Butchering the Sacred Cows of HR

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A well-focused Human Resources department can make significant contributions to a company, not just in the intangibles like morale, but also to the bottom line. Employment is one example. Since a company pays about the same for a high producer as it does for a low producer, recruiting and selecting more capable employees means that the company gets more production without increasing cost. This has outstanding impact on profits. Another example is motivation. HR can help remove sources of discontent, such as poor working conditions or an inept supervisor, as well as devise incentives (such as variable pay) to motivate employees and managers.

At the same time, HR departments are notoriously slow to let go of "traditional" programs that sound good but don't work — the sacred cows of HR. And these programs aren't just expensive; they can actually have a negative impact on the organization. The three biggest offenders: job descriptions, performance appraisals, and merit pay. I take a critical look at each of them, comparing the theory to reality, and offer options that can make a positive contribution.

Job Descriptions

Theory. Job descriptions are written documents that describe the general purpose of the job, tell where the job fits within the organization, and provide a detailed list of the incumbent's duties. Depending on how thorough one wants to be, there can also be sections identifying the knowledge, skills, and abilities required to perform the various duties, educational and experience requirements, and a list of essential functions of the job (used in defending ADA claims). Job descriptions are supposed to contain all the information necessary to develop solid programs for recruitment, selection, training, work assignment, wage and salary administration, discipline, termination, and the defense of various legal claims and grievances. In addition, because these programs would all be based on the same information, one would consequently have an "integrated personnel system" in which all the parts of the system worked together seamlessly to support the efficient accomplishment of the organization's mission.

Reality. Even conscientiously developed and maintained job descriptions are works of fiction. Their basic flaw lies in the assumption that jobs are static entities that are not influenced by the employee who is in the job, the company's management, or the changing demands of the business. This may have been true in the past, especially in certain kinds of factory work; but, with the current need to adapt quickly to changing competitive and economic pressures, this assumption no longer fits reality. Jobs are dynamic, constantly changing collections of activities. Supervisors change jobs to take advantage of employee strengths and to work around weaknesses. Managers change jobs to meet challenges from the organization's environment. Employees change jobs to make their work easier or more interesting.

With all this changing, job descriptions are obsolete before they can be filed. Human Resources realizes this; and, to cover their backsides, they require supervisors to update the descriptions "when the job changes." Supervisors recognize the futility of this task and ignore the requirement.

There are other problems with job descriptions. Once committed to writing, the description can be used by shop stewards or contentious employees to limit management's ability to assign work. With comprehensive job descriptions, the complaint, "That's not my job!" becomes a legitimate argument that can be contested all the way to senior management.

Finally, the academic's dream of an integrated personnel system just doesn't work. The information needed to set up a good selection system is very different from the information needed to set up a good wage and salary system. Decades of failed attempts have demonstrated that one size does not fit all.

Sometimes the HR staff will argue that there are legal reasons to have job descriptions. This reasoning is based on the false premise that a written document somehow trumps reality. This is seldom the case. According to John Frasier, Deputy Administrator for the DOL Wage and Hour Division, investigators will always look at what the employee is actually doing. "With respect to the laws that we administer, job descriptions per se aren't relevant. And 'Other duties as assigned' is not a refuge. It's what people do, not what's on paper [that matters.]"1

Options. One option that has been taken by a number of companies is to have job descriptions, but make them as general and as broad in coverage as possible. One of my favorite companies, Logan Aluminum in Russellville, Kentucky, a world leader in rolled aluminum products, uses essentially one brief job description for all its production employees.

HR Magazine (January 2001) describes another option. Instead of detailed descriptions of constantly changing tasks and skills, one could create brief statements of "roles." In Axicon, for example, the role statements for managers include:

- Supervises at least two employees.
- Implements policies, procedures, controls, and services.
- Is responsible for adherence to department budget guidelines.

There are no detailed descriptions of duties. Instead, as a part of their "performance management process," each individual sets goals and makes plans to guide their work for the coming year. One final option would be to simply do business without job descriptions. People would have job titles such as Production, Electrician, Sales, and Customer Service. Supervisors would use their judgment to assign work according to the employees' capabilities and the needs of the business.

With this system, the employment contract evolves from "I'm paying you do A, B and C." to "I'm hiring you to help out in any way that you can."

1 Quoted by Carla Joinson in "Refocusing Job Descriptions" *HR Magazine.* January 2001.

The strength of this system lies in its flexibility—no bureaucratic restrictions on getting work done. At the same time, there would be pay implications. For example, instead of a set amount of base pay for everyone in the same job, some sort of "pay for capability" system would make more sense. That way, a person who can do two or three jobs would earn more than someone who could only do one job.

Performance Appraisal

Theory. Performance appraisal is another program backed by impeccable logic: Individual performance and organizational effectiveness can be improved by periodically measuring employee performance, giving feedback, and making plans for improvement.

Reality. Thousands of articles have been written how to fix performance appraisals. There are advocates for three point ratings, five point ratings, seven point ratings, and one hundred point ratings. As it turns out, anything between three and nine is fine. Academics and employers have devised check boxes, graphic rating scales, adjective check lists (e.g. "poor" to "excellent"), goals and objectives, and behaviorally anchored scales. But research fails to show a lasting advantage to any specific type of rating process. 2 Not surprisingly, performance appraisal still hasn't been fixed. The task itself runs counter to human nature. As one writer put it, "It's like telling someone what's wrong with their baby. There is just no good way to do it."

The fundamental assumption of appraisal is that supervisors can provide a reasonably accurate measure of performance. Given the right circumstances, this assumption is true, as has been demonstrated in a number of experimental studies. The problem is that it just doesn't happen during the formal appraisal process. Why? There are many factors besides performance that influence a formal rating. When I was the manager of the J. C. Penney Company's appraisal program, I did a study of what factors influenced the ratings of managers. The single biggest factor was the manager's level in the organization—the higher the level, the higher the rating. The second biggest factor was whether or not the manager was a line or a staff manager. Staff managers got higher ratings. The third biggest factor was the region of the country. Certain regional managers were tougher raters than others. The individual's actual performance had surprisingly little impact on his or her rating.

What about the annual appraisal being an occasion for feedback? Even if the measurement is flawed, receiving feedback from the boss is useful. Unfortunately, this is another attractive idea that functions poorly. The most serious flaw is that the feedback is focused on the past. For example, suppose the boss says to you, "Last May you came in late two days in a row." What can you do with this information? The event has already happened, and may have happened months ago. You can either feel bad about it or you can fight about it ("It wasn't my fault!"), neither of which is a positive outcome.

2 For a readable review see *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*. National Research Council. 1991.

Or feedback may be focused on personality traits: “You are average on leadership.” This is the subjective assessment of your personality by a supervisor, who, chances are, is an unqualified layman, at least as far as assessing personality goes. This type of rating lacks credibility; and worse, since it is very hard to change personality traits, the feedback is about something you can’t control. Once again, you have the choice of either feeling bad or fighting about it. It is hard to imagine a process that is less motivational.

Finally, people just plain don’t like the appraisal process. Attitude surveys show appraisal to be among the least popular HR programs.3 Supervisors regard appraisal as a risky and unpleasant duty. Employees regard it like caster oil, something to be endured. It is easy to see why organizations have to spend time and energy policing their appraisal systems. Without enforcement of deadlines, appraisal programs gradually decline until—to everyone’s relief—they just aren’t done any more.

Options. Stop wasting time and energy fighting human nature. Either get rid of the program or turn it into something that makes a positive contribution. The HR staff may resist getting rid of the program because it is tied to other programs like pay, promotion, and training. However, these programs can be administered without using the meaningless numbers from the appraisal ratings. For example, if it is time to give a raise, ask the supervisor to directly decide on the percentage (instead of first making the supervisor complete an appraisal to justify the rating and then plugging the appraisal number into a merit pay formula developed by the corporate compensation staff).

This same kind of direct decision making can work for promotions and training. Go ahead and use the supervisor’s judgment. That is what they are paid for. Besides, if the supervisor has bad judgment, filling out an appraisal form won’t cure the problem.

If you must have performance appraisal, make it part of the normal work planning process. Set performance goals, manage against them, and evaluate results at the end of the year. This is the kind of thing supervisors should be doing anyway. And, if you have to have a number from the end of year review, at least the number will be based on business results, not personality.

Merit Pay

Theory. As with job descriptions and performance appraisal, it is hard to argue with the theory of merit pay: People should be paid according to their performance. Good performers should get a bigger raise than average performers. Poor performers shouldn’t get any raise at all. This corresponds to the puritan work ethic and the American ideal of getting ahead through your own hard work.

Reality. It is hard to find a more dysfunctional process than merit pay. Most supervisors don’t

3 For example, see Nigro, L. 1982. *Public Administration Review*, pp 371-375.

want to make hard distinctions among their employees. It only causes problems. As a result, the difference in increase between good performers and average performers can average less than one percent! As Dr. Ed Lawler, a well-known compensation expert says, "The difference in merit pay between the outstanding and poor performer is so small that there's no incentive value at all. It is so unclear how a person got a higher or lower raise that it takes an enormous leap of faith, or stupidity, for an employee to decide that pay and performance are really related." Furthermore, failing to make clear distinctions in levels of performance sends two unintended messages—neither of which is a good one.

1. To good performers: "We don't value your contribution."
2. To average and sometimes below average performers: "No problem. You're doing just fine."

In addition, very few companies fund their merit pay budget with enough money to make a difference. Robert Henman, author of the widely cited *Compensation Management,* notes, "Merit budgets have not been particularly large in recent years. You can have the best-designed plan, but if you don't have a meaningful amount of money to distribute, the plan isn't going to work. Organizations that come out with a two percent merit budget—what can you do with a two percent merit budget?" Finally, according to a 1996 Watson Wyatt survey, ninety-five percent of companies say their employees view merit pay as an entitlement. In other words, employees believe that they should receive a merit pay increase every year. When merit pay becomes "automatic," pay budgets increase like compound interest. This year's merit pay becomes an addition to next year's base pay. No matter how well the employee performs in the future or how well the company is doing, the merit pay you give this year continues year after year until the employee retires or leaves. Merit pay programs create a mortgage on your company's future.

Options. The idea of more money for better performance is a practical idea that works in many settings. However, merit pay is not the way to do it. Much better is some sort of variable pay or bonus plan, in which the employee periodically has the opportunity to earn extra money based on company results and the employee's contribution to those results. In a variable compensation plan, if results are good, the employee can make a lot of money; but, if the results are bad, the employee gets nothing beyond base pay. This lets the employee share in the company's risks and rewards and helps management control costs. The earliest forms of variable compensation were piece rates and commissions. Both of these plans have an obvious and direct connection to results, and generally have a positive motivational impact. For less obvious situations, care needs to be taken to have a clear line of sight between the employee's results and the bonus payout. Otherwise the payout is seen as arbitrary and more a matter of luck than something the employee can influence by working harder.

4 Cited by James Wilkerson in "Merit pay-performance reviews: They just don't work!" *Management Accounting,* June 1995.
5 Quote from Mathew Budman in "Is there merit in merit pay?" *Across the Board*, June 1997.

Conclusion

Job descriptions, performance appraisals, and merit pay are HR sacred cows. They sound good, but they just don't carry their own weight. Academics and managers alike have tried thousands of variations in unsuccessful attempts to "fix" them. The problem is that the programs are inherently flawed, either by incorrect assumptions or because they require managers to do things that run counter to human nature. They don't contribute now, and they won't contribute in the future. Either the HR manager or a senior executive needs to replace them with something that has a chance of helping the company to succeed.