An area in which performance management is especially important to many organizations today is total quality management. Total quality management (TQM) is a form of management that focuses on the customer, an environment of trust and openness, working in teams, breaking down internal organizational barriers, team leadership and coaching, shared power, and continuous improvement. Adapting TQM usually means fundamentally changing the organization’s culture. In general, experts agree that to practice TQM, performance management is imperative. Indeed, all of the winners of the Malcolm Baldrige National Quality Award have incorporated elements of TQM into their PMSs. One of the basic tenets of TQM is continuous improvement.

Continuous Improvement

Some managers have traditionally approached performance as something to be maintained. That is, they assume that motivation, environment, and ability result in a constant level of performance. A logical extension of this assumption would be that performance will only increase when motivation, the environment, or ability improves. In this view, performance increases in a stair-step fashion-plateaus of flat performance are followed by sharp increases. The top part of Figure 9 illustrates this view.
Incremental Versus Continuous Improvement

Traditional approaches to improving performance, as illustrated on the left of this figure, focused on incremental improvement. That is, managers assumed that motivation, environment, and ability resulted in a constant level of performance. Only by changing one or more of these elements could performance be improved. The concept of continuous improvement, illustrated on the right part of the figure, assumes that performance can be elevated on a constant basis.

The premise of continuous improvement, in contrast, is that under a TQM program performance can-and should-be increased constantly. The bottom part of Figure 9 illustrates this viewpoint. The founder of the TQM philosophy, W. Edwards Deming, called for the elimination of numerical productivity and work-standard-type goals, because they focused management’s attention on short-run targets and away from satisfying the customer. Instead, he proposed that the goals for employees, teams, and the organization as a whole be continuous improvement in quality and customer service, decreased cycle time, skill upgrading, reduced machine setup time, and increased machine run time. While originally developed for traditional manufacturing settings the concept of continuous improvement has been applied to a wide array of organizations.

The performance management systems organizations use vary greatly in their methods and in their effectiveness. Some work, some don’t, and some are constantly being changed in a search for improvements. Four factors are crucial in incorporating the principles of TQM into a performance management system and achieving continuous improvement: commitment to objectives, job analysis, a performance plan, and performance measurement.

Commitment to Objectives A successful performance management system is based on a strong commitment from the entire organization, especially top management, to improve quality. This commitment is made manifest in the objectives of the system. Top managers must know what they want the PMS to accomplish and communicate their objectives to those responsible for developing and managing the system. When objectives are clear and organizational commitment to quality improvement is strong, supervisors are confident
that the time and effort they devote to performance management are worthwhile, which increases their interest in using the performance reviews to change behaviors and improve performance. Clearly stated objectives also allow managers to monitor the program, evaluate it periodically, and make any necessary adjustments.

**Job Analysis** The second factor of an effective PMS is a sound job analysis system that provides comprehensive and accurate descriptions of all jobs in the organization. Job analysis is the process of systematically gathering information about specific jobs to use in developing a PMS, in writing job or position descriptions, and in developing equitable pay systems. To evaluate an employee’s job performance fairly, the job must be precisely and clearly defined.

**Performance Plan** Closely tied to the job analysis is the performance plan. A performance plan is an understanding between an employee and manager of what and how the job is to be done such that both parties know what is expected and how success is defined and measured. In TQM terms, a performance plan defines the areas of improvement that an employee is striving for. It also defines the goals and standards for improvement in quality or skills. A performance plan can help clarify mutual expectations, serve as the basis for periodic reviews, and reduce disagreements.

**Measurement of Performance** The cornerstone of a good PMS is the method for measuring performance. Detailed descriptions of the many different methods for measuring performance are beyond the scope of this book; they are more appropriately covered in a course in human resource management or a specialized course in performance appraisal. However, we can present a few general comments about how to measure performance.

The measurement method provides the information managers use to make decisions about salary adjustment, promotion, transfer, training, and discipline. The courts and Equal Employment Opportunity guidelines have mandated that performance measurements be based on job-related criteria rather than on some other factor, such as friendship, age, sex, religion, or national origin. In addition, to provide useful information for the decision maker, performance appraisals must be valid, reliable, and free of bias. They must not produce ratings that are consistently too lenient or too severe or that all cluster in the middle. They must also be free of perceptual and timing errors.

Some of the most popular methods for evaluating individual performance are graphic rating scales, checklists, essays or diaries, behaviorally anchored rating scales, forced-choice systems, and MBO. These systems are easy to use and familiar to most managers. However, two major problems are common to all individual methods: a tendency to rate most individuals at about the same level, and inability to discriminate among variable levels of performance.

Comparative methods evaluate two or more employees by comparing them to each other on various performance dimensions. The most popular comparative methods are ranking, forced distribution, paired comparisons, and the use of multiple raters in making
comparisons. Comparative methods, however, are more difficult than the individual methods to use, are unfamiliar to many managers, and may require sophisticated development procedures and a computerized analytical system to extract usable information.

The Learning Organization

A recent refinement of the TQM approach is the so-called learning organization. Organizations that adopt this approach work to integrate continuous improvement with continuous employee learning and development. Specifically, a learning organization is one that works to facilitate the lifelong learning and personal development of all of its employees while continually transforming itself to respond to changing demands and needs.  

Managers might approach the concept of a learning organization from a variety of perspectives, but improved TQM, continuous improvement, and performance measurement are frequent goals. The idea is that the most consistent and logical strategy for achieving continuous improvement is to constantly upgrade employee talent, skill, and knowledge. For example, if each employee in an organization learns one new thing each day and can translate that knowledge into work-related practice, continuous improvement logically follows. Indeed, organizations that wholeheartedly embrace this approach believe that only by constant learning by employees can continuous improvement really occur.

In recent years many different organizations have implemented this approach. For example, the Shell Oil Company recently purchased an executive conference center north of its headquarters in Houston. The center boosts state-of-the-art classrooms and instructional technology, lodging facilities, a restaurant, and recreational amenities such as a golf course, swimming pool, and tennis courts. Line managers at the firm rotate through the Shell Learning Center, as the facility has been renamed, and serve as teaching faculty. Such teaching assignments last anywhere from a few days to several months. At the same time, all Shell employees routinely attend training programs, seminars, and related activities to learn the latest information they need to contribute more effectively to the firm. Recent seminar topics cover a broad range: time management, the implications of the Americans with Disabilities Act, balancing work and family demands, and international trade theory, among others.