups of five or six students and either ask the group to select who is to be the assistant director or assign one group member to be the assistant director.

Time required: 50 minutes

Materials needed: Role descriptions (see Appendix)

Instructions: Performance diagnosis, especially where some poor performance exists, requires making attributions and determining causal factors as well as formulating a plan of action to correct any poor performance.

Step 1. Once the class is formed into groups, the instructor provides the assistant director with a copy of the role description and each university committee member with a copy of the role context information. Group members are to read through the materials provided. (5 minutes)

Step 2. The university committee is to call in the assistant director of the Academic Computing Service Centre for a performance diagnostic interview. This is an information-gathering interview, not an appraisal session. The purpose is to gather information for the centre director. (15 minutes)

Step 3. The university committee is to agree on a statement that reflects their understanding of the assistant director’s poor performance, to include a specification of the causes. On the basis of this problem statement, the committee is to formulate a plan of action to correct the poor performance. The assistant director is to do the same, again ending with a plan of action. (15 minutes)

Step 4. (Optional) The instructor may ask the groups to share the results of their work in step 3 of the role-play exercise. (10–15 minutes)

Additional class exercises:

- Prepare a memo detailing the consequences of behaviour in your work or university environment (e.g., grades, awards, suspensions, and scholarships). Include in your memo your classification of these consequences as positive or negative. Should your organization or university change the way it applies these consequences?

- Develop an oral presentation about the most current management practices in employee rewards and performance management. Find out what at least four different companies are doing in this area. Be prepared to discuss their fit with the text materials.

- Interview a manager or supervisor who is responsible for completing performance appraisals on people at work. Ask the manager which aspects of performance appraisal and the performance appraisal interview process are most difficult and how he or she manages these difficulties. Include the aspects of his or her job that enable the manager to meet these three different needs.

APPENDIX Role Descriptions for Exercise 15.1

Assistant Director, Academic Computing Service Centre

You are the assistant director of the university’s Academic Computing Service Centre. You are a skilled information systems software engineer with 20 years of experience at two different universities. You assumed your current job about three years ago. Within the first year you became very familiar with the entire information systems infrastructure at the university and developed a highly successful relationship with all of the technicians and support staff under your supervision.

With a notable downturn in enrolment since you came, it has been a struggle to obtain the financial resources necessary to complete all of the upgrades you think are required for a first-rate centre and to procure all the latest hardware sought by the faculty, research, and teaching staff across campus. The centre services a wide variety of university customers, such as the hard science requirements in engineering, physics, and chemistry for massive data analysis and networking with other universities; the social science requirements in psychology, business, and social work for specific types of statistical analysis packages; the administrative requirements of the registrar and financial services offices; and finally the unique needs of the medical school. Because of the differing needs of these customers, the centre experiences conflicting pressures and demands. These customers are not information systems experts, and you take a lead role in attempting to educate them about the competing demands and limitations the centre faces.
You report directly to the new director of the ACS Centre who has been on the job for about seven months. Although the director appears friendly, she also does not seem to be a real information systems expert with the technical expertise you would like a director to have. You are scheduled to meet with a university committee of faculty and staff, although you are not exactly sure why, though you have heard rumours there is some discontent among the centre's customers.

University Committee Members
You are members of a university committee of faculty and staff that the new director of the Academic Computing Service Centre has asked the president to form. You understand that the new director is a rather new graduate of an eastern university with an M.S. degree in information systems and some prior computing and information systems experience prior to going back to graduate school. She has been the director for about seven months, and declines in enrolment that preceded her arrival by several years have taken a toll on the financial and human resources of the university at the same time advances in information systems technology have increased demand for systems upgrades and advances across campus.

The assistant director of the ACS Centre has been in the vise of these forces for several years. He is a talented, highly proficient information systems expert who grew up through the technical ranks after getting an undergraduate business degree in information systems and management science. His technically superior attitude is apparently evident to the diverse disciplines across campus that see him as increasing tensions and conflicts flowing from declining resources and increasing demand. The new director seems a little puzzled about how to sort out all the issues and make appropriate attributions of the behaviour and actions of the various parties involved.

PERFORMANCE APPRAISAL AND REWARDS AT LEARNINMOTION.COM

Jennifer and Pierre created a company called LearnInMotion.com in 2007. Their company runs a website that lists a vast array of Web-based, CD-ROM-based, or textbook-based continuing education business courses for working people who want to take a course from the comfort of their own homes. The idea is that users can come to the site to find and then take a course in one of several ways. Some courses could be completed interactively on the site; others were downloadable directly from the user’s computer; others (which were either textbook- or CD-ROM-based) could be ordered and delivered (in several major metropolitan areas) by independent contractor delivery people. The mission of the company was “to provide work-related learning when, where, and how you need it.”

Two of the key jobs at the company are Web designer and salesperson. The job of the designer is to create the graphics for the site, and the job of the salesperson is to secure training companies and educational institutions to register their courses with LearnInMotion.com. Jennifer and Pierre disagree over the importance of having performance appraisals. Pierre says it’s quite clear whether any particular employee is doing his or her job. It’s obvious, for instance, if the salespeople are selling or if the Web designer is designing.

Pierre’s position, like that of many small-business managers, is that “we have 1000 higher-priority things to attend to,” such as boosting sales and creating the calendar. And in any case, he says, the employees already get plenty of day-to-day feedback from him or Jennifer regarding what they’re doing right and what they’re doing wrong. This informal feedback notwithstanding, Jennifer believes that a more formal appraisal approach is required. For one thing, they’re approaching the end of the 90-day “introductory” period for many of these employees, and the owners need to make decisions about whether they should go or stay. And from a practical point of view, Jennifer simply believes that sitting down and providing formal, written feedback is more likely to reinforce what employees are doing right and to get them to modify things they may be doing wrong. “Maybe this is one reason we’re not getting enough sales,” she says.

They’ve been debating this for about an hour. Now, they want you, their organizational behaviour consulting team to advise them on what to do. Here’s what they want you to do for them.

QUESTIONS

1. Is Jennifer right about the need to evaluate the employees formally? Why or why not? If you think she’s right, how do you explain away Pierre’s arguments?
2. On the basis of what you know about the job of a Web designer and salesperson, would it be better to use trait, behavioural, or outcome measures for each job?

3. What type of reward system (fixed or variable) would you recommend for each job and why?


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**PARTICIPATIVE MANAGEMENT LIKERT STYLE AT HUBERT INDUSTRIES**

Roger, the president of Hubert Industries, heaved a sigh of relief after reviewing a consultant’s report containing survey feedback that compared his and his management team’s evaluation of his management style. He thought that the feedback was generally positive, although improvement was possible in a few areas. The consultant indicated that Roger’s next step was to meet with his management team to review the results and develop action plans. This was a rather uncomfortable prospect for Roger as he would rather manage than talk about management. The company was in the middle of its busy season and, besides, everything was working reasonably well. Why stir the pot? Yet the consultant advised him that when people participate in this type of survey process, they expect not only to get feedback on the results but also to be told what actions are going to be taken as a result of the effort that they put into the process. As he sat in his wood-panelled office adorned with the many awards that his company had earned, Roger wondered what he should say at the management team meeting scheduled for the next morning.

**HUBERT INDUSTRIES: THE CONTEXT**

Hubert Industries was formed in the 1930s as an electrical contracting and machine shop business. Since that time, the organization saw a number of major changes, including a change in ownership in 1976. Roger, who had been working in sales with Hubert since 1972, bought a 51 percent share of the company and acquired a silent partner who held the remaining shares. Overall, the business has reasonably strong sales and is considered a competitive player in the industry.

Hubert Industries’ 100 employees are organized into three divisions: (1) custom machining, (2) agricultural manufacturing, and (3) administration. Through Roger’s leadership, Hubert’s farm equipment product line was expanded beyond a single product to include three additional products. The Hubert mission, developed by the management team, was “To be the leading producer and supplier of agricultural, industrial, and commercial products and services as well as a high-quality provider of custom machining and fabrication allowing for proper reinvestment for growth and the personal growth of our employees.” This mission was communicated to the rest of the company in production meetings and on bulletin boards.

Approximately two years ago, Hubert was reorganized into a divisional structure, with each division being managed as a separate business. This had the effect of highlighting the strong financial performance of the custom machining division and the dismal financial performance of the agricultural manufacturing division. This development, as well as the compensation practices in custom machining, led to lower morale in the agricultural manufacturing division. This resulted in Hubert being certified as a United Steel Workers of America bargaining unit. Although Hubert employees recently won a vote to have the bargaining unit decertified, the USWA is persistent in approaching Hubert employees. Although this has been disruptive to Hubert operations, Roger believes that it was an anomaly. Most employees were long-term employees who had moved up through the organization. Since records for absenteeism and turnover levels were not maintained, these figures were not available. However, Roger thought that voluntary turnover occurred primarily in the low-skilled labour work force of the agricultural division.
The management team is led by Roger, who is active in the business community and involved in a farming operation. Although he generally sees himself as a Theory Y manager, Roger has felt a shift toward a more traditional management style due to the performance of the agricultural division. Four managers report to Roger:

- Mitch, Roger’s son, who started with Hubert in 1984 immediately after high school, worked as a custom sales representative and was promoted to manager of agricultural manufacturing.
- Kelly, who started with Hubert in 1988 as a territory manager, was promoted to field sales manager, and in January, 1991 became the sales manager for agricultural implements.
- Claude, Roger’s brother, who started with Hubert in 1985 as machine shop foreman, was promoted to custom division manager in 1988.
- Larry, a certified management accountant, started with Hubert in 1990 as director of finance.

**PARTICIPATIVE MANAGEMENT ASSESSMENT PROCESS**

The consultant, an MBA student, approached Roger and asked if he would consent to undertaking a participative management assessment process at Hubert Industries. The consultant proposed that Likert’s work be used as the basis for the assessment. The consultant insisted that this approach and terminology be employed since it was at the root of the development of many contemporary attempts to engage employees in the workplace. In other words, participative management was at the heart of concepts such as self-managing teams, empowerment, and high-performance work teams.

Likert, the architect of participative management, identified four potential patterns of relationships or systems that can exist in leader behaviour: System 1 (exploitative authoritative), System 2 (beneficent authoritative), System 3 (consultative), and System 4. Although, organizational profiles typically range in the System 2 or System 3 categories, research by Likert and that of many other researchers undertaken primarily with manufacturers using longitudinal research designs that examined “before and after” pictures indicated System 4 was best. This research found that deliberate change efforts toward System 4 resulted in significant improvements on several indices, including operating efficiency, costs, and grievances.

The consultant asked that all managers and supervisors be included in the process in order to enhance the accuracy of the diagnosis. This would also allow the entire management team to receive valuable feedback on the extent to which their management style was participative in nature. However, due to recent union certification issues, Roger decided that only the management team would participate at this time. Due to holiday schedules, it wasn’t practical to assemble the entire management team in one room to explain the purpose of the project and have them complete the assessment tool. Therefore, Roger personally distributed the questionnaires to the managers.

Managers were asked to describe how they experienced participative management at Hubert on 21 items divided into six sections: leadership, motivation, communication, decisions, goals, and control. Managers answered questions in each of these sections by placing the letter P at the place on a 20-point scale that best represents how things were two years ago, an N that reflects their opinion at the time of survey completion, and an E at the place that indicates where they would like the organization to be. Thus, the assessment process permitted the analysis of Hubert’s level of participative management through two time frames and a description of the members’ goals for the organization.

**DATA SUMMARY**

Assessment results are summarized in Tables 1 through 3. Table 1 shows how the managers and the president of Hubert Industries described the management system in the past and present and how they would like it to be. Tables 2 and 3 present summaries of the assessment results. It seems that the president has generally more positive views of the organization’s management style—past, present, and future—than the managers. The president’s verbal indication that the management style has shifted toward System 1 on the continuum is consistent with his survey response, which indicates the same trend (albeit very slight). Managers’ responses indicate a moderate shift toward System 4 on the survey, indicating that some movement is being made toward their “desired position.”
Since there was much deviation in the managers’ scores, the average managerial score shown in the figures can be misleading and must be interpreted as the mean of some widely varying scores. For example, the item concerning the use of fear, punishment, rewards, and involvement was scored as a 3 by some, indicating that fear and punishment are the primary motivational tool used, while the item was scored as a 19 by others, indicating that rewards and involvement are primarily used. This discrepancy demonstrates that there is a significant difference in how managers are experiencing the organization. Those who were currently experiencing the organization in a positive manner (System 3 to System 4) tended to give the previous management system higher scores as well as indicate a higher level of expectation for the organization. Also, for these respondents there wasn’t a great deal of change required for the organization to move to the management system desired. Thus, these managers were likely experiencing very little conflict and a good deal of satisfaction in terms of the current management system. Therefore, they would likely be the least motivated to move toward a new or significantly different way of doing business. Conversely, those managers who rated Hubert’s current management system as being closer to System 1 also gave a lower score to Hubert’s management system as it was two years ago and to the management

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**Table 2**

**Average Scores Organized by Assessment Categories**

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</tr>
<tr>
<td>Interaction-Influence</td>
<td>14.19</td>
<td>15.75</td>
<td>13.85</td>
<td>14.75</td>
<td>18.61</td>
<td>19</td>
</tr>
<tr>
<td>Control</td>
<td>10.13</td>
<td>17.5</td>
<td>12.6</td>
<td>18</td>
<td>17.6</td>
<td>17</td>
</tr>
<tr>
<td>Goals</td>
<td>11.26</td>
<td>16</td>
<td>15</td>
<td>16</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Total average (X)</td>
<td>11.86</td>
<td>15.1</td>
<td>13.04</td>
<td>14.5</td>
<td>17.58</td>
<td>18.78</td>
</tr>
</tbody>
</table>

**Table 3**

**Assessment Summary**

<table>
<thead>
<tr>
<th>As Seen By:</th>
<th>Previous System Score</th>
<th>Current System Score</th>
<th>Expected System Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claude</td>
<td>3.88</td>
<td>3.76</td>
<td>4.58</td>
</tr>
<tr>
<td>Managers</td>
<td>3.26</td>
<td>3.48</td>
<td>4.35</td>
</tr>
<tr>
<td>Difference (#)</td>
<td>0.62</td>
<td>0.28</td>
<td>0.23</td>
</tr>
<tr>
<td>Difference (%)</td>
<td>19.01</td>
<td>8.05</td>
<td>5.29</td>
</tr>
</tbody>
</table>

**System Score:**
- System 1 covers the range from 1.0 to 1.99.
- System 2 covers 2.00 to 2.99.
- System 3 covers 3.0 to 3.99.
- System 4 covers 4.0 to 4.99.

System they expected. Also, there was a significant gap between how they were experiencing the organization and how they wanted it to be. As a result, these managers are likely feeling some conflict and would be motivated to move toward a new management system.

**ROGER’S PROBLEM**

Although Roger was undertaking this assessment process as a favour to the MBA student, he now felt a sense of obligation toward his managers. Looking over the tables, Roger could see that, although the results weren’t bad, they weren’t entirely rosy either. There was too much to do, and Roger wasn’t sure that he had the time or the motivation to make any changes. Besides, as usual, the management team had a full plate of things to discuss at their meeting scheduled for the next morning. It was 5 p.m. and the plant was quiet. Roger glanced out his second-floor window and saw a winter storm brewing. He scratched his head, grabbed his coat, and said to himself, “Maybe we should just talk about this stuff in the slow season when we have some time to devote to it. Or maybe a brief note in an interoffice memo will be enough. Or maybe we should do nothing at all. After all, shouldn’t we just let sleeping dogs lie?”

**DISCUSSION QUESTIONS**

1. Dealing with the results of the assessment process:
   a. What are Roger’s options and their implications?
   b. Which option do you recommend? Why?
   c. If Roger chooses to address the assessment process at the management team meeting, how should he do this? Why?
2. Looking at the big picture:
   a. Why might it be challenging for managers to receive feedback on their management style?
   b. What organizational systems and processes should be in place to assist managers in enhancing their management style?
   c. What are the strengths and weaknesses of a management style feedback process? How can the weaknesses be overcome?
   d. Are you familiar with any organizations that incorporate a management-style feedback process in their human resources practices? If so, describe how that process functions.

3. Participative management:
   a. Is participative management a reality in today’s organizations? Why or why not?
   b. What organizational systems and processes need to exist to assist managers in becoming participative managers?
   c. What managerial values are required in order to make participative management happen?

OPTIONAL EXERCISE FOR CASE DISCUSSION: MOCK PRESENTATION TO THE MANAGEMENT TEAM MEETING

1. Students working in small groups will take the role of Roger and prepare a verbal report, to be delivered to the management team, in which they discuss their interpretation of the assessment results and their recommendations.
2. A small group will serve as the management team. This group must identify in advance any expectations and questions that managers may have regarding the assessment results.
3. The small groups taking the role of Roger will make five minute presentations to the management team.
4. The management team will then convene separately to deliberate and select the recommendations that they prefer.
5. The management team will present their decision and its rationale to the class.

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Take 2 Videos

BIZ FLIX
Seabiscuit

Combine a jockey who is blind in one eye with an undersized, ill-tempered thoroughbred and an unusual trainer. The result: the Depression-era champion race horse Seabiscuit. This engaging film shows the training and development of Seabiscuit by trainer “Silent” Tom Smith (Chris Cooper) and jockey Red Pollard (Tobey Maguire). The enduring commitment of owner Charles Howard (Jeff Bridges) ensures the ultimate success of Seabiscuit on the racing circuit. The film, based on Seabiscuit: An American Legend, the bestselling book by Laura Hillenbrand, received seven 2003 Academy Award nominations, including Best Picture.

The Seabiscuit scene is an edited composite from DVD Chapters 21 and 22 toward the end of the film. In earlier scenes, Red severely injured a leg and cannot ride Seabiscuit in the competition against War Admiral. Samuel Riddle (Eddie Jones), War Admiral’s owner, described any new rider as immaterial to the race’s result. The scene begins with Red giving George Wolff (Gary Stevens), Seabiscuit’s new jockey, some tips about riding him. Red starts by saying to George, “He’s got a strong left lead, Georgie. He banks like a frigg’n airplane.” The film continues to its exciting and unexpected ending.

What to Watch for and Ask Yourself
1. Does Red set clear performance goals for George? If he does, what are they?
2. Does Red help George reach those performance goals? How?
3. Does Red give George any positive reinforcement while he tries to reach the performance goals?

WORKPLACE VIDEO
Fannie Mae: Human Resources Management

Fannie Mae is a financial services company that works with primary lenders such as banks, credit unions, mortgage companies, and government housing agencies to increase the availability and affordability of home ownership for low- and middle-income Americans. With more than 12 million active mortgages issued to its target clientele of women, minorities, and single parents, Fannie Mae is the nation’s largest source of financing for homebuyers. The Washington, D.C.–based firm is known for fostering rich diversity among its over 4000 employees, and each individual at the company contributes to the corporate mission of helping families achieve the American dream of home ownership.

Fannie Mae’s success can be attributed in part to its ability to attract and retain a motivated and highly skilled workforce. The firm’s employment policies are designed to achieve core objectives such as treating employees with respect, creating opportunities for learning and growth, and helping employees find ways to balance work and family life. Fannie Mae’s human resources personnel consider specific benefits such as job training, advanced education, mentoring, and flexible scheduling to be essential toward developing a productive workforce.

By ensuring that human resources programs have a positive impact on the lives of its employees, Fannie Mae is able to achieve its corporate objective to reduce barriers, lower costs, and present opportunities for home ownership to all Americans.

Questions
1. List three specific benefit programs Fannie Mae offers to its employees. How do such programs create a more productive workforce?
2. Why does Fannie Mae pay for employees to take college classes? How does the firm benefit from this continuing education program?
3. Describe Fannie Mae’s mentorship program. What is the purpose of mentoring employees?
Endnotes

5. Osterman, “Is It Really Fair to Grade Workers on a Curve?”
16. P. Young, “Review in Progress.”
19. de Janasz et al., Interpersonal Skills in Organizations, 262–69.
38. “Variable Pay Offers a Bonus for Unionized Workers.”


47. “Competency-Based Pay Programs: Too Hard to Live With or the Right Stuff?,” IOMA’s Pay for Performance Report 2, no. 5 (May 2002): 6–9.

