

Annual performance reviews: are they worth it?

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For more years than I care to remember I have dreaded the annual review of employees. No matter what forms were used or how well-prepared I was, office relationships seemed to strain in anticipation of this performance rating process.

I never fully understood the source of these feelings until I was exposed to the views of Dr. W. Edwards Deming. (*Dr. Deming* by Rafael Aguayao, Simon and Schuster, 1991.) Deming sees the annual review of employees as a major culprit generating fear and wreaking havoc in the workplace. In the corporate world it is not unusual for people to emerge from their reviews shaken and unable to function properly for months. The review process artificially creates winners and losers. If you find yourself in the top half or top quarter, you're a winner. Everyone else is a loser.

Four different rationales are used to justify the annual review process:

- 1). Reviews provide an opportunity for the manager and employee to give each other feedback.
- 2). They provide the opportunity to discuss potential salary increases, bonuses, etc.
- 3). They result in an external incentive for employees to do their best. Fear of a bad review and hope for a good review are supposed to provide incentives for better performance.
- 4). Reviews provide a record of the employee's performance.

It is not difficult to understand the thinking behind the annual review. According to Deming, it's no different than the grading we have been

subjected to since kindergarten. Some of the reasons for having an annual review are obvious, but are they all valid? A closer look at the given justifications is revealing.

Reason #1: The need to communicate is real, but this should be done on a monthly, if not a weekly basis. Communication does not become more effective when it includes a ranking or evaluation of the employee's job performance. Reason #1 does not justify the annual review; it justifies greater communication.

Reason #2: Discussions of salary should not be part of the annual review. If the office truly operates as a team, salary increases should be linked to production. Because everyone working together is responsible for increased production, most discussions related to money should take place with everyone present. Separating out individual employees to discuss salaries is divisive and usually counterproductive.

Reason #3: Individual incentives may affect employees' work habits, but not always in the way you might imagine. Studies have shown that overall performance doesn't improve if rewards are based on individual performance. In one such study a system of equal reward to all employees gave the best result and the competitive winner-take-all system gave the poorest. (Alfie Kohn, *No Contest*, 1986.)

Reason #4: A record of each employee's experience, training and educational background is necessary, but that record does not have to include a critical review and ranking of all aspects of per

formance. According to Deming, most of the difference in performance is caused by the system, not the employee. As an orthodontist, it is very hard for me to assume responsibility for the deficiencies of my employees...but that's where most of it belongs.

To many employees, the performance rating that takes place in an annual review serves to compare them with others in the office. This feeling of having to "compete" on the job is counterproductive in any group. The main reason the annual review is so difficult to abandon is that most managers, and this includes orthodontists, are products of a system that emphasizes competition. We see our success as due in part to the competitive environment fostered in our dental school background. You must admit that there is something obnoxious about the idea that a group performs better when everyone is trying to beat up on everyone else in the group. The corporate world is learning this the hard way in the international marketplace.

By eliminating the annual performance review in my office I pledge to encourage everyone to improve, to work to create an environment where employees can experience pride while performing in a manner consistent with the aims of the office. An added bonus is that I can look 12 months ahead with greater joy and enthusiasm... and no more performance reviews.

Dr. Edwards Deming, a household name in Japan, became the prime catalyst behind the incredible success of Japanese industry. In fact, since 1951, the Deming Prize has been the most coveted and prestigious award among Japanese corporations, similar to the Malcom Baldrige Award for quality in business in the United States. Today, Deming is finally becoming a household name in his own country. The lessons he has to teach American business are more urgent than ever.

Just how different is the Deming Management Method? Compare just a few of the many differences in beliefs between conventional organizations and Deming organizations:

Standard Co.	Deming Co.
Quality is expensive	Quality leads to lower costs
Defects are caused by workers	Most defects are caused by the system
Buy at lowest cost	Buy from vendors committed to quality
Fear and reward are proper ways to motivate	Fear leads to disaster
Play one supplier off against another	Work with suppliers