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## Chapter One

### INTRODUCTION

#### INTRODUCTION

There are many views about the meaning and importance of performance measurement of employees and of organizations. This thesis is concerned with many of these views but is most concerned with performance contracts and quality management and the relationship between them.

The whole concept of the measurement of performance is sometimes questioned and in some cases regarded as being both subjective and futile. Van de Ven and Ferry (1980) argued that:

"Whether the difficulties associated with assessing the performance of complex organizations can be met by a single set of measurement instruments and process guidelines has still to be proven."

Glover and Kelly (1987) contended that measuring the performance of individual jobs can also be difficult:

"Performance is hard or impossible to measure with many jobs and occupations, think for example of the differences between the work of architects, surgical appliance fitters, design engineers, criminals, politicians, street traders and musicians. There is often a conflict between volume and quantity of output in the long-term and the short-term such as when profits come before investment and vice-versa."

Similarly, Van De Ven and Morgan (1980) argued with regard to organizational performance that:

"Performance is a complex construct that reflects the criteria and standards used by decision makers to assess the functioning of an organization. As this definition suggests, performance is a value judgement on the results desired from the organization at different levels of analysis--and--often change over time."

However, the demand for measurement of performance, whether it comes from the first level of supervision or from a shareholders' meeting, does tend to mean that attempts be made to measure performance (Talley, 1991).

## BACKGROUND

The research reported in this thesis has been the result of what is both a personal and a business interest held over a number of years. From starting work, almost three decades ago, as an apprentice engineer in the shipyards of Glasgow, through setting industrial engineering standards for North American automotive assembly lines in the 1960s, to managing professional staff in a large Canadian electrical utility from 1968 to the present, I have maintained an interest in the measurement of performance.

In particular, I have been curious about the responses of employees to the measurement of their performance. At each stage of my career, I have watched the interplay between the measurer (the foreman, industrial engineer, manager) and the employee (on the shop floor, the construction site, in the air-conditioned office) as they go through the exercise of establishing measures, working to attain them and being judged on the outcomes. My interest in these phenomena, almost rites of

passage, has persisted over the years as I have observed performance measurement and evaluation from the perspectives of both measurer and measured. Performance evaluation as noted later in the thesis has a number of interpretations. In this thesis "appraisal" is used to denote a subjective evaluation of individual performance by the employee's supervisor and is usually based on general observations of behaviour. I have often been disturbed by the inability of most performance appraisal systems to provide mechanisms whereby both "sides" could learn and develop actively through the experience. It has been reassuring to find that these concerns were not just my own.

In 1986, I came upon an article written by McGregor (1957) called "An Uneasy Look at Performance Appraisal". My first reading focused on its criticisms, which I shared, of traditional performance appraisals. On a second reading I noted a number of points that appeared to need addressing. McGregor had observed that performance appraisal, particularly within management ranks, had been standard practice in many companies for about twenty years. I was surprised to realize this meant from the late 1930s, and to note his unease with the "unstated assumptions which [lay] behind [performance appraisal]". McGregor's article had two main purposes. One was to review the conventional performance appraisal plan that required the manager to pass judgement on the personal worth of employees. The second was to describe an alternative that placed the primary responsibility for establishing performance goals and for appraising progress towards them on subordinates.

McGregor noted how performance appraisals influenced salary increases, promotions, transfers, and sometimes demotions or terminations. They were also used to influence subordinates' behaviour, attitudes, skills or job knowledge. This often meant letting employees know "where they stood", and coaching and counselling of them. McGregor also noted how managers were often reluctant to administer performance appraisals "especially the interview part". He attributed this reluctance to their normal dislike of criticizing and perhaps arguing with subordinates and to their lack of interviewing skills. Managers often disliked introducing any new appraisal procedures, and they were generally uncertain about the validity of the whole process. In my own experience as a manager, the problems of managers not wanting to criticize subordinates and the lack of appraisal and interview training are the ones emphasized by human resource administrators as they send colleagues to relevant training courses. They tend to discount the mistrust of the validity of the process as a by-product of those problems.

After presenting a number of examples where performance appraisals had not worked, McGregor raised the question of what to think about a method that produced such poor results. In his view, the intuitive managerial mistrust of conventional performance appraisal did not reflect a resistance to change, a dislike for personnel techniques, or a mistrust of rating scales. The managers were expressing honest misgivings about "playing God" by judging the inherent value of individuals and having to write it down and tell them. The conflict between this judgemental role and a helping one was apparent. McGregor agreed that managers need to make

judgements about subordinates, but questioned whether they should be using something like an inspection process with acceptance or rejection as the result. He argued that managers' resistance to conventional forms of appraisal was sound as it "reflected an unwillingness to treat human beings like physical objects". Interestingly, he concluded that managers were recognizing some human values that were not as apparent to "the personnel administrators and social scientists whose business it was to be concerned with the human problems of management".

McGregor's plan to resolve the issue paid heed to Drucker and the techniques of Management by Objectives (MBO) (Odiome 1979). He proposed using MBO as a framework for developing his solution. The key was to have subordinates establish short-term goals for themselves. The superior entered the process after subordinates had thought about and developed their own goals. The superior's role was to help in the process and cater for the organization's needs and views. While recognizing that the idea was not completely new, McGregor's proposed first step was interesting:

"The first step in the process is to arrive at a clear statement of the major features of the job. Rather than a formal job description this is a document drawn up by the subordinate [McGregor's emphasis] after studying the company approved statement. It defines the broad areas of responsibility as they actually work in practice: the boss and employee discuss the draft jointly and modify it as may be necessary until both of them agree that it is adequate."

This apparently enlightened approach looks like a precursor of the empowerment movement prevalent in the 1990s. Targets were set that were specific and accompanied by detailed accounts of the actions required to reach them. At the

conclusion of an agreed period, the subordinates made their own (again, McGregor's emphasis) appraisal of what had been accomplished compared with the targets set earlier. The "interview" was an examination by the subordinate and superior of the subordinate's self-appraisal. McGregor made the telling point that this was a move from appraisal to analysis. The subordinate was now an active participant, not a passive object. The superior helped subordinates to relate their career plans to the needs and realities of the organization. Clearly the knowledge and active participation of both (emphasis again McGregor's) superior and subordinate were necessary components of this approach. McGregor emphasized that the accent was on performance, on actions relative to goals. Personalities were less of an issue. The superior was to be a coach not a psychologist. While recognizing that he had downplayed the mechanics of pay and promotion, McGregor maintained that with this process their administration would follow logically.

In his conclusions, McGregor reiterated his points that the conventional appraisal process was in the untenable position of judging personal worth and acting on these judgements where the skill was not and should not be present. It is this aspect of performance appraisals that, McGregor maintained, has led to widespread resistance to their use. However, a method that placed the major responsibility for establishing performance goals and appraising progress towards them on the subordinate would avoid the major weaknesses of the conventional appraisal process and benefit the organization by developing the individual.

When I read McGregor's paper, I had rather mixed feelings. On one hand, I was pleased that my concerns were expressed so succinctly by such a reputable writer, but mildly deflated that a problem that I thought I had unearthed appeared to have been identified and solved by someone else almost thirty years ago. However, in reading various articles published since 1957 I found that many continued to advocate the kind of process which McGregor had criticized. Several of these articles displayed charts and formulae for evaluating staff. While some unease with conventional performance appraisal was present, the solution offered was often simply more training. A more detailed summary of conventional performance appraisals is presented in Chapter Three of this thesis.

I also read material outside of that concerned with performance measurement to try to find out why McGregor's ideas about performance agreements had not gained the recognition or acceptance of his other ideas, such as Theories X and Y (McGregor, 1960). I examined writings by some of McGregor's contemporaries, to discover whether his opinions were unusual for their day or were a part of some broader trend. I was also interested in whether any of these writings had influenced employers.

One of the main themes of McGregor's (1957) paper was the value of involving employees in their own appraisals. Writings by some of McGregor's contemporaries of the 1950s and 1960s sometimes showed some awareness of this. Some felt that while there was potential for conflict between the employer and the employees there was also an opportunity for mutual benefits (March and Simon, 1958;



Vroom, 1962). Involvement by employees, Whyte (1951) suggested, could be as broad as the setting of joint planning agendas. Becker and Green (1962) proposed that this could involve business processes such as budgeting, or as Schwartz, Jenusaitus, and Stark (1963) had suggested, just employees looking for more responsibility and challenges. Vroom (1962) had contended that, in almost any circumstances employee involvement in decision-making led to a greater degree of satisfaction. Relevant developments might, Harbison and Burgess (1954) felt, be affected by extra-organizational influences or by extraneous factors which were nonetheless internal to it (Vroom, 1960). In the later case, the level of work done by the employee was very relevant. Herzberg (1966) had noted that, unlike a feudal arrangement, the only responsibility managements had to workers was to give them for specified levels of wages. However, Lippitt (1969) had noted how in practice, by being paternalistic and caring, many employers had gone further but that in doing so may have limited individual growth. Indeed, Blake and Mouton (1971) claimed that employer paternalism could lead to such extremes as frustration and hatred. Haire (1964) addressed the issue from a moral standpoint arguing that managers had an obligation to learn how to work in harmony with employees. Likert (1961) indicated that organizations whose management styles were participative tended to be more productive than those who adopted an exploitative stance. However, Bass (1965) argued that the employees' level of involvement with the success of their work was strongly associated with their satisfaction with it. Nonetheless, there seems to be little evidence of the extensive adoption of such ideas by employers. Thus, while writings

by McGregor's contemporaries appeared to support a number of his arguments neither his or their ideas seemed to have been widely embraced.

Some have considered how difficult it can be to transfer knowledge gained in behavioural research to the practice of management. Gellerman (1963) contended that studies of motivation had been conducted by psychologists who were not concerned with the application of theory. Further, Beckhard (1969) noted that behavioural science had rarely been taught to managers. However, Likert (1967) identified an issue that seemed to be more germane. He argued that time was an important but neglected variable in research. Likert (1961) pointed out that to change an organization took time: three to four years for them to develop the theory and an additional five years to change the relevant attitudes and behaviours. Most organizations do not operate in such time frames when considering changes in management.

The idea that there was a "right time" and a "right way" for change was explored in some depth by Morgan (1988) and depicted by Barker (1985) as a "paradigm shift". An example of this change or paradigm shift was the adoption by a number of North American companies of Total Quality Management (TQM). Articles on quality management had appeared in a number of business publications and it had been adopted by a broad range of companies and services (Caropreso, 1990; Karabatsos, 1991; Barry, 1991; Carr and Littman, 1990; and, Johnston and Daniel, 1991). An integral part of TQM was its positive effect on the working environment and the involvement of the employee. Gellerman (1963) had argued that

the environment and the individual interacted and accounted for most of the motivation in the workplace. Therefore it appeared beneficial to analyse the links, if any, between performance contracts and quality management.

### AIMS AND OBJECTIVES OF THE RESEARCH

In deciding on the objectives for the research reported here, I was very conscious of my close involvement with the subject and the potential for unintended bias. So rather than develop a precise hypothesis prior to gathering the data, a set of objectives was used (Selvin and Stuart, 1978). They included performance measures and the setting of goals or targets; the various factors that could affect performance from the viewpoint of the supervisor and the employee; and, the use of performance appraisals or performance contracts. The influence of a quality management process on a business culture was also examined (Sorge, 1989). This method was described by Glaser and Strauss (1967) as, generating a theory from data means that most hypotheses and concepts not only come from the data, but are systematically worked out in relation to the data during the course of research.

The specific objective however, was to develop an integrated view of performance contracts and quality management in a large Canadian electrical utility so as to contribute to a wider understanding of performance evaluation. The main aim of the research was to examine the use of performance appraisals and contracts and to conclude whether their effectiveness could be improved.

## ORGANIZATION OF THE THESIS

In designing the structure of this thesis, it was important to do justice to the breadth and depth of the research. Therefore, emphasis was placed on both the theory and practice of performance measurement. Each chapter contains an analysis of a facet of performance measurement and conclusions based on the findings.

Chapter Two contains a review of the general literature on performance measurement. Performance and measurement issues in the government and services sectors are also examined. The use of performance measures is examined in some detail in Chapter Three with particular emphasis on various forms of performance evaluation. In particular, the use of performance appraisals and performance contracts is explored. In Chapter Four, some related management systems and techniques are reviewed with an emphasis on quality management and measurement.

The use of performance measures, appraisals and contracts in a large corporation is the main focus of this study. Thus in Chapter Five the history, the organization structure and the operating environment of Ontario Hydro, a large Canadian electrical utility, are examined along with some of its key performance appraisal and measurement systems. The methods of research used are outlined in Chapter Six. They include surveys, case studies, projects and workshops. In Chapter Seven, a series of workshops, pilot projects and case studies are reviewed to provide data on which to build the thesis framework. The corporate case study presented in Chapter Eight is a detailed examination of the use of performance contracts in a large corporation. The research is partly integrated in Chapter Nine

where a report of a survey of a group of senior managers details their use of, and attitudes towards performance contracts. This Chapter also includes a series of case studies illustrating the use and evolution of the performance contract process in a large corporation.

The tenth and final Chapter contains a summary and discussion of all the findings along with related issues. The main conclusions follow along with a discussion of the relevance for the practice of management and further research.

### SUMMARY

As noted, the aim of this research has been to examine the theory and practice of performance measurement and of quality management to consider how they are related and to focus on their use in a large publicly-owned electrical utility in Canada. The central focus was the evaluation of the performance of the individual employee and much of the analysis was addressed from the view of the individual. However considerable evidence was generated from the organisational perspective and a number of corporate reports analysed. This combination of viewpoints was deliberate as it was evident from the early analysis that examination of individual performance in isolation from that of the organisation was not as effective an assessment as a combination of the two.

The thesis was organized to create a framework for achieving the objectives. The first four Chapters examine the background and processes used in performance measurement and performance contracts. The second part of the thesis is the analysis

of their use in Ontario Hydro. Case studies, workshops, field interviews, written surveys and an analysis of performance contracts and measures are to be used to address the issue of performance contracts from both the employees' and supervisors' perspectives. In the thesis, the title of supervisor represents a number of business positions such as section-head, manager, director and vice-president. The common element is the supervision of a subordinate. This information provides insights into the effect of the work environment or culture on performance measurement. A model was developed to provide direction and focus for the research (see Appendix A.)

By using varied approaches to the subject under investigation, the broad scope of activities associated with performance measurement, evaluation, management, appraisal and contracts are, I hope, covered in this thesis. The issues raised by McGregor and his contemporaries indicated that research in these areas could be productive. The potential uses of performance contracts, particularly in a quality management environment, could be explored and some thoughts developed on whether there was a "right time" and a "right way" for implementing these ideas.

## Chapter Two

### **EMERGING ISSUES IN PERFORMANCE MEASUREMENT**

This chapter consists of a review of key and emerging issues in performance measurement. A particular focus is the use of performance measurement in government and other services. How measures are used, the viewpoints of customers, and the impact of automation on business were reviewed from the perspectives of employees and management. The uses of financial measures, computers, and the need to consider the perspective of the person being measured are also considered. Finally, a tendency to move in the direction of qualitative measures and quality management is discussed.

#### LITERATURE REVIEW

In order to consider the impact and status of performance measurement, the literature search sought to identify the main issues and provide both an overview and an insight into the current literature. This material helped in the process of gathering a broad sample of opinions on performance in industry and government and a foundation for the initial analysis contained in the study.

Most of the literature focused on the industry and commerce although some was concerned with government and other non-commercial service sectors. There were three major foci: current management theories concerned with measurement, the uses of measurement, and its effects on employees and workplaces. To help ensure

that the understanding being developed was current, a number of recent business periodicals and newspaper articles were also reviewed.

Most of the relevant business and related literature which was examined originated in North America. However, Japanese and European publications, particularly British ones in the latter case, were also reviewed. Although the majority of the literature studied was relatively current, from circa 1960 onward, some attention was paid to the immediate post-Second World War period, from 1946-60, and to the emerging management science approaches of the 1920s to 1945. Some of the relevant material was in the form of conference reports and industry publications. An interesting point in parts of the literature, particularly the North American, was the growing influence of quality management. Since the 1950s, quality management has developed considerably leading to changes in practices in many parts of the world (Conway, 1992). Most of my reading in the quality field focused on government and services.

An examination of the literature of the 1980s to the present revealed a broad range of thought and direction. It included popular books such as the one by Scully (1987), some newspaper articles, as well as academic material. A number of sources emphasised the importance of having clear goals or objectives when measuring performance (Ball and Halwachi, 1987). However, there is much less agreement on the values of different methods of measurement and writers have tended to spend a great deal of energy deriding post-activity measures such as the number of parts made as opposed to the recent and current emphasis on results (Benham, 1981). According



to Talley (1991), performance measurement appeared to provoke differing emotions in businesses which were rarely intense but often conflicting. Measuring performance was often thought of as a necessary activity but one which was difficult to do well.

In the business literature, there was a broadening of the scope of measurement to include not just the products and services, but the degree of employee involvement in their manufacture or delivery. The performance contract, defined as an agreement between the employee and his or her supervisor, has been proposed as an effective way to gain the commitment of employees (Baker, 1987). Nash (1983) suggested that official recognition for a job well done and not at a supervisor's whim was a major factor in maintaining this commitment. Performance contracts may be informal, virtually an extension of the job specification, or be couched more as formal mission and value statements (Ontario Hydro, 1989). Because of this range of use, some questions remain about the content of the contract. Some argue that incremental improvement, as discussed by Hayano (1988), will result in a general improvement in the ubiquitous "bottom-line" (Block, 1988). Others, such as Drebin (1980), take a much broader view of overall objectives and goals. Finding a common understanding of what should be measured was rather difficult.

The terminology used in business has often become codified into a verbal shorthand meant to increase ease of communication. In most professions, significant words are technical in origin and reflect activities or products peculiar to that profession, as with the medical profession's use of Latin and the engineers' polysyllabic descriptives. The business world has its own terms which generally

reflect their origins in specializations such as finance, production and sales. Since computers have become widely used, for example, it is quite common to see such terms as "information systems" used by non-computer users, and being an "office expert" can mean that you are adroit in running a certain software programme not the office itself (UNISYS, 1987). This flexibility of language use can be seen in the performance literature where performance management has had more to do with firing staff than with measuring their performance, and a performance measure called safety was a measure of financial strength. Therefore, the measurement literature was sorted into two groups. First, there was analyses of the individual worker or service where the outcomes were localized and side-effects mainly contained. Second, review by industry, company or country where the results were often aggregates of products or services. This division was obviously an arbitrary one, and a number of writings used mixtures of both types but the two approaches were useful nonetheless.

While industry-wide measurement of specific products or services was quite common in the literature, some writings had adopted a different perspective. Higgins (1989) applied a number of standard business techniques to university education. He advocated measuring three key fields: internal, external, and operational. The internal measures included first degree graduation rates, success rates, higher degrees, and attraction of research funds. The external measures were acceptability of graduates in employment, staff publications, and patents. The operational measures were unit costs, staff-student ratios, and staff workloads. Areas for further study proposed in the article provided insight into the direction of the

research. They were: measurement of teaching quality; research and scholarship performance indicators; acceptability of graduates to employers, current, from one to five years time; measures of performance for libraries and central computing services; inter-subject norms for support services including libraries, computers, technicians, and secretaries; and, an evaluation of university contribution to life of local community and/or region.

These areas for further study emphasised the results of the university's efforts but still retained a number of activities. Many of them appear to be included because they seemed relatively easy to measure. Yet as Drebin (1980) pointed out, one should "avoid the tendency to focus on a program(me)'s amount of activity or some intermediate product rather than the program(me)'s ultimate effectiveness".

Drebin suggested that effectiveness should be measured in terms of how well a given activity contributes to achieving an objective, and warned against using actions that are or seem to be easy to measure but do not contribute to the "activity's real purpose". He also argued that quantifying is only valid when it is used to provide comparisons of the extent to which different objectives are being achieved. He concluded by arguing that accountability to the public served was the main key to the effectiveness of the services delivered. However, Haslam, Bryman and Webb (1992) noted that while many university staff felt performance appraisal may be useful, some thought it would be too time-consuming and costly to administer.

Allen (1983) compared four ways of gathering data to develop a performance measurement system in the public sector. These were data collected by senior

governments, data collected in the field by municipal employees, observer ratings, and citizen surveys. He felt that all four had validity but also limitations. He argued that what was the best measure for an internal work unit may not be as effective from an external perspective.

The issues of subjectivity and of choices of perspectives from which to base performance decisions was the subject of a curious exchange of viewpoints between Jobson and Korkie (1988) and a reply-cum-rebuttal from Ferguson (1988) regarding an earlier article written by the latter (Ferguson, 1986). The general exchanges were interesting but it was the conclusions outlined that focused the debate. After developing detailed statistical data and formulae to help investors measure the performance of their investments, Jobson and Korkie (1988) concluded that there were "two critical alternatives, the informed optimal portfolio and the uninformed market portfolio" and noted that, "coming up with the private information is, of course, another matter". Ferguson concluded that, "the difficulty is in coming up with estimates and knowing to what extent they are correct. This is the task that deserves attention". It would appear that knowing the correct answer is important but not easy.

In measuring performance, quantifiable activities are usually considered the easiest, or at least less complicated to administer. However, Myers and Ujie (1988) offered a different perspective. In evaluating rates of return on investment, they argued that more than the percentage increase should be analysed. A 15% return on government bonds is considered superior to 15% on speculative equities because of the risk factor. For example, did it increase because of luck or good judgment, and how

does it compare to market standards? A fourth element, and it is a key one, is in the cross-cultural features of international markets. The Japanese financial market is as stratified as the North American or European markets, but built on different components. Though the markets are coming closer together, surveys conducted by the authors indicated that Japan's acceptance level of western-style performance measures was still less than 50%. While performance, both good and bad, was becoming an issue, traditional Japanese relationships would continue to play an important role.

The purpose of performance measurement is to help guide in the performance of tasks (Benham, 1981). He brought an air of practicality to a field often seemingly more concerned with the volume of statistical data than with its use. For example, he questioned the use of standard measures such as prosecutions by police without qualifying them as to the seriousness of offences. Similarly, he argued that the role of the expert in performance measurement was to help managers not to tell them how to run their businesses. The key reason being that managers were ultimately responsible for performance, not advisors.

Fray (1988) examined the link between performance contracts and customer satisfaction. He reviewed the situation where, in providing services to the United States Department of Energy, the contractor used a cost-plus-award-fee contract (CPAF). The contract fee, or profit, was "directly proportional to the customer's evaluation of performance". As most of the contractor's, EG&G Idaho, work was in nuclear energy, including radioactive waste management and reactor safety, the

concept of using customer evaluations was an interesting one. The various models used by the company included the usual cost and quality elements, but it was customer responsiveness which drove them. This was illustrated by a set of actions and attitudes developed by the company's senior management group. They included meeting customer needs, having decisions made at the lowest possible level, and emphasizing performance measures. EG&G Idaho management also decreed that internal customers, for example other departments, were as important as external customers. To meet these goals, they adopted a performance model with three parts; a strategic summary, performance milestones, and measurements of individual units. The model worked well initially, but lacked support at the operating level. The perception by the employees was that the model was top-down driven and lacked local management input. The problem appeared to be that senior management thought they knew what their customers wanted but had not asked them. A major course correction was undertaken with local management in a lead role. With the knowledge of their customers' needs, the contracts could be developed by the appropriate level of management. Peters (1987), for example, has argued vigorously in favour of flexible but clearly specified performance contracts. He argued that the contracts should be negotiated, and advocated the use of a small number of performance categories with clear-cut goals. He also encouraged the quantification of results and argued strongly for the use of performance measurement at all levels in organizations.

In the mid-1980s Statistics Canada, a government agency responsible for analysing federal statistical data, was trying to increase the effectiveness of its

productivity indicators by including capital equipment costs and the cost of materials in the relevant calculations. This was an attempt to recognize that productivity can be increased in different ways, such as installing more advanced equipment and by developing new and better procedures as well as by varying labour inputs. The impact of these initiatives on individuals was also important. Macro measures could help investors and may provide direction for a government body, but they did not always meet the needs of individual workers (Guinn, 1987). A study of the productivity of 2,000 white-collar workers found that 50% of them were either unsure about or disagreed with the idea that there was a clear way to measure results in their present jobs (Salemme, 1987). Only 35% believed the performance measures that currently applied to them were accurate, and nearly twice as many reported that they did not receive timely reliable information about their effectiveness.

A study by Grizzle (1981) focused on the use of performance measurement. It asked questions about the roles of the entities such as programmes, activities, departments or sections whose performance was being measured, on the users of the data, and on the purposes for which it was obtained. The questions were then put into a series of measurement categories. The definitions of each category often reflected local rather than standard terminology and the perspectives were often very personal. This made it difficult to draw conclusions. For example, in an extreme case, the comparison of annual consumption from the viewpoint of an economist may contrast tellingly with that of a Buddhist who may believe that less consumption is preferable for achieving well-being (Schumacher, 1973).

The main theme which emerged from the literature on performance measurement was the need to measure that which is important. Thus, while managements can define goals, it is prudent to ensure that they are the right ones defined from the appropriate perspectives (Allen, 1983). The perspective is becoming more and more that of the customer whether internal or external to the organization (Peters, 1991). It is also very important that these views are those of customers themselves and not as perceived by management and/or through too many other analytical filters (Fray, 1988). Fitzgerald (1988) argued that the use of short-term measures, such as meeting annual budgets, could lead to internal organizational interests receiving priority. While analysis of these issues suggested that a broader range of measures may be necessary, they would be difficult to develop (Kotter, 1990). External perspectives on management performance, such as the customers' views of service provision and shareholders' viewpoints, will become increasingly important (Pollitt, 1988).

Measurement can be used as a device to explain the business that an organization is in and why it is in it. In practice, the act of measuring can become a measure itself. Measuring and perhaps as significantly the simple reporting of an activity tends to make the activity seem more important than it is. This concept is explored in a somewhat tongue-in-cheek way by Hyldahl (1989) who discussed how in performance appearances can sometimes supplant reality. However, if measuring activities tends to make them at least appear important, it would obviously be beneficial to identify important things to be measured. By using a process for



designating essential objectives and assigning responsibilities, problems can be identified, solved, and results improved (Baker, 1987).

In 1980, the Ford Motor Corporation was close to failing in the United States and desperate measures were required. However, by 1986 Ford had higher profits than General Motors, a competitor three times its size, when before it trailed badly. A number of factors were involved, including quality improvements, but employee involvement was considered the most important reason (Geber, 1989). In developing their employee involvement programme, no attempt was made to consider whether it was helping Ford financially. A member of the relevant steering committee at Ford expressed this as, "we wanted to stress the quality of the process, not the outcome". To find out how employees felt about employee involvement, 2,000 of them were surveyed. Of those on the programme, 82% were satisfied with their chances to accomplish something worthwhile as opposed to 27% in an earlier survey. Also, 59% of non-participants in the programme as opposed to 35% in the earlier survey expressed increased satisfaction as well.

Ford's desire to treat employee involvement as a process rather than as a programme reflected a desire to concentrate on a general direction rather than on a goal. This approach was also explored by Hawkins (1989), who felt that process measurements are superior to the results-oriented ones. He argued that if managers waited for results to filter back to production, then it was too late to change. The Japanese habit of striving for steady improvement in processes is projected as being a major factor in their industrial achievements. By reducing activities that do not

contribute to the value of the products or services and eliminating steps in the production processes, they have reduced overall manufacturing times (Imai, 1986). The ubiquitous forklift truck, for so long a symbol of automation, is now seen as a symbol of wasted effort which by facilitating the use of large inventories and stockpiles, adds to the total cost of the product. Measurement of the forklifts' results could be very positive, but "zero inventories" were better (Hall, 1983).

As the literature on performance measurement has grown, the question of what should be measured has become more focused, but how to measure it has remained vague and only partly answered. The main problem appears to be that, while researchers often agree on the need to measure what is important, there is far less agreement on who should define what is important (Flynn, 1986). Newspaper articles and speeches by business leaders often emphasize the traditional customer satisfaction approach as the only valid indicators of performance. Nonetheless, initial reactions to this suggestion have often been lukewarm because of the difficulty of measuring customer opinions accurately. However, one view emerging out of the contemporary literature is that measuring important things poorly can be superior to measuring less important ones very well.

Methods of collecting data on customer satisfaction and/or opinion range from Mayor Koch of New York, USA, in the 1980s yelling "How'm I doin?" to his constituents, (not very well, it seems, because he lost his position) to detailed customer surveys spanning a myriad of carefully studied demographic groups. The focus of the data collection may range from complaints to praise. However,

companies who fail to take public opinion into account in all of their business decisions may fail (McKinnon, 1989). Peters (1989a) asks whether customers should be thought of as adversaries or partners. The difficulties experienced in defining customers has made it hard to use them to measure performance. The customer may be the initial or the final consumer. In services, the lack of a tangible end product can confuse the situation further. Terms such as "more convenient", "value added", and "fast food" may all be useful but difficult to quantify. Even with tangible goods the ultimate customer may be a parent with the credit card who may take a back seat to their aggressive child. The key, however, appears to be to develop a definition of customer for the relevant products or services (Harris, 1991).

Lee (1989) argued that once the customers have been identified the problem is only half solved, what they want must also be defined. Surveys may be informative, but only if the questions are the correct ones. Too often the company doing the survey thinks they know what the customer wants and poses the question as "we make items A, B, and C. Which do you prefer?" not realizing that the customers prefer their competitor's item D. Perhaps the old aphorism "the customer is always right" will have to be changed to "the customer's definition of service is the only one that counts". For products or services which exceed the knowledge expected of the customer, performance measures may have to be established that ensure that a nuclear station does not go into meltdown and that roads do not collapse. Industrial measures to ensure that supervisors do not help to jeopardize workers' health or break the law are obviously essential. However, while the traditional measures of performance,

efficiency, economy, and effectiveness may still be appropriate, it appears that value can be added by including the customers' viewpoint in the relevant equations (Holub, 1990).

### GOVERNMENT AND SERVICE SECTOR ISSUES

Performance measurement is integral to many business activities. The measures are followed both internally and externally by shareholders or market analysts. In government and other services sectors, performance measures are also used both for internal and external audiences. However, the evaluation is often not as clear-cut as in business and it is sometimes more difficult to quantify relevant services and products (Flynn, 1990; Hepworth, 1986).

The literature on performance measurement in government and other services was examined with a number of perspectives in mind. Of particular interest was the view of government services from its customers', the public, perspective and the use of performance measures in the United Kingdom and North America. There appears to be a general difficulty in defining the nature of a service. Berry (1980) and Fuchs (1969) have suggested that services differ from goods and/or other commodities by virtue of their intangibility. The measurement of performance in intangible services therefore may look like an exercise in futility. However, Heskett (1986) listed some businesses which he regarded as services and showed that, although difficult, the task was not impossible. He identified finance, procurement, real estate, communications and government as some of the services that can be measured. These

services and/or businesses form the basis for much of the research in the present study.

In analysing services, Heaton (1977) brought a business perspective not common in the literature. He suggested that lawyers, accountants and executives obtained their information from reports, statistics and trade journals and not from first-hand observation. Therefore incomplete, their perspective was that of assembly-line workers. This problem, he maintained, extended to organizations that did not have a way by which its members could learn and develop. This limited viewpoint could be broadened by using objectives or a set of objectives. In their absence, measurement can become a means of control and manipulation. Building on this premise, Heaton argued that in established organizations measurements can control objectives and methods of working. For example, the rating of professors by their publications caused them to spend more time researching and less teaching. He also suggested that, if great goals and targets need to be achieved, they could not be accomplished by small conventional measures of productivity. Conventional measures can lead to conventional results; winners and losers, successes and failures. Objectives, on the other hand, could lead to accomplishments. Heaton concluded that the link between how we look at the world and how we act is measurement.

Obviously one of the critical problems in measuring performance in services tends to be that of knowing what to measure. Zeithaml, Parasuraman, and Berry (1989) studied the ways in which customers evaluated services for seven years. They found that meeting customers' expectations before and after transactions was as

important as the transactions themselves. They identified six variables that could account for the difference between satisfaction and dissatisfaction. They were: reliability, namely the organization's ability to perform the promised service dependably and accurately; responsiveness, the willingness to help customers and to provide prompt service; assurance, the knowledge, competence, and courtesy of employees; their ability to inspire trust and confidence; empathy, caring, individualised attention to customers; and, tangibles, appearance of physical facilities, personnel, equipment and communications material. The conclusions were that when customers saw these factors in their transactions with the service group, they were satisfied. When they did not, they were not satisfied.

In recent years, the use of performance measures has become part of the dogma of business in the public sector services in Canada; however, it has not attained the same level of integration or acceptance by the customers (the public) or the employers (the politicians). Even amongst the employees, the criteria of "Yes, Prime Minister" (Jay and Lynn, 1987), namely the size of budget and location of office, are often ranked higher than measures of actual performance. The delivery of government services is usually rather difficult to quantify, and to evaluate as to its impact or level of performance (Beaton, 1988).

The perceptions of the public and those of politicians responsible for government and other public sector services are key factors in the measurement of the latter's performance. However, few definitive measures are in place for most kinds of public service and its customers have difficulty in ranking its performance. A Gallup

Poll (1990) indicated that Canadians had more respect and confidence in airlines, banks, and automobile companies than their own provincial governments, and ranked the federal government even lower and behind steel and oil companies.

A review of the relevant literature suggests that, while many programmes and systems have been developed for measuring production processes, services remain less clearly defined. This was particularly so in the public sector where even organizations delivering specific products had not established service indicators or measurements (Carter, 1989).

Attempts to measure performance in government can illustrate the difficulties encountered where the final product is intangible. A traditional way of measuring the scale of a government activity was in the number of staff on payroll. However, difficulties can arise when this measure is used as an indicator of performance (Freeman, 1991). Canadian government statistics showed a drop in the Canadian federal payroll of 9.2% from the 1984 high of 582,928 employees. However, the number did not reflect the privatization of some crown corporations, or the increased contracting out of work. In fact, the highest cuts, up to 25.8%, had been in crown corporations as they were privatized. The counting of people was also difficult as different approaches were in place. Some government departments used an actual head count, where four people working on three-month contracts were counted as four people. Other units of the Federal Government used person-years. They would count the four people working for three months as one person-year. Problems arose when attempts were made to add the two totals. Claims and counter-claims of reductions

and increases in government levels have been clouded by not including new policies in the comparisons and the inclusion and/or exclusion of different units from the calculation. A move to financial controls rather than the number of people, was seen as a way of controlling the system, but the underlying difficulty of measuring, where no tangible output exists, seems likely to continue.

In comparing a wide range of public enterprises in developing countries, Ayub and Hegstad (1987) identified influences on performance peculiar to public forums. In most cases, public industrial enterprises did not perform as well as private companies in a number of ways. They suggested that measures specific to government services, were required to demonstrate good performance. A similar approach was also advocated in the United States where a Presidential Executive Order was designed to improve the quality and efficiency of the service of US federal agencies. Burstein and Sedlak (1988) concluded that, while relevant forms of education and training could lead to an improvement in services, uneven support from top management and a lack of customer orientation were likely to continue to hamper all efforts to improve.

At a local government level in the USA, Jarrett (1985) found that most states did not have formal productivity improvement programmes, and used a broad range of approaches to measure their performance. Most state productivity programmes were felt to be limited in scope to provide reliable data for employees, and support from managers has been as negligible as at the federal level. In Britain, while leisure services presented a positive face of government to its customers, Bovaird (1991) concluded that, while a number of value for money studies have been produced, they



have not led to marked changes in the way in which the departments delivered their services. In fact, lip service to objectives-led management could undermine its future credibility. This concern extended to the level of the individual worker where the plight of the civil servant is highlighted by Newell (1989) in a speech in Toronto:

"Who is writing the bible on productivity and innovation for the public servant? Where are the theories that support a more progressive public service?...We must nurture a public service that understands fully the competitive global environment in which we live."

Though this view of the public servant as lacking direction is common in the private sector, it also exists amongst public-sector employees themselves. A survey of 2,000 Canadian public servants in 20 departments and 1,300 managers in 13 large corporations showed, almost without exception, that private sector managers had more positive views of management practices in their organizations than public sector ones did (Zussman and Jabes, 1990). Moving up the organization levels actually meant decreasing job satisfaction in the public sector group. The authors suggested changing the public sector's incentive system to put a higher value on managing as opposed to policy-development. They advised undertaking organizational initiatives on a department-by-department basis, and communicating department values and missions more effectively to the middle managers. They felt that this could provide a direction that was sadly lacking.

The 1980s saw various governments around the world present more of a private-sector face to the public. Performance became a buzzword that appeared in

many government publications. A series of White Papers circulated by the Treasury in the United Kingdom emphasized the move towards an increase in the measurement of performance and in formal objective setting, the use of performance related pay and more use of short-term contracts (Pollitt, 1986). He argued that, while the theory of reducing public spending boosted economic growth could be both supported and undermined by relevant evidence, the commonly held perception that "the desirability of improved public service assessment" had attained a legitimacy beyond the political right wing. This improved public service performance was meant to bring savings and effective economic performance.

Pollitt also suggested that performance assessment would provide senior managers with more control over the lower echelons of the civil service. Coupled with this control would be the message that performance was a dynamic activity particularly when linked to the "three E's" of Efficiency, Effectiveness, and Economy. Pollitt addressed the danger of introducing over-simple thinking and practices concerned with performance issue, at least partly, by identifying the fact that different customers, such as "Her Majesty's Inspectorate" and local school parents would most likely have different perspectives on what constitutes performance. The problem of identifying the customer was explored by taking the position that "from the point of view of those being assessed, the choice of intended audience is crucial". The other crucial element would appear to be the implementation of the various measurement processes. It seems that, though a proliferation of measures and systems have been proposed, there is little evidence of their general adoption or continued use

(Mayston, 1985). The climate or culture of the organization may be a factor with an impact on the implementation and on the system being proposed (Harrington, 1991; Sorge, 1989).

In reflecting on what Pollitt (1986) saw as a North American and British experience, the tendency to short-term considerations should be noted and the judgement of performance not be left solely to top management. As Jarrett (1985) noted, the public and private sectors display "no universally accepted sequence and approach for productivity improvement". The complexity of organizations, reflected by the variety of government hierarchies, locations, and activities, makes it difficult to establish a universal pattern for performance measures and indicators for the whole public sector. However, Van de Ven and Ferry (1980) argued that an assessment of an entire organization, may result in a set of instruments and guidelines for improving its work performance.

Bowlin (1986) contended that the main problem with evaluating performance in government organizations was that there was no "market" for the outputs. From an accounting perspective, Wallace (1989) addressed some of the implications of this point for government decisions, for example, if privatization continued to expand, performance measures would be necessary. Mayhew (1987) suggested that the most critical problem was how to devise relevant and realistic performance targets that were consistent with management's priorities and objectives, and with an appropriate level of service being given to the public. This potential conflict was a recurring theme in the literature of the management of resources and the public perception of that

management. Reid (1989) argued that this management, or lack of it, could be measured as the percentage by which a citizen believes his or her local government expends more than the minimum required value of resources to produce the level of public services required. Ostrom et al (1973) noted that the duplication of services and overlapping jurisdictions was seen by the public as wasteful and inefficient (Ostrom et al, 1973). By developing a system of measurement, it may be possible to identify the waste in the system. The process as proposed by Reid, is to ask citizens to evaluate their government's performance. Then to isolate statistically that element of their response that is common to the particular government in question. Of course, it could be argued that this is what elections are for, but there is often too little linkage between the election positions of government and the day-to-day delivery of its services to lead to this form of action. Therefore, the different forms of measurement must take into account the incentives for employees to produce and use the measures as well as their incentive to perform against them (Flynn, 1990).

The size of government agencies, and their perceived growth is, in itself, seen as an area of concern by many of the government's customers (the public). Whereas expansion in the private sector is seen as a positive particularly when more jobs result, public sector expansion is rarely seen as desirable (Nanry, 1988). To meet increased demands, therefore, some US states have used training programmes to help staff do more work without increasing staff numbers. However, it has often been hard to legitimize the training and link it closely enough to improved performance. One system which was adopted was called Performance Assessment Review (PAR), which

was based on Management By Objectives (MBO) methodology and which excluded personality and character evaluations. Based on tasks, the system's key element was that critical work elements, both negative and positive, were recorded by the rater and by the person being rated. These assessments were reviewed annually and staff were placed on a five-point scale ranging from significantly above standard to significantly below standard. Employee involvement in the evaluation process was unusual in these work units. However, comments from users of the PAR systems appeared to support the focus on improvement of employee capacity and on actual performance rather than the punitive sanctions perceived to be in other appraisal systems.

City government is a place where public servants meet face-to-face with their "customers". Services delivery tends to be local and the results, and quality, of these services is often quite obvious. A programme developed for Kansas City, Missouri addressed the issues of the general public's questioning of the effectiveness of several city department operations (Nordstrom, Rucker and Hall, 1988). Employee productivity and morale were considered to be at an all-time low. By focusing on employee activities that could be observed and measured, links were established between problems such as the issuing of deadlines, the refusal to do work, and morale. The programme called Performance Management (PM) used objective measures of performance coupled with feedback and positive reinforcement as the basis for the evaluation. The staff felt that recognition and sense of accomplishment were the key factors in the programme. A weakness identified by the study was in the statistical record-keeping necessary to support what was essentially an attempt to change

behaviour. Nonetheless, it was felt that the programme helped the employees meet their training goals.

The concept of pay for performance, or value for money, had made itself conspicuous on both sides of the Atlantic (Bovaird, 1991; Perry and Petrakis, 1988). Merit pay was an idea often proposed by management, the public and the media (The Economist, 1992). This was the case in spite of the findings of studies that caused many to question its effectiveness (Pearce and Perry, 1983; Perry, Hanzlik and Pearce, 1982). In 1984, the United States Congress developed a merit pay system for managerial staff called the Performance Management and Recognition System (PMRS). In a paper reviewing the use of this system, Perry and Petrakis (1988) produced insights not only into the management of the PMRS, but into some of the current thinking on performance appraisal. PMRS was an update of the Civil Service Reform Act (CSRA). In reviewing the data as collated by Perry and Petrakis, one is struck by the similarities of the old and new systems. While some of the parameters have been eased, the intent of the programmes appears similar. At the time of writing, 1988, Perry and Petrakis reserved judgement on the results of the new system, but raised the sombre spectre of a good number of papers questioning or providing evidence of failures in the use of merit pay in government (Gabris, 1986; Gaertner and Gaertner, 1985). In fact, Perry (1986) has argued that the whole nature of merit pay itself may be flawed and that its failures may not just be the results of poor implementation. This point was supported by Pearce (1987) to a certain degree, in

that trying to reduce the complex and at times convoluted intricacies of an organization into a simple measurement system may be futile.

Managers questioned by Perry and Petrakis (1988) stated that the difficulty with most performance systems did not lie in identifying good performance but in measuring and documenting it. If this lead to a problem of good performance not being rewarded or poor performance being accepted, then the merit pay system may actually demotivate staff. Perry and Petrakis were also aware that the political value of using a merit pay system may outweigh the fact that it may not work as a motivator. In fact, while recognizing the connection between pay and decisions to join or leave a company, linking merit pay to ongoing performance may lead to a lack, not an increase, in motivation (The Economist, 1992). Perry and Petrakis contended that it might be the symbolic role of pay for performance that, despite evidence as to its effectiveness, explained its continued use.

In reviewing the literature on performance measurement, the focus has been mainly on services. In many cases, these activities tended to follow manufacturing in the development of measures. Therefore, it seemed logical to analyse not only the current methods in the targeted sectors but to identify the future direction of measurement in manufacturing operations that were also widely represented in government and services. Of particular interest, were the moves towards time-based measurement, indicators of customer satisfaction, the use of information management, and the assessment of training and management performance.

The failures of a number of large businesses in North America have led to calls for new measures of corporate performance and for new management accounting systems. There has also been a questioning of corporate mission statements that result in only one goal, that of increasing shareholder profits. Kanter (1991) argued the simple fact that money can be quantified sometimes means that financial measures of performance can overwhelm other measures even when the accounting is suspect. An example of a different approach was present in the evolution of the Japanese manufacturing strategy (Stalk, 1988). A series of stages had seen Japan become a major manufacturing nation. In Stage One, 1945 to the late 1950s, low productivity had been offset by low labour rates. Stage Two, from around 1960 to the early 1970s, showed an increase in labour rates being met by capital-intensive operations aimed at high volume products not produced elsewhere in the world. In Stage Three, 1970s to the early 1980s, the earlier narrow focus broadened and flexible manufacturing had produced a greater variety of products at lower cost. By Stage Four, late 1980s and 1990s, time-based strategies had allowed for rapid product development cycles that had more variety and shorter life cycles. As a measure of performance, "time" is challenging the more traditional elements of financial costs and productivity. Products brought to market earlier, even when over budget, can outperform those brought late to market and on budget (Musselwhite, 1990). Perhaps this reverses the homily to, money is time.

Measurement of the value of both products and services has, of course, tended to focus on the elements that can be quantified. Davis (1987) addressed a number of



issues where the difficult to quantify elements were not only considered essential but in some cases more important than the quantifiable ones. Information, customer wants, and the company's image all affected customer reactions and profit margins. When Coca-Cola brought out "New Coke", it was reacting to what its management thought was a tangible difference in taste, which was preferable to their traditional product. The company forgot that the image of the old Coke was important in the minds of the American public, and it showed in the drop in market and profit shares. The response was a rapid reintroduction of the old product as "Classic Coke" (Davis, 1987).

The measurement of the usefulness of information technology has been a common concern of the business world since the 1970s. There has been much uncertainty as to how to measure its impact. Measures such as return on investment, or return-on-asset, processing time or cost savings did not appear to address the issue adequately. As information technology becomes more advanced, it appears that conventional measures of performance may need to be revised. Belitsos (1988) argued that, while particular installations of new hardware could probably show benefits, a badly run company could lose more money by adding to its information technology without addressing the root causes of its problems. However, the increasing use of information technology will require that it be measured if only to justify its costs.

In training, the desire to equate learning with job performance has led to the use of measures which may oversimplify the relevant issues. Hoffman (1983) argued that the transfer of knowledge obtained in training to job performance is primarily the

responsibility of line management not that of trainers. Therefore, the measures of performance should exist in the work place not in the training programmes. The measurement of managerial performance was also a subject which was not clearly defined. Sloma (1980) outlined a number of subjects where managers could contribute to the measurement of their businesses. They included "establishing customer demands" and "analysis of pure corporate policy and strategic planning factors". Sloma also suggested that planning, training, and leadership be included also the setting of measurable goals which he defined as "involving others in a creative manner". Sloma's view is that, "the most creative way to involve aspiring professional managers, is to appeal to their greed". He concluded that a well-constructed incentive payment plan based on performance measures offered a "piece of the action to those managers who truly perform". A rather short-term view of management performance.

The time it takes to bring a product to the market-place, the use of the customer perspective, and the measurement of training and managerial performance appear likely to influence the future direction of performance measurement. However, the most important measure may be one that does not always appear in the business statistics. The safety of the public and employees, is perhaps a measure that may not only reflect on the productivity of the company but upon its management. As a symbol of good management, it has few peers. The standard measures of safety, time lost because of injuries and fatalities, capture its human impact. It is still hard, however, to design an appropriate procedure for placing a financial value on the

saving of a life or avoidance of injury (Jones-Lee, 1976). The development of such procedures may move safety more into the mainstream of performance measurement (Pardy, 1990). While this may gain the attention of financially-myopic managers, it may be a short-lived victory as the movement to qualitative measures appears imminent.

### ISSUES ARISING FROM THE USE OF MEASURES

It would make measurement much simpler if one number could be used to reflect all the activities of organizations. Sometimes, in the search for such an indicator, suspect means are adopted. Often, they consist of the resurrection of a dated concept or the re-discovery of an item designed for a specific use extrapolated to a general hypothesis. Money, of course, is the most common indicator and one that readily catches attention. Nonetheless, its use as a single or even as a general indicator must be viewed with some scepticism. The Canadian media demonstrate a classic reactive mode of business reporting. As with a number of smaller countries in lock step with a large neighbour, the inconveniences of the dominant, the United States, can become the life-threatening traumas of the follower, Canada. The Canadian dollar is often used as an indicator of the country's economic health and its rise or fall, as a signal for Canada. Usually, however, it is not the Canadian dollar that is shifting but the United States dollar and it is the relativity that is changing. The Canadian dollar may slip sharply against the Japanese yen, German deutschmark, and the British pound, but rise against the United States dollar and be reported by the

press as an indicator of success. Of course, if the majority of one country's trade is with one market, the interaction of the two economies is very important, but actual performance is often not part of the equation.

The difficulty in establishing reliable measurement exists even in activities where the use of measures is well established. In a report on statistics used by organizations around the world, all the participants in a survey agreed that Canada had the best statistics (The Economist, 1991). The reasons given varied but the key was the method used to establish the results. Statistics were evaluated by those surveyed as to their reliability, timeliness, and number of revisions. However, the main point of interest from a measurement standpoint was that the "ranking was based on perceived reliability of their [the Canadian statisticians'] published figures". That is, while the numbers were important, the group which uses statistics the most, statisticians, relied on perception in establishing their final ranking.

In trying to meet the goal of a single indicator but to be a little more accurate, composite numbers or indices are sometimes used. The Canadian Gross National Product (GNP) is an index commonly used to illustrate shifts in the production of goods and services. Though not as effective for services, it does provide an insight into the general direction of the economy. The important issue is how useful, usable, and effective the information is in work situations. As in a number of theory and/or experimental programmes, the priorities assigned to each element may vary depending on the perspective of the user.

In evaluating the impact of performance measurement, it is important to consider the atmosphere in which it takes place. The activities can range from a surreptitious use of a stopwatch or hidden video camera, to a self-evaluation with no attempts at cross-referencing. The image of the "ratefixer", skulking behind pillars, is still an evocative one to many workers and to the researcher. Similarly, the self-evaluation where a lack of knowledge apparently causes a higher than appropriate ranking may also cause difficulties. In a study of American and Japanese children, the American children ranked their knowledge of mathematics high, but scored poorly on a mathematics test. The Japanese children underestimated their abilities on the same task. Whether this is an example of North American "confidence" versus Oriental "modesty" is a moot point but it does illustrate the difficulty of establishing an opinion without a reference point (Tang, 1991).

One of the few types of work with well-established reference points is the production line, where, by using stopwatches and various analytical techniques, blocks of time can be allocated to different tasks. Rooted in the work of Taylor (1911) and the industrial engineering system of "reduction to basics", the production line worker has personified the timed, controlled, resource. In analysing the work of the production or assembly line, the industrial engineering goal is to balance the workload and to ensure a uniform flow of activities (Guest, 1955). By reducing the work to its smallest inputs, the various steps in the assembly process can be analysed and rated. If the work can be reduced to a set or package of non-judgemental activities, automation is straightforward and effective. In the competitive world of the North

American assembly line, there is often more money for equipment than for people. By automating the more onerous activities, for example, paint spraying or repetitive welding, management can bring an element of control to the processes and focus on reducing variety in the other tasks.

Of course the assembly-line worker may view this activity from a different perspective (Terkel, 1974). By reducing the work content to aid automation, the worker is treated as a "cog in the wheel", and any attempt at judgement discouraged (Guest, 1955). Using the worker as a quasi-robot may allow for an eventual full conversion of the process, but in the interim, the workers' hierarchy of needs may be severely undermined (Maslow, 1954). "What price do they put on you? Look at the price they put on a machine. If the machine breaks down there's someone to fix it. If I break down I'm just pushed over to the other side till (someone else) takes my place" (Stallings, 1974).

Within this environment, the ubiquitous stopwatch has become a symbol of control and being controlled. Superficially objective, the watch is used to measure elapsed time but the rating nonetheless consists of the opinion of the observer. It is based on the observation of a trained industrial engineer, where 100 is the base and represents an experienced worker working at a "normal" (subjective) pace. This "pace" is part of the engineers' training, where by studying films of work activities, for example dealing cards to a certain rhythm or observing people walking, a mental "standard" is established. This rating can be raised to 120% of standard when performed by an exceptional worker performing at an exceptional level. Then, by

multiplying the observed time by 1.2 (120%), the time for the standard worker is established. Conversely, the inexperienced worker may be rated as an "80" and by multiplying the observed time by 0.8 (80%), the standard time for a worker can be established. This range, 80-120, is often broken down in 5 percent steps, such as 90-95-100. So, though the stopwatch reading is precise, the rating is subjective. The main difficulty is, of course, rating a complex hand action, such as applying a windshield (screen) gasket based on pure observation. The flexibility of the material, its temperature and the burr-free surface to be worked on all affect the dexterity of the worker. Similarly, the speed of the assembly line is always a compromise between the ideal vehicle mix and the actual. The ratio of options, the wheelbase of the vehicles, and the variety of models all have standards to work from but even with computer modelling, if the optimum pattern is not being ordered, it cannot be built and the speed of the line is compromised. All these elements have encouraged industrial engineers to question some of the principles of the assembly line in its current form (Gyllenhammar, 1977).

Apart from an increased proportion of automated functions, the car assembly line had changed little since the days of Henry Ford (Womack, Jones and Roos, 1990). It is not surprising, therefore, that a review may have been in order. What was surprising was that in one of the more innovative plants, the original Henry Ford assembly line concept was resurrected (Gyllenhammar, 1977). In the original Ford plant, the cars were rolled from station to station. In the Volvo plant at Kalmar, a similar approach is used. Granted that the work is on platforms or floating on a

cushion of air, but there is no assembly line as such, and work progresses in stops and starts rather than through the continual grind of the standard assembly line.

The addition of flexibility to the assembly or production line is also seen at the Nummi plant in Fremont, California and the Japanese car industry has adopted similar practices. The Morgan Car Company, still building its wooden framed sports cars one at a time by hand since 1932, may continue to do so but just deciding not to build on an assembly line does not change the nature of the work. These changes only take place when a philosophy is in place that presents an alternative to the assembly line culture. An example of this is, again, seen at a "green-field" plant built by Volvo. In engineering the plant, the needs of the workers were built into the process. From providing windows to view the world outside, not just skylights to provide light, to installing flexible work assignments to provide challenge and variety (if chosen), and training an enlightened management that involved the workers in selecting the work and the processes required. In this way, objectives could be set, usually in groups, and both positive and negative feedback could be received. Gyllenhammar (1977), the President of Volvo wrote that "...we must learn to design work to suit the labour available, and only the labour available can tell us what suits it," and "[w]e don't want to find out what we did yesterday. We want to know what to do tomorrow."

Most performance-reporting mechanisms provide managers with information. That is their primary purpose. Based on this information, decisions can be made that may change the way in which the work is done. The perspective tends, however, to be solely from management or supervisory viewpoints, or on a broader scale, from that



of governments and their representatives. It may be useful to have more common understandings or objectives on which to base these opinions so that participants on either "side" can participate.

## CONCLUSIONS

The decision to examine a number of sources, from books to speeches, has revealed a number of different perspectives on the subject of performance measurement, and the review of the main issues has brought certain key points to the fore.

A wide range of measures is being used in the government and other services sectors, and the way in which they are applied is also varied. However, several patterns could be identified. The idea of using the perspective of both employees and managers seems very significant. The use of a single measure may be useful as an indicator of performance, but there is little evidence that it would be a reliable way of measuring actual performance. There appears to be a growing emphasis on important issues, even when they are difficult to measure, compared with those that are less important but more easily quantified. The increased use of time as a performance measure will be of particular interest. Performance contracts appear to address some of these issues but more research into their effectiveness is needed.

In the public sector, care should be taken to ensure that the performance measures are clear and accepted by everyone involved. They should include measures

of effectiveness, equity or delivery of the service and be integrated with the measures of success used in the rest of the organization (Flynn, 1990).

It would appear that while some work has been done and that certain positions may be emerging, the evolution from industrial-manufacturing practices has not reached a stage where definitive measures are in place in the government and other services sectors. A number of measures and systems have been proposed and in some cases implemented but there is little evidence of broad-based use. The environments of the relevant organizations and the way in which changes are made may influence the effectiveness of the performance measures. An employee focus may help to bridge the gap between identifying good performance and being able to document it. There is some evidence that performance measurement, while not necessarily requiring all the trappings of the quality movement, may benefit from examining and perhaps from applying some of its principles. However, it may be a combination of quality, employee involvement and improved production systems that will be the most effective (Abernathy, Clark and Kantrow, 1983).

In the next chapter, performance measures are examined with particular emphasis on their use in performance appraisal and performance evaluation systems.

## Chapter Three

### THE USE OF PERFORMANCE MEASURES

In Chapter Two, a group of measures, ideas, and directions were identified for further study. The ways in which some of these forms of measurement are used are addressed in this chapter. The main focus is on performance appraisals and on their use in the business environment. The behavioural aspects of appraisal, where the individual rather than their performance is evaluated, are reviewed. The use of performance appraisals in managing staff and as evaluation tools, is examined to try and establish whether the manner in which they are used may affect the results themselves. The evolution of appraisals is explored with a focus on the link between individuals, rewards, and results. Performance contracts are examined from their origins in the legal field to their potential use in performance agreements.

The main theme for much of this chapter is the use of measures from the perspective of the measurer and the person being measured. In practice, this has often meant the use of some form of performance appraisal or contract. There is considerable literature on performance appraisal and most of the material follows a similar pattern, at least from the user's standpoint, in outlining various rating systems and providing guidance on the interview process. Because of the lack of academically supported literature on performance contracts, the scope and types of sources have been broadened to try to capture the best information available. Much of this material appears in business journals which, while perhaps lowering the research or intellectual

level of the writing, tends to have been produced by writers who have participated in or observed the use of the relevant ideas and practices at first hand.

### PERFORMANCE APPRAISALS AND EVALUATIONS

Although it can be tenuous at times, the link between performance measurement and performance appraisal is well established in business. The annual review of the perceived strengths and weaknesses of each employee usually starts with the personnel department. Ratings of traits such as punctuality, tact, cooperation, and initiative are included. The ratings rarely call for details of the quality or quantity of the employees' work. The evaluation tends to judge people, not their performance (Heaton, 1977; McGregor, 1967).

Much of the literature on performance appraisal focuses, at least initially, on the behaviour or attitudes of employees rather than on tasks. Based on theories such as Maslow's (1954) Needs Hierarchy, Herzberg's (1966) Two-Factor Needs Theory, McClelland's (1961) Needs for Achievement, Affiliation, and Power, or Skinner's (1957) Theories of Reinforcement, the implementation of the theories has varied in commitment and rigour. Many appraisal schemes have been based on "needs" theories where managers recognize and reinforce behaviours in the hope that it will increase production (Nye, 1979).

Performance appraisals appeared to be disliked both by management and employees but they continued to be used. This is interesting insofar as little evidence has been presented that this widely used system has improved employee performance (Zemke, 1991). Zemke's analysis touched on a number of issues which can affect the appraisal process, but perhaps his most interesting observation was that, while we may want a perfect system, we should meet the challenge and improve on the imperfect. Studies of performance appraisals were numerous, but few had asked the question of whether they affected performance (DeVries, 1981). Kirkpatrick (1982) thought that using the appraisal process to handle two functions, salary administration and performance improvement, led to the frustration seemingly so often felt by users of the system. The conflict can lead to abuses in the system where supervisors may try to orchestrate the results to meet their own agendas.

In establishing what performance is to be expected for a job, Scollard (1985) suggested that the job description can provide an initial step. A major benefit is its ubiquity in most businesses. The performance appraiser can then use the job description as a guide to specific performance. In identifying sources of information for "problem performance", Yaegar and Rausepp (1983) suggested starting with the "problem subordinate". Other sources included the immediate superior, personnel, and the subordinate's peers. While counselling sensitivity, the authors agreed that when gathering data about a "subordinate", it was crucial to remember that all events at issue must be reviewed and analysed. They suggested that using as many sources as possible could moderate distortion.

Even those who are comfortable with measurement can have trouble with performance appraisals. In conducting a review of the way in which the Ford Motor Company handled its performance appraisals, Deming criticized the process and Ford executives agreed that traditional evaluation systems had led to an "untold waste in human resources" (Walton, 1986a). Deming argued that by focusing on short-term results the performance appraisals had caused managers to meet their local objectives but that they had created long-term problems. Ford's old system involved ten categories ranging from unsatisfactory to outstanding. Their new system followed quality control practices by identifying those outside the system on the high and low sides.

A widely held opinion is that typical performance appraisals do little to improve performance and are unpopular with managers and employees (Patten, 1982). However, legal and salary conditions may require some form of appraisal. A somewhat condensed version of the list compiled by Patten offers some guidance:

- i. Appraise performance as behaviour; avoid personality traits.
- ii. Critique the work done, not the potential for work yet to be done.
- iii. Keep the system simple and the paperwork minimal.
- iv. Separate systems oriented toward employee compensation from systems oriented toward employee development, at least initially.
- v. Once a system has been decided upon, apply it for several years; don't tinker with it annually.

- vi. Forget about applying performance appraisal to union employees once they have seniority.
- vii. Do not rely on formal performance appraisals alone to communicate about performance; day-to-day contacts must do the bulk of the job.
- viii. Review performance formally at least once a year. Write down the appraisal, but limit it to one side of an 8½ x 11 inch sheet of paper.
- ix. Require the human resources department to audit, oversee, and spot-check the appraisals after the fact, but also stipulate that appraisals should be kept on file no more than two years.
- x. Train managers to carry out their performance appraisal responsibility. Never just hand an appraisal package to managers and hope that they will make it work. They won't.
- xi. Accept the fact that some managers will never become adept at performance appraisal. They see it as playing God, and dislike it.
- xii. Recognize that some employees could not care less what others think about them. A constructive appraisal requires that the participants have sufficiency, self-awareness, and insight to profit from the experience.
- xiii. Realize that the real experts on employees' performance are the employees and their bosses, not Freud, McGregor, Maslow, the government, or the human resources department.
- xiv. In mature organizations, tie pay to performance appraisal.

This list addressed many of the points raised on the uses of performance appraisals, at least from a practitioner's viewpoint, and raised the link between performance and pay.

In reviewing the literature on the use of appraisals in performance related pay schemes, it was obvious that while the link between them may be valid it was rooted in the premise that the appraisals provided reliable data on which to base payment (Peck, 1984; Ingraham, 1993). One of the aims of this chapter was to evaluate the relative attributes of the appraisal and of the contract. It was felt that the merits of the two methods had to be studied before their use as the basis for a performance related pay scheme be considered.

Performance evaluation is particularly difficult when professional staff are involved. The lack of a tangible end-product makes it difficult to develop precise measures, and the lack of corporate-level responsibilities makes it difficult to rely on such large scale measures as return-on-investment (ROI) or shifts in share prices. Shapero (1985) suggested that while firing and disciplining may be the most painful tasks for managers, performance evaluation of professional staff may be the most difficult one. He also argued that, while evaluating professionals may need to be done, there appeared to be no established objective way to do it. An interesting point, however, is that individual professionals may want to be evaluated and to know how their supervisors think they are doing (Truell, 1980). Kappel (1964) argued that a business could excite the scientist only if it had a clear idea of what it was aiming at and only if these aims were explicitly stated. Evaluations of cognitive or creative work depended on varying, subjective, and partly self-interested opinions of peers,



supervisors, customers, and clients. Shapero (1985) used the example of creating a prototype for a research and design team. It may involve a considerable amount of effort and intelligence, but if the overall theory of the research was faulty or the budget for research was cut and the prototype was of no practical use, did this mean that the work that went into it was of no value? Was a cancer test programme of no value if the doctors could not find a cure? Also, was a serendipitous discovery, stainless steel for example; or when work was for a different goal, searching for a "death ray" and discovering radar, to be rewarded as good performance? The issue appeared to be, how to measure the performance of professionals if there was no consistently acceptable way to do it.

In practice, it appeared that if there were no formal evaluations, informal ones would spring up. Managers' words would be sifted by employees to establish, "what was really meant by that 'good morning'". Ranking by perquisites would become the norm. Concerns such as "why didn't I get a window?", and informal ratings by peers could undermine the spirit of the organization. The staff involved, whether they be junior staff or senior managers, seemed to want to know how they were doing from the viewpoint of the organization. If formal evaluations, that is ones that are more than just a rating system, were useful for production staff, they could be even more effective for professional staff who lack ongoing feedback in the form of products delivered or customers served (Allcorn, 1991). Taken to a conspicuously "creative" point, the desire of actors and writers for a response from their audiences and even their critics, was a type of performance evaluation. I am not sure how members of my

staff would react if I clapped when they gave me a report, but it might be useful to find out.

Performance evaluation can be useful in providing information and guidance on workload, suitability for promotion, and other aspects of human resources planning. However, the style and scope of the evaluation may be influenced by the working conditions or environment in which they are used. In small departments or organizations, the ongoing contact between the supervisor and the employee may be sufficient. In larger ones, where opportunities to discuss issues informally are fewer, the use of formal performance evaluations can be more prevalent.

"Performance evaluation is the act of judging the desirability of someone's actions, behaviour, or characteristics from the viewpoint of the organization" (Shapiro, 1985). The evaluation itself, if it was to be accepted by the users, must be reliable and valid (Szilyagi and Wallace, 1980). To be reliable, the results should be consistent for different supervisors, or the same supervisor over a period of time. Validity would show that the results were well-grounded, and report what was supposed to be reported. Both reliability and validity were difficult when reporting on professional work, where its very specialised and often unique character made it difficult to repeat observations or results. According to Patten (1982), the "[s]earch for the Holy Grail in performance appraisal is bound to go on for years". He also noted how measurement, in the strictly quantitative sense, was virtually impossible for many jobs, or was applicable only in gross or misleading measures of the trivial aspects of jobs, such as the number of letters typed by an executive secretary.

Notwithstanding these caveats, Patten argued strongly that careful use of the mechanisms of performance appraisal, such as the interview, using simple language along with competent training of the appraisers could lead to an effective system for evaluating employees.

While the performance appraisal process can be a positive exercise, its use can be narrowed to a point where it becomes one of control. Alewine (1982) seemed to reveal his management consulting background when he wrote that:

"[t]he goal of the appraisal process is to get employees to see themselves as they are, to recognize the need to improve job performance and to participate in developing a plan for improved job performance".

While interesting, in that the employee participates in the improvement plan, it offers a narrow view of performance appraisal. However in advocating the use of the exercise "to tell the employee what the supervisor expects", Alewine did emphasize job performance and not just the employee's personality.

For Alewine, the use of job performance rather than perceived behaviour was influenced by a number of factors both external and internal to organizations. The environment in which people worked contained not only the skills and attitudes of the people who work there, but also factors that could influence the work, such as the levels of completion expected, the resources required, physical job setting, rewards and punishments, and the information available to the employee (Brache, 1983). The ingredients influencing an employee's performance could include, the work

environment, management behaviour, job design, performance appraisals, feedback, and salary administration. However, different assumptions and expectations could arise between employees and supervisors in their application (Tiepe, 1988). This was particularly true for the performance appraisal with its emphasis on behaviour rather than results.

### USING PERFORMANCE APPRAISALS

The United States Civil Service Reform Act of 1978 outlined procedures for establishing performance appraisal systems in all United States federal agencies. This initiative raised awareness of the need to use fair and unbiased performance evaluations which could be true reflections of work performance (Ferris and Gilmore, 1985). A key function of this process was that information would be given to employees to ensure that poor performance was identified accurately, and steps taken to help them improve. This involvement of employees was seen to be increasing with many employees, seeing it as a "right":

"This increase is valid any time that jobs and pay are concerned and is captured in the use of self-appraisal, where employees rank themselves."

Ferris and Gilmore (1985)

Therefore, an important component of performance appraisal would appear to be the feeding of the results back to the employees. In a review of "performance-feedback literature", Ilgen, Fisher, and Taylor (1979) developed a model for providing feedback to employees. The model predicted that feedback could influence the job-related

behaviour of staff. In selecting the form of appraisal, however, many companies may not have placed sufficient emphasis on the evaluation process itself, and the person doing the evaluation (Braid, 1984). Braid argued that the evaluator was often more important than the system or process used. In a report that examined performance appraisal systems in 293 industrial firms, Lazer and Wilkstrom (1977) found that not one reported using a system to evaluate biases amongst those doing the appraisals. In fact, Stinson and Stokes (1980) held that fewer than 10% of the companies polled in a United States Bureau of National Affairs survey had confidence in their performance appraisal systems. One element identified for this concern was the potential of bias on the part of the appraisers.

Lefton, Buzzota, and Sherberg (1977) felt that the effective performance appraisal was the exception not the rule as it usually involved confrontation, something that managers preferred to avoid, took more time than many managers were willing to give, and required skills that many managers did not have. However, the process may be necessary if only to protect the various parties. In a litigious environment, the effect of performance measurement processes on law and employment discrimination cases, and their lack of control by the companies involved was a matter of concern. In the case of a legal challenge, for example, in a case of employment equity, most companies could have great difficulty in relying on their performance appraisal systems (Lawler, 1977). Therefore, while lacking reliability in application, the appraisal may have validity in ensuring that some key business responsibilities are monitored.

In practice, performance appraisal usually consisted of an attempt to link pay to performance. Though it may have been accepted by most employees as a necessary activity, its use can cause difficulties. In a study of a large corporation, a research division was selected to test a new approach to performance appraisal (Gellerman and Hodgson, 1988). The previous plan had a ranking system that plotted employees on a pre-determined performance and pay ratio. This use of quotas and competition between ratings caused considerable resentment and cynicism, particularly as it was often difficult for supervisors at this level of work to evaluate it accurately. Gellerman and Hodgson (1988) argued that for senior professionals, such as those working in research departments, motivation can come as much from pride and the opportunity to demonstrate superior performance, as from increased pay. Employees who were doing well according to their job descriptions, but not as well against their peers, found the system demotivating. Management found the system uncomfortable when they had to discuss employees' performance, and they were often forced to dwell on trivial or non-performance items.

The new system called for employees to be categorised as exceptional, acceptable, or unacceptable. The salary system was simplified and the interviews changed to emphasize beneficial results. In a comparison of the reactions of an experimental team to a control group, the new system was considered superior. By using a set of questions over a two-year period, the improved attitudes were shown to be long-lived. The conclusions were that amongst professional workers, fairness of the system for determining pay is more important than the salary levels, and that there

will be a positive reaction to a simpler, more easily understood way of assigning salary increases. From a business standpoint, the implications were that motivation could be more important than administrative convenience, and that professional pride could be an important factor in the productivity of professional workers.

Another issue that may lead to difficulties with performance appraisals, is when an emphasis on short-term returns negates long-term plans. Levinson (1979) argued that the process of appraisal was more important than the results. He maintained that there was a great deal of evidence indicating how effective performance appraisal was, but he doubted whether it met the needs of providing information to employees, assisting in modifying behaviour, and providing planning data to managers. He felt that these functions were very important. He was especially critical of performance appraisal in United States government departments, and suggested that the results were useless. Only by having a manager and subordinate work together to develop objectives with criteria for judging their attainment, could effective appraisals be put in place. The problem of managers playing God with careers (McGregor, 1957) was dismissed by Levinson as a training problem where group support would help managers to overcome their guilty feelings. He did not, however, address the issue of whether judging people was an appropriate managerial activity. One element examined later in this thesis is upward appraisal, where the employee evaluates the supervisor. (This subject is reviewed on Page 366.) Levinson (1979) identified problems with this process as managers did not want to be judged by their subordinates. This feeling of not enjoying being judged was, of course, shared by

employees. The vast majority of the performance appraisal literature takes the supervisor's view and ignores the employees' feelings.

A concern identified in performance appraisal was that it did not contribute to team-building (Lanza, 1985). Appraisals that emphasize individual successes may, in practice, undermine efforts to build a team approach to business. Lanza suggested that as a supplement to individual appraisals, team appraisals could be used to tackle issues such as interpersonal dynamics and group performance. A significant issue, however, could be the conflict between individual and system rewards. For the individual, the rewards were tied to individual performance. System rewards were linked to being part of the system. These system rewards, often part of the company benefits plan, can help to tie people to the system (Katz and Kahn, 1964).

In analysing performance appraisals, an interesting position was presented by Fitz-enz (1984) who examined those who usually do the examining, namely human resources management staff. While agreeing that all employees were "entitled" to a review of their performance, he suggested that employees were more interested in career information, and while elaborate procedures had been developed to help managers review their employees, very few organizations were happy with their systems. One of the difficulties identified was the need to satisfy two audiences with different objectives, the employee (subordinate), and the reviewer (superior), (McGuire, 1980). Harper (1983) argued that management may have to address its own problems before blaming the staff. This "rear-view mirror" aspect of performance appraisal can be offset, he contended, by a review and development approach that



examines results, not personalities. While agreeing that performance appraisals can be a challenge, Harper stated that they can be like organic fertilizer and, when properly handled, will improve productivity.

In a rather candid review of appraisal, Bache (1986) focused on the futility of the report card approach to appraisal, where managers rated their staff on a preconceived scale, when in practice, the most productive part of the exercise is often the discussion that goes with it. The major flaw in appraisal, as seen by Bache (1986), was that "managers are usually excellent at telling employees where they fell short after the fact, but are generally terrible at informing employees of what is expected of them ahead of time". While his suggestion, taking a "few minutes to jot down points for discussion" may not capture the scope of the discussion, such actions can allow the employee to see at least part of the logic behind the rating process.

While the forms of performance rating systems may vary the ideas were consistent, and the various assumptions and practices had their advantages and disadvantages (Nelson, 1987). The consensus was, however, that regardless of the type of rating system used, it tended to be a traumatic experience for both the rater and for the rated. To ease these tensions somewhat, Nelson suggested that relatively frequent interviews based on actual performance, and not annual ones focused on personalities or generalities, were preferable. Mandt (1984) argued that separating the traditional performance appraisal focus on pay scales from the review of work performance would help both activities be more effective. Schuster and

Zingheim (1992) also argued that base salaries should reflect the market value of the jobs rather than "merit".

In 1983, a United States government conference on productivity linked, by computer, 108 business, labour, government, and academic leaders for four months (O'Dell, 1984). One group addressed the reward system and developed a number of points for consideration. These included the idea that companies needed to adopt more participative work practices in order to improve productivity and that they needed to share more business, economic, and competitive information with their employees. They acknowledged that they ought to address the issue of employment security and develop reward and remuneration systems which tied pay to performance and to productivity. They recognized that the ways of measuring productivity should be improved, and that exchanges of information about innovative reward systems would help managers design changes in their organizations.

O'Dell noted that a few of these recommendations have entered the business world, and the responsibilities and opportunities that go with them are expected to result in better productivity and performance. However, some of the proposals may take longer to implement than others. For example, performance-related pay was recommended by everyone in the group, but very few employers were actually using it. A trend to productivity gain-sharing was noted, where a performance-based bonus system rewards an improvement in productivity. The involvement of employees in these types of programmes may, however, require that they receive information over and above that needed to do their job (Lawler, 1986). While the information might

influence behaviour, it also implicitly says to employees that their performance is being evaluated (Bardwick, 1983). Thus employees could expect that their efforts would lead to closer links between rewards and performance, and that their productivity and accomplishments could generate rewards that meet their expectations (Porter and Lawler, 1964).

In a study of management consultants it was found that they were enthusiastic about studying and implementing changes in such areas as job redesign, compensation programmes and performance reviews for their clients (Argyris, 1991). However, when these techniques were applied to their own performance they backed off. Instead of being catalysts for change the consultants assumed a typical defensive employee posture that they had insensitive and unfair leaders, unclear goals, and, of course, "stupid clients". Even extensive efforts by the manager of the consultants, including him criticizing his own performance, failed to draw them into discussing their own. The problem of addressing individual performance was accentuated by the consulting company's own performance evaluation system. Designed to make evaluations more objective and useful to those being evaluated, the system was popular until its first series of unsatisfactory ratings caused six consultants to be fired.

The links between payment systems and corporate objectives are important (Cherns, 1976). If an employer is emphasizing team-work while paying staff on an individual basis, desired kinds of behaviour would not be reinforced. If, as Cherns argued, an employer has adopted a philosophy of worker participation, and used

performance measurement systems that excluded workers, the contradiction could undermine both the system and the philosophy.

### PERFORMANCE CONTRACTS

Offe (1985) argued that in the relationship between employee and employer there is an inevitable conflict-generating moment in which the spheres of interest of both sides can only be defined vaguely in the framework of the labour contract and consequently must be brought into an, at best, unstable balance through continuous advances and setbacks on both sides.

In developing a system of performance contracts, the role of the individuals involved in its development is very important. In managing technical projects, the involvement of supervisors and employees can be influential. Pelz and Andrews (1976) found that performance was higher when project decisions were shared by the professionals and the supervisors. Involvement of managers and an expressed interest in the work to be done also appeared to increase levels of performance (Davis and Cherns, 1976). However, individual and organizational perceptions may not always match. The nature of the assessment, the means and the outcomes, should be mutually determined, and only when both sides agree on their practicality should the work proceed (Tichy and Hornstein, 1980). Ferris and Gilmore (1985) argued that performance goals set jointly by supervisors and employees would be the most effective. Showing confidence in one's staff by involving them in setting performance objectives, gave out a positive message that

could lead to higher productivity (Goddard, 1985). Goddard had also taken the view that the whole atmosphere in any given organization affected both management and employees and that a "psychological contract" existed:

"[the] Psychological Contract specifies what each partner expects to give and receive in the relationship. The process goes to the heart of motivation, productivity, job satisfaction, job involvement and the management of human resources".

Therefore the psychological contract was the sum of all written and unwritten, spoken and unspoken, expectations of both employees and employers (Baker, 1985). A problem with it was that its all-encompassing nature could lead to a lack of clarity and misunderstandings in its use. In the evolution of the contract, changes can occur in the culture of the organization that cause a widening of the rift that may exist when varying agendas are in place, and when specific expectations are not expressed (Sorge, 1989).

Some concerns have been raised about contracts for services to be delivered from an organization or an individual (contractors) to a specified client. According to Wedel and Colston (1988) they include: a lack of clear specifications for the services to be provided, that is, in what quantity and what level of quality; an assurance that the services will be provided according to the expectations of the sponsor; and compliance with reasonable cost estimates. In business, the standard contract usually fell into two categories, fixed price and cost reimbursement. A third type of contract could be used when incentives or performance standards were in place. This was the

performance contract (Reimer, 1968). The difference inherent in the performance contract was the agreement made in advance between the parties involved with regard to specific performance objectives and the extent to which these objectives were met. This form of contract was well established in certain government services such as procurement (Nolan, 1980; Defong and Stayer, 1981; Hunt, 1984). A less common use was in the field of education in the United States in the 1970s, when the Office of Economic Opportunity (OEO) tested the use of contracts in schools (Campbell and Lorion, 1972; Gramlich and Koshel, 1975). The process involved using contractors to teach subjects such as mathematics and reading to students who had difficulties with them. Payments to the contractor were based on achievements against standardized test scores. The results showed that no real differences existed between the methods used by the contractors and the traditional methods. A key finding was that both groups failed to realize any significant gains. Though the outcomes of the experiments led to a lessening of interest in the use of contractors in education, increased knowledge of the contracting process was acquired (Wedel and Colston, 1988).

In measuring local government services, it is often interesting to adopt a user's perspective. Erban (1989) brought a chief personnel officer's view to the management of performance in the Royal Borough of Windsor in England. In this system, each departmental chief officer defined his or her own objectives and targets. Individual staff developed their tasks in line with their sections' activities and performance criteria. Staff were given the opportunity to discuss their performance and their section's objectives during the performance appraisal review. After a trial period,

implementation of the process was carried out by local staff. While recognizing that the process was comprehensive and methodical, small pockets of staff had difficulty in coping with the changes. Both the relevance of measurement in the government environment, and the use of features such as customer satisfaction, appear to have created difficulties. The benefits derived from having staff involved in the performance measurement criteria led, however, to improved motivation and confidence as well as demonstrated improvements in performance.

The use of the system led to unforeseen and unplanned situations. The location of the Borough led to competition with the higher-paying areas of Central London for staff. Paying local government rates created difficulties in recruiting and retaining staff. To address this problem a consulting company was used to establish a performance-related pay system. This was not without its difficulties. The union, for example, would not support the new system because it separated performance assessment based on performance measures from the salary stream. In practice, while senior managers were paid on an individual basis, subordinates were paid on a team one. While the initial results of the new system were promising, the work involved was complex and time-consuming.

The London Borough of Bromley adopted a performance appraisal mechanism in 1985-1986 (Coates, 1986). The system was based on objectives agreed to and implemented by local managers without the involvement of an outside consulting unit. The use of the word appraisal, had had negative connotations because of perceived earlier misuses, and there was some awareness of a need to be sensitive to the

terminology used. The involvement of the users and practitioners of the new system was considered a benefit to its success. However, Coates emphasized the need to plan the process, and to be aware of the political and working environments.

Measurement and assessment of performance are common in large corporations (Van de Ven and Ferry, 1980). However a slightly different approach has been used which captures some of the elements reviewed earlier. Johnsonville Sausage is a regional producer of sausages in the United States where its chief executive officer and author of the paper which documented what follows, was concerned that competing with national producers would be difficult (Stayer, 1990a). Over 10 years, the company developed a performance evaluation system that computed shares in its profit-sharing plan. Although it used a rather awkward ranking system, it had considerable success in recognizing superior performance. Using the three categories of performance, teamwork, and personal development, each employee ranked his or her own performance on a scale of one to nine. Supervisors then ranked employees on the same scales, and comparisons made of the ratings. Disagreements were discussed, and the scores were averaged to provide a final score. An arbitration process was in place, but it was never needed. Employees received a share of the profit pool on the basis of their scores. The system's success may have had as much to do with the atmosphere within the plant as the system itself, as other writings by Stayer appear to reflect an innovative mind along with an original approach to managing (see, for example, Stayer 1990b). However, early involvement of the



employees in decision-making was a consistent element in the evaluation process and more generally within Johnsonville Sausage.

The use of performance contracts to monitor the management of a government initiative is not unusual in itself but to use it to evaluate training and the development of skills is less common. Training and Enterprise Councils (TECs) in the United Kingdom, were independent companies set up to develop training and expertise programmes in local areas. The companies were run by chief executives of local businesses under performance contracts agreed with the National Training Agency. This arrangement was thought to be an interesting melding of business and education by way of contracts, and though concerns have been expressed regarding the TECs longevity, the performing of the work at a local level was seen as being a positive feature (Hill, 1990).

The use of performance contracts for employees is sometimes presented as a new idea, but it is often just a formalization of a number of existing ad hoc arrangements. Union rule books, safety meetings, the supervisors' work assignments and management's pamphlets on corporate missions are all parts of a large information base by which employees are judged, paid, and occasionally fired. Unfortunately, the judging and the firing may be the result of misunderstandings. Very early in the development of the legal profession, members of it identified the need for agreements that both parties were aware of and could understand, couched in terms that would hold up in court. This, of course, was the legal contract, and the foundation for most

major businesses and many professional enterprises in a large number of countries (Mead, 1956).

A similar need arose on the factory floor for products that met the expectations of the buyer, and the production capability of the manufacturer. Originally legal in scope, the contracts became increasingly technical as the products became more complex. This situation led to the need for product specifications. These specifications assured both parties that their expectations would be met. Another effect of industrialization was the tendency for governments to become more involved in work environments (Marston, 1981). Legislation, often developed in conjunction with employers, has been implemented to control such varied phenomena as safety and employment of children. Many of these arrangements whether legal, business, or regulated evolved from various forms of gentleman's agreement, where the honour of the parties involved was often used as a guarantee. Of course, not all these agreements, even those sealed with spit, were honoured and when the two "gentlemen" concerned were thousands of miles apart and speaking different languages the commitment to the agreement often required some clarification and formalization (Jabine, 1973). It also became apparent that, while the agreements could be written in very fine detail, misunderstandings could still occur.

The definitive product specification, a tendering document, illustrates the difficulties of precise descriptions when bids on the same tender can range from a modest sum to the gross national product of a small country. It is evident, therefore, that even detailed tenders can be interpreted in different ways. In a severe break with

purchasing tradition, Deming (1986) argued that single-source supply negated the tendering problem, and he used it as one of his "fourteen points" to lead industries 'Out of the Crisis'. Deming contended that the use of single suppliers was cheaper than tendering. Crosby (1979) adopted a similar strategy by reducing the "results" approach to decision-making and positioning "process" as the goal. In this way, the product can be "assured" and the resultant output be consistent by specifying the processes to be used.

The role of the employee is going through similar changes. For example, time-clock punching has been replaced by flex-time (Ronen, 1981), companies have rethought the management prerogative and set up quality teams (Scholtes, 1988), and unions and management have developed safety policies together (Ontario Ministry of Labour, 1990). Customer performance agreements, where both parties have a say, and manufacturing and legal performance agreements based on mutual contributions are quite well established. Agreements on performance where the employee has a role to play in its development would seem likely to be productive.

A performance contract is defined here as an agreement between at least two parties concerning the execution of a task. This agreement can be couched in formal terms, as in legal ones, or as technical specifications, as used in manufacturing, or conditions describing a process such as in a tendering document (International Atomic Energy Agency, 1987). It can also adopt an informal approach whether it be in politics through the defining of policies or doctrine to solicit a vote, or in the rather ethereal environment of advertising where the "promise" can be to deliver "happiness"

for a fee. In between these points lie many kinds of written and verbal agreements. In business, however, more formal types of agreement may be needed when the issue of what constitutes performance is significant. Most of the literature on performance measurement focuses on the measurement either of the activities or results of a process or, in some cases, of the process itself. In defining what the performance is, or should be, reference points must be in place. Witness a week's sports results: 1-0, 4-2 and 118 to 112. Reports of performance they may be, but they are meaningless without reference points. Obviously common definitions such as the names of the teams are vital for understanding. To further this understanding, standards of comparison have to be used. In the sports analogy, we have the data (the results), the teams (the reference points), and if team A (the bottom team in the league) beats team B (the top team in the league), we have a comparison standard for the result. In manufacturing, the definitions of results, reference points, and comparisons are fairly well established for products and services. The use of contracts, both as purchasing and as control documents, creates a mutual understanding of the performance required. For the employee, however, the expected level of performance is often not as clearly defined. Manufacturers sometimes use quotas or piece-rates on which to base bonuses or continued employment and in some instances the criterion is fairly clear. Thus if you do not make your quota you will be fired. However, it is often harder or impossible to establish such relatively objective standards of performance in services or other work with intangible products. Even so, in most jobs some form of measurement of performance is normally important.

The measurement of individual performance is often an emotional issue. Deming (1986) argued that "we must eliminate numerical quotas for the work force and numerical goals for management". The image of someone, stopwatch in hand, peering out from behind a pillar has raised questions about legitimacy, at least ethically, of individual measurement. Gyllenhammar (1977) contended that a move to team membership and team measurement may change some of these concerns, but for in many organizations the individual will always remain the focal point.

Deming's (1986) argument against numerical quotas also raised the issue of pride in workmanship. Employees often meet their production standards because they want to work to the limit of their ability and approach a level of self-actualization (Maslow, 1954). Also, the effects of societal conditioning are often as pervasive as the work environment (Nye, 1979). However, from an individual standpoint, the key point is that, while blame can be attributed through measurement, so can praise. The point may be to ensure that the measurement be a true reflection of the individual's performance as well as meeting the needs of the organization. This approach raises, again, the use of the performance contract as an agreement between two parties on the execution of a task, and where the parties involved can develop an agreement to meet their sometimes contradictory goals. It also brings us back to the services worker where objective measures are not as clearly defined. In developing a contract, the goal is to obtain a common understanding of what has to be done.

In services, and sometimes government, however, the manner in which work is done can be as important as what is done. That is, the services and their delivery can

be as important as the product. For example, the preparation and presentation of a meal in a fine restaurant often costs more than the food itself. The effect on service contracts, would be that the purpose as well as the result may have to be defined.

This approach is examined albeit from a manufacturing perspective by

Grocock (1974) in the following matrix:

PURPOSE	MANUFACTURING SPECIFICATIONS	QUALITY CONTROL SPECIFICATIONS	ACTUALITY - WHAT THE CUSTOMER IS TOLD
How should it be made?	Piecepart and process specifications, etc	Incoming inspection specifications, audits, etc.	How was it made? Claimed process.
What should it be?	Drawings, models, etc.	In process and final inspection specifications, etc.	What is it? Advertised description.
What should it do?	Performance reliability specifications, etc.	In-process and final test specifications; reliability test specifications, etc.	What does it do? Claimed performance.

Table 3.1

Used to develop a set of quality control tools, this matrix can establish that each product will have been made in a particular way, will take a particular time, and will have a particular level of performance.

A service matrix could parallel this format:

PURPOSE	SERVICING SPECIFICATIONS	QUALITY SPECIFICATION ACTUALITY	WHAT THE CUSTOMER IS TOLD
How should it be delivered?	Service specifications.	On-service inspection audits, etc.	What is being delivered? Advertised description.
What should it be?	Description, illustration, etc.	Prior inspection specifications, etc.	How was it developed? Claimed development.
What should it do?	Performance, specifications, etc.	Final dummy specifications.	What does it do? Claimed performance.

Table 3.2

Therefore a process could be developed to evaluate the definitions of how a service should be delivered, what it should be, and what it should do.

In using this theory in an actual contract, the involvement of both the "customer" and the "deliverer" have to be considered. The customer's input to the specifications would be a key element in outlining the purpose of the contract. The "how" and "what should it be or do" tend to be subjective and to reflect individual expectations. Only by specifying their parameters can the actual specifications be formalized. The performance contract was seen by Covey (1991) as "the solution to the problem of conflicting expectations". By making expectations explicit, a mutual understanding of goals and responsibilities could be created.

In evaluating the use of performance contracts, it seems valid that care is taken to review the process used, and not just the name it is given. A number of businesses use something akin to a performance contract, but call it by a different, usually softer, name such as, performance agreements, productivity agreements, managers' letters, and performance evaluation (Odiorne, 1979). Conversely, "performance contract" is occasionally used where the main part of a contract, an agreement between two or more parties, is not part of the process.

### THE CONTENT OF PERFORMANCE CONTRACTS

The performance contract process is defined as an agreement between, or among, the parties (with inputs from all of them), which has a defined focus (goals, objectives), and both qualitative and quantitative elements (objective or subjective).

The steps in developing performance contracts can vary from sector to sector and from employer to employer. In services, the process is not yet as well established, mainly because of the difficulty in measuring the outputs (Townsend, 1986). Whether it is an electrical utility, an amateur sports team, or a university school of management, the measurement of its work is difficult to quantify by standard means.

In considering this problem a pattern emerged. If the destination is not known it can be difficult to establish an end point. If the direction is unclear, any method will do: to establish a destination or end point, goals or objectives may be required; for a clear direction, a known plan or method is required; and an indicator may be required to signal when the destination has been reached. The initial step in this pattern was the examination of objectives to provide direction and scope. Establishing objectives and having them cascade through the organization is an approach that has many different terms: management by results, performance planning and evaluation, work planning and review, charter of accountability, individual goal-setting and participatory goal setting (Szilyagi and Wallace, 1980). The consistent elements running through these approaches were the participation of management and employees in setting performance goals, establishing agreement on the criteria to be used, and periodic reviews of progress towards the goals (Migliore, 1977). Drucker (1954) and Odiorne (1965) amongst others, emphasized the value of involving employees in the goal-setting exercise. Locke (1969) noted the linkage between employee goals and behaviour, and Wexley and Yukl (1977) extended these positions



to include specific performance goals that help maintain individual motivation and guide individual behaviour, goals assigned or set jointly, although joint setting is recommended, goals set at levels that are perceived by the employee as challenging and possible to accomplish, and feedback to determine progress and to modify goals where needed.

The most frequent use of these principles has been in Management By Objectives (MBO). Though useful in the evaluation of professional workers as it focused on individual tasks rather than on generalities, conclusions based on the use of MBO have been inconsistent. For example, Kondrasuk (1981), in a review of 185 studies on the effects of MBO on employee productivity and/or job satisfaction, found that establishing and maintaining a comprehensive goal-setting system was difficult. Similarly, when using MBO for compensation or management development, Wikstrom (1968) found a low level of satisfaction with the process, and when top management's interest moved on to the next management theory, results seemed to dip sharply (McGill, 1988; Ivancevich, 1974).

One of the most difficult aspects of MBO is the evaluation interview. Meyer, Kay, and French (1965) found that, in practice, critical comments during the interview, rather than resulting in improvement, created defensiveness and had negative effects on subsequent performance. They maintained that praise had little effect on performance, one way or another, and that the great majority of employees saw their managers' evaluations as being less favourable than their own self-estimates. They also claimed there was a non-linear relationship between the number of negative

comments made during the interview, and defensiveness on the part of the person being evaluated, in that defensiveness went up faster than the number of negative comments. While these comments may lead to questioning of the use of evaluation interviews, Landy, Barnes, Cleveland, and Murphy (1978) concluded that satisfaction with employers and supervisors was tied closely to satisfaction with performance evaluation and feedback systems. MBO appears to have been used more often as an appraisal tool than as a management system. Therefore, while MBO may be a useful and practical appraisal tool, the care and professionalism of the interview process may influence its effectiveness. The failure of MBO to survive for long in many organizations may have had as much to do with implementation as logic. As with a number of management concepts, MBO appears to have followed the path of excitement, followed by confusion, disillusionment, a search for the guilty, punishment of the innocent, and rewards to the non-involved (Patten, 1982).

## CONCLUSIONS

The use of performance appraisals and contracts has been the main consideration of this chapter. A concern was that the relative merits of the two methods be established before weighing their use for performance related pay schemes. Though the "pay" literature was reviewed it was apparent that the worth of each method should be established first.

The use of appraisals as evaluation tools has appeared to focus on individual behaviour rather than on work performance, and this has raised some questions as to

their effectiveness in a business environment. They appear to be disliked by managers and by employees and there is little evidence of an examination of their effectiveness. In practice, the way in which performance appraisals are conducted appears to be almost as important as the their content. This applies both to the techniques used and to the people using them.

The continued use of appraisals indicates an opportunity to involve the employee in the development of the performance measures and rewards. However, a link to pay scales and the effect of performance appraisals on team-building is not as clear. The use of contracts may address parts of these issues, but may require the use of some form of objectives-setting within it. The evolution of the use of performance contracts has been uneven. In some sectors, they appear to have been successful while in others, their use has been less productive. Issues such as the culture of the organization and the types of contracts used have affected their usefulness. However, the benefits to be gained such as involving the employees in the process and the ability to praise as well as criticise may offset some of these drawbacks. The use of performance contracts in the government and services sectors has also been uneven. While they appear to have been taken up with some enthusiasm, their longevity has not been impressive.

The setting of the objectives or goals by both the employees and the supervisors may be productive and give the performance contract a better focus on the tasks to be performed. However, doing this is very difficult in many jobs and may undermine some of the benefits associated with the use of the contracts. Nonetheless,

if the performance appraisal is, as the evidence suggests, an evaluation of behaviour done only by the supervisor, its subjectivity may be part of the reason for its lack of support. The performance contract by involving the employee and using goals, may be more objective and while difficult to implement have a higher level of acceptance.

## Chapter Four

### **MANAGEMENT SYSTEMS AND TECHNIQUES**

In the previous chapter the environment in which performance was evaluated was identified as an issue. It was also apparent that while performance contracts had some potential for measuring as well as improving performance, they had not gained wide acceptance in business. Therefore it was felt that using them in conjunction with some other management techniques or systems may improve their effectiveness. A selection of management systems and techniques were reviewed to assess their potential as catalysts for the performance contracts. They included Quality Circles, Just-in-Time Delivery, Project Management and the Quality of Working Life. It was felt that examining these systems could offer some insights into relevant technical and behavioural aspects of business. Emphasis was placed, as noted previously, on employee perspectives and on employee involvement. This combination of management systems and employee focus led to a review of Quality Management. An overview of the origins of the quality movement in Japan and its introduction into Western business is included in this section. The links, actual and potential, between quality management and performance measurement are reviewed with particular emphasis on the former's inroads into services.

#### A REVIEW OF SELECTED MANAGEMENT SYSTEMS

As noted in Chapter Three, appraisals and contracts have not worked as well as was originally expected. It appears that the methods and the environment in which

they are used and the degrees of involvement of employees may affect their usefulness. Various relevant management techniques are explored below in a variety of contexts to help consider their impact on performance measurement and their ability to address the issues of environment and employee involvement.

Managers in business have demonstrated an interesting propensity for new ideas for managing generally without changing the way in which they do things. In North America in recent years, to have some connection to Japan has seemed important, however tenuous it might be. Peters and Austin (1985), in their depictions of American business successes, demonstrated links with Japanese methods, and books on Japanese techniques by Akao (1990) or Imai (1986), illustrate their adoption in large North American corporations. However, there is some evidence that to adopt parts of a system of management, even the largest or most significant parts, may not only be unproductive; it may actually be disruptive. An example could be managers who adopted Peters (1987) MBWA (Managing By Walking About) without ensuring that their communications skills were suitable, or where companies have adopted just-in-time (JIT) deliveries without analysing their demand systems and have only exacerbated their out-of-stock problems (Conway Quality, 1990).

The use of "Executive Summaries" to inform the Chairman of the Board, "one-pagers" as demanded by Ronald Reagan during his Presidency of the USA, or press-releases in words of one syllable for the media have all clearly meant the oversimplification of difficult issues. The reduction of a complex management theory or technique to a shorthand summary has sometimes meant a loss of appreciation of the

work needed to implement it. For example, a new definition of the type of business leader was being sought at least in the "help wanted" pages of newspapers. In many advertisements for chief executive officers or other executive-level posts, "vision" appeared as a prerequisite. Gone were the "fast-trackers" or the "hit-the-deck-running" motivators. Now it was "only those who have a vision need apply". This was a change from the days when visionary meant "fanciful" or "impractical" (Sykes, 1982). The message, however, was that after decades of short-term planning and quarter-by-quarter results to compete with the Japanese and the Koreans, North American businesses had to take a longer view in their definitions of goals or objectives (McGill, 1988). While "vision" may have been the chosen word, the intent was to evaluate the effectiveness of what the companies were doing and to define their markets. Peters (1987) suggested that niche-marketing might be an option, but the opportunities were (literally) slim and the goals had to be clear.

The identification of goals and the evaluation of effectiveness was the basis in the 1960s for the adoption of objective-setting, particularly in manufacturing and other industrial sectors in the USA (Odiome, 1965). After the first rush of post-war increases in production, various companies faced the need to make major changes to their products. Following the years of insatiable military demand and a focused economy, the returning soldiers and their pent-up spending created not only an increased market demand, but markets for new products and services (Bennett, 1990). Companies still on wartime production schedules noted the changes and their impact not just on the products but also on the way in which they were manufactured and

distributed. A few of the more far-sighted companies re-examined their work processes and invested heavily in capital construction and equipment. Some of the very far-sighted, also examined their management processes (Ginzberg and Vojta, 1985). When flaws appeared in many of the newly adopted management systems, many companies turned to other forms of business administration, the primary source for North America being Japan (Schonberger, 1982).

North American management had not always been successful in turning to Japanese management methods, particularly those which affected employees directly. Techniques had been adopted in a piecemeal fashion without understanding the systemic basis for the methods when they were used in Japan. In studying 45 United States-based Japanese subsidiaries and their parent companies in Japan, Hatvany and Pucic (1981) found that, while personnel policies were similar, evaluation of individual performance and job-rotation planning were not. The Japanese emphasis on quality of working life and other management techniques met with difficulties in transference to the United States because of language and other cultural differences. Generally, however, United States workers had been receptive to many of the management practices introduced by the Japanese. One of these was Quality Circles (QCs).

### Quality Circles

Quality Circles (QCs) have been, in recent years, used in attempts by American companies to keep up with the Japanese. Perceived by North American managements as a way to emulate the Japanese and their participative problem solving techniques,



QCs were adopted in many industries in the United States (Brannen and Hranac, 1983). Started in Japan, in 1962, Quality Circles were seen as an outcome of quality control and regarded by Japanese management as a company-wide approach that would involve all workers. In North America, QC meetings have been used in a number of sectors. Although they have sometimes been seen as glorified staff meetings, Hall (1984) argued that the attitudes of the supervisors influenced the outcomes. If the QCs were to be successful, Hall maintained that supervisors must have the trust of their employees not their fear. Employees had to know that their suggestions would be responded to and that they could solve problems as a group without repercussions.

Though used mainly in manufacturing environments for examining work problems, Quality Circles have also been used to survey specific job functions. Cross (1982) presented an interesting example of the use of QCs in a security job. He felt that the problems of boredom, poor motivation, and morale often present in security activities could be offset by using QCs. He also noted how security guards were often on duty both day and night, and had the time and opportunity to think about problems and solutions from different perspectives than those of the normal worker.

While Quality Circles were a well established and successful Japanese management technique, when transplanted to North American, it struggled (Ryan, 1992). In Japan, when employees were asked to improve or solve a problem they understood the process and the limits of that process. In North America, when

workers were asked the same question, they thought they had been given an equal vote in decision-making. The vocabulary was similar, the understanding was not. These conflicts in understanding have contributed to the demise of QCs in the United States (Duchesne, 1991; Weigand, 1988).

### Just-In-Time Delivery

Just-In-Time (JIT) delivery has been another technique imported into North America from Japan (Natarajan and Sersland, 1991). As one of the more widely adopted Japanese management systems, JIT was developed to cut down on inventory and required a close coordination of suppliers, manufacturers, and retailers (Adair-Heeley, 1991). Used by many companies as a method for reducing overheads, the impact of JIT was often felt across many parts of the organization (Morgan, 1988). Many companies that had treated their various operations as separate entities, found the need to integrate them into a network that could be managed effectively. Manufacturers shared projected workloads with suppliers and retailers, and fed customers' comments back to their line operations (Grocock, 1986). JIT has also changed management patterns by reducing decision-making time and the need to share control and responsibility throughout the system (Hay, 1988). This broad impact of JIT has created problems for some companies who thought they were adopting an inventory-control system, but found that if they wanted to use JIT extensively they also had to change the way they organized their businesses (Adair-Heeley, 1991).

### Project Management

Other techniques have detached from their technical origins and have become more broadly based. Though usually and simply portrayed as a system for monitoring schedules and resources, Project Management is also, for the manager of the project, an exercise in helping the project staff to implement agreed plans collectively (Kerzner and Thamhain, 1986). From a performance perspective, Project Management has been one of the best examples of involving employees in the development of processes and decisions (Gilbreath, 1986).

### Quality of Working Life

Paralleling these more technical processes, there has been a move towards involving employees in decision-making (Mansell and Rankin, 1983). It has been argued that to be effective managers must believe that the workers involved care about what they do "if management thinks that people don't care, the chances are very good that people won't care" (Warren, 1981). Though mildly paternalistic in tone, from an author who was a Vice-President of General Motors in the USA, the message was that if the goal is manipulation of the worker, it will fail. If one of the purposes of measurement is to provide information on how well a business is operated, an important element may be the quality of the working life of the employee (Lawler, Nadler and Cammann, 1980). It is obviously very difficult to quantify or otherwise measure this. Lawler, Nadler and Cammann, suggested that a parallel may exist between it and the economics of pollution. Providing employees with dissatisfying,

meaningless work was a form of pollution, the cost of which was paid for by individuals and society, and not by the employers who caused it. Such "work pollution" could lead to mental illness, alcoholism, and a series of other social and physical illnesses. The costs were paid for by the society at large while the employers responsible could underprice their goods at the expense of others.

Some employers have tried to take a different and less traditional approach to measuring of the quality of working life. Volvo used measures that went beyond strictly economic approaches (Gyllenhammar, 1977). By assessing the impact of high employee turnover and absenteeism, the company became aware of the costs of recruiting and training new employees. Also, with high absenteeism more employees were needed to make the products, administrative costs were proportionately higher, as were stocks of tools and machinery. However, some of the activities developed by Gyllenhammar, at Volvo, for creating a more humane manufacturing environment have now been questioned. Writers have noted Volvo's lack of productivity in comparison to their competitors and have highlighted other difficulties that it has met (Prokesh, 1990). While comparisons with other car-making companies' turnaround times showed Volvo in a critical light, the statistics used by Prokesh also showed that turnover of staff was reduced, and that workers seemed happier.

Walton (1985) argued that a formal Quality of Working Life (QWL) system could produce changes that may affect all levels of an organization. He saw it as a move from a strategy based on imposing control, to a strategy based on eliciting commitment. This would show itself in a change from performance based on

acceptable standards of performance (lowest common denominator) to one where performance expectations were high, and rather than one defining minimum standards, it would provide "stretch objectives". Walton maintained that the idea of eliciting employee commitment which would lead to enhanced performance, lay at the centre of this philosophy,.

Lawler et al (1980) suggested that while surveys of customers were quite common, surveys of employees were far fewer. Though surveys of employees appear to be more common in the 1990s there is little evidence of extensive use of the data gathered.

### THE EMPLOYEES' PERSPECTIVE

The role of the employee has been a thread common to all, or almost all, of the management systems or techniques discussed in the previous section. Maslow (1954), in his hierarchy of needs, argued that the physiological, safety, belongingness and love, esteem, and self-actualization were a progression. Most business environments could be expected to address physiological and safety needs, but belongingness and love, esteem, and self-actualization may not be as common. An assembly-line worker at the Ford Motor Company put it quite succinctly: "You can do twenty years of right, and one hour of wrong, and they string you" (Williams, 1974). The analysis of job design and content has appeared in many models, the scientific management approach (Taylor, 1911), through administrative management (Fayol, 1917), to job expansion or enlargement (McGregor, 1960). However, any consideration of the employee still

tended to reflect only their role as an employee, rarely as an individual. Juran (1964) argued that while separating planning from execution had led to increases in productivity, its basic premise of lack of worker education was no longer valid. He felt that workers were underemployed assets and that use of their education, experience, and creativity could lead to remarkable results.

Discussions of the involvement of workers in decision-making, has moved on to broader playing fields. Kerr and Roscow (1979) predicted that workers will not just want interesting and challenging jobs, but opportunities to make meaningful contributions to their employers and to receive recognition for them. This would show itself as taking responsibility and authority on the job, as well as a stronger voice in decisions affecting them, their work, and their work setting. This participation in decisions about work was seen as both an expectation on their part, and as an opportunity for employees to gain through increased productivity (O'Toole, 1981). A survey of Canadian workers indicated that employees were as frustrated by the formal performance evaluation systems as their bosses were (Wyatt, 1990). Moreover, few of respondents felt that pay-for-performance systems worked. Indeed, 49% of them saw little link between pay and performance.

In American business literature, gimmicks are sometimes used to break down the barriers raised by managers suffering from "how to" overload. Whether it is learning from exotic Japanese war tactics, or the motivational techniques of Attila the Hun (too strange not to be true), the "breakthrough" strategy almost gets in the way of the message. A fable based on the "Twelfth Dimension" may not be the conventional

way to outline ways to encourage employee initiative, but the message is an interesting one. Byham and Cox (1989) used rather esoteric means to explain some very basic "empowering" techniques. Their premise was that by delegating responsibility without abandoning employees by "identifying problems, establishing periodic measurements to quantify progress, and setting goals for the entire group", managers learned to share responsibility with co-workers and subordinates. The activities necessary to accomplish this working environment lean slightly towards "psychobabble", but they present a model not as common as it appears to be at first glance. For example, it requires building and maintaining self-esteem; listening and responding with empathy; asking for help in solving problems; offering help without taking responsibility; coaching and encouraging; developing self-autonomous work teams that are seen and heard; ongoing training and development; setting performance guidelines with key result areas, measurement and goals; and, having a philosophy of and a commitment to continuous improvement. It is the combination of working with people, establishing goals, and doing them in an environment of continuous improvement that provides a direction for much of this thesis.

However, as Fincham and Rhodes (1992) noted, most of the literature on business adopts a managerial perspective, occasionally a bottom-up view emerges. In Rivethed: Tales from the Assembly Line, Hamper (1991) presented a different view of big business. His approach to philosophy can be a little jarring as seen in this:

"The First Rivethed Commandment: Thou shall not grasp the rivet gun between the dies lest thou intend to have hands like crayfish."

However, it does focus the attention on what is important. To see the vacuity of the assembly line from a worker's standpoint, is rare (Guest, 1955). To see it from that of an articulate worker, is extremely rare. In discussing the drudgery of the line for example, Hamper (1991) suggested that, instead of fighting it, "one should lie down and wallow in it". This view is so far from most of the business literature and the desired responses that it can cause discomfort in the reader. However, the reality of the conflict between the company slogan "squeezing rivets is fun" and Hamper's view that it is not, is tempered by the thought that, "it pays the rent and keeps Fritos (snack food) in our children's bellies".

Stress can also be felt at the executive level where the pressures of success, at least as defined by executives, can lead to drastic results. Promotion to an executive-level position in the National Broadcasting Company (NBC) in the USA exposed Joel Friedman to job pressures including frequent calls from his boss, network chief Fred Silverman. The result of these frequent calls and beeper pagings led to severe stress and eventually to Mr. Friedman's suicide (Globe and Mail, 1991). Though committing suicide is, obviously, not a common reaction to the business and personal pressures of the executive world, tensions do exist (Kaplan, 1991).

The use of contracts does not guarantee performance or protect the participants from harm. Contracts can be abused as any tool can be. In Bennett's (1990) book The Death of the Organization Man, the unwritten or psychological contract was between employees who traded autonomy and independence for high salaries and



security. While corporate loyalty was the stated goal, the contracts turned out to be fragile so that when the recession came, the layoffs were indiscriminate.

Bennett described how quickly rules can change in the lean years, offsetting years of dedicated work, contracts or not.

The involvement of the worker in decisions affecting their work is summarized by Gyllenhammar (1977):

"It is vital that individuals in a group have absolute choice over their method of work. Some will want to keep on doing a single task all their working lives. There is no harm, and often some benefit to the organization when they do so, so long as they do it by choice."

Gyllenhammar summarised these thoughts as treating employees as adults an idea more often discussed than implemented.

### Employee Involvement

To involve people in change requires certain types of attitudes. In the past, new employees tended to be given instructions, sometimes a formal job description, and perhaps a budget. Now many employees influence methods of work and behaviours within the organization (Harries, 1989). One way in which to start involving them is to give them responsibility (Farquhar, 1991). Crosby (1990), a leader of the North American quality movement, suggested that one way would be to integrate quality into all the business practices. Though known best for his work on the cost of quality (most commonly interpreted as the cost of non-conformity to established standards, Crosby, 1979) Crosby also argued that quality must encompass

the entire spectrum of the company and its employees. He questioned why executive-level conversations revolved around things that had gone wrong, were going wrong, or might go wrong. He argued that the conversations should be about creating a quality culture where quality is "the fabric of the organization, not part of the fabric, but the actual fabric". This involved four factors; conformity to the right requirements; action with an eye to preventing problems; common commitment to the cause; and, respected means of measuring non-compliance.

A significant issue in the use of quality-based production has been the role of unionized workers. Most of the earlier quality success stories were in non-union environments and this created a perception that unions were not receptive to employee involvement programmes. After examining surveys of unionized companies, Hoerr (1991) suggested that innovative practices, including teamwork, had been as successful in unionized companies as in others. One factor noted by researchers has been that, as unionized workers would say "no" as a group, they could also collectively say "yes".

A nation-wide cross-industry survey was done by Cresap (1991) a large North American management consulting company to provide "a snapshot of United States business practices and management cost and quality techniques". A number of interesting developments were detected. They included increases in the use of quality and cost management approaches. While some significant successes, involving hundreds of millions of dollars, had been reported the correlation between the types of measures used and the levels of satisfaction with their use varied. To boost the level

of satisfaction, the use of selected approaches was expected to increase. The most common ones were customer service, employee involvement, and total quality management. Broadly-based employee support was found to be the key element in the success of the quality or cost approaches. By providing education and management support, employees could be motivated to participate through pay and reward systems. It would appear from the literature and experiences of managements, unions and employees that the involvement of individuals in performance evaluation is useful, but needs to be done in a management system that has a helpful atmosphere. A potentially interesting approach is quality management.

#### THE MANAGEMENT OF QUALITY

Though differences of emphasis may exist in the various quality approaches, the common attributes typically include a combination of leadership, employee involvement, concern for customers, and continuous improvement (Signoretti and Steeves, 1990). These elements are often grouped as Total Quality Management. It is felt that leadership should be active, not passive, and that managers should drive out fear and remove blocks to superior performance. They should delight customers so that they develop a passion for the product or service, and never accept that good is good enough (Bryce, 1991).

In applying quality principles to business situations, considerable heat and some light has been generated in the debates on the merits of the "three wise men", Deming, Crosby and Juran (Schaaf, 1991). The raising of some of the pioneers of quality, if

not to sainthood at least to the nearest tall pedestal, is best illustrated by Gabor's (1991) book about Deming. However, understanding the total quality process probably requires a more objective vantage point (Feigenbaum, 1953).

In a monograph prepared by the European Council on Quality (1989), part of The Conference Board of Europe based in Brussels, the perspective was that of a general manager who required a checklist of quality issues and a guide to total quality ideas. "Quality", when used in the sense of total quality, includes not only the finished product, but all the processes and operations which produce it. Quality improvement is the way to ensure that customer expectations are met. In so doing, quality improvement becomes the responsibility of everyone in the organization, not just those who provide the service or make the product. Significant benefits may emerge through implementing a total quality process. They can include, more cooperation within the organization, improved competitiveness, increased customer satisfaction, and reduced costs. Benefits also claimed include increased employee participation and motivation, higher profitability and enhanced share and stake-holder value. Through focusing on the long term, the total quality process becomes a business strategy which includes all aspects of a business and its staff. The goal is to improve quality continuously as customers' expectations change. This may lead to changes in the culture of organizations, and result in modifications to their business strategies. For example, they could include an appreciation of the need to understand and satisfy customer requirements; implementation of a management philosophy that has clear objectives and encourages employee participation; the use of a disciplined

teamwork approach to problem-sharing and decision-making; and embracing the ethic of continuous improvement in all spheres of corporate life (European Council on Quality, 1989).

Total quality management is based on four major principles: quality is defined as conformity with agreed customer requirements, and everyone has a "customer" either inside or outside the organization; customer requirements should be met all the time, while accepting that these requirements are always changing and the status quo must always be challenged (Gabel, 1991); total quality systems are preventive not reactive: by "effective prevention" rather than "inspection and fix", the response to failure or mistakes will be positive; and, the measurement of progress is crucial: the costs of poor quality are substantial and must be eliminated.

In implementing total quality management, communications have to be continuous. Recognition and reward of the people involved is crucial. This often means changing pay schemes, appraisal and objective-setting mechanisms, working conditions, and other terms of service (European Council on Quality, 1989).

A concern raised in the use of quality management has been its origins in Japan and the impact of the Japanese culture. This view of a "western" versus an "eastern" mind set has coloured many of the quality programmes adopted in North America (Harrington, 1991). Some of the more extreme aspects of Japanese business practices have been used to undermine the basic concepts. Whether it be the company song or the unctuous respect shown to senior staff, western business people have had some trouble accepting some aspects of Japanese quality approaches. Kepner (1991)

argued that the team approach is a concept that does not fit easily with western culture, where the role of the individual, particularly in the United States, is held in higher esteem. One of the difficulties in adopting some of the Japanese techniques in the "western" world is illustrated by Karatsu (1988) who argued that quality must be committed to in the same manner as profit. However, from a Japanese perspective, the shift may have been greater for them. In a culture where an abstract idea such as nature, personified as a theme in a garden, is seen as a measure of quality, where an ocean and its islands are seen in a patch of raked gravel dotted with rocks, the leap was difficult, but it has been made. Kaihatsu (1990) agreed that while the cultural differences between East and West may affect the use of quality programmes, he feels that they may also be used as a "crutch" to avoid the often painful and extensive work needed to implement quality programmes effectively. He reminds his readers that originally the ideas on quality were learned from Americans and then changed for the Japanese environment and that Europe and North America should be able to do the same.

An example of customizing the quality concepts has been the quality approach developed by KLM Royal Dutch Airlines (Van't Haaff, 1990). Van't Haaff argued that, while Europe is different from Japan and for that matter the United States, it could adopt a quality programme very effectively. The techniques of quality control and quality circles were the initial focus for KLM and through adding a customer focus, improvements in productivity were realised. While the philosophy of quality has been consistent around the world, the way in which it is communicated is not.

For example, training may have to be customized to recognize "local" conditions. In quoting the chairman of the governing committee of the European Foundation for Quality Management: "Quality is a natural value for Europeans and therefore, our efforts must succeed", Van't Haaff seemed to recognize the basic qualities required.

The integration of quality into business practices is becoming more customary. The move from inspection and control to quality management is being established in North America (Garvin 1987; Wollschlaeger, 1990). However, the techniques for measuring quality still seem to need development. The most common measures identified by Walsh (1989) were customer perceptions of the quality of goods or services, profitability, productivity, employee morale, and market share. In a survey of 149 North American companies, Walsh found that 111 had a quality process or programme. Of the 38 that did not, 13 planned to institute one. Though the measurement element was not conclusive, it was a part of performance appraisal for managers in 90 companies. Nonetheless, the process was mainly at managerial levels with less than half using it for administrative or production employees. Twenty-nine of the companies not including quality programmes in their appraisal systems planned to do so.

Quality control came into the language of business with Shewhart's analysis for Western Electric, a Bell telephone system manufacturer in the late 1920s (Shewhart, 1931). This research was paralleled by the production line analysis of Dodge and Romig (1944). Quality is now making significant inroads into services. Deming (1986) wrote that the principles and methods for improvement are broadly the

same for services as for manufacturing. While Drewes (1991) presented a number of examples from services to support Deming, Rosander (1985) was not so sure. He brought a considerable background in the analysis of quality to the subject and saw a major difference between services and manufacturing. He noted how services employed three times as many people as manufacturing in the USA and that it had been overlooked in the development of quality control programmes. Rosander (1985) identified a number of issues, from volumes of transactions, amounts of money per transaction, and the role of machinery, as differences between services and manufacturing. He notes the dangers of imitating factory practices and applying them without careful analysis in services, particularly utilities, the major type of service discussed in this thesis.

Major public utilities in the United States of America were defined by Rosander (1985) as having the following characteristics. They were monopolies and they were regulated by public service commissions; they had millions of guaranteed customers or buyers and rates were set in accordance with services rendered. However, Peters (1991) suggested that utilities which consider themselves monopolies will not stay ones for long as commercial customers were already competing with them in certain areas. The key factor, according to Peters, was that the quality of service will be more important than the quality of product. In a distribution firm, for example, quality was measured by the time it took a message to travel through a chain of communication designed to move the product from the warehouse to the customer (Kaeter, 1991).



Programmes such as Total Quality Service have broken new ground in the United Kingdom (Foster, Whittle and Smith, 1989). They suggested that service quality was critical to long-term commercial success. However, the fact that most of the training developed for quality management comes from manufacturing has slowed the acceptance of quality into services and the process has not always been smooth (Butterfield, 1988). Florida Power and Light (FPL), a large electrical utility in the United States, was the first non-Japanese company to win the Deming Prize, the "Oscar" of the quality movement (Hudiburg, 1990). The failure of FPL President, John Hudiburg, to survive his company's winning of the Deming Prize, was a combination of adopting a Japanese system without "Americanizing" it, of not publicizing the difficulties at the company's Turkey Point Plant, and of the diversification programme adopted by the company chairman that has been a "disaster" (Wood, 1991).

Some of the quality concepts reviewed display a link between the elements of performance appraisal and evaluations in the service sector. The role of the customer is of particular interest. The customer view is one often cited in the quality literature as the best type of measure, but it is difficult to establish it with any degree of certainty. As Scherkenbach (1988) notes, some manufacturers think that they can establish their research on customer opinion from their complaints files. This involves a biased approach to sampling because it misses both the satisfied customers and the important potential ones. Scherkenbach went on to point out that while the American car manufacturing companies were watching and competing with each other, the

Japanese were talking to their customers. Too often in American industry, the management has been the employee's most important customer (Scherkenbach, 1988).

## CONCLUSIONS

In the review of the performance measurement literature in Chapter Two and that of its uses in Chapter Three, I discussed how the working environment can affect performance measurement and how important the involvement of employees tends to be. In this chapter, a number of management systems were examined to help establish whether they could provide insights into the technical aspects of these questions. However the main objective in examining these systems was to establish whether one or more of them could improve the acceptance and use of contracts in a business environment. The review of the various systems established that, while each had their contribution to make and some of them, for example JIT and Project Management may be of some assistance in day-to-day practices, that Quality Management would be the most beneficial for evaluating performance. This opinion led into an examination of the management of quality, of its evolution, and of its potential impact on business operations.

Of particular consideration was the use of quality management processes in services and utilities. The emphasis on customers and on the empowerment of employees inherent in the quality management techniques provided further evidence of the effect of a corporate culture or environment on the performance appraisal and contract processes.

## Chapter Five

### ONTARIO HYDRO

This chapter describes a large (34,000 staff) corporation, including its history, organization structure, and operating environment. The examination provides details of the organization itself and a number of its operational elements. Particulars of the organization's origins and business elements are contained in the history section and its various functions are outlined in the one on organizational structure. The section on the operating environment focuses on performance measurement within the corporation and includes a detailed analysis of an attempt to change the way the company operated. In examining corporate measures of performance, the use of performance appraisals is highlighted. In particular, a major study of the organization is described in some detail, partly because the relevant data include some pertinent and sometimes apparently contradictory points.

To study performance in government and private industry in the early 1990s was both interesting and challenging. However, with the changes in Europe, the growth of Asian competition with Japan, and the impact of price fluctuations on world trade direct comparisons of performance between them can be somewhat tenuous. However, there are a few business functions that are common to both the public and private sectors. One is the provision of services. This phenomenon has somewhat blurred the lines between what is government and what is industry. This is coupled with the fact that some activities such as the management of natural resources, have

often been subject to government direction if not completely under its control.

Ontario Hydro is an example of a Canadian quasi-government organization. While not strictly a government body, because its workers are not civil servants and revenue does not come from taxes, most of its actions such as long-term planning or setting of rates are controlled or directed by the government of the day. Ontario Hydro, therefore, operates the electrical power system on behalf of its customers and sells the electricity at cost.

### HISTORY

Ontario Hydro was created in 1906 by the Province of Ontario. A self-sustaining corporation without share capital, it has the responsibility to generate, supply, and deliver electricity throughout the province. It sells electricity to 314 municipal utilities which then sells it to their customers. Ontario Hydro also sells electricity directly to over one hundred large industrial customers and 900,000 small business, residences, and farms. The total number of customers, both direct and indirect, is 3.6 million.

The electricity is produced from a mix of hydro-electric, fossil-fuel, and nuclear plants with a total of eighty-one generating stations. Originally, most of the electricity came from hydro-electric stations powered by the "mighty Niagara" as illustrated by the company's first name, the Hydro-Electric Commission of Ontario. Now a broader mix is in place with coal and nuclear meeting the bulk of the power load. The coal-fuelled plants make up most of the thermal-powered stations.

However, nuclear power is the largest source of growth for the corporation. Though only two out of the eighty-one generating stations are nuclear, they generate almost half of the power and when the third nuclear station is added in 1993, it is estimated that almost two-thirds of the electricity produced in the province will come from nuclear sources.

The electricity is supplied to the various customers by over 150,000 kilometres of transmission and distribution lines. The complexity of this system is considerable as customers are scattered over a province of 1,070,000 square kilometres. The customers range from municipal utilities with hundreds of thousands of consumers in large cities to small remote communities dependent on single diesel generators.

One of Canada's largest corporations, Ontario Hydro has revenues in excess of \$7,000 million, Canadian (£3,200 million) and assets of \$40,000 million, Canadian (£18,200 million) in 1992 dollars. It generates this revenue by supplying over 70,000 million kilowatt hours of electricity. It does much of its own construction as well as generation and distribution and it has about 34,000 employees.

Being an employee of Ontario Hydro provided an opportunity for the writer to gather data and to analyze its performance. However, the primary reason for selecting Ontario Hydro was that it provided an excellent example of a large organization making a tangible product within the sphere of government. As a large portion of the work in government sectors is services, emphasis in the study was placed within Ontario Hydro on its Supply and Services Branch (2,000 staff). The Branch provides acquisition, real property and computer services to the rest of Ontario Hydro. In

providing this range of services, the Branch could be part of a broad spectrum of industries both public and private. The Branch also manages its own internal functions with the comptrollership, quality management, and human resources departments, again paralleling those of industry. It was felt, therefore, that examining the organization might provide some insights into the delivery of services in functions found in government and industry.

### PERSONAL BACKGROUND

The author of this paper is an employee of Ontario Hydro and in a twenty-year career with the corporation, has worked in a number of professional positions including ones in engineering, construction, training, and health and safety. The measurement of performance has been a significant responsibility in most of these positions. He is, currently, the manager of a quality improvement programme.

### ORGANIZATION STRUCTURE

Figure 5.1 outlines the organization structure used in the case study. The units examined in the study are shown in italics. The other levels of the organization were omitted to allow for clarity in the schematic (see page 110).

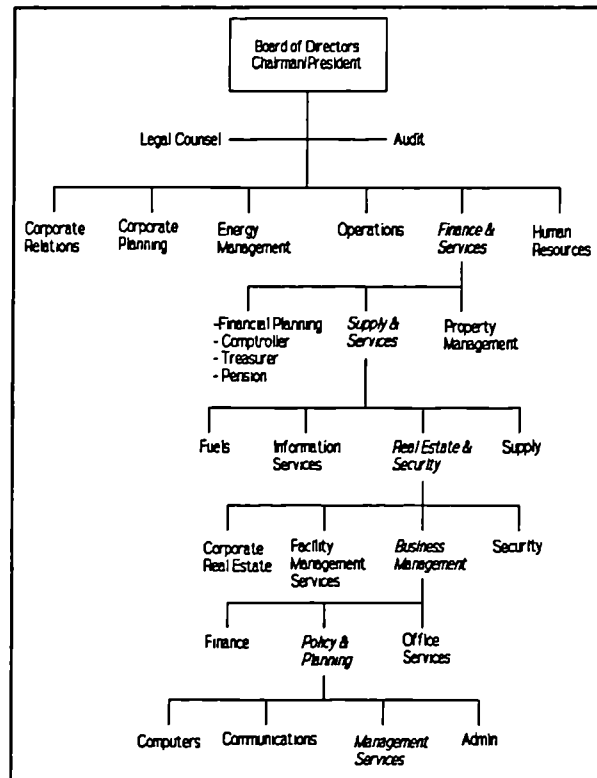


Figure 5.1

When measuring performance at a corporate level, the measures tend to be coarser in scale than those at the local ones. Costs can be reported on a per unit basis, or as market share, to provide a broad view of performance that is simple to grasp and, it is hoped, reasonably indicative of actual performance. The sales per square metre for a supermarket provides an efficient measure for comparison with competitors: the number of hours needed to build a vehicle allows companies to know if they are close to their rivals. Here, one is assuming that the relevant numbers are both accurate and comparable. This use of indicators may be efficient and meet the needs of the market analyst or a media overview but more detail is often required when managing a large corporation. To develop this detail and to provide insight into

how performance measures interact, performance measurement at Ontario Hydro was examined in some depth. The purpose of this analysis was to monitor performance measurement as it flowed through the organization, and by selecting various parts of the hierarchy, to display the measurement processes in action.

In analysing performance measures, it is common to focus on their use at executive or corporate levels. While this is useful, it was felt that it would be more productive to analyse the use of the measures and the contracts in a diagonal cross-section of the hierarchy. In this way, insights could be gained into a number of the departments, sections, and functions. As noted, Ontario Hydro is a large organization and rather than try to analyse all levels in all functions the cross-section of the branch demonstrated the flow of the measurement process. This technique may have more in common with archaeology than normal business analysis, as the diagonal slice through the organization brought forward a number of "artifacts" for study. These "artifacts" included appraisals of individuals, departmental performance reports, and statements of accountability for divisions and branches. They were usually analysed as they occurred and background material on them derived from interviews with the incumbents or from observations made at the time the material was developed or presented. Most of the data gathering was done between 1983 and 1992.

### OPERATING ENVIRONMENT

To make increasingly complex management decisions, Ontario Hydro had developed a very comprehensive, though rather convoluted, management system



(Ontario Hydro, 1983). This management system was called the Operation and Organization of Ontario Hydro. The original acronym "OOOH" pronounced phonetically, was quickly dropped as senior executives felt a little silly making a sound more in keeping with the barnyard or bird-watching than the boardroom. As "Triple O-H", the system grew in detail and volume. Though a very useful system, its complexity and language were such that users got lost in its details or became intimidated or frustrated by its size. Partly in response to this difficulty of use and to reflect a change in the corporation's management style, a new document was produced called *The Corporate Direction* (Ontario Hydro, 1989). For the first time in a simple format; in one place; in a small (9 cm x 15 cm) size, over 5 pages, were described the Vision, Mission, Values and Guiding Principles of the organization. At first, it was regarded with some scepticism and curiosity, yet although some have suggested that "vision is just an idea in a black tie" (Olive, 1991), it nonetheless condensed for both customers and employees the direction in which the corporation was meant to be going. It also provided an overview of what should be measured by the organization.

The *Corporate Direction* provided a framework and focus for the corporate philosophy and was intended to set the tone for all other documents in Ontario Hydro. Because of its impact upon and importance to the company and its potential influence on performance measurement, its components were analysed. The original wording is in italics, with comments inserted to provide background and explanation.

## The Vision

*We intend to be a world-class energy company which provides electricity and services essential to the prosperity of the people of Ontario. We strive for excellence in the service to our customers through the talents and commitments of our people and the use of modern technology and practices.*

This is a very positive statement. It outlined the range of subjects the company would have to address. To realize this vision, the corporation would have to:

- *Maintain a reliable supply of electricity.*

This, to most of the "old-time" employees, was what the company was all about and the rest of the activities were "icing on the cake".

- *Maintain reasonable rates.*

The equivocation suggested by the word reasonable caused some discussion. The old goal of "power at cost" had been clearer, but there was considerable debate on the definition of cost.

- *Be aware of and responsive to customer expectations.*

It was felt that the customer focus should be reaffirmed. Traditionally an area of high profile, the need to produce more power and transmit it over increasingly long distances had created some conflicts between the public as "a user of the product" and as a critic of industrial growth. In areas not traditionally affected by industrial construction, the "not in my backyard" (NIMBY) syndrome was present. The increase in environmental concerns and awareness became a factor. Each of the three major (fuel) sources of power has a major impact on the environment. Fossil fuels contribute to acid rain. This was a particular concern in Ontario because of its

threatened lakes and trees. Hydro-electric usually portrayed as the most benign of major power sources, partly because it uses water and tends to be in remote areas, becomes less so as the most productive sites are used. As the topography of Ontario is relatively flat, vast areas have to be flooded to create suitable head ponds.

Nuclear power is a continuing concern mainly because of waste disposal. In using a system developed in Canada, the Canadian Deuterium Uranium (CANDU) System, and an indigenous fuel source, Ontario Hydro was able to develop a power source that was less practical for other power generators lacking these means.

- *Sustain a work climate that generates high levels of employee commitment, performance and job satisfaction.*

This implied imposing something of an employee focus on the work climate.

The methods to be used presented a challenge to both managers and workers alike.

- *Be open to new ways of doing things.*

This was a benign statement on the surface, but it emphasised the need to move away from some of the more traditional methods and being open to new ideas.

This was not easy in a corporation that habitually assumed it was a world leader in many fields.

- *Sustain a modern technology capability.*

By highlighting this element both as a Vision phrase and as a supporting element, a message of change was reinforced.

- *Earn recognition by the public as a company of excellence.*

Ontario Hydro had always had a high profile. From its earliest days as an experiment in combining power sources, to its current close links to the nuclear industry, it has influenced industrial growth in the province. Measured traditionally by its low kilowatt per hour rates, the public also expected Ontario Hydro to be a leader of corporate issues ranging from the environment to employment equity.

- *Be financially sound and business-oriented.*

As a large predominantly engineering company, there was some perception on the part of outsiders that Ontario Hydro had focused on engineering solutions to most, if not all, of its problems. There had been a time when it seemed that contrary to a number of other North American companies all senior positions in the company were held by engineers (Glover, 1992b). The symbol of professional engineers in Canada, the iron ring worn on the little finger, was present in the executive offices of Corporate Relations, Human Resources, and other non-technical functions. When the writer noticed an iron ring on the company doctor's finger it was felt that perhaps a limit had been reached. The person concerned was, however, both a medical doctor and an engineer.

- *Sustain an effective working relationship with governments and regulatory bodies.*

As a monopoly, the corporation is monitored on a regular basis by the provincial government regarding its rates, and by regulatory bodies in fields such as nuclear training and licensing. These responsibilities have to be performed well and seen to be performed well.

- *Operate in an ethical and socially responsive manner with respect for the environment.*

In business, corporate citizenship has become part of the commercial equation. The environment is seen as being both a citizenship and a business problem. With fossil fuels, nuclear waste and other hazardous materials all among the products used by the company, sensitivity in their use was essential.

With a Vision that addresses the customer, the employee, and the environment, the "Mission" of the company was addressed.

The mission was defined as:

*"Our continuing purpose at Ontario Hydro is to contribute to the enhancement of the quality of life of the people of Ontario by serving their energy needs."*

In making a broad statement such as this, it was important to bring with it some background and rationale:

- *Electricity is essential to our quality of daily life and to the continued prosperity of the people of Ontario.*

Some people, albeit a small minority, may question the "essential" link between electricity and "our quality of daily life". In a mission statement, however, it is important to establish the nature of the business.

- *Ontario Hydro will meet this need reliably, economically, and with sensitivity.*

The three elements "reliability, economics, and sensitivity" were seen as a set, with all three to be included in decision making.

- *We will continue to bring competent people and appropriate technology to bear on the supply, use, and conservation of electricity.*

In serving the needs of the people of the province, the mission element addressed not just the "how" of the system, but the "what". That is supply, use, and conservation. This, perhaps, demonstrates a mild difference between the public and private sector approaches.

- *We will use our special knowledge, skills, facilities, and by-products for the benefit of our customers and the people of Ontario.*

Again, this element tried to blend the serving of the individual customer with the public as a whole. This is a difficult task, but a mission statement is intended to address the larger issues.

#### REVIEW OF CORPORATE PERFORMANCE MEASURES

To illustrate the relationship between the vision and mission statements and the objectives of Ontario Hydro, a number of its performance reports were examined. This method was used as the performance reports were usually based on objectives and were intended to bring an operational perspective to the vision and mission statements.

The review of corporate-level performance measures presented here gathered, perhaps for the first time, a sampling of all the performance reports used in the organization. These reports included executive and branch-level information. For the executive level, the focus was predominantly financial with power loads and staffing

reports providing background. To supplement the performance reports, a series of measures was in place again at the Corporate levels. They included an objective to link with the vision or mission statement with a means to evaluate it:

***Objective***

. *Improve customer satisfaction*

***Measure***

. *Customer complaints and inquires*

. *Customer delivery*

. *Customer satisfaction survey results*

. *Billing accuracy*

. *Average customer bill*

This list of measures covered some fairly new subjects, for example, the customer satisfaction index; and the pragmatic, the average customer bill.

***Objective***

. *Ensure adequate, reliable and economic power supply*

***Measure***

. *Nuclear incapability*

. *Fossil forced outage rate*

. *Hydraulic incapability*

. *Outage status*

. *Non-utility generation and secondary purchases*

. *Product unit energy cost by generation type*

- . *Total generation*
- . *Reserve margin over peak*
- . *Customer delivery interruption*
- . *Percent delivery points with delivery point interruptions index target*
- . *Summary of major project status*
- . *Progress review on demand/supply plan*

This measure has a business or operational focus and applies to the supply task of the company, for example, outages are times when electricity cannot be delivered to the user.

***Objective***

- . *Ensure efficient use of power*

***Measure***

- . *Load reduction*
- . *Load shifted*
- . *Incentives paid to customer and commitment to shift or save Megawatts (MW)*
- . *Cost of MWs shifted or saved*
- . *Results of customer survey on demand management*

The emphasis in recent years had been to manage the demand side of the business and to try to reduce the need for growth on the supply side. These measures reflected this approach.

***Objective***

- . *Protect the environment*



*Measure*

- . *Acid gas emissions*
- . *Release of radioactivity into the environment*
- . *PCB inventory*
- . *Herbicide usage*
- . *Environmental citations, violations, and fines*
- . *Environmental issue summary*
- . *Public fatalities and injuries*

This was a comparatively new aspect of measurement for Ontario Hydro. It is sometimes hard to evaluate the costs and benefits versus the total impact of environmental issues. Within this executive level framework, a number of measures were proposed to help "maintain a work environment that fosters high performance and productivity" (Ontario Hydro, 1989).

*Measure*

- . *Variance from approved employment levels by Branch.*
- *The planned number of regular employees in the Branch minus the actual number.*

This measure was to capture the perceived concerns regarding the total number of staff employed. This measure attained a certain level of notoriety because it was seen to lead to the use of productivity studies and staff redeployment activities.

**Measure**

. *Percentage of work contracted out.*

- *Defined as man (person) hours supplied by non-regular employees, contractors, or consultants divided by the total of such hours plus regular hours as a percentage.*

This was a major issue with the trades and the administrative workers' unions.

The quantity of contracting-out was closely monitored by management as a targeted minimum and by the union as an absolute maximum.

**Measure**

. *Paid overtime.*

- *Defined as the dollar value of all overtime hours paid to employees expressed as a percentage.*

Overtime was seen as an indicator of how various branches managed their workloads.

**Measure**

. *Safety and rehabilitation.*

- *Worker radiation.*
- *Fatalities and permanent disabilities.*
- *Total lost time and cost due to occupational injuries.*

Worker safety and rehabilitation were considered key performance indicators for maintaining a work environment that fostered high performance and productivity. Though laudable, it was unclear how these measures would help safety and rehabilitation.

*Measure**. Absenteeism.*

- *Was defined as hours off work excluding approved vacation, holiday, leave and time for occupational injuries.*

Absenteeism was seen as an indicator of employee satisfaction and as a measure of how well the organization was doing in maintaining or providing a work environment that fostered high performance and productivity. Again, this was a positive approach to a chronic business problem.

*Measure**. Frequency of stock-outs (back orders) and late delivery for engineered items and fuel.*

- *Defined as the number of times per quarter that a purchase order was not filled due to stock-outs or delivered late.*

Reduction in frequency of stock-outs was seen as a key success factor in increasing the overall productivity of the branch.

*Measure**. Material rejections and returns.*

- *Defined as the number of items rejected or returned for any reason divided by the total number of items procured.*

Rejections and returns were to be as low as possible with the actual target determined as part of the business planning process.

*Measure*

. *Computer access response time and mainframe reliability index.*

- *Defined as the period of time in which transactions are delayed due to capacity restrictions on the mainframe.*
- *Mainframe availability is defined as the percentage of time in which the mainframe is available to users.*

With the increasing dependence on computers for handling all levels of transactions, response time, and the reliability of the system were critical.

*Measure*

. *Earned value on major information systems projects.*

- *Earned value was defined as the percent complete of projects divided by the percent of budgets expended.*

This was seen as a measure of the effectiveness of the expenditures to date in achieving planned targets. Considerable expenditures had been invested in computers and systems without the benefits being measured. This measure was intended to correct this shortfall.

*Measure*

. *Inventory shrinkage.*

- *Defined as the dollar value of all lost goods already warehoused divided by the total value of the inventory in that period.*

Warehousing and inventories were a major expense and concerns had been raised about their management.

This collection of measures and reports made up the Corporate and Branch (Supply & Services only) contribution to the emerging emphasis on performance measurement. The detail was broadened and deepened as one moved through the organization.

For the Supply and Services Branch, the reports included:

. *Branch Monthly Cost & Staff*

This was basically a budget-based performance report.

. *Fuels Division Monthly Performance Report*

This was a narrative report assuring "no surprises".

. *Information Services Division Monthly Financial Report*

This was a summary of services, again a budget or financial report.

. *Information Services Division Monthly Highlights and Emerging Issues*

To complement the financial report; this was a narrative information report.

. *Real Estate and Security Division Financial Results Report*

This was a financial report covering the major budget items.

. *Supply & Services Financial Report*

This was a budget update with background.

. *Annual Performance Report (Information Services Division)*

This was similar to a Corporate Annual Report, but focused more on actual performance.

. *Annual Report of Procurement Activity (Supply Division)*

This was a functional report on the various aspects of the procurement activity.

*. Annual Report Fuel Supply Activities (Fuels Division)*

This was a functional report having impact both internally and externally.

*. Real Estate and Security Division Quarterly Performance Report*

This was one of the few actual performance reports, that is, with results based on planned versus actual.

The end product of this review of performance was considerable insight into the measurement processes at the various levels in the organization. However, to provide a comprehensive view, the people or human resource element required further investigation.

A number of initiatives were under way within the corporation to address the issues of performance and its measurement. They included:

*- The Performance Appraisal System*

This system had been in place for some time, but attempts were being made to update its format.

*- Corporate performance studies*

This was a series of organization-wide studies of performance and an evaluation of productivity.

These elements were building blocks in the evaluation of the potential of the performance contract process, and provided an outline for the format used for the actual contracts. However while these measures formed a base for the future use of contracts, the performance appraisal was still the main method used to support pay and promotion decisions. An appraisal was analysed to illustrate the methods used.

Performance Appraisal: A Sample

The use of the performance appraisal form was well established in Ontario Hydro. It was the basis for performance reviews and provided evidence for pay increases. In analysing its use, two main reports were studied; local usage (Figure 5.2) and an update of the system. The major components were Results, Personal Contribution, and Supervisory Factors.

PERFORMANCE APPRAISAL SUMMARY					
Appriser:		Employee:			
Department:		Position:			
Division/ Region:		Date:			
Work Performance Factors		Reasons for Ratings:			
		Development or Improvement Required	Meets Work Perf. Demands	Exceeds Work Perf. Demands	
Results Factors	Quantity				
	Quality				
	Timeliness				
	Cost Consciousness				
	Achievements of Objectives				
Personal Contribution Factors	Adaptability - Flexibility				
	Communication				
	Informaliveness				
	Initiative				
	Innovativeness				
	Interpersonal Behaviour				
	Knowledgeability				
	Planning				
Supervisory Factors	Problem Solving				
	Leadership Style				
	Staff Development				
	Supervisory Responsibility				
	Systems Administration				
Summary Comments:					

Figure 5.2

Within each major component there were sub-components that provided direction and prompts for the evaluation of performance. "Results factors" were; quantity, quality, timeliness, cost-consciousness, and achievement of objectives. These

sub-components allowed each manager to rank their staff on those factors the organization had deemed important. For example, under "quantity" this could mean the actual parts produced or it could be an overall view of the amount of work accomplished. "Quality" in this context tended to emphasise the older view of quality as an elegant product or superior attributes rather than quality as a description of customer requirements. The addition of "consciousness" to "cost" was an attempt to suggest that awareness of value (cost) was as important as saving money. In practice, however, its application varied.

"Achievement of objectives" was, in some cases, the result of a formal objective-setting exercise rivalling Management by Objectives. In others, a "Well did you do what you were supposed to do?" approach was more common.

The "Results Factors" component was the realm of the hardheaded manager, McGregor's Theory X. Though it was only one of three components, the weighting was heavily in its favour. This was understandable as it reflected the traditional view of performance. Difficulties arose, however, when it was used in highly analytical areas or where the skill, for example computer software analysis, was not a strong point of the supervisor or the analyst. It also tended to portray a superficial view of a complex subject and unless well monitored, reflected a short-term focus of "forget last month, what have you done this month" attitude.

The personal contribution factors were seen as the human resource development aspect of the appraisal. "Communication", a very complex subject in business, raised the need for more detail in the form. For example, was keeping time



reports up-to-date more important than spending time with a customer?

"Informativeness", as distinct from communications, was usually seen as keeping the "boss" informed on the day-to-day running of the business. Whether this meant that one became a spy or informer or whether it was standard business practice, was a choice for both the supervisor and employee.

"Initiative", to some, is the desire hopefully compiled with ability to step forward and seize opportunities. To others, it was seeing short cuts or better ways to do things and installing a local solution. To some supervisors, it was an indication of which employees should be promoted, and to others, a threat to their position.

"Innovativeness", was portrayed as a real need in the company. This sub-component tended to highlight ongoing improvements at the department level.

If a subject is fraught with opportunities for conflict, it is "interpersonal behaviour". Rating a person's behaviour is difficult for a trained professional. For managers whose backgrounds were in line operations such as engineering and construction, it was a difficult subject to do well (Glover, 1992a). The inclusion of "knowledgeability" in this section reflects a need to be able to evaluate actual as well as potential performance. "Planning" is an activity that moves in and out of popularity and its use here reflected this. To some, it meant planning today's work and to others it was a long range activity. To yet others, it was a way of going through their work in the most methodical ways. To "solve problems" had a range of interpretations. To some, it was the ability to see a quick solution to a puzzle (Fixx, 1978) and to others it was a root-cause analysis requiring data and study (Kepner and Tregoe, 1965).

The last major component was "supervisory factors". During the period being studied, there was the start of a shift from the supervisor as controller or police officer to coach or mentor. This led to lively debates on leadership style. To assume that one leadership style is common to an organization, helps in defining a corporate culture. In application, it butts up against the arc of the pendulum as it swings from yesterday's to tomorrow's paradigm.

To develop staff is, for some, the most lasting contribution a supervisor can make. Whether it is training and special assignments or thoughtless acts and criticism, both can influence the development of staff. "Supervisory responsibility" reflected the ongoing obligations of the supervisor. Again, as the form was used to cover a broad range of levels of supervision from union staff to supervisors of supervisors, it led to a broad range of interpretation. "System administration" was the reporting and monitoring elements of the work. The complex management system that was in place required a fairly detailed knowledge of the interrelationships within it (Ontario Hydro, 1983).

The use of the appraisal system had become somewhat more formal. There were two main reasons for this. Its use had expanded across the company and its impact on pay schedules and individual careers had increased (Shuster and Zingheim, 1992).

An insight into this formalization of the appraisal process is seen in its appearance in a formal agreement between the Society (The Ontario Hydro Society for Management and Professional Staff) and the Corporation. The Society, though not a

trade union, represented lower management and professional staff in bargaining with the company. In the agreement, the use of performance appraisals was defined to ensure its consistent application.

Where:

- "1. Every Society-represented employee has the right to an annual assessment with written feedback of his/her work over the preceding twelve months.
2. Supervisors are expected to ensure all employees understand what is expected of them, encourage ambitious goal setting, stress accountability for results, and tolerate honest mistakes but not poor performance.
3. The Performance Appraisal process will be conducted in an atmosphere of mutual respect and empathy to encourage a positive two-way communication session. The employee should be given adequate notice and time to prepare.
4. The supervisor will endeavour to provide recognition to employees commensurate with contribution and performance. Performance expectations should be guided by the job document, work program of the unit and the employee's length of service in the job.
5. The supervisor should communicate on an ongoing basis and counsel the employee toward improved performance. Also, opportunities for improvement, training, performance counselling, assistance and sufficient opportunity and time to raise performance to the level required, should be part of the building blocks for the future.
6. The employee is responsible for recognizing that a problem exists and making a joint commitment to improve performance, or to jointly look at other alternatives, such as job skill match..."

(Ontario Hydro, 1990)

This more formal approach was also noted in the format of the actual appraisal.

The new format used a more structured approach. For example:

*Staff Member* \_\_\_\_\_

*(Details of position, department, etc.)*

*Performance Discussion Conducted By* \_\_\_\_\_

*(With a space for short comments related to discussion with the employee)*

*Performance Assessment*

*Completed By* \_\_\_\_\_

*Date*

*Reviewed By* \_\_\_\_\_

"

*Final Review of Appraisal Package* \_\_\_\_\_

"

*Employee* \_\_\_\_\_

This review and sign-off procedure reflected a change in approach from the previous rather informal approach to one that more closely resembled a formal business agreement.

Summary Assessment

1. *Overall Work Performance During Past Year*

*(This section is for comments related to the past year's work performance.)*

2. *Development Requirements*

*(This space is for comments concerning areas where the employee needs or desires additional development.)*

3a. *(Is the same format for reporting of actual performance as used previously.)*

#### 4a. Comments

*(This section is for any general comments related to the appraisal or for comments that have overflowed from another form.)*

#### 4b. Developmental Plan

*(This section is for outlining a developmental plan for the upcoming year.)*

The summary was an attempt to capture both the current and future elements of the employees performance.

Performance appraisal, as used in the organization, was a concentrated effort to provide data and support for performance and pay-related decisions. It did so by measuring both the results and behaviour of individual employees in a rather subjective manner.

### ANALYSIS OF CORPORATE MEASURES

When examining the use of performance measurement in an organization of the size and complexity of Ontario Hydro, one is immediately struck by the range and diversity of measures. At the time of the research presented here, the company was reorganizing in response to major changes in its executive structure. This review identified a need to simplify the organization and to remove tasks that were considered non-essential (Cresap, 1988). The most serious impact of these changes was an extensive redeployment of staff. Within the myriad of findings and conclusions, Cresap perceived the need to "undertake a program(me) of productivity improvement studies and subsequent implementation of growth reductions, staff redeployments, and

effectiveness improvements". These actions were projected to make the Corporation more effective.

The opportunity to conduct a detailed study of a large corporation is one not given or undertaken lightly. The work involved and its considerable cost would cause most corporations to pause. Though sizeable, these concerns were expected to pale into insignificance when compared to the impact on staff. Knowing that Ontario Hydro was undergoing a productivity review was one thing; having it done by a company perceived, at least by the employees, as having a reputation for recommending severe staff cutbacks was extremely disruptive. This potential for problems was recognized at all levels in the organization and though efforts were made to mitigate its effect, the process was not without turbulence.

The reasons for the difficulties were captured very well by the introductory chapter to the final report titled, "A Perspective on Ontario Hydro" (Cresap 1988). In it, the consultants recognized the unique nature and high standing of the utility in its industry. Though one of the largest utilities in the world, its unique mix of geography and diversity of customers made it difficult to compare directly to its peers. Some of the company strengths identified were the its technical standing in the world community particularly in electrical research and its internal business practices such as operational audits. This reputation and its effect throughout the organization, had created a ideology that was well established and evident to many of its employees. Perceived by the consultants both as a strength and a hindrance to making productivity improvements, the culture was defined as:

- *Make sure*

Being an essential service, the need to not "let the lights go out", permeated all levels of the planning process including ones that would not affect the final product immediately.

- *Be proud*

While a trait that many companies would spend vast sums of money to establish, this pride in accomplishments and reputation was seen by the consultants as leading to inward thinking where outsiders were not allowed to contribute effectively.

- *Be together*

The employees were seen as having a strong team orientation. This was seen as a detriment by the consultants as it led to collegial decision-making, something they appeared not to approve of.

- *No mistakes*

The impact of working under a range of regulatory authorities, in particular Canada's Atomic Energy Control Board and Atomic Energy Control Licensing Board, led to an atmosphere where high standards were demanded and expected.

This series of characteristics made up the outward face of the "corporate culture". It is surprising, perhaps astounding is not too strong a word, to read that these strengths were perceived by the consultants as the root of the productivity problem, although no evidence of productivity problems had been presented in their

report. The attributes are those that the Japanese companies, and through them the "gurus" of Quality Management such as Juran and Deming, have depicted as the solution to the problems of North American industry. The analysis of the effect of this culture on the future business decisions was also interesting. Increased levels of public scrutiny, such as environmental assessments and the increased reliance on nuclear power, were seen as breaking new ground. Inquiries by the various Ontario provincial political parties led to an increase in complexity in relationships with the government, and the Society representing professional staff was considering becoming a union. These issues led the consultants to conclude that the future would pose new challenges.

It was argued in the consultant's report that action was needed in three interrelated areas. They were a reduction in the growth rate of Ontario Hydro's staff; redeployment of existing staff to more productive and important activities; and, an improvement in the effectiveness by which the Corporation undertook its activities. In support of the above, selected changes in the "corporate culture" were proposed.

The lack of sensitivity reflected in phrases such as moving staff to more "important activities" and implying that the work they were doing and had been doing for some time was not important enough, was only surpassed by the archaic thinking that staff freezes and redeployment should be the primary action. The second major conclusion, "improvement in the effectiveness by which the Corporation undertakes its activities", is vacuous. Only in the third recommendation where "selected changes in the corporate culture" were suggested, does a thread exist between the evidence



presented and the conclusions drawn from the evidence cited. However, if the preceding conclusions are anything to go by, the wrong subjects could have been selected for the "cultural" changes.

When one compares the strengths identified by the consultants:

- *Make sure*
- *Be proud*
- *Be together*
- *No mistakes*

with their recommendations:

- *Reduce staff growth, redeploy existing staff*
- *Improve effectiveness*
- *Selected changes in culture.*

The comparison illustrates the problems identified by Deming (1986) and others admirably, where companies, in trying to respond to their critics, use outside consultants and accept their pat recommendations too readily.

As part of the research undertaken by the consulting company, an unprecedented insight was gained into the workings of this complex organization. By reviewing key documents on the organization, staffing, and management processes, interviewing all senior managers at the director level and above, the consultants became familiar with Ontario Hydro's business plans and the factors affecting future organizational demands. By comparing certain facets of Ontario Hydro's operations with the consultants' experience of typical operating practices at other utility clients in

the USA and Australia and making use of results from an earlier branch study, they were able to identify productivity opportunities that could apply to various parts of the Corporation. In reviewing progress and early findings with the President and three Senior Vice-Presidents individually and in groups, at various stages during the work, a number of opportunities were noted along with strengths and areas for improvement. Though diverse in nature, a central theme emerged from the analysis that led to a corporate-wide observation and opportunity. This was the analysis of performance measurement across the organization.

While noting that a number of performance measures at the Corporate Branch and Divisional levels were in place, the consultants found few that were effective as management tools. That is, by their definition, ones that provided accurate and timely information to managers with which to make decisions. The measures in use were seen by the consultants as lacking in insight and credibility due to their being arbitrary, after the fact, or single snapshots rather than recording trends over time. The consultants saw performance measures as critical to establishing productivity levels, and also saw Ontario Hydro's measuring of itself as an integral part of improving corporate productivity. They also felt that time and effort could be saved by focusing on key performance measures and not on those that did not provide useful insights. Performance contracting was analysed as a part of the business planning process, and though found to be conceptually sound, it was felt to be compromised by too much detail. A change in its intent, format, and process was needed as well as in

its integration with the other processes such as strategic planning, business planning, and budgeting.

To implement the perceived "productivity opportunities", a "Productivity Action Plan" was outlined by the consultants. The principles to guide the work plan were as follows. The programme was to be phased in over two years so as not to overload senior managers and to reduce disruption and it was to be "management not consultant" driven. By grouping the studies and by giving each grouping a main client, a project focus was attempted. Employees were to be involved to reinforce the principle that the productivity programme was one that the company was carrying out on itself. With an expected major redeployment of staff, considerable planning would be necessary to ensure that support staff would be in place.

Twelve major projects were identified, with performance measurement being one of them. The intention was to have a consultant help Ontario Hydro staff to review performance measures being used throughout the company. The aim would be to improve and simplify the measures and in so doing introduce an effective performance measurement system.

In summary, while the review by the consulting company had an effect on the organization, it was primarily a restructuring exercise. The changes in "culture" were not addressed and the performance measures' initiatives were never completed. The departure of the chief executive officer who commissioned the study brought the programme to a close.

## CONCLUSIONS

In this chapter, the history, organizational structure, and operating environment of Ontario Hydro were reviewed. The examination of the Corporate Direction provided knowledge of the corporation's primary goals. The objectives and measures displayed the foundation by which the goals could be met. The study performed by the consultant group provided considerable insight into the organization and perhaps as importantly the processes used by the consultants. By focusing on productivity within the corporation and on its attempts at a corporate reorganization, knowledge was gained not only of the use of performance measures but also of the way in which measurement can evolve. The difficulties in changing a large corporation are not to be underestimated and the work by the outside consultants provided valuable data on how performance measurement fitted into the operation of Ontario Hydro. It appeared that the three factors of objectives, culture, and measurement may be interrelated and they will be examined later in the thesis.

## Chapter Six

### RESEARCH METHODS

The review and analysis of the literature and of Ontario Hydro indicated a number of areas where research would be useful in evaluating the effect of performance contracts on performance. It appeared that objective-setting, whether by using a formal Management by Objectives programme or an informal objectives exercise, would be one element worth testing. The team approach and the interests of the individuals involved in the processes is a continuing theme for the thesis. We have seen how the role of the recipient of the information needed to be addressed and why the perspectives of the individuals being measured or appraised were also worth examining. Therefore, the methods or set of methods to be selected needed to be able to address objectives, team work and the individuals being measured.

#### REVIEW OF DATA GATHERING METHODS

To gather the range of data necessary to evaluate the objectives for the thesis, both qualitative and quantitative instruments were required. Also the methods to be used were examined from two perspectives. First, articles written about the same time as McGregor's (1957) as outlined in Chapter One; and the second was current methods of gathering data as they appeared in some of the technical literature. These two perspectives were used to provide insights into the logic of the different methods studied.

In gathering the information, I was aware of the potential for unintended bias in my observations. In reviewing some of the literature on the role of the observer, I noted that, while involvement was recognised as a possible problem, lack of involvement was often perceived as more important.

Denzin (1967) argued that in participant observation the observer must learn to view the world of the subjects from their perspective. In noting that the participant observer can introduce personal biases and lose perspective, Denzin identified six specific issues to be considered:

1. The observer must gain entry into the group to be studied and this entry must permit repeated returns.
2. The observer must establish and maintain a social identity that will permit ongoing social relationships and continuing observations.
3. The observer must attempt not to alter the behaviour of those observed but must attempt to fit into the natural flow and rhythm of the social structure.
4. The observer must remain objective in the face of new experiences and must not be taken in by those studied.
5. The observer must develop a reliable and dependable method for recording field notes.
6. He or she must be prepared to leave the field situation at the proper time and must have a theoretical grasp of the data so that the exit time is easily discernable, eg, no new observations are forthcoming.

While recognising the potential problem of the participant observer being too close to the activity being observed, Blumer (1969) argued that the observer should know the activity "at first-hand". To do this, he suggested the use of two methods: exploration and inspection. Exploration, to Blumer, was a flexible procedure where

the observer adopted new perspectives as the study progresses. The research may move in new directions in recognition of relevant data and the acquisition of more knowledge of the subject. This does not mean, to Blumer, that there is no direction to the study, just that it is broad at the outset and focuses sharply as the study progresses. Inspection of the second part of Blumer's approach is an examination of the data developed and the methods used to gather it. It is this combination which "constitute(s) the necessary procedure in the direct examination of the empirical social world".

To support the idea of first-hand knowledge, Becker (1970) suggested that contacts developed in a different context such as social activities may provide a depth of information not readily available in the workplace. This building of linkages between the observer and those being observed was put in practical terms by Denzin (1978) when he emphasised that the measuring instrument used should fit the field environment and not the other way around and that the language used should be of those studied. Deutscher (1968) also argued that using the proper terminology in the research was as important within businesses as it was between countries. All these statements supported the fact that an informed observer could gather data in an effective manner.

Sieber (1973) argued that, in research, two major methods have been used; fieldwork, the qualitative approach; and, surveys to build a statistical or quantitative base. In practice, it appears that both methods can have elements of the other. For example, surveys can include interviews which produce qualitative data, and fieldwork

can use observations to gather quantitative details. Sieber contended that, while fieldwork was considered the standard for social research earlier in the century (illustrated by the Hawthorne Studies of the 1920s to the 1940s), surveys have made inroads into the data gathering processes. Surveys, originally used in market research and public opinion polls, were adopted and adapted by the academic world to assist in gathering data to be use in research (Lazarsfeld and Menzer, 1969). The two methods, fieldwork and surveys, have their supporters. Becker and Geer (1957) stated that "such a datum (observation) gives us more information about the event under study than data gathered by any other sociological method". Trow (1957), on the other hand, argued that many sociological examinations can only be made on the basis of large populations.

To go out and talk to or observe people, particularly those doing an activity or having lived through the experience being studied, is so logical that it appears self-evident (Hayes, 1992). However, problems can occur when the methods used are examined in detail (Statistics Canada, 1990). For example, Labaw (1980) argued that it was hard to ensure that the appropriate questions were being asked by the right people of the right population in the proper setting. Interviews can be influenced by the skills of the interviewer and conducted in a variety of ways that can cause hostility or pressure between the "volunteers" and the researcher (Kahn and Cannell, 1967; Argyris 1968). Similarly, the very strength of observation, its ability to examine a subject in detail, can lead to problems of subjectivity and bias. While interviews and observation can be effective in gathering data and can play a major part in any form



of assessment, they might be subjective in both the use and interpretation of the data generated (Lawler, Nadler, and Cammann, 1980).

A survey can have a breadth of view and a stronger chance of reliability than observation, if for no other reason than the higher number of responses usually obtained. With observation, the investigator may unwittingly study an anachronism that may not be discovered until the study is completed or not discovered at all. The chances of this happening in a broad-based survey are less likely and the mathematical basis for this assurance calculated with a fair degree of reliability. The information gathered by a survey can also be easier to administer and collate than other methods. It can, however, lead to misinterpretations and is effective mostly in gathering factual data from a relatively large number of participants (Lawler et al, 1980). The information gathered though may have to be used with some caution. For example, in a survey where a "yes or no" response is requested, a marginal response, say 51% yes, can be interpreted as a 100% support. While the totals may indicate a clear majority if the feelings were mild and the minority was fervent, it may influence the commitment of that support. Similarly, the use of postal questionnaires with large samples to gather opinions may produce poor levels of response. However, Deming (1986) suggested that a questionnaire sent to a selected population followed up by interviews would improve the reliability of the data. The discussion may have been summarized best by Zelditch (1962) when he proposed that for a frequency distribution, surveys were the most appropriate, but not for "incidents and history". While agreeing that both methods had their benefits and drawbacks, Trow (1957)

argued that the problem under investigation should dictate the methods of investigation.

All research methods have a potential for bias though a combination may be less so (Webb, 1966). A concern of a combination could be, however, that instead of emphasizing individual strengths, the weaknesses of each method may be brought to the fore. This could be reduced by using specific methods to take advantage of their strengths. That is, questionnaires to establish a broad base of data and observations to provide depth.

Another method considered was the case history where part of a company or one of its activities is examined in detail. Elaborate case histories have often been developed with financial data and character studies to examine how and why certain decisions were made. While used fairly extensively in business schools, the Harvard Case Study technique is perhaps the best known. These exercises were often criticised for reducing a complex interplay of external and internal forces into one-dimensional issues. One of the benefits of case histories, however, was the discovery in role playing, that under the stern visage and three-piece suit of some corporate executives beat the heart of many a frustrated thespian. Often a role play became a demonstration of exaggerated gestures, and the occasional freeze-up by hitherto controlled managers. Even in the most detailed of scenarios, however, it was sometimes difficult for the average student to capture the spirit, or parallel the original thinking of Roger Smith, the former President of General Motors in the USA, who appeared to emulate Richard Nixon in his seeming paranoia (Moore, 1988). So, while

there was support for continuing to use case studies and role plays to teach individual skills, its use for more complex exercises was not as popular as in the day when a Harvard MBA meant an automatic ticket to financial success (Deutschman, 1991).

Within the case study method, a kind of case study is the use of actual business examples as seen in Peters (1987) and the autobiographies of a number of chief executive officers (Iacocca with Novak, 1984; Scully with Byrne, 1987). In explaining why we follow the exploits of business leaders, the most logical explanation was perhaps Galbraith's (1983) "people can give interviews and appear on television, organizations cannot". As noted by Sherwood (1980), however, using problems of real companies can bring a sense of authenticity to the results.

A problem with actual examples is that the value of their message can change with time. Many of the illustrations used by Peters and Waterman (1982) to support the striving for excellence in business have not stood the test of time. While Miller (1990) argued that time can turn business success stories into failures such as Maxwell (Bower, 1991) and the Reichmans (Fleming, 1991), the use of case studies of real businesses can bring more depth and breadth of information than the abstract example. Glaser and Strauss (1967) presented this as:

"Grounded theory is derived from data and illustrated by characteristic examples of data."

### THE METHODS CHOSEN

Each data gathering class; interviews, questionnaires, observations, performance records and physical evidence is potentially biased (Webb, 1966). However, Webb, Campbell, Schwartz and Sechrest (1966) contended that,

"[t]he usual procedure questions asked is which of the several data-collection methods will be best for my research problem? We suggest the alternative question: which set of methods will be best?"

To help ensure that the data used in this thesis was comprehensive, a set of methods was chosen. They included a questionnaire to provide data on the use of performance contracts and appraisals. This was to be completed by senior managers in Ontario Hydro. Interviews and observations were selected to examine contracts as used by a diagonal cross-section of the organization. To obtain specific examples of use and opinion, interviews were conducted with individual employees. The interviews used in the thesis have often been between equals rather than an interrogation between examiner and examined (Denzin, 1978). This was to encourage, as Blumer (1969) argued, interaction between the participants. This technique has been used throughout the thesis when observing employees as "[h]uman beings, unlike electrons, are accessible to direct observation [therefore] it is unnecessary to study them only in aggregates" (Lindesmith, 1968).

Pilot studies were used to test some of the ideas and to build a platform on which the corporate study could be constructed (Benney and Hughes, 1956). Opportunities to test ideas in actual conditions was often useful. Therefore, two

business projects were studied to provide insights into the use of objectives in a business environment. These business projects were reviewed to provide the study with observed or operational evidence. To further and capture the feelings and opinions of participants in the various processes, a series of workshops was held. They were organised to obtain the breadth of the survey and the depth of fieldwork and to test some of the ideas and theories. The managed workshop, if run well, as Scholtes (1988) argued, can provide both quality and quantity of data. In the workshops, groups of knowledgeable but diverse individuals brought experience to the subjects to be discussed. The workshops also provided an opportunity to gather objective data as the writer attended as an organizer rather than as a participant.

The corporate case study reflected nine years of participant observation. At first, this meant reviewing performance measurement and its evolution into a contract process and studying the actual contracts over the next six years. The analysis was done in the last three of the nine years. During this time, the writer was a manager in Ontario Hydro and used many of the techniques studied. It is hoped that readers will judge that this depth and length of involvement have strengthened rather than weakened his ability to witness and interpret events. The practicality of using real documents, discussing them with the people doing the work, and the role of the writer as a user of the material is expected to reinforce the practicality of the methods chosen (Mintzberg, 1975). However, as noted earlier in this chapter, this closeness to the research also meant that caution had to be exercised to ensure objectivity in the gathering and analysis of the information. The main method used to regulate this

objectivity was the questionnaire to be completed by the senior managers in Ontario Hydro. By using a written questionnaire without interviews or signatures, a distance could be placed between the data and the observer.

Denzin (1978) suggested that using multiple methods or triangulation was the best way to test a theory. In particular, he argued that "methodological triangulation" which used different methods to examine the same subject was the most logical. Denzin also argued that the greater the triangulation, the greater the confidence in the observed findings. Sieber (1973) contended that the best set of methods would include observation on the part of the investigator, informant interviews and sampling techniques. While all of these methods are used in this thesis, it has been argued that field observations and surveys may lack the rigour of laboratory experiments (Hovland, 1959). To ease these concerns the workshops were organised to replicate the business decision-making processes in a controlled environment.

While recognising, as Argyris (1968) notes, that rigorous research can lead to unintended consequences, the range of methods was chosen to provide the best data with the minimum of bias. Edwards (1954) argued that the rigour of the research can be influenced by a combination of focus by the researcher and the setting of the research. However, Hill (1969) contended that within sociology the methods used ought to be judged in terms of their relevance not their elegance. Denzin (1978) also maintained that when the observer moves from theory to data, two problems are confronted; what units should be observed and can they be generated to other cases. Three elements appear important; one, the relevance of the units to the theory; two,

the sample must not be biased; and three, the observer must attempt to sample empirical events as they occur in their natural setting. In gathering the data for this thesis, care was taken to ensure that it reflected the conclusions drawn from all of the methods used. By using these different methods, the content of performance contracts, the effects on the individuals involved, and their results in their natural settings could be evaluated.

## CONCLUSIONS

To obtain the data required and to test the ideas found in the literature, a set of methods was chosen for the thesis. In developing these methods, the potential for unintended bias was recognised and addressed. By adopting the role of participant observer, a broad sample of relevant information was gathered.

In using a method or set of methods, Homans (1964) contended that "no one will go far wrong who remains in close touch with and seeks to understand a body of concrete information". In this thesis "the body" includes a questionnaire, to gather data from the management group; interviews, to collect information from an individual standpoint; a case study, to provide details of the corporate process; and, workshops, to examine the objectives-setting in a group environment. Business projects and pilot studies were used to test the theories being studied.

In choosing these methods, insight was gained from a number of perspectives into whether or not the performance contracts used in Ontario Hydro had a positive affect on performance. The following chapters will examine how the various methods

adopted were used and analyse their effectiveness in testing the various hypotheses with regard to objectives, the work environment, and the effects on the individuals being measured.

A primary consideration in the analysis however, was the relative contribution of the different methods to be used. In developing the sample sizes and the techniques my experience with performance and its evaluation was a consideration. As an employee and as a manager I have been involved with some form of appraisals or contracts in all of my jobs. Based on this experience each of the methods was used to provide a specific emphasis. For example, having used workshops extensively in the past I was aware of their strengths in developing data that was grounded in experience while encouraging new ideas that were acceptable to the group that developed them. Similarly the decision to use interviews was the product of many years of supervisory experience coupled with research as an internal consultant. The use of the questionnaire was expected to provide the most relevant data as it was a focused view of an experienced target group.

This combination of methods, plus the case studies and corporate performance information, provided not only an overview of the use of performance contracts and appraisals but also empirical data on their use by practitioners.



## Chapter Seven

### THE CASE STUDIES

The case studies reviewed in this chapter involved a series of workshops to examine the development of objectives by groups (Doyle and Straus, 1982). Two projects were used to evaluate the use of the objectives approach, and productivity indicators were examined to establish their potential for augmenting the use of objectives. Performance appraisals were examined to provide data on their use in a business unit. The case studies were used to gain insight into the application of performance measures, a view that can not always be found in the literature.

#### OBJECTIVES WORKSHOPS

A group of workshops was organized to test the use of objectives and to evaluate their link to performance measurement. The workshops were led and/or attended by the writer. Five were selected to try to achieve a representative sampling of experiences.

The first workshop was for an administration department with 29 participants ranging from managers to clerical staff. The second was a department providing building and office services to its company with 35 participants including managers and analysts. The third was for a group of property units whose primary function was negotiating rights with customers. Fifty representatives, including managers, supervisors and property appraisers attended. The fourth workshop was organized for a corporate-level unit which acquired and managed property, materials, and computers

for the rest of the company. Participants included the vice-president and the 95 managers of the various sub-units. The above were all part of the Ontario Hydro organization.

To obtain a different perspective and to provide a comparison with the business unit, a workshop for an amateur sport's group was examined. Attending this workshop, the fifth one, were the executives from the sport, field hockey; the coordinators of the sport from the federal government, and the sport's national-level coaches. A total of twelve people attended the workshop.

The first and second workshops were organized and led by the author. The third, fourth, and fifth were run by external business consultants. The results and observations from the first three workshops, the business units, are directly comparable. The fourth workshop, the corporate-level group, and the fifth, the sports group, were much broader in scope. They have been treated as specific cases. The workshops are outlined and discussed in some detail as the participants, their interplay, and the administration of the workshops were considered to be as important to the study as the materials produced by the various groups.

To encourage participation, each of the business workshops started with full group discussions to establish the parameters and scale of the subjects to be considered and used small, six to eight people, group exercises to develop suggestions for change and to analyse the various alternatives. The range of participants was from managers of large departments to clerical supervisors, and included engineers, electricians, and secretaries. Their ages ranged from mid-twenties to early-sixties with the majority

tending to cluster around 35. The participants tended to be more experienced than other employees of the units that they represented. This was, perhaps, a reflection of the fact that there were more supervisors than non-supervisors. The percentage of women in the various workshops was typical for their units. However, they tended to be younger, less experienced, and more lowly placed in them than the male participants. All the workshops had a common focus: to evaluate and develop performance objectives in a climate of change.

The initial emphasis was on the techniques used in analysing the workshops. This was partly to evaluate a management by objectives approach, and partly to address any problems that it might create. It was also meant to discover the best process for developing objectives for performance measures that would be effective over the long term for both the "employees" and their "employers". Each workshop has been outlined in some detail to allow for comparisons of approach and results. The amateur sports group was used as a control to compare to the business group.

Workshops 1 and 2 were similar in design, with pre-workshop material issued to outline the goals and to stimulate thought but not, unduly, to solicit opinions or to formalize business positions. Each workshop started with exercises to encourage participation and to stimulate creative thinking. These "ice-breakers" were used to break down barriers and make the point that fresh and innovative thinking was being requested. Exercises in team-building were necessary as in some cases the range in backgrounds of the members was broad and on occasions, particularly in the business workshops, intimidating. Some of the small group sessions were based on purely

random selections of participants to stimulate synergy and, it was hoped, generate creative sparks. Others were directed to try to ensure balance, and to reduce possible domination by senior staff.

The third workshop, coordinated by an external consultant, emphasized pre-workshop material that required considerable pre-workshop research, and positions on a broad range of subjects. The external mien of the consultants, and perhaps the cost of their services, led to a more structured and formal work environment. Organizational responsibilities were reinforced by using the most senior staff to chair, the small group sessions. The other participants were allowed to choose their own groups with some adjustments for size and representation being made.

All the business workshops used the large group sessions to outline the subjects to be discussed and small group sessions to discuss specific examples. Each session involved the analysis of a product or service, questioning its status, reviewing its future, and developing alternatives. The first, second, fourth, and fifth workshops emphasized objective-setting by the participants and were relatively informal. The third workshop led by the external consultants was more structured, and concerned with procedures.

#### Workshop 1 - The Administration Group

The administration group had been in place for some time and had fairly clearly defined responsibilities and products. The three major functions were: the Financial Products and Services unit which managed budgets, business plans,

expenses, and accounting; the Office Services unit which provided word processing and records management; the Business Program(me)s Section which provided management consulting, communications, and computer administration services. The staff of 29 matched the other workshops in age, the mid-twenties to mid-sixties, and experience with their organization, approximately five years, although the majority were female. However, most of the supervisory staff were male.

A significant change to the group was the arrival of a new manager from a planning unit. He was inexperienced in the unit's products and procedures. The previous manager had been in place for ten years before his retirement and he had enjoyed a very positive working and personal rapport with his staff. This rapport did not exist with the new manager who had, in the past, expressed severe doubts about the competence of the staff and the services they provided. He saw himself as a "turnaround" manager, and had already expounded on the benefits of the US Marine Corps Boot Camp approach of "tear-down and then build-up". The stated objective of the workshop was to develop new performance measures for the group. The perceived objectives were much more negative. It was obvious that to lead such a group and to produce usable performance measures would require considerable work.

In preparation for the workshop, each participant was given an overview of its objectives. They were encouraged to bring their ideas and opinions but were not asked to develop any formal proposals. To create an atmosphere conducive to discussion and innovative thinking, it was suggested that the meeting be held off-site. This was agreed to by the manager, but on receipt of proposed locations and their

costs he balked at spending money on the exercise. A company-owned off-site location was chosen in spite of its poor facilities. This decision, while initially resented by the participants, turned serendipitously into a positive experience as it led to bonding between participants and exposed them to a different facet of the organization.

In team-building, introductory exercises allow the participants to get to know each other (Newstrom and Scannell, 1980). In this case, the participants all knew one another, albeit not equally, which had both positive and negative implications as perceptions of work performances were brought into the meeting room. To balance and/or to offset these attitudes, an "ice-breaking" film was shown. This film was a comedy on the surface, but it emphasized the message that each participant was to regard her or himself as an equal within their group, and that they should contribute equally with the other members. To demonstrate further that skills different from the workplace may be needed in the workshop, an exercise in creative thinking was presented. This was an interesting activity as senior staff struggled with basic observation techniques such as proof-reading, and clerical staff revelled in their supervisors' discomfort. In leading an exercise such as this, the objective was to lower barriers and to encourage participation by all members of the group. By the use of directed questions (What do you think, Bill?) and body language (walking to the back of the group) each person was encouraged to participate as a full member of the group.

The purpose of this "preamble" was to ensure that commitment to the final results would be possible and to reduce the apprehension in the group. A secondary, but real, purpose was to try to plant the seed that the activity could be fun and that developing performance measures could be a stimulating exercise.

The results of the workshop were sets of objectives, with outlines for measures. They were useful as a base upon which contracts could be built.

### Workshop 2 - The Line Organization

The use of the word "culture", as applied to an organization, is often portrayed as a set of value statements, policy guidelines, and the operating environment. It tends to presuppose a universality within a company and its way of doing business. This was not present in Workshop 2.

Not only did the atmosphere bear little resemblance to that of Workshop 1, but there was little, if any, consensus on the future business focus. Much of this was anticipated and considerable effort went into preparing for the session. To try to establish a common starting point, each participant was given a package containing the current objectives and services delivered by their department. A major difference in this group was the role of the manager. Contrary to Workshop 1, the unifying force in the group was the manager. Whereas, in the former group, roles and responsibilities were well defined but challenged by the manager, in the Workshop 2 group there was considerable uncertainty about roles, but support by the manager was unequivocal. This helped greatly in the planning of the workshop, allowing for the selection of an

off-site location with excellent meeting-room facilities, and the opportunity to discuss issues and concerns in a positive environment.

In discussions with the manager, it was obvious that he understood and sympathized with some of the underlying staff concerns. He agreed that an evening session with a meal and social event would contribute greatly to getting issues and concerns aired before the final sessions. This should, he agreed, help to make the formal sessions more productive.

The group for Workshop 2 was superficially similar to Workshop 1. Their age, their years of experience, and their gender breakdown was similar but the group was larger, with 35 members, and with more direct reporting relationships between supervisors and staff. It also had a much more aggressive operating style, with a number of trades supervisors used to working to tight deadlines. Intra-departmental rivalry existed which, while usually positive, made the scoring of debating points an issue.

To try to ease some of these potential conflicts, the small group sessions were carefully managed in an attempt to balance representation, organizational standing, and personalities. There was some discussion of whether this "manipulation" would skew the results. After considerable thought, it was agreed that, while there was a danger of being too "clever" in group selection, random selection with the very strong personalities involved could have a greater potential for "biased" responses. This logic was reinforced at the first evening session when the agenda was discussed. At times, it resembled a union and management grievance meeting with each group sitting by



itself with a spokesperson to fire salvos. Considering that grievances usually have only two "adversaries" and that this group had at least five, it is not surprising some participants became spectators. This was very unfortunate as these non-participants tended to be the younger and/or newer staff who had less to defend and perhaps a fresher view of the direction required. It would be pleasing, but dishonest, to say that by good meeting administration the leader overcame these problems. In fact, all he tried to do was make sure that the meeting stayed on its agenda, and that anarchy was not allowed to rule. However, the session planning had anticipated this eventuality and between the group's venting of their spleen and the social evening, the stage was set for a productive morning session.

Before the group could be allowed to develop performance measures, it was important to establish some direction. Paralleling this was a need to agree upon the existing responsibilities of the group, and to discuss whether they were still appropriate. For many of the group, this was the first opportunity they had to look at the objectives and the official descriptions of their services. They were asked to take an outsider's view of their work to ensure that a fresh perspective could be brought to the exercise. Surprise, tempered by frustration, was the initial response. The services listed were dated, and, in some cases, they were no longer provided or the objectives were narrow and confining. The lack of relevance of the official documents, that is the organization's view of their contributions, served as a catalyst to pull the group together. All of a sudden, the intra-departmental rivalries faded into insignificance in context of a shared problem.

The products developed at this workshop were very useful, and were adopted as the basis for a new set of objectives and services to be delivered by the department.

### Workshop 3 - The Functional Group

In contrast to the first two workshops, which were for single business departments, Workshop 3 had members from different departments with few non-supervisors invited. The participants were predominantly male, older (35-65), more experienced, and more specialized by business function, than Workshops 1 and 2. Because of the broad range of reporting relationships including external (public) contacts, a decision was made to use an external consulting group to run the group sessions. A number of management consulting companies were asked to bid for the contract. The culling process was quite difficult as both sides, the consultants and the bid coordinators, were unsure of the scope and scale of the work being requested. This debate on "how big? how deep? how wide?" continued to plague the participants for the duration of the workshop, and was never completely resolved.

The consultant group which was selected had considerable experience in dealing with work groups and in running workshops. Unfortunately, it did not have the experience in dealing with such a diverse group with various "turfs" to protect. Their presentations had been to the senior managers responsible for the various functions, and the consultants may have mistaken their unctuous behaviour for

cooperation. In practice, each group was trying to encroach on each other's territory, as well as trying to increase its "market share" of common services.

In preparation for the workshops, an extensive questionnaire was sent to each participant. The responses provided the data for a draft strategic plan, with priorities assigned to various participants. The workshop was designed to flesh these priorities out and to build towards measurement of their performance. It was decided to use the organization's own off-site conference centre and the workshop was spread over two and a half days. For the small group sessions, no attempt was made to allocate the participants. Only after the majority had tried to sit in on one of the "small" groups, was the need for selection addressed. However, the damage had been done and each group attempted to carve out its own domain and claim ownership for all facets of the planning. In an attempt to regain control, the consultants shifted the emphasis of the discussions to improving current practices rather than objectives. This helped to bring a focus to the discussions, but at the expense of creating new concepts. So, instead of discussing what new products or services should be considered, the initial goal for the workshops, the debate was on finding new ways to do what was presently being done. In spite of this shift, or perhaps because of it, the conflicts that had been present eased on the third day of the workshop. The unresolved issues, the majority of what was supposed to have been accomplished, were delegated to sub-committees which were to be led by the manager who argued the most forcibly for the position. The sub-committees would work to their own timetables.

There were no end products of significance from the workshop and the groups continued to disagree on roles and responsibilities.

#### Workshop 4 - The Management Group

The management group of an Ontario Hydro branch wanted to address its performance. The main activities of the branch were, the acquisition of materials, computer systems, and facilities management. As an initial step in examining the delivery of these services, an external consulting company was used to develop a programme that would help to change the branch's direction and allow the change to be measured.

The workshop scheduled to create these changes was a follow-up to an earlier introductory session presented to the same audience. The workshop was intended to expand on the theories discussed at the earlier session, explore the techniques and philosophies required to help the managers develop objectives and measure their services. The participants comprised the 95 managers in the Branch, its "best and brightest", all of whom had staff answering to them. They were predominantly male (95%), 35-55 (average 45) years of age, with considerable experience (on average over 15 years).

The reason for looking at the processes of work was that the projected workload for the Branch indicated a growth rate of approximately 25% over 5 years in requests for service, in a time of hiring restraints. Being a service unit, the requirements for its services were client-driven and controlled. A major increase in

space requests, acquisition turnaround times, and a large increase in computer support were being demanded. Unfortunately, there were also restrictions on hiring staff in non-operational areas. So although demand was growing, supply was constricted.

A very important part of this equation was that the branch had a new vice-president who brought a very different perspective to her work. Coming from a different part of the energy world, petroleum, from a profit-based environment to one of electricity at cost, and being the first female vice-president in the company, caused a shift in priorities. To reflect this new perspective and a growth in workload, a quality management process called Continuous Improvement was adopted.

The workshop was primarily scheduled to address the issues of quality management and their effect on the objectives and performance measures of the branch. It was held off-site at a large and rather palatial hotel. The first indication that different expectations were present was the attire of the participants. At the previous meeting, everyone had been encouraged to dress casually and comfortably in what was a resort environment, however, for a hotel in downtown Toronto particularly as no instructions had been issued on apparel, ties made their appearance on more necks than not. The discomfort on both sides, the majority in business suits, the minority in sports shirts, led to some interesting insights into the business at hand. To some, the workshop was a training experience held in classrooms, and that meant casual (university) clothing. For others it was a business (political) meeting, where appearances had to be congruent with position. Others were not so deeply affected and had come in what was "normal" for them, that is, suit and tie. Although

apparently a superficial point, the intensity of the reaction of some of the participants showed that, in organizing an event such as this, much of the unnecessary uncertainty should be eliminated beforehand, so that the focus can remain on the job at hand. What happened in this case was that three or four people wanted to leave to change their clothes, two or three complained bitterly about a lack of communication, and some complained about the lack of consistency in our programmes. These were superficial issues perhaps, but deeply felt nonetheless.

The consultants hired for the presentation also offered a contrast in styles. One was a former senior executive with a large corporation who displayed, at least on the surface, a folksy easy-going American style. Full of stories and presentation techniques, he hooked the audience from both a sales and a teaching perspective. The second lecturer was more technical and precise, reflecting his analytical and management background. The interplay with the participants was particularly interesting. The first speaker, they alternated on a one to two hour basis, entertained with a little training and group participation tacked on. The second speaker tried to emphasise learning, using anecdotes to flesh out the concepts. Both were good at their jobs but the audience had more to learn than they, or the presenters, perhaps appreciated.

Most of the audience were university graduates, the majority being engineers, computer specialists, or financial managers. Although they were all conversant with numbers and statistics, these represented an earlier skill and most of them now were concerned only with strategic or "executive" decisions. The concepts being presented

required that the managers work with data normally assigned to their subordinates, for example, to develop Pareto charts, histograms, and the like. Though accepted with some initial enthusiasm, as the examples got a little more complicated, and the quantity of data required became more onerous, some concerns started to emerge. It was not that they could not handle the work, it was that the benefits were not obvious, and that the amount of data to be gathered was in direct contradiction with their moves to simplify and reduce the quantity of reports and statistics generated. The branch, as well as Ontario Hydro in general, had recently undergone a series of re-organizations and staff cutbacks. Most of the units had performed some form of study on their operations, and one activity that had been lowered in priority had been the information-gathering operations of the service groups. Current statistics were mainly financial and lacked detail. So the managers, who did not normally work with the raw data, were being asked to dust off their skills to do work that appeared to reflect where they had come from rather than where they were going. They were also working with data that were less reliable than they believed necessary, for accurate results.

The need for analytical work was not a major problem in itself. The difficulty was that the group was not convinced that they had a problem that required as great a change in work styles. They argued that Continuous Improvement was adopted by the Japanese, after the Second World War, to resurrect a devastated economy. Since that time, most of the companies who had adopted Continuous Improvement had either been very challenged in their market segments or were in severe financial difficulties.

Such circumstances were not perceived to be present for this business unit. These feelings became more open during an exercise in "barriers" where the group was asked to identify hurdles to implementing the process. The exercise was an opportunity to raise a number of points from both professional and personal standpoints.

The issues raised were addressed in a very straightforward manner by the vice-president. She made a commitment both to the Continuous Improvement Process and to establishing an environment in which it could grow. However, she also made it clear that commitment was also required from the participants. This airing of concerns brought the whole session together. It was now obvious that a change in philosophy and a level of investigation not normally associated with the current business practices was required. This realignment of priorities was most evident in the measuring and recording activities.

"What gets measured gets fixed" was the theme used by the consultants. However, the group felt that until the important elements could be quantified and supported by actual data, the decision-making processes should be put on hold. The measurements of performance usually used at this level were financial usually in the form of budgets and/or subjective evaluations. The consultants were asked what should be measured and the answer was "everything". After a suitable period for rumination, the view of the "customer" was raised. A brief debate on the role of the internal customer versus the external, was cut short by the proposal that only the external person, in this case the user of the electricity, was a true "customer" and the rest were "clients". At first, this only seemed to be a semantic answer. However, a



dictionary reference showed that a customer is usually a "purchaser", whereas a client is "a user of services". This was a subtle difference perhaps, but one that helped the debate to reach a consensus. With the customer as a focal point, measures or actions that helped provide a better customer service were to be emphasised and only measures that, in satisfying a client, ultimately reached the customer were acceptable. The politics of satisfying a distant customer and perhaps of irritating a close client were not debated at length but their potential impact was recognized.

Within the individual work units, the normal performance measures were again those of budgets and activities. Some results were measured, particularly in the acquisition functions, but their use was not well documented. Measurements of individuals focused on performance appraisals which, in the pithy language of the consultants, was too often an excuse "to beat up on people". Continuous Improvement, on the other hand, was a measurement of process and focused on performing the activity not just the end result. Similarly, the objective-setting processes were team-based and recognition of team accomplishments were considered to be more important than individual attainments. Before measuring the processes, however, a very detailed understanding of the processes needs to be in place. Again, the level of knowledge of the managers tended to reflect the strategic, rather than the tactical aspects of their various businesses. It was pointed out that the people building the nuclear stations make very detailed and complex plans for the building of the plant, but that the need to use similar process charts to help to provide the services

was not as evident. Processes to guide the individual in preparing these documents were even less likely to exist.

By coming full circle, the group realized that if they were to satisfy their increase in workload without a corresponding increase in staff, a major shift in work focus was required. This shift would have to encompass a number of changes in approach and style, not the least being an intimate knowledge of the measurement of the work processes. The concluding discussion of the workshop brought forward the fact that, if performance measures are to be used effectively, they would require considerable work. However, it was felt that the group was moving in the right direction.

#### Workshop 5 - The Amateur Sports Group

A major element of performance in government, are activities which link with special interest parties. An example of this is in national-level amateur sports where federal subsidies make up, in many cases, the bulk of the groups' funding. In these cases, the government or ministry must be accountable for the performance and funding with the sports responsible for its allocation and reporting. This is a difficult point of contact at times as the need for detailed reporting comes up against the "idealism" of the amateur sports body.

A series of annual workshops had been held over the previous six years, between the representatives of the Ministry (Sports Canada) and the National Sports Organization (Canadian Field Hockey Association). As with most sports, the aim was

to develop a plan to describe both direction and priorities. Using a four-year time frame, the Quadrennial Planning Process (QPP) was a very detailed, results-oriented mechanism that broke all of the elements of the sport such as planning, administration, coaching, and umpiring into their component parts. While this approach addressed many of the problems associated with managing the sport, it required a major outlay in terms of administrative effort and precious time from volunteers. Its necessity, while recognized, made it difficult at times to dedicate enough energy and thought to the reason most of the volunteers are involved, namely the playing or at least planning for the playing, of the sport.

Field hockey is an Olympic sport, but in Canada it has to be called field hockey, or as it is a bilingual country hockey sur gazon, to differentiate the sport from its more popular cousin, ice hockey. To most of the world, hockey may be played on grass or more commonly these days artificial turf, but in Canada only the frozen kind is true hockey. It is partly this attitude that makes field hockey a difficult sport to plan for. It has a world profile, but is far less known at home even though it is played by both men and women, with strong junior and senior (veteran) components. Coupled with this, there is a national team that consistently does well in international competition despite its very small player base.

To try to address some of these problems, a workshop was held with representatives from the government (Sports Canada) and the sport (CFHA). As the focal point for the discussions was to be elite, that is international competition, most of the sports representatives were national-level coaches. The workshop was held in

Vancouver, the centre for most of the field hockey in Canada. Participants were from across the country with an emphasis on the major centres of Vancouver and Toronto. All the coaches were male as were the Sports Canada representatives. The sports administrators, full-time employees working for the sport but funded by the government, were female. The interaction of these groups, the sport, the government, and the intermediaries sometimes created synergy, sometimes stagnation.

The goal of the workshop was to examine two major elements of the elite or national team programme; the development of more and better national-level coaches, and increased opportunities for elite-level players. These objectives had been developed at an earlier workshop as goals for the programme. The purpose of this workshop was to review these objectives and to establish their validity. It was also expected to identify issues, to develop suggestions for their resolution, as well as performance indicators, or measures, for their evaluation.

The group contained a broad range of backgrounds and personalities. This showed itself almost immediately with the discussion, at times sparring, on how to get started. Some wanted to jump right to solutions, others wanted to dig deeper into the background, and others wanted to settle old scores real or imaginary.

In reviewing the objectives, two conflicting views emerged. One was that funding was primary and that all efforts should concentrate on winning the event that gave the best return for the effort invested. For this group, this meant winning a gold in the Pan-American Games. The second view was to take a more balanced approach where each facet would receive equal priority and attention. The debate ranged back

and forth, but in the end the "gold-medal winners" won out as much by strength of personalities as by logic. However, the exercises served to identify the primary objective to which subsequent objectives could be linked. A pattern emerged at this point, where with the primary objective in mind, other objectives were ranked or placed according to their relationship to the primary objective. The process was not without its diversions, as in time-honoured "chicken and egg" fashion, the debate oscillated between which should come first, the development of the players or new higher-level coaches. Within the primary objective, both approaches were valid and the consensus was to develop two secondary objectives, namely to develop the players and to develop the coaches.

On the surface, it appeared that the group had come full circle, but in fact a tremendous amount of ground had been covered and a common focus was present. The group was then split into two arbitrary work groups. The selection for these groups was based on personality and experience and created a mix of opinions. Both groups worked well and addressed the question by defining the issues, making suggestions for actions, and outlining performance measures.

The issues on the "players'" side were interconnected. They were, the identification of players and their potential and exposure for near-elite players to top-class coaching. A series of sub-objectives emerged, where identification of talent would become an ongoing activity and a series of regional camps plus an opportunity to invite players with potential to observe answered both situations.

The "coaches" group had a slightly more cathartic experience. Being conscious that too elaborate a programme may be construed as self-aggrandizement, or "pigs at the trough", they hesitated. In a similar vein, they were very aware that in a number of cases the players, particularly the more experienced ones, knew more about international-level skills and tactics than did their coaches. The key was to develop a set of objectives that would give the coaches more experiential learning as tournament observers, guest coaches, and more of their time in theory and classroom activities. The next major step was to measure these sub-objectives. Being results-oriented, they "lived" or "died" by the final score-line, and it was difficult for the group to develop anything other than measures that reflected actual performance. On the subject of player fitness, considerable discussion arose around quantitative measures, a time for 5,000 metres, bench press in kilograms, and so on. It became obvious that these were measures of training performance and that the players were following their training schedules rather than their actual playing performance.

Despite the variety of opinions, a solid set of objectives and sub-objectives were in place by the end of the meetings. The performance measures were not as supportable, and although all the participants could agree on some of the measures, and some of the participants could agree to all of the measures, consensus was elusive.

#### Observations on the Five Workshops

Each workshop had its unique elements, but there were a number of common threads in the development of the objectives. All the workshops highlighted the need

to manage the techniques used and the high workrate emphasized the commitment that people can bring to their work.

Although the duration of the workshops ranged in time from one to three days, they shared a similar pattern. Not surprisingly, the initial stage, a scene-setting activity, was important. There were variations in intensity of feelings, but each group had a relatively high emotional starting-point. In some groups, this showed itself in nervous laughter, excessively aggressive reactions to minor issues, for example, "correctness" of attire; and, withdrawal or denial of normal meeting courtesies, for example, interruptions and parallel discussions. Recognizing these emotions was important for the organisers and workshop leaders and skills in team building were necessary. In Workshop 3, in which these issues were not addressed well, the group never came together and its objectives were never clearly defined.

Recognizing the emotions also had an element of risk. Workshop 2 had the potential to fall apart because of the intensity of the emotions present and the ways in which individuals formed sub-groups. The very positive attitude of its manager and the planned separation of the initial stage from the actual development process, allowed for the flow of adrenaline to be channelled positively. In Workshop 5, some ongoing rivalries within the sport were used as spurs to developing a superior result but it should be recognized that the relevant emotions will usually be present in the workshops and if addressed early in the process, their impact on the final results may be positive, or if negative, at least minimized. If a "breathing space", overnight or

lunch for example, can be established between the initial defining stage and the development phase, the energy may be applied more positively.

An agenda with some sort of time frame would appear to have been useful for keeping the workshops on track. This does not mean that each discussion had to end by a certain minute, but it did mean that an awareness of the work to be accomplished and the time available was necessary. All of the workshops drifted to some degree. This was perhaps because none of the groups met on a regular basis and a large part of the analysis time was spent on establishing common definitions or understanding current situations before advancing to the future. Post-workshop interviews indicated some concern with this situation as it seemed that the workshops were always moving at the pace of the slowest member. This problem was compounded by the desire to work from consensus as much as possible, as it was agreed that only if "we" were all "on board", would there be a commitment to the final results. An interesting observation was that developing realistic objectives was hard work, but it was also seen as a positive exercise and a forward step. In those workshops where team-building had taken place and where the opportunity to air opinions and/or differences had been used, the objectives to be striven for were more positive and required a bigger "stretch" for the unit. The objectives developed in Workshops 1, 2 and to a lesser extent 4 and 5 matched what the participants wanted to accomplish. That was a different direction not just predictable extensions of the status quo. Workshop 3 did not reach its own objectives, far less develop new ones for the business units. The exercise was a learning experience at least for those who wanted



to learn in how not to establish a direction. The end result was the setting up of committees without establishing what they were to do. Workshop 4 was not a workshop exclusively intended for developing objectives, as it contained a large element of Continuous Improvement, but the overall goals of direction and measurement were similar. Unfortunately, the relationship between the lecturer(s) and the audience got in the way of the development exercise and although it was a well-organized meeting, the synergy to lift it into an effective one never transpired.

On completion of the objectives exercise in Workshops 1 to 3 and 5 the plan was to move on to the development of performance measures. This was done, but not smoothly. Workshop 3 could not attempt this as its objectives were not fully achieved. The other three workshops had problems in moving from objectives that tended to be strong and positive statements to measures. Their forward focus made it difficult to measure them by traditional quantitative methods. All three groups worked hard to develop measures, and amid much compromise and doubt, sets of measures were tabled. However, in analysing the measures, it became obvious that in trying to quantify without sufficient historical data it was difficult to draw a direct comparison between meeting a measure and its effect on the objective. In some cases, the measures could be exceeded without any assurances that the objectives would be met. For example, in meeting client demands for a customized computer system, that is satisfying the customer, great difficulties were encountered in making their new system capable of running corporate pay programmes.

While the workshops had been productive exercises and had developed sets of objectives, the performance measures were not completed. An observation by a participant was that if they had not worked as hard and had only come up with "easy" objectives, the measurement of them would have been much easier. A review of the materials produced at each workshop underlined the need to apply the same detailed focus to the objectives for organizing the workshop as it was to the participants' efforts. Where teams were not pre-selected, confusion reigned and more time and effort was spent on "hand-holding" than on leading. Pre-selection does cause apprehension, if not paranoia. Therefore, the reasons behind groupings have to be explained in a candid and non-threatening manner. Unnecessary uncertainty should be eliminated from the process as much as possible. Objective-setting can be a difficult activity and may raise the emotional levels of some participants. If administrative details such as attire, washrooms, and smoking can be agreed upon beforehand, the aims of the group are more likely to be met (Goodman, Ravlin and Argote, 1986; Hackman, 1990; Scholtes, 1988).

The work rate at all the workshops was high. The dedication of the employees to work past normal quitting times, the ignoring of scheduled breaks, and the use of meal times to continue discussions were evidence of a desire to work hard. However, these efforts led to more than just an increased quantity of work. In every workshop, people took extra steps to try to improve the quality of their sessions. They drove into town at night to pick up extra materials for visual presentations. Inexperienced staff stood up in front of their peers and argued for a point which they felt strongly about.

Even in the amateur sports group, although the level of commitment was less consistent than with the business participants, those who were committed worked hard. An observation made after all the workshops was that while humour, or the light touch, may not measurably increase the quality of the work, its absence can inhibit it. These points highlighted the need to consider the way in which the groups worked together and to use the interaction of the participants to support the group's decisions

### PILOT PROJECTS

To build on the knowledge acquired through the analysis and developed in the workshops, two business projects was used to test the theories.

Performance measurement had been used to provide information and direction in the making of products or in the delivery of services. Less experience was present in projects designed to meet legislative, or environmental, requirements. Therefore to test some of the ideas already presented two projects were selected that reflected these initiatives. The two projects were concerned with the use and handling of hazardous materials in the workplace and with the recycling of fine paper. Each represented a new facet of Canadian business in the 1980s when legislation or good business practice required that organizations met specific conditions which may not have been part of its products or services. One of the difficulties in these types of projects was establishing a cost or customer base. To satisfy the legislation may have been a reasonable goal but it was difficult to establish a model for the success of the project. The consensus amongst the team assembled to implement the projects was that, while

legislative or "good citizen" initiatives did not meet the traditional criteria for products and services, they were real issues and should be judged by standard business measures such as costs, schedules, and customer satisfaction.

#### The Workplace Hazardous Materials Information System (WHMIS)

In recent years the presence of hazardous materials in the workplace has become an important issue for industry (MacDougall and Signoretti, 1990). In 1988, the Canadian and Ontario Governments passed legislation to address the concerns of interested parties. It followed four years of consultation and the making of regulations by government, industry, and unions. Since the first laws were passed in Ontario, the other Canadian provinces and territories have initiated similar legislation making WHMIS a Canada-wide programme. The objective of WHMIS was to give employers and workers the right to know about the presence of hazardous materials in the workplace. It does this by providing for warning labels on containers of hazardous materials, separate safety forms providing further detailed information and known as material safety data sheets or MSDSs, and worker training on how to use this information.

The implementation of this legislation had a major impact on Ontario Hydro. For distinct units within the Corporation, procedures were difficult but relatively straightforward to implement. In the Head Office complex, 9,000 staff worked in a broad range of work environments, from quasi-industrial maintenance workshops to the executive offices. The Head Office complex also included warehousing and

research buildings which contained large quantities of hazardous materials such as radioactive residues, toxins, and inflammable substances.

A team was set up to manage the project and to bring skills in project management, training, communications, and negotiations to its resolution. The main focus was on training. To address it, three requirements were identified. The first was the need for a strategy to deliver the WHMIS training and education agenda. The second was a communications programme for all of the interested parties. The last was to ensure that suitable training vehicles were selected to meet the needs of the employees. To satisfy these elements, a hierarchy of objectives was developed. The overall objective was to implement the WHMIS programme to meet corporate and legislative requirements. The major objective was to develop a communication plan for all affected employees. The sub-objectives were to develop a training programme for all affected employees, and to provide an advisory service to support the various customers.

The element needing the most time and effort was the delivery of training. No precedents were in place for introducing WHMIS into an organization with so many employees in so great a variety of work environments. To meet these diverse needs, two distinct, although complementary, products were developed. A four-hour detailed package was designed for employees directly exposed to hazardous materials. This model outlined training instructions and in-class testing of knowledge. A one-hour information package was also developed to explain the legislation and its intent. This package was for employees not working directly with hazardous materials. To deliver

these packages to the appropriate audiences required a number of difficult demarcation decisions. For example, it was necessary to identify workers who worked next to but not with hazardous materials and workers who visited sites with a high hazard risk. In each case, the intent of the legislation, that is "the right to know", was the dominating criteria (WHMIS, 1988).

The primary reason why the project team was set up was that, because of earlier problems, the assignment was well behind schedule. This involved training about 900 employees at ten different locations in three weeks. These employees were the "core group" whose jobs brought them into direct contact with hazardous materials. They were the critical group for testing by Ontario's Provincial Ministry of Labour. The success or failure of this groups' training would be the touchstone for the WHMIS training programme as failure could shut down any of the work sites. Within the same 3-week period for delivery, the general training package had to be delivered to 7,500 staff.

To deliver the detailed training package on time (900 staff in three weeks in groups of fifteen), it was necessary to identify and develop a pool of trainers. Some rather desperate searches for resources, both internal and external to the organization, drew a blank. Everyone had the same problem. After brainstorming the problem for a possible solution, for example, using videos, teaching for 24 hours a day, or asking for an exemption, it was decided, with some trepidation, to train employees who worked with the hazardous materials to deliver the package. This decision was viewed with some alarm by both the corporation's management and professional training staff,

but it was explained that due to a lack of time no other option was practical. The secret was not to train this group in all aspects of training, but to provide a few general concepts plus the actual material to be delivered and to make sure that they knew they were working with a safety net. This approach had two real benefits. The novice trainers were part of the training process. They brought to the classroom their own work experiences, no "that won't work in my area", that is sometimes missing in standard training modules. Second, the people coming to the classroom could relate to the instruction on two levels: to the presenter, "she/he's one of us", and to the material because the examples used were familiar aspects of their workplace. Although the novice trainers lacked experience they knew their subject, worked in pairs to provide mutual support, and had an emergency number if things went wrong. They did not have to use it and the training was a success.

The general training package posed a challenge that was different but just as hard. "Employees who work directly with hazardous materials" (WHMIS, 1988) were not well defined by the legislation and a number of challenges had come from the various unions involved. Also, the management wanted to take a rather narrow view of the definition. However, the project team had adopted the philosophy that the guiding intent of the legislation was "the right to know" (WHMIS, 1988). Therefore, a decision was made to train the 7,500 staff not covered by the specific training package. A set of guidelines was established in order to meet this task. For example, the delivery of the training would be the responsibility of the line staff. To ensure consistency of delivery and message, a package was developed including an

instructor's guide to assist in the delivery. Representatives of the line management staff attended a presentation that provided a model for their presentations. The training was then delivered to the 7,500 staff in groups ranging from 1 to 100 depending on function and type of work. All the training was delivered and the objectives were met. The essential performance measure, a challenge by the provincial Ministry of Labour two months after the training, was met successfully. The chart in Appendix B illustrates the processes used in the development of the WHMIS programme.

#### Recycling Fine Paper - "The Green Tray Program(me)"

Recycling is an idea that is being rediscovered by the developed nations. The less developed ones have, of course, always recycled out of necessity. This necessity is now present in the "have" countries for the very pressing reason that there are few places left in which to dump waste safely. Many large manufacturing companies have been trying to offset this problem by recycling their waste as by-products, and a number have been quite successful in marketing what to them was waste but to others were valuable commodities. Ontario Hydro has had considerable experience in this field ranging from fly ash, a coal by-product used in road construction, to heating greenhouses with warm discharge water. Paper was, however, a slightly more difficult challenge because of the audience involved. In order to develop or create enough volume for an effective programme, a large percentage of the staff had to be involved.



To manage this project a team which represented the operational and strategic elements of the problem was put together. To ensure that the best answer was adopted, an "objectives" approach was used. Over the life of the project, a hierarchy of objectives was developed to link to the primary objective of being cost-effective. The initial work of setting the objectives revolved around the issue of recycling and waste. Considerable discussion by the team led to an evaluation of the various approaches then in place. A major recycling initiative had just been launched by various town and city councils in Ontario. Called the "blue-box" programme, it used a plastic container for homeowners to sort their glass and plastics. The programme ran parallel to, but separate from, the normal refuse disposal services.

By taking an "objectives" view, the team felt that all the options had been covered. However, each time the wording for the objective was crafted, at least one member of the team demurred. To try to eliminate this uncertainty, one of the team members revised the process to present a different perspective. He discovered that what was required was a change in perspective, or a paradigm shift (Barker, 1985). This paradigm shift was to look at paper not as "waste" or something to be discarded, but as a product at a stage in its life. Research into the various recycling programmes in place identified a common theme; "contamination" of the selected waste products by another waste product. For example, in the recycling of glass, a well-defined, long established process was being severely undermined by the presence of ceramics and pottery. The programme to pick up cardboard was compromised by the presence of food particles, which not only caused problems in processing, but brought rodents into

the operation. Therefore, sub-objectives for the fine paper programme had to be established to ensure that contamination was minimized.

Surveys of potential users also raised points not considered by the team. Ease of use was considered paramount to the users. In their naiveté, the team had focused in on all the "good citizen" elements, such as saving trees, and had thought that participation would be automatic and positive. Also, research showed that after the initial burst of enthusiasm, maintenance could be difficult. This meant that the process of collection had to be as simple and reasonable as possible for the users. This became a sub-objective.

In laying out the two objectives of ease of use and of low levels of contaminants, a mild potential for conflict was identified. Putting containers in easily accessible places could also expose them to uses other than just holding paper. The original method selected to collect the waste paper was a second waste paper basket, colour-coded so as to be readily differentiated from the normal basket. Doubts about keeping it free of contaminants led to inquiries at various government offices who were using a similar system. The only practical non-waste paper basket was a round cardboard and metal container placed on the user's desk and called a "paper saver." In practice, it appeared to contain almost as many pencils as paper. A review of the primary objective, that was thinking of a piece of paper as a product, was required. When one is finished with a product it is transported to the next stage in production as logically and safely as possible. Therefore, as the product was a piece of paper, mailing it to the next work stage was the most obvious solution. By mailing it, it

would not be exposed to contaminants and it would be part of normal office procedures.

The members of the team responsible for the planning of the project met with the operational representatives. The logistics of moving such a large volume of paper through the mail system conflicted with the amount of space in the mail room. A re-evaluation of the procedures was required. By re-examining the sub-objectives, a further alternative was discovered; an "out" basket similar to the mail tray, but colour coded to differentiate it from the regular mail. Pick-up was still a problem as the mail system was already overloaded. A sub-objective to provide easy pick-up outside the mail system was necessary. With some reluctance it was agreed that while physical separation of fine paper from the refuse disposal system was essential, the two processes required parallel streams to get them from the office to the shipping dock. Therefore, as long as there were two clearly defined pick-up systems, the "mail" philosophy was sound. The key was the separation and lower potential for contamination. The "out-basket" on top of the desk eliminated the accidental deposit of used coffee-cups, and the green colour of the tray differentiated it from the standard black so that essential documents were not accidentally sent to recycling. To eliminate the "colour-blindness" potential, and to improve communications, stickers outlining the "Dos and Don'ts" were attached to the trays.

The success of the programme hinged on the decision to use the "green-tray" system and it showed how the use of objectives to challenge the standard approaches meant that a more effective process could be developed. To round out the

programme, a further set of objectives was developed to address the communication and supplier programmes. The most difficult was to bring recycled products back into the workplace. The objective was to "close the loop" of the paper being purchased, used, recycled, reprocessed, and then being purchased in recycled form. In planning how to achieve this objective, the most difficult issue was that of purchasing the recycled products. The specifications for recycled products were still not formalized and in trying to find a "standard", a number of secondary issues had to be addressed. However, the sub-objectives were linked to the primary objective and gave direction as well as a sense of accomplishment. By knowing that the sub-objectives were not compromises but small steps forward, the team was able to satisfy the scepticism of the purchasers and the unbridled enthusiasm of the suppliers.

Performance measures were developed which established the parameters to be used in the absence of true product specifications. In launching a project such as this, a primary objective was the communications with the participants. This is an elementary point perhaps, but as the project took its twists and turns, the initial communication explaining the logic of the project provided both a support and channel for feedback.

In reviewing the objectives as a kind of hierarchy, it was noted that while the programme addressed the good citizenship issues and met the users' needs, the team still had to consider the business environment. They set a sub-objective that met the business or financial implications of the programme. A budget for the project had been developed but it was only used as a monitor of costs. While drafting the

objective for costs however, it became apparent that if the project was to be taken seriously and not just as a "nice" activity, a performance measure of the finances involved was required. To create a financial equation that compares costs and benefits is often a difficult task when working with subjects not normally measured, such as recycling. Corporate relations, citizenship, and environment all had a role to play, but in this case a financial element was considered necessary. With some trepidation the costs and revenue were calculated. The trepidation was caused by the awareness that if the costs were too high the programme was in jeopardy. The team was also conscious that while the costs were easy to quantify the benefits could be less tangible. Recycling of paper had received considerable publicity. "Urban forests" were being created when reclaimed newsprint had to be stockpiled because the paper mills could not use the material, and paper being picked up by volunteer groups was being sent to the dump. However, this programme was aimed at "fine" paper, the paper used in offices, and the demand was high. In negotiating with companies to buy the paper, it was difficult to have a detailed tendering process as the volumes and quality levels were unsure. This made the usual "lowest tender gets the contract" policy awkward to implement, so one of Deming's (1986) "fourteen steps to quality", the single source supplier, was adopted. The team negotiated with companies who were flexible enough to accept a change in the relationship between suppliers and buyers from adversaries to partners (Peters, 1987).

Picking up the paper was a point of concern, but by using the supplier's equipment to its optimum and by scheduling the desk pick-ups to ensure a practical

workload, the volume of material was controlled. The main concern was contamination. Contamination, the wrong material in the wrong place, in fine paper systems means the presence of magazines, newspapers, paper towels, file folders, envelopes, cardboard, carbon paper, stencils, gummed labels, and the ubiquitous "Post-Its". The number of items on the list was a concern, but in use a pattern emerged. If it was "paper", whether it was coloured, computer, photocopier or typing, it was suitable.

Placing the tray on the desk was the "quality control" system. Being open and visible, it did not accumulate rubbish and with stickers on its side as a guide, questions of use were answered. This meant that the paper picked up was of top quality and that it could be recycled as fine paper and find its way back into the office. Paper that contained even a small percentage of contaminants was downgraded and used in cardboard or similar products. From a business perspective, the issue was that the price paid for top grade paper was up to three times higher than the lower grades, and, what was more important, the demand was very high for the first-class paper.

The objective was to measure the financial impact of the programme. To do so required a broad view of the activity. Not only was the corporation being paid for the paper at a rate much higher than projected, but avoided costs were also part of the equation. By sending approximately 85% of the office waste to recycling depots there was a major saving in the cost of sending the material to the dump. The costs of rubbish collection and shipment to dumps had been increasing dramatically. Space

was at a premium and trucks containing recyclable materials, cardboard for example, were being turned away at the dump site. So not only was a premium price being received for the paper, but dump charges were being avoided. A number of side issues were costed. For example, the reduced amount of electricity required to produce paper from recycled paper versus wood pulp was calculated, but the dominant factor was to relate actual costs to actual revenue.

The costs of the programme were the desk trays, floor containers (used in high volume areas such as photocopiers), increased costs of cleaners for pick-up, and the project team's costs. The revenue was the payments for the paper and the avoided dumping costs. The programme made a profit and the excess is now being used to support other programmes such as newspaper pick-up and a recycled paper pilot project. The concept of measuring the objectives was extended both to the supplier and the participants (customers) in the programme. For the supplier, a contract was established outlining not just the normal specifications but also addressing the strategic goals. Measures were installed to monitor the timeliness of the pick-up process and the contamination rates.

#### Observations on the Pilot Projects

The use of objectives as the main planning tool made these projects effective and agreements between the project team, the supplier, and indirectly the customer defined the effectiveness. Each element in the project could be evaluated and measured by using a hierarchy of objectives. The objectives approach forced the

project team to work on what had to be accomplished and not just to work from known procedures. At each step, the question "What are we trying to accomplish?" was asked. By going back to the primary objectives and by occasionally revamping them, usually by broadening their scope, the sub-objectives were set in an iterative environment. If the objectives approach had not been used, it is doubtful that the workers as trainers or that the "green tray" would have been adopted and likely that standard approaches would have held sway. Also, by setting sub-objectives and focusing on measuring, the revenue stream was readily identified. By setting up "agreements" with suppliers and users and discussing these "agreements", the programme was kept on track and moving forward. Just as importantly, the objectives and measures became a contract for the team where progress and accomplishments could be measured and demonstrated. Therefore, it would appear that in the implementation of a business project, objectives can be an effective way of monitoring or measuring its progress and success.

### PRODUCTIVITY INDICATORS

While the objectives approach appeared to cover the broadly-based performance measures, concerns were expressed by managers in the various business units for some form of indicator that would tell them if the objectives were practical. While the performance measures could be the definitive links to the objectives, the use of milestones along the way would increase the managers' confidence levels



particularly on long-term projects (Chew, 1988). The possible use of productivity indicators was examined to assist in this process (Ball and Halwachi, 1987).

When developing a comprehensive performance reporting system, objectives tend to vary according to user perspectives. While the performance contract system met many of the criteria that it was designed for, one viewpoint was difficult to delineate clearly. This was that of the vice-president for the Branch. Obviously, this was important to the Division's management and an analysis of his needs followed. The examination was of a service unit that was part of a larger one. The difficulty for the vice-president was expressed as "your measurement system is very good and meets my organizational objectives, but how are you doing generally?" He explained that while the performance measures being used, for example, costs per transaction and customer satisfaction levels were useful, they did not provide him with an overall view of the status of the work being done.

The problem was that in a service unit it was difficult to find a "bottom line" for the delivery of all the services. For the company, the price of electricity, its major product, was an obvious measure but for the service units no such "priority product" existed. To address this issue productivity indicators were examined. This work would, it was felt and using a very coarse scale, try and capture the productivity variances of what was a conglomerate of unrelated services. Considerable investigation was undertaken to look for one all-encompassing indicator.

A pattern became apparent after a broad range of possible indicators used in other utilities was studied. The standards used in most instances were the size of the

organization, for example, people or space; its budget or assets; and its products. One of the difficulties of adopting a single indicator of productivity was that the service unit produced a number of disparate products or services. Moreover, they provided these services to a larger organization in a controlled manner. That is, the organization had a policy of using its own service unit in preference to outside suppliers. However, this would appear to mean that if the products, expenditures, or number of people employed by the organization changed, so should the size, as defined, of the service unit.

For example, if there were "x" regular staff in the company and "y" in the service unit, each service unit employee would provide services to  $x/y = z$  employees. Another potential indicator was the budget as a percentage of costs. That is, if corporate costs equalled  $x$  dollars, and the service unit's  $y$ , the ratio could provide a monitor of any change in budget relativity. Another budget-based indicator could be the costs per regular employee of the service as a retained (operations, maintenance, and administration, or OM&A) cost divided by the total corporate staff. That is,

$$\begin{aligned} \text{Cost per employee} &= \text{OM\&A Service Unit/Corporate staff} \\ &= \$ x/\text{per employee} \end{aligned}$$

Other indicators considered were square metres managed divided by number of facilities staff, hectares acquired divided by number of real property employees, and assets made secure (money or staff) divided by Corporate Security staff. These could act as second-tier indicators.

### Observations on the Use of Productivity Indicators

One attribute of a good performance indicator is that it shifts in concert with overall changes in productivity. Therefore, if the service unit's major responsibility was to provide:

"Leadership and services in meeting the requirements of Ontario Hydro for real estate, accommodation and security of its resources,"

(Ontario Hydro, 1989)

a shift in the utilization of these services should have been reflected in their delivery. The following three indicators appeared to meet these criteria; the ratio of the number of regular staff in Ontario Hydro to the number of staff in the service units; the percentage of the corporate OM&A budget represented by the service units' OM&A budget; and, the cost per regular employee for the services delivered by the service units.

### A TEST OF PERFORMANCE APPRAISALS

A major part of measurement in Ontario Hydro was the use of performance appraisals. As noted in Chapters Two and Three, considerable effort had been expended in developing the appraisal as a management tool.

Before proceeding from the objectives and productivity exercises to analysis of the use of contracts, a test was performed on a small group of professional staff. This exercise was to establish the current attitudes towards the appraisal and to provide greater knowledge of the employees' view of the appraisal. A very useful side benefit

to this test was the greater richness of the data. By using this test as a model, considerable insight was gained into the use of the appraisal. This knowledge was used to examine the contract process and provide a base for the survey of the use of performance evaluation in Chapter Nine.

A small group of staff was tested in the use of performance appraisals, its use as a measurement tool, and its usefulness as a reference point in their actual performance. The group came from a range of specialist backgrounds and was made up of seven employees, four senior professional staff, two clerical, and a section head. This group was selected as they all had experience with the corporate evaluation programmes. As the purpose of the test was to provide background for the research, the small sample of seven was sufficient in light of the experience of the group and the researcher. The test was done in four phases. First there was an interview to establish the reaction to the company's standard performance appraisal form which subjectively ranked employees on an "unsatisfactory" to "above average" scale. Secondly there was the development of a performance appraisal for each position represented that reflected the tasks as outlined in their job descriptions. Third, a questionnaire was used asking for a rating of the performance appraisal as an accurate measure of their perception of their own performance. Fourth, an interview was used to review the differences between the performance appraisal form and actual performance.

The interviews were performed away from the work site to avoid distractions and to encourage open discussion. The questions were not discussed beforehand. The

interviews were open-ended. The main theme was; did the performance appraisal form reflect the employees' perception of how they had performed over the time covered, from both a technical and a personal perspective?

The consensus amongst the group was that while the reporting in the form reflected their strengths and occasional weaknesses, it did not capture their actual performance. For example, it might report, accurately, that they were good communicators, but it did not explain that these communication skills had helped to resolve safety issues. There was a concern about the time-sensitivity of the form and its completion date. For example, poor performance in the month before the form was completed was sometimes extrapolated to include the whole year. The difficulty in making subjective judgements, for example, about "quality of work" caused some concern. Quality was perceived as the "packaging" of the ideas rather than the ideas themselves. This was a comment by three of the four professionals who saw quality as an elegant or intrinsic element, rather than an impartial measurement. The section head himself felt that too much effort was going into the presentation of reports and not enough into the depth of the contents, his definition of quality. Each form had a section for "comments" and in each case this section was used to provide background to the rating.

#### Observations on the Performance Appraisal Test

The rating system received some considerable comment. The "unsatisfactory" to "excellent" range's midpoint is "average". It was felt that in the lexicon of

business, "average" was an epithet and to rank anyone as "average" was worse than "unsatisfactory", in that the latter tended to be a by-product of a lack of training or experience or a mismatch in job responsibilities or skills. Therefore, everyone thought they should be ranked above-average, a problem for statistical logic. The perception of being "above-average" had a basis in fact as each of the participants was strong in his or her area of expertise and had an educational level to support their business experience. However, it did make ranking a difficult and intrinsically unsatisfactory activity. When the managers were told to put 50% of staff above and 50% below the mean they argued that their staff were largely above average. Similarly, when instructed to rate their staff around an average for the group it was pointed out that a corporate reference point was to be used.

It was also noted that the duration of the employee performance appraisal reviews varied considerably from about fifteen minutes to about two hours. Interestingly, the distribution did not follow a standard distribution pattern but tended to be extreme. Further discussion of this point which was not considered an issue initially raised a very interesting issue regarding the importance of the process of measuring. All of the professional and one of the clerical staff had at least three performance appraisals using the standard form and in one case, five appraisals had been done. The short interview reflected a general disregard for the form's importance, usually from a lack of belief in its value as a measurement tool. The long interviews paradoxically occurred for the same reason, but the long interviews tried to replace the form with a narrative exploration of the issues. The form's lack of detail

made it difficult for either party, the manager or the employee, to draw any conclusions as to relevance of the data.

## CONCLUSIONS

The case studies supplied insights into the use of objectives and measures not always found in the literature. In particular the workshops provided the opportunity to interview and to observe practitioners. Objectives-setting in a workshop environment can be a frustrating and challenging exercise. It can also be very stimulating and satisfying. Most importantly, it can not only be effective in providing a goal, but also a direction by which to reach it. The range of viewpoints and ideas expressed in the workshops pointed to the significant fact that, while objective-setting by groups may be difficult, the results are more likely to be acceptable than those developed in isolation.

An important consideration was the process used to develop the group's work. The problems of producing useful documentation in a group setting were many, however the interaction of the participants increased acceptance of the results. In comparison with observation or surveys, the workshops appeared to provide the opportunity for a broader perspective. The workshop environment encouraged discussion and detail not as accessible in a survey. Also, the workshops helped synergy and shared experiences to be more fully developed than would perhaps be possible by observation. Therefore, it would appear from these workshops that an

objectives-based set of performance measures had a potential for acceptance by the participating group.

The use of objectives and sub-objectives in the pilot projects provided a focus for the life of the projects. They kept the team on track and by acting as a goal gave a sense of direction and when completed, accomplishment. Though not defined as such at the start of the projects, the objectives were the basis for "contracts" between the supervisor and his staff, team members, and client and suppliers.

As a performance measurement tool, productivity indicators can act as a flag for senior management allowing them to focus on variances in product or service delivery. As a supplement to the performance contract, the productivity indicators provided a broader focus than the individual performance measures, and acted as a surrogate for a bottom-line.

All the staff interviewed expressed dissatisfaction with the standard appraisal form. From the interview comments it was obvious that the performance appraisal form was not thought to be effective for the evaluation of the true content of performance. The section head shared these concerns.

The decision to use case studies to test the data was well supported as they yielded a degree of information not available from other sources. Their use was valuable in providing evidence on the use of objectives and the involvement of the people who work with them.



## Chapter Eight

### THE CORPORATE CASE STUDY

In recent years, a number of the actions more usually associated with profit organizations have been applied in not for profit ones, including government activities (Hunter et al, 1987). One of these is the measurement of accomplishments and perhaps as importantly, an increase in the priority given to performance measurement. Of course, the measurement of the performance of governments, on a broad scale, is well established and is perhaps best illustrated by the voting booth. This is where the performance of the government, or perhaps more accurately the public perception of its performance, is rated by the results of the ballot box. This "perception" focus and perhaps the movement to privatization has caused a shift in the view of performance measurement and its use in government. An objective of this section is to examine this phenomenon in a large "government" organization, Ontario Hydro, in some detail. As noted in Chapter Five, the role of Ontario Hydro, as an organization providing services comparable to private industry but under the direction of a provincial government, provided an opportunity to examine both public and private sector issues. A model was selected that incorporated the major elements to be studied and which could act as a guide to the process. In particular, the objective was to analyze the effect of performance contracts on performance.

## THE CONTRACT PROCESS

To ensure that a comprehensive view of the organization was obtained, its performance contract process was examined in detail with comments on each section and measure. The analysis is comprehensive and provides a detailed view of the workings of management and performance measurement in a large government corporation. For the purposes of this analysis, a performance measurement contract was defined as "an agreement between two or more parties on the performance of an activity or task" (also see Chapter Three). A major part of the material examined was on cognitive rather than manual work. This reflected the nature of a large part of government work and provides information that has not been analysed as deeply as the more traditional industrial sectors.

The material examined included the relevant performance contracts, a user's view of these contracts and an analysis of a pilot study of a new contract process. In examining this material, some emphasis was placed on workers' perceptions of performance evaluation and its use. Most of the studies published to date had had a strong management focus and an attempt has been made to balance the perspective. This approach underlines the basic premise that performance contracts are "agreements" on performance and that it was "agreements" that were researched not just performance appraisal.

To test the use of the ideas discussed in this thesis, a number of methods were considered; a local test, a subjective analysis and benchmarking. It was felt that the best way to obtain an objective evaluation of the concepts would be to look at a broad

cross-section of Ontario Hydro. Lawler et al (1980) outlined three elements which provided insights into the operation of large organizations. First, there are the organization's "concepts and theories"; second, there are the "measurement techniques and processes", which provide data on the functioning of the organization; and third, there are "change technologies". Lawler argued that if the theories are known and the data (measurements) are in place, then the "change technologies" can be tested.

Van De Ven (1980) contended that:

"A thorough assessment of a complex organization requires an operational theory and methodology that cuts across and links the overall organization unit or work group and individual levels of analysis. It is not obtained by focusing on just a small set of variables or issues at one particular level of organization analysis."

and,

"What is needed is a framework that (1) identifies and distinguishes the relevant properties of context behaviour and performance at a macro-organization unit and job levels of analysis; (2) examines the unique design patterns of units and jobs that are differentiated vertically and horizontally within the complex organization; and, (3) determines how these different units and jobs are integrated and the functional contributions they make to the overall performance of the organizational system."

The model used by Van De Ven is an organization with three parts, the organizational, the individual, and the relationships between the various functions. The organizational analysis is the framework in which the organization exists, for example, its product, strategy and demographics. Within this overall pattern Van De Ven outlines "The Organizational Unit Focus of Analysis".

ORGANIZATIONAL UNIT (DEPARTMENT) CONTEXT	DESIGN OF ORGANIZATIONAL UNITS (WORK GROUPS)	ORGANIZATIONAL UNIT OUTCOMES
<ol style="list-style-type: none"> <li>Macro-organization context and design. <ul style="list-style-type: none"> <li>Functional contribution of unit to organization (institutional, managerial, technical)</li> <li>Vertical &amp; horizontal location of unit in organization chart</li> </ul> </li> <li>Nature of work performed by unit. <ul style="list-style-type: none"> <li>Task difficulty and variability</li> </ul> </li> <li>Size of unit (number of personnel).</li> </ol>	<ol style="list-style-type: none"> <li>Unit specialization. <ul style="list-style-type: none"> <li># different tasks assigned unit</li> <li># Different job titles in unit</li> </ul> </li> <li>Personnel composition. <ul style="list-style-type: none"> <li>Heterogeneity of personnel skills</li> <li>Interchangeability of roles</li> </ul> </li> <li>Unit standardization. <ul style="list-style-type: none"> <li>Automation of work methods</li> <li># &amp; detail of unit rules, procedures</li> </ul> </li> <li>Unit decision making. <ul style="list-style-type: none"> <li>Centralization of decisions in supervisor</li> <li>Decision strategies used (computational, judgemental, bargaining, heuristic)</li> </ul> </li> <li>Unit performance norms &amp; standards. <ul style="list-style-type: none"> <li>Quality/quantity-control emphasis</li> <li>Group/individual-based incentives</li> <li>Group pressures to conform (soldiering)</li> </ul> </li> </ol>	<ul style="list-style-type: none"> <li>Value judgements on criteria used to evaluate effectiveness of organizational unit.</li> </ul> <p>For Example:</p> <ol style="list-style-type: none"> <li>Percentage of unit performance goals attained (MBO).</li> <li>Quantity of unit output.</li> <li>Quality of unit output.</li> <li>Unit efficiency: cost per unit of output.</li> <li>Unit morale: cohesiveness of work group, turnover rate.</li> <li>Unit adaptiveness: responsiveness to changing demands.</li> </ol>

Table 8.1

The elements provide a framework by which the organization can be analysed.

By using the following categories, each job or position can be examined:

INDIVIDUAL JOBS OR POSITION CONTEXT	DESIGN OF INDIVIDUAL JOBS OR POSITIONS	INDIVIDUAL JOB OR POSITION OUTCOMES
<ol style="list-style-type: none"> <li>Organization &amp; unit context &amp; design. <ul style="list-style-type: none"> <li>Functional role or contribution of job to unit and organization</li> </ul> </li> <li>Characteristics of person in job. <ul style="list-style-type: none"> <li>Education and job-related skills</li> <li>Job tenure and job career history</li> <li>Growth need strength</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>Job specialization. <ul style="list-style-type: none"> <li># different tasks performed</li> <li>Scope of tasks performed</li> </ul> </li> <li>Job expertise. <ul style="list-style-type: none"> <li>Education</li> <li>Length of job-entry orientation</li> <li>Time in on-the-job training</li> </ul> </li> <li>Job standardization. <ul style="list-style-type: none"> <li>Detail of job description</li> <li># &amp; detail of job rules, procedures</li> </ul> </li> <li>Job discretion <ul style="list-style-type: none"> <li>Latitude in making job-related decisions</li> <li>Closeness of supervision</li> </ul> </li> <li>Job incentives. <ul style="list-style-type: none"> <li>Feedback from work, supervisor, peers</li> <li>Job contingent rewards &amp; sanctions</li> </ul> </li> </ol>	<ul style="list-style-type: none"> <li>Value judgements on criteria used to evaluate effectiveness of individual jobs or positions.</li> </ul> <p>For Example:</p> <ol style="list-style-type: none"> <li>Percentage of job performance goals attained (MBO).</li> <li>Quantity of individual output.</li> <li>Quality of individual output.</li> <li>Individual productivity: cost per unit of output.</li> <li>Job satisfaction.</li> <li>Work motivation.</li> </ol>

Table 8.2

The inter-relationships between the various functions can also be analysed:

RESOURCE FLOWS (WORK, PERSONNEL, MONEY)	INFORMATION FLOWS (IMPERSONAL, PERSONAL, GROUP COMMUNICATION MECHANISMS)	COORDINATION AND CONTROL OUTCOMES
<ol style="list-style-type: none"> <li>1. Resource dependence pattern.                             <ul style="list-style-type: none"> <li>- Directions and amounts of resource flows among organizational units, levels, and positions</li> </ul> </li> <li>2. Routinization of resource flows.                             <ul style="list-style-type: none"> <li>- Number of exceptions encountered in resource flows</li> </ul> </li> <li>3. Perceived dependence among organizational units, levels, and positions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Integration pattern.                             <ul style="list-style-type: none"> <li>- Direction and frequency of information flows among organizational units, levels, and positions</li> </ul> </li> <li>2. Distribution of influence in relations.                             <ul style="list-style-type: none"> <li>- Amounts of say on relations by parties</li> <li>- Impact of parties in relationships</li> </ul> </li> <li>3. Conflict &amp; quality of communications.                             <ul style="list-style-type: none"> <li>- Frequency of conflict</li> <li>- Modes of conflict resolution</li> </ul> </li> </ol>	<ul style="list-style-type: none"> <li>- Value judgements on criteria used to evaluate effectiveness of coordination and control among organizational units, levels, and positions.</li> </ul> <p>For Example:</p> <ol style="list-style-type: none"> <li>1. At inter-position level, the perceived effectiveness of interpersonal relationships.</li> <li>2. At inter-unit level, the degree of suboptimization and competition among organizational units.</li> <li>3. At macro-organizational level, the costs of managing transactions across units within organization relative to across organizations or the market.</li> </ol>

Table 8.3

All of the above elements are, in most cases, the fabric that holds an organization together. Their detail was of considerable assistance in providing a common focus for the analysis of the performance contracts used in Ontario Hydro.

The Van De Ven model was considered an appropriate base on which to analyse the concepts and theories developed previously. The practicality of the model provided a relatively simple way to compare the performance data generated by the contracts. The performance contracts, as well as being part of the Corporate Management System, were also part of a series of performance reporting mechanisms that aggregated to provide an overall view of Ontario Hydro's performance. The purpose of these reports was to create a process that would provide information to show the sequence of the various performance requirements and more specifically any

interaction between them as illustrated in Figure 8.1. For details of some of these reports please see Chapter Four.

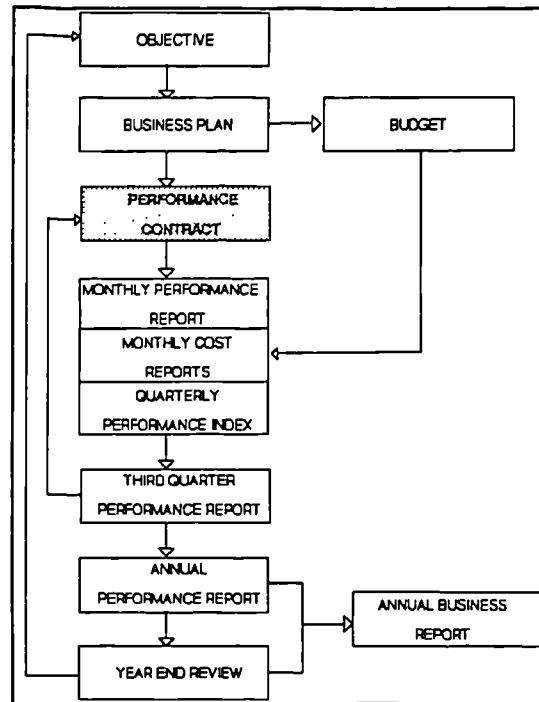


Figure 8.1

In preparing the analysis of the performance contracts, interviews were held with incumbents of the various positions. This helped to provide a context for their comments and opinions. The information from these discussions helped to provide an overview of the entire process, acting as a window on the system.

The use of the word "contract" can cause apprehension because of its legal connotations. This is despite the fact that a contract has a business role, "entering into a business or legal engagement". The legal interpretation has even more weight in the North American environment:

"An agreement between two or more people to do something. Especially one formally set forth in writing and enforceable by law", (Guralnik, 1980: pp 308).

Of course, in North American slang a contract also means "an assignment to murder someone for pay!" (Guralnik, 1980). Interestingly, in the initial meetings with managers on the use of performance contracts, the discussions often focused more on the use of the word "contract" and its implications, than the logic of its use, that is agreement between the parties involved. Consultations with lawyers underscored how this implied an emphasis on the legal perspective. Not surprisingly, the legal opinions were given in suitably ominous terms. For instance, it was felt that a disagreement on the wording of a contract could finish up in court. When it was pointed out that "contract" had other meanings than the strictly legal interpretation, the response by the lawyers was more in keeping with that from a mother hen than one from a defender of justice. The use of words by specialized groups to mean specific things, or actions, is valid within their specialized spheres of influence, but when the words are appropriated and the original meaning obscured it can cause confusion and disorder. For the managers in this study however, the use of the word contract implied an agreement rather than a legally binding document.

After the initial contract development work had been tested, a format was designed to include most of the contracts' elements. However, within the context of what was to be accomplished there lay a variety of viewpoints. One question that caused the broadest range of opinion was "[h]ow focused should the contract be?"

Most of the users were senior managers who were not used to having their own performance measured, at least in written form. Traditionally, the measures adopted tended to be outcomes for the whole unit, or measures from a lower level aggregated to a higher level. This captured, to a certain extent, what was called the "Delivered Product". Delivered products were the ongoing responsibilities of the unit and tended to be large and broad in impact. To capture the short-term or "one-off" projects, a section called "Special Product" was developed. This section was used to report on projects or services that were of short duration or developed for a specific purpose.

At the time of this study, in the late 1980s, a strong emphasis was being placed within Ontario Hydro on how managers did their job as well as on what they produced. Complex systems were in place to record and report on the processes as well as the activities taking place. Therefore a section to report on this operation was incorporated into the contract. Although a number of titles were used, "Management Product" was the most common and descriptive. The use of "product" in all areas was a symbol of a move to quantifiable outcomes and away from a service-based approach. Considerable angst was expressed regarding this change as it represented a change in philosophy and a move to a more bottom-line type of management style. Nonetheless, it was recognized that the management of resources constituted a product of a kind. The Management Product section covered the majority of the difficult to quantify, but important, elements such as training, safety and staff planning.

As noted earlier, most of the items being measured tended to be generated at lower levels in Ontario Hydro, or were broad in scope. This made it difficult to



segregate the contribution of the individual manager, whose contract it was, from the work of their staff. Of course, it could be said that a unit's results were a reflection of the manager's guiding hand, but observation and logic demonstrated that, in some cases, the correlation was difficult to define. In one case, a new manager had taken over a very successful unit which had been considered a role model for its peers. Unfortunately, the new manager had disliked his predecessor and had tried to change the operating culture. Luckily, his lack of competence as a manager was paralleled by his incompetence as an agent for change. He spent so much time investigating "Machiavellian plots" that he rarely left his office and so the department continued to flourish. So, the "manager's" performance report showed excellent results in spite of his best efforts. Conversely, in another department a new manager inherited a very difficult set of problems that were ingrained in the culture of the unit. Despite his best efforts service continued to be unsatisfactory and the results below industry standards.

The efforts, or lack of them, by individual managers were reported under a heading of "Personal Contribution". Surprisingly, even in this clearly titled area, some managers had great difficulty in separating their contribution from that of their staff. Credit was taken for innovation where the manager's major contribution was, in the words of one actual innovator, "the good sense to stay out of the way". Nonetheless, this section went a long way in recognizing the efforts of individual managers to make a difference.

A measure included, in some but not all contracts, was a "Contribution to the Community". In a world where being a good corporate citizen is seen not only as a positive activity but perhaps good business, this was an important measure. The response to the involvement of the individual manager in their community was interesting. Some drew a blank. They had grown up in an era where a career was one's whole life and if extra time could be found, it was spent on the job or occasionally with one's family. Interestingly, this difficulty arose at both ends of the age spectrum for the manager's involved. The older managers (those older than fifty-five) had gone through World War II and tended to have a very career-oriented focus (Whyte, 1956). At the other end of the scale, those in their early thirties, the up-and-coming managers who were the prototype for the emerging "yuppie", also lacked a community profile. However, the "Personal Contribution" section became a major area for discussion during the performance reporting process. One manager, in fact, felt that this section should be the foundation for evaluation and promotion. He was very proud of his work in the community (he worked in a crisis centre counselling by phone) and felt that it demonstrated his broadly-based knowledge. In practice, however, the major use of this section was in career development and training.

Within each of the primary subject (product) sections, actual measures of performance were developed. Targets were established for each of these measures. It was in establishing these measures and targets that the focus for the contract often narrowed. The managers wanted to demonstrate the strategic work being done, but the

difficulty in quantifying such subjects again led to lower-level results measures. In reviewing the contract at the end of the prescribed period, the emphasis was on reporting against agreed measures. This reduced the potential for stress and allowed an objective discussion of the issues.

### ANALYSIS OF THE PERFORMANCE CONTRACTS

Two features of the use of performance contracts were of particular interest; first, the logic behind the wording and any variation from level to level and second, the behaviour or feelings of the management staff who completed the contracts. The writer was involved in the process of developing the contracts as well as the meetings to describe their use. An attempt has been made to capture both of these features in the analysis that follows.

The comments added to the original contracts are based on interviews and/or observations made by the managers during the contract review process. Some points have been edited for business reasons or combined for the sake of clarity. The information presented here is intended to reflect the process rather than the efforts of the individuals involved.

A division of approximately 500 staff was selected to analyse the use of performance contracts in a business unit. It was felt that a unit of this size would yield a range of data, but still be manageable. The evolution of performance contracts within this division had been slow. However, study of the contracts for 1988 showed

that a pattern had emerged and that linkages were in place between the various organizational levels.

A diagonal slice was taken through the division to capture the major elements of each level of contract. Extracts of contracts at each level in the division are presented here. An unedited version is included in Appendix C. The degree of detail used is intended to be suitable for the position examined, while trying to reduce the amount of overlap or repetition. However, it was felt to be sensible to present most of the Director's contract as it provided a framework by which the other contracts could be evaluated.

### THE DIRECTOR'S CONTRACT

Figure 8.2 is used to illustrate the stages of the contract.

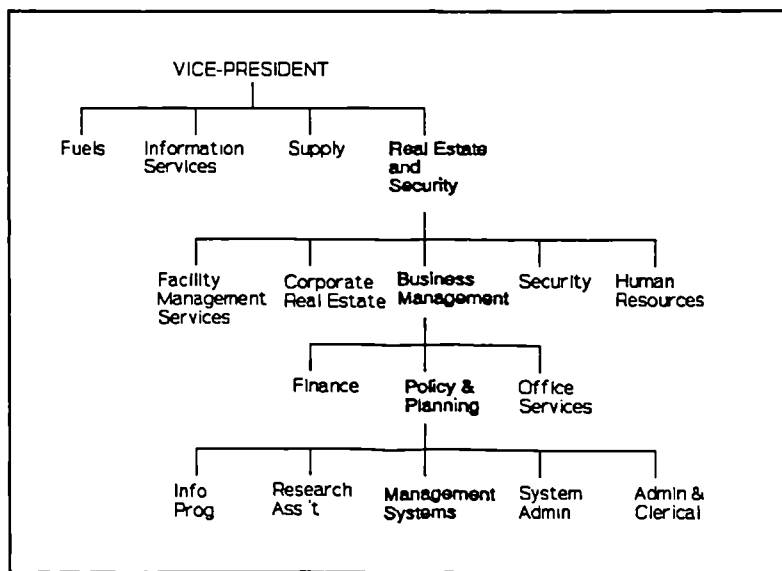


Figure 8.2

The extensive use of contracts in this division received most of its impetus from the position of Director of Real Estate and Security. As this contract was the basis for contracts above this level (Vice-President) and staff reporting to the Director, it has received the most analysis.

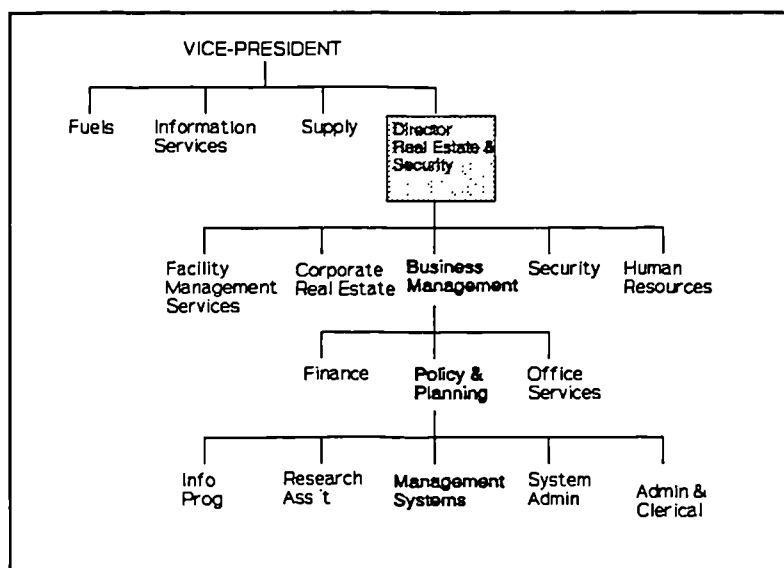


Figure 8.3

By the late 1980s, the format for contracts included a statement of "general accountability". This statement originated in the Corporate Management System and had set the parameters for the reporting system. The original contract wording is in italics.

#### General Accountability

- *responsible for provision of functional leadership in real estate and security matters to all units of Ontario Hydro.*

The contract followed a pattern developed earlier, but was more specific in its application. This statement was intended to capture two major elements, that it was "functional" leadership and that it had two specific functional responsibilities, namely "real estate" and "security". The general accountability was defined as "Delivered Product", and was made up of an accountability statement, that is a sub-statement of the general accountability statement, and a series of performance measures and targets that supported the accomplishment defined in the statement. For example:

#### 1.0 *DELIVERED PRODUCT*

##### 1.1 *Office Accommodation*

*Accountable for providing office accommodation and related services to units of Ontario Hydro based at the Head Office facilities.*

##### *Performance Measures*

*Evidence that accommodation and associated service needs met and clients satisfied.*

The performance measures had been reworked by the functional department in an earlier workshop (see Chapter Six) and reflected its view of the services delivered. Please note that the material presented here is part of Ontario Hydro's operating measures and actual numbers have been deleted from the measures and replaced with a # to ensure business confidentiality.

*Turnaround time from scheduling to completing moves (up to 99 workplaces). Target = x days.*

This was a very high profile activity within the Corporation and affected a number of clients in a sensitive locality, that is, their work space.

*Meet #% of client building services within # hours.*

Turnaround time on service calls, for example fixing lighting and broken office furniture, were major irritants with clients.

*Annual costs relative to comparable space-building operating costs = \$# per m<sup>2</sup>.*

- *accommodation support services = \$# per m<sup>2</sup>.*

This measure was industry-based and required reliable comparisons to provide an accurate target.

*Evidenced by relativity to Corporate space standards.*

*Standard = # m<sup>2</sup>.*

A corporate standard was in place for an average space per employee.

The measurement of this space was an ongoing activity.

## 1.2 Corporate Real Estate

*Accountable for providing real estate acquisition rights for the bulk electricity system (BES) and services as required for the generation, transmission, and distribution of electrical energy.*

The Corporate Real Estate Unit's focus tended to be outside the Corporation and it was one of the major contact points with the public.

Performance Measures

*The ratio of the cost of acquisition rights to appraised value compensation/appraised value = #%.*

The cost of real estate rights was a subject for concern. The land, in most cases, was expropriated from a range of owners and the costs involved were often contingent upon policy as well as normal real estate practices.

*Public/Property owner reaction to the Corporation as a result of real estate acquisition, housing assistance plan, surplus and secondary use activities.*

*- complaints/enquiries per 100 owners = #.*

The contact with the public and property owners was, for this unit, essential. Most of the land was acquired by expropriation and often involved protracted complex legal agreements. It was important that these activities be conducted in an atmosphere of understanding.

*Evidence of meeting client need dates. Delivery/Client Need Dates = #%.*

Accurate scheduling is a determining factor in the engineering costs of electrical transmission and generation work. This measure was intended to address these customer concerns.



Real Estate Production Targets

- Total number of settlements acquired on identified projects:

*Projected = #*

*Actual = #*

*Therefore, #% of projects completed on time.*

The earlier measures focused on client or organizational issues. This measure was more of an internal activity.

*Accountable for payments-in-lieu of taxes to municipal governments for all Corporate real estate.*

*Payments of assessed values for taxation purposes of Ontario Hydro owned real estate.*

- *Payment made within # days.*

- *Challenge #% of increases.*

- *Achieve \$# in tax reductions from assessed value.*

Through a relatively small sub-unit, the payments-in-lieu had a high profile due to the dollars involved and the politically sensitive nature of the work. It is interesting to note that two of the three measures are aimed at reducing the payments involved and that one is time-based.

### 1.3 Security

*Accountable for providing centralized security services to all units of Ontario Hydro for the protection of its human resources and physical assets.*

This was a corporate wide service which, despite the broad-based wording of their accountability statement, concentrated mainly on security policy and training rather than front-line security. Security guards reported to the line operation at sites, such as generating stations and major office locations.

*Evidenced by protection of resources.*

- *No serious breach of security attributable to lack of guidance.*

This measure illustrates the support rather than operational role of the corporate security function.

*Evidence that clients satisfied with the guidance provided on the # protection of resources.*

- *Client surveys*

- *Internal losses per 1000 employees due to unlawful acts*

*Target = #.*

The surveying of clients and monitoring of losses, ensured a practical approach.

*Reported incidents or unlawful acts - target < #.*

More an indicator than a measure, the variation in unlawful acts was closely monitored.

*Tracer success rate > #%.*

This was an internal measure.

*Implementation of perimeter access system.*

More of a project than a delivered product, it was included here as an example of an ongoing service.

## 2.0 PROJECTS

*Accountable for ensuring that key real estate and security issues are being addressed.*

This section was to capture the special or "one-off" projects that were part of the functional accountability, but of short duration.

*Progress made towards;*

### 2.1 Office Accommodation

*Development and approval of detailed plans to implement the long-range accommodation strategy.*

This is an example of where a long-term objective, in this case a strategy, was broken down into its elements and treated as a project.

*Development of plan to deal with growth in office space requirements.*

As with the long-range strategy, plans to address specific needs are captured by treating them as projects.

*Negotiation and approval of terms regarding the sale of a surplus office building.*

This is a good example of where a one-off activity may have major workload repercussions, but may not be reported as part of the core business.

*Successful implementation of a universal cabling system in the Head Office complex.*

This is the first measure in this section that could be termed a traditional measure in that it has a qualifier, "successful", to the activity.

*Review needs with clients prior to moves, re-sorts, etc, to ensure optimum Departmental costs/client benefits realized.*

Similarly, this is the first real "quality" type measure, though the priority is still internal costs.

*Rationalize overtime/shift work.*

This is another cost-control measure although the rationalization may include client input.

*Resolution of telecommunications issues.*

The advantage of the projects section is the opportunity to include difficult organizational issues which are time-consuming and necessary, but difficult to quantify. For example, the "issue" was one of responsibilities and accountabilities in an area that had traditionally been part of this group through their "telephone" responsibilities, but the growth of computer-communications and the use of microwave and fibre optics had blurred the boundaries.

## 2.2 Real Estate Acquisition

- *Evidenced by keeping staff counts, staff costs, and actual costs under budget while meeting client needs and production targets.*

This represented more of a "bottom-line" approach to this section where control of internal activities is compared to client needs.

- *Development and implementation of new staffing strategy for projects and succession planning.*

Again this measure has a very high internal focus for a unit with considerable external contacts.

- *Implementation of regional audit recommendations.*

This was a functional audit of a decentralized unit that had an impact at the central level.

- *Delivery of strategy on management/disposal of property.*

This was a planning activity, but with only a "delivery" criterion.

## 2.3 Administration - Value for Money

This unit did not appear in the "Delivered Product" section as it was an internal services unit.

- *Successful initiatives to improve the effectiveness, efficiency, and economy of services provided.*

- *Initiatives*

- *Comptrollership Study,*

- *Information Requirements Study,*
- *Office Operation Services Study.*

This is the first time the "3 E's" (Effectiveness, Efficiency, and Economy) appear in the contract, but they were a response to a corporate move to a more systematic approach to administration. Three studies would appear to be a rather ineffective way to satisfy the criteria of the, "3 E's".

#### 2.4 Security

*Presentation of a strategy for protection of the Corporation's human and physical resources to clients.*

A "presentation" may be a soft view of performance, but it was intended to capture its completion and delivery aspects.

*Explore information exchange system for security personnel throughout the province.*

Again this was a broad interpretation of performance measures, but they are difficult to find for corporate level security functions.

- *Program(me) to examine theft of electricity.*

As a corporate service, Security provided programmes for others to implement.

## 2.5 Client Satisfaction

*Analyse client requests to ensure that they are optimum and they meet the identified needs.*

This was a new concept and a new measure. Even at that, the commitment was hedged somewhat with the emphasis on evaluation of the "optimum". This would appear to be a rather dated view of "client satisfaction".

## 3.0 *MANAGEMENT OF DIVISIONAL PROGRAM(ME)S*

*Accountable for maintaining an adequate level of internal control.*

As noted earlier, control was an important element of the internal system. The Corporate Management System (OOOH) was a strongly regimented system of policies and procedures which had been written to embrace most organizational activities.

*Evidenced by the proper use of program(me) control, pattern, planning, and reporting.*

While developed as a common language for managers to talk to each another, the need to report (evidence) on items that did not impact directly on the unit's product/service was seen by some managers as

"an unnecessary constraint or protecting a part of one's anatomy"

(Anonymous).

### 3.1 Program(me) Control

*Implementation and management of the Divisional Information System and automated office systems.*

*- Improved service to clients without increase in resources.*

A well-developed system had been installed in a pilot format and more extensive use had been planned. As in a number of automation plans, the need to run parallel systems during the testing stages caused some problems in meeting the defined target in the measure.

*Achievement of approved program(me) and performance targets (Performance Index - MacDougall System). Being responsive to shifting workloads and priorities.*

This was a weighted performance index system developed by the writer to provide a tracking process for performance in general, and to supply detailed reports on key findings.

The system used individual measures which were built up or pyramided to provide a composite index for the section and department. The measures, the sections and the departments were also weighted to reflect their impact on the organizational performance index.



Figure 8.4 illustrates the process:

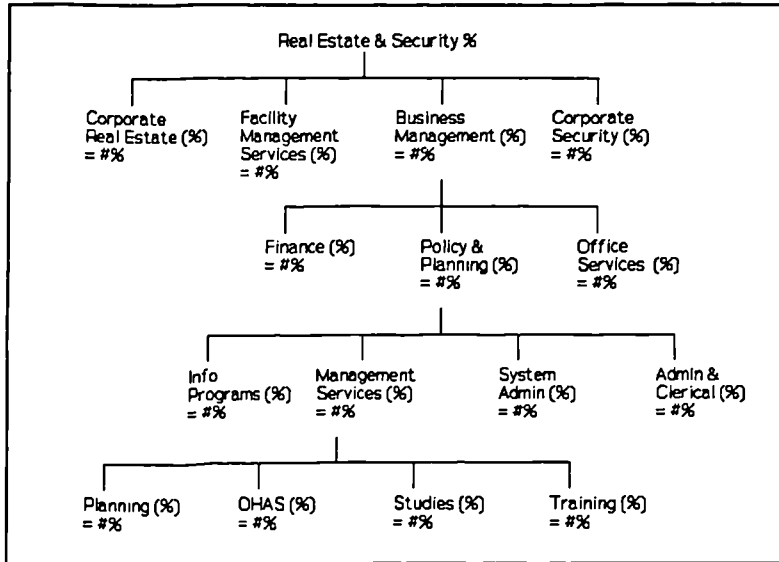


Figure 8.4 MacDougall - Performance Index System

To assist in calculating a total index the following formula was developed to represent measures in each department and unit, where PI equals the division.

$$\begin{aligned}
 PI = & 60 \{20[20(P + 1) + 20(P + 2) + 20(Pe3) + 20(P + 4) \\
 & + 20(P + 5)] + 35[10(P + 1) + 10(Pe4) + 10(Pe5) + 10(Pe6) \\
 & + 10(Pr1) + 10(Pr2) + 10(Pe3) + 10(Em1)] + 25[(10(re1) \\
 & + 10(re2) + 10(re3) + 10(Pe4) + 10(Pe5) + 10(re6) \\
 & + 10(Pr1) + 10(Pr2) + 10(Pr3) + 10(Em1)] + 10[20(Pe1) \\
 & + 20(Pe2) + 20(Pe3) + 10(Pe4) + 10(Pr1) + 10(Pr2) \\
 & + 10(Pr3)] + 10[20(Pe1) + 20(Pe2) + 20(Pe3) + 20(Pe4) \\
 & + 10(Pe5) + 10(Pr1)] + 30[25[20(PD1) + 20(PD2) \\
 & + 10(PD3) + 10(PD4) + 10(PD5) + 10(PD6) + 10(PD7) \\
 & + 10(PD8)] + 25[20(T1) + 20(A1) + 20(A2) + 20(A3) \\
 & + 10(A4) + 10(R1)] + 25[25(Pm1) + 25(Pm2) + 25(Pm3) \\
 & + 25(Pm4)] + 25[20(H1) + 20(H2) + 20(H3) + 20(m1) \\
 & + 20(m2)] + 10[30[20(B1) + 20(B2) + 20(B3) + 10(A4) \\
 & + 10(A5) + 10(A6) + 10(A7)] + 20[40(100) + 20(c2) + 0(F3) \\
 & + 15(M4) + 5 E5] + 40[20(Os1) + 20(Os2) + 20(Os3) \\
 & + 20(Os4) + 10(Os5) + 10(Rc1)] + 10[100(ED)]\}
 \end{aligned}$$

Table 8.4

In this example each measure has an identifier for instance ED, an individual weighting say 100, and it can have a sectional weighting of 10. The measure is rated as meeting a percentage of its target, then multiplied by its weighting and if appropriate its sectional and departmental weighting. The results are added to provide the consolidated index. The weightings were developed by the individual units and the sectional and departmental ones by the next higher level of management.

*Complete and document quality assurance program(me)s in security.*

Quality assurance, in this case, was more of an auditing programme for decentralized units.

### 3.2 Pattern

Pattern, in this context, displayed the organizational features of the unit. A key element of the management system was the "pattern" that was made up of "structure", basically the standard organization chart; "accountabilities", the tasks the unit was accountable for; and, "authorities", the approval levels for purchasing items or hiring and firing staff. An ongoing part of the pattern procedures was the development of a "target" pattern. This was a moving goal usually five years hence which represented the goal (or direction) for the "actual" (current) pattern. Each unit was required to analyse its products or services, and by using the organizational model, select a pattern base (for example, customer-based, geographical, product, or function) that best met their

criteria for an effective "target". The intention was to ensure that units continued to evolve to meet future demands.

*Completed in 19--.*

The unit had just gone through the pattern procedure, but in practice the "target" was too close to the "actual" creating a predictable extension of the status quo which became overly sensitive to internal pressures, to be delayed. This was recognized early in the process by the vice-president and a new study was ordered.

*New target? Review objectives and Primary Delivery Functions (PDFs).*

As noted in the preceding measure, a new "target" was required. In going through the original pattern study, the participants (the Management Group) had been too concerned with protecting or increasing their current operations to really assess their options. Therefore, they were instructed to review their objectives, and the primary delivery functions (PDFs) of their units with a perspective five years hence.

### 3.3 Program(me) Planning and Reporting

*Provision of Corporate/Branch Planning References/Business Plans/Budgets/Performance and Cost Reports as requested by Vice-President - Supply and Services and Corporate requirements so that there are no surprises.*

The phrase "no surprises" captured the intent behind the many reporting vehicles used within a crown corporation. Questions to the executive levels came from a number of sources. The Minister of Energy was asked questions which were raised in the Provincial House of Parliament. Newspapers and the media in general found Ontario Hydro an interesting subject on slow news days; the public demanded answers on a number of issues particularly in the early days of the environmental movement; the customers both large (a local municipality of 500,000 people) or small (a cottage owner in rural Ontario) had enquiries about their electricity bills; and, of course, the rest of the corporation's hierarchy needed information to plan or execute its tasks. The purposes of the information gathering, while superficially simple, led to a proliferation of reports and data.

*Inclusion of Corporate/Branch strategies in accountability, administrative effectiveness, affirmative action, and human resources into performance contracts.*

This was a very useful catch-all section where important corporate issues, which tended to get lost in the normal business processes, could be highlighted and reported on. The content changed somewhat on an annual basis, but was an interesting snapshot of where the corporate emphasis was in a number of essential, but difficult to implement, subjects. For this report, the "administrative effectiveness" and "affirmative action" issues were given prominence. The "administrative effectiveness" issue was the latest in a series

of programmes designed to tighten up the administrative practices. It was used to justify automating a number of clerical activities, but all that appears to remain of the programme are some vague memories or presentations and exhortations. Affirmative action, however, was alive and growing. The programme, initially aimed at only women, was expanded to include native people, visible minorities and the handicapped under the umbrella term "Employment Equity".

*Survey of client satisfaction among RESD users and stakeholders.*

This was the first major step to try to gather information on both the level of services and their use.

*Pertinent responses to public surveys and day-to-day comments reported by the media.*

As with the need to respond to questions, the RESD unit was responsible for a number of sensitive business activities. In particular the expropriation of real estate rights in particular, led to a number of situations where conflict could be present. The operating phrase was "pertinent" where the feeling was that a number of complaints or comments arose from the activity itself, expropriation, than from a misuse of the legislation.

#### 4.0 MANAGEMENT OF HUMAN RESOURCES

##### *Short and long-term human resources planning.*

- *Staff level predictions, succession plans, performance appraisals, plans for redeployment of identified staff.*

This section was an opportunity for the unit to demonstrate the status of its human resources. By treating it as a separate section, it gave a profile and momentum to reporting on what, to many managers, was the most important "managerial performance measure". The use of staff-level predictions was essential in a service function that was labour intensive and had a relatively low potential labour pool. The techniques used within the function differed greatly, particularly in emphasis, from those used in the normal real estate market. Because of these two factors, experience and training were required for employees to be effective. Succession plans, usually with a five year horizon, identified candidates for emerging positions. It was not intended as a "crown princes" system where a position and heir apparent were matched, but more a development system to identify potential candidates and any skills requiring further work. Performance appraisals were used as the basis for pay adjustments and occasionally for development purposes.

Within business few activities have spawned as many euphemisms as the "problem" employee. Various programmes had been used such as "performance management" to address the handling of the "underachiever".

"Redeployment of identified staff" was the operating phrase for dealing with staff whose performance was lacking in the eyes of management.

#### 4.2 Employee Relations

*Satisfactory employee relations.*

- *Survey of employees to establish levels of job satisfaction, information, and communication.*

This was a laudable attempt to measure employee relations in key subject areas. Surveys are sometimes difficult to administer, particularly with small or fragmented populations. After one staff survey severely criticizing a senior manager, the manager was able to identify the sources of the criticism by a process of elimination. This caused considerable consternation in the unit and when the manager was promoted, it was met by a mixture of relief and disgust at the cynicism of the outcome.

#### 4.3 Staffing Initiatives

*Development of staffing initiatives dealing with affirmative action, youth employment, and handicapped; dependent upon Corporate direction.*

This was an attempt to integrate corporate programmes into line management. "Quotas" were used to monitor local successes or lack of them.

#### 4.4 Health and Safety

*Attention to health and safety including specific performance.*

- *Review all disabling injuries and monitor frequency.*

The division was not highly exposed to severe injuries. These were called maximum reasonable potential for harm (MRPH) accidents and the record was average for a unit of this type. Driving with its high exposure levels was an exception.

*Monitoring of Corporate office environment standards.*

- *Review for confirmation with standards.*

This measure would, perhaps, have been more appropriately placed in one of the reporting categories. The division had, as one of its accountabilities, the monitoring of environment standards such as air quality and lighting levels, and reported them through the safety function.

*Managing employee use of sick leave.*

- *Review of sick leave with identified staff.*

Again, what reads as a broad-based measure was used as a rather narrow interpretation of "managing". Employees were "interviewed" if they had a number of short-term illnesses with emphasis on those illnesses that occurred on a Monday or a Friday.



#### 4.5 Corporate Direction

*Evidence of implementation.*

As noted in Chapter Five, the corporate direction was a major initiative by the corporation's president to change the "culture" of the company. The implementation process directed managers to discuss the various elements of the mission and value statements with their staff.

#### 5.0 PROGRAM(ME) BUDGET

*Accountable for performing assigned functions and approved program(me)s within the agreed and approved limits of cost and resources.*

This was and is a traditional performance measurement. Accountability for costs incurred for services provided was sharply emphasized.

#### 5.1 Capital Expenditures

*Expenditures not to exceed \$#.*

In this case, capital expenditures included purchases made on behalf of others.

#### 5.2 Retained Costs

*Expenditures not to exceed \$#.*

This was based on total space costs charged to users. That was no over or under recovery.

### 5.3 Gross Costs

*To match service volume and performance requirements.*

For some time, there had been efforts, particularly in the financial comptrollership functions, to link budget variances to actual performance. Variances consisted of overages caused by increases in service demands or underages as a result of good performance. This had proved to be a much more complex inter-reactive process than was expected from the cost models projected.

### 5.4 Staff

*Regular staff complement not to exceed # (year-end).*

A subject of considerable concern, the staff complement was the number of regular employees. The use of non-regular staff, contract employees or overtime was included in the financial reporting.

### 5.5 Minor Fixed Assets

*Expenditures not to exceed \$# without Vice-President approval.*

This subject had become a difficult one to measure as it included local computer purchases. Some of the financial evaluations used to build business cases had long-term savings not reflected in the purchase period, or they showed savings for clients which had a corporate impact not appearing in local budgets.

## 6.0 *PERSONAL CONTRIBUTION*

*Accountable for providing leadership to Real Estate and Security Division, enabling it to fulfil its mandate and to contribute to Branch and Corporate objectives and issues as they arise.*

This statement of accountability was discussed at great length. Its leadership thrust (the original objective) was broadened to include the corporate officer role and that of troubleshooter.

### 6.1 *Leadership to the Corporation in areas of Divisional mandate and to the Division and its staff.*

*- On the quality and timeliness of recommendations.*

This measure is based on the view of the vice-president, and while subjective, it captures some of the elements of decision-making.

*- On maintaining a level of personal performance and credibility with subordinates, peers, and superiors necessary for the continuing successful performance of the job.*

This is a very meaningful measure if researched properly. To have opinions from below, peer, and above, can provide considerable insights into the job being done by the supervisor.

*Leadership and involvement in Divisional work program(me)s and staff activities.*

This was a difficult measure to apply. With delegation, the visibility of the director was poor and the relevance of the programmes and staff activities had to be selected with care and sensitivity.

*Personal involvement and leadership in acquiring a second Head Office site, disposal of older buildings and building on second site.*

For the Director this measure was, more than any other, the key performance activity that he would try to accomplish in the contract period. The wording of the measure was carefully crafted to ensure that not only would the normal functions be performed, but that some wide-ranging business contacts would be put in place. This required considerable thought and discussion and demonstrated that when personal involvement is present considerable clarity of thought is required. In the end, the work was removed from this Director's responsibilities and a new position was created to complete the task.

## 6.2 Personal Conduct

*Conduct becoming an employee and Director of Ontario Hydro.*

No real standards were in place and while it seems to read well, without them it was a hollow measure.

### 6.3 Community Relations

*Contact with community-at-large through committees and meeting.*

An interesting measure that emphasized the need for good corporate citizenship. Each senior manager was encouraged to be an active part of their community.

For the remaining contracts, extracts will be used to illustrate various points.

### THE CORPORATE REAL ESTATE DEPARTMENT - MANAGER'S CONTRACT

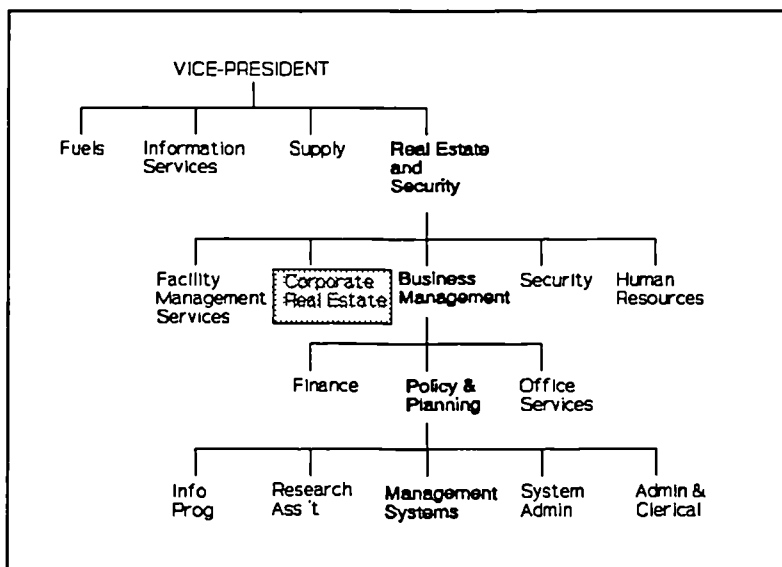


Figure 8.5

The contracts which were analysed tended to focus on the administrative functions. To illustrate the operational aspects more fully, the Real Estate Department was added to the analysis phase. The detailed breakdown of the Corporate Real Estate function was mainly an expansion of the real estate section in the director's contract. The detailed account was used as a test for the conclusions developed.

THE BUSINESS MANAGEMENT DEPARTMENT - MANAGER'S CONTRACT

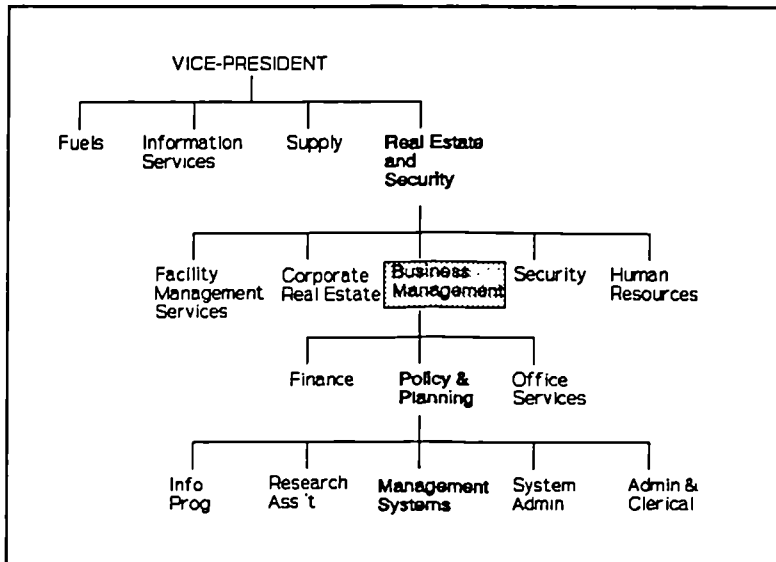


Figure 8.6

The Business Management Department (BMD) was a relatively new unit combining many of the administrative activities with the divisional planning and financial functions. As with the real estate manager, most of the material is in the director's contract. However a few points are outlined here as background information.

The Business Management Department used a Customer Satisfaction Survey to obtain performance feedback from the customers in the Real Estate & Security division, including its human resources function and the Director, to establish its effectiveness. The survey included the use of a questionnaire that listed 56 products and services of BMD, grouped by its organization sections. Recipients were offered a choice of satisfaction ratings coded as follows:

- 1 - *meets all requirements*
- 2 - *meets most requirements*
- 3 - *meets some requirements*
- 4 - *does not meet requirements*

The objective of this exercise was to provide the BMD management team with specific product or service data for reviewing work priorities based on customer usage and was used by the manager to provide performance contract information to the director.

This survey approach had been developed within the business consulting unit. It was felt that the Business Management Department should serve as a model for the other departments when it came to providing and measuring services. The customer survey approach was considered the most effective in measuring "soft" services and was a precursor to the adoption of a quality management system.

Within the body of the contract was an interesting set of measures on what had traditionally been regarded as a rather insignificant function, word processing. The measures were:

*Evidence of customer satisfaction for accurate, timely production of products.*

*Target (i) results of customer satisfaction survey to indicate not less than service level 2, (ii) reasonable relatively to Corporate standard, and (iii) reasonable relativity to an appropriate private sector standard.*

The first measure, (i), is the standard within the department for customer satisfaction; the second, (ii), indicates a desire to measure productivity as well as service. The most interesting measure, however is (iii), which asks for "relativity to

an appropriate private sector standard". The fascinating part of this measure is that it is the only measure that has an external comparison in the whole package of divisional measures. Even though the functions of the division, real estate, facilities management, and security are well established in the private sector, this is the only measure that asks for a direct comparison to that market. This was notable from a service unit buried in a service department. It was evidence of the emergence of an understanding that quality service must be seen to be of quality and that objective measures are possible even in service functions.

#### THE POLICY AND PLANNING SECTION - SUPERVISOR'S CONTRACT

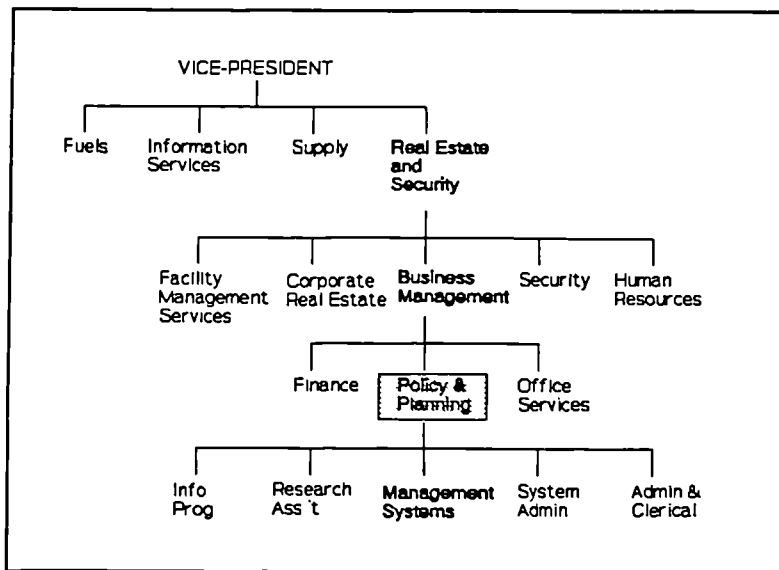


Figure 8.7

The Policy & Planning Supervisor was responsible for the development and integration of the performance contracts for senior staff. In this regard the position was often used to test new concepts and formats for the contracts to be used in



subsequent years. This "continuous improvement" ranged from major changes: moving away from the measurement of activities and administrative details to reformatting of the actual contract. With accountability for management systems it became apparent to the Policy & Planning Supervisor that the preoccupation with the administration of an unwieldy corporate control system was on the wane. Therefore, a more project (results) based approach was adopted for the contract.

The old contract format reflected the technology of its time. Using a landscape (horizontal) format the contract itself was drafted with space for answers in the extreme right hand column. This allowed the person using the form just to fill in the gaps rather than to draft a complete document. Unfortunately, it tended to precondition the answers, that is a small space got a shorter answer and a large one encouraged extra details, or they caused a rewrite (retype) of the package. A paradigm shift was required to take advantage of the computer technology. By using a portrait (vertical) format and inserting the answers in a different typeface (font), the contract could be updated quickly and easily. This was a small change, but one that affected the perceptions of the users of the contracts. In the old format, it tended to be completed only at year end. In the new one, it could easily be updated on an ongoing basis. In this way, the contract would become a current document.

An interesting example of this change of focus appears in the measure of:

3.2 Employee Relations

- *Satisfactory relations with staff as evidenced by staff rating of supervisor.*

As a corollary to the performance appraisal process where the supervisor was expected to rate the staff, a rating system was established where the staff could evaluate the supervisor. This survey was discussed with the staff who felt it was an effective way to express their opinions.

	A	B	C	D
	All Of The Time	Most Of The Time	Some Of The Time	Never
- Sets Realistic Performance Objectives for Staff				
- Provides Feedback on Staff's Performance				
- Emphasizes Quality				
- Is Conscious of Customer Satisfaction				
- Looks for Ways to Improve Existing Systems				
- Delays Taking Action on Urgent Tasks				
- Over Delegates to the Point of Losing Control				
- Does not Delegate Enough and Retains too Much Control				
- Solicits Subordinate Input				
- Uses Subordinate Input				
- Explains Key Business Decisions				
- Handles Disciplinary/Correctional Situations Positively				
- Keeps Staff Fully Informed				
- Encourages Team-Work				
Comments:				

Table 8.5 Survey of Unit Head Performance

THE MANAGEMENT SERVICES AND  
RESOURCE PLANNING UNIT - OFFICER'S CONTRACT

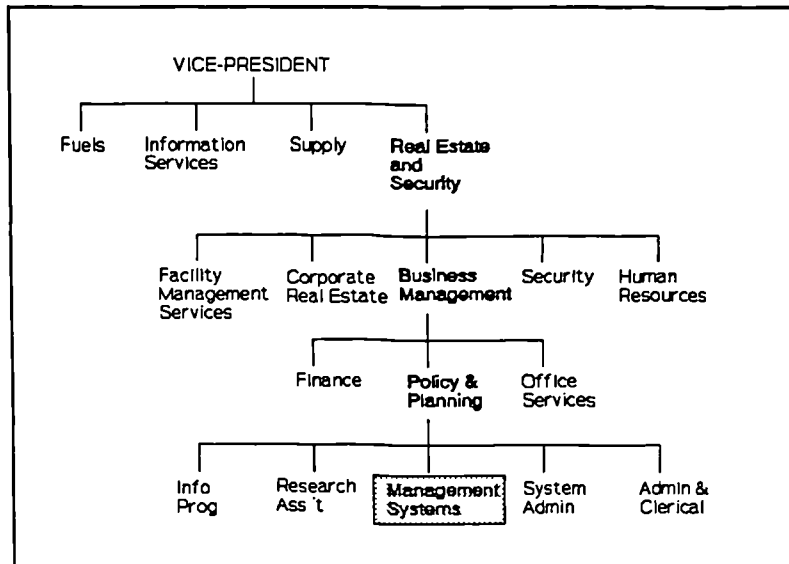


Figure 8.8

The incumbent for this position was responsible for a number of the organizational elements of the management system. The format used for the contract for this position reflected the rather subjective nature of the job. While retaining a number of specific accountabilities, it was also a resource for other groups and this entailed duties in response to ongoing enquiries. This extracted measure is an example of this:

- *As evidenced by the acceptance by clients of advice/recommendations on policies, objectives, procedures, plans, and program(me)s that support Departmental/Divisional management.*

This was a very good example of meeting customer needs in a subject which was difficult to measure. The advice given was often based on precedent and

interpretation, so that its acceptance often required a high level of trust in both the ability of the analyst and in the research undertaken.

## CONCLUSIONS

In analysing performance measurement in a company of the size of Ontario Hydro, a sampling was necessary to allow for a manageable information base. The model suggested by Van De Ven (1980) proved effective in providing a focus and direction for the study.

The amount of data generated was considerable and very detailed. However, the consistency of information flows, the lack of information gaps, and an important factor in any business review, a dearth of dead ends, would appear to support the validity of the conclusions drawn from the data. The access and closeness of the researcher to the material provided insight, but this may have to be tempered with an awareness of the potential for a narrowness of vision.

In reviewing the performance contracts as a complete package, linkages appeared between the measures that were not as obvious when they were displayed in a dispersed form. The information was collected from a broad range of places, people, and times and it often required considerable sorting and analysis to reach the form presented here. In light of its consistency, depth and breadth, however, observations derived from the data would appear to have genuine substance. The initial observation was that in cascading through an organization of this size and layers of hierarchy, the primary message or objective has a potential to become distorted. However, in this

case, it would appear that the overall corporate goals of the organization moved through the various levels of the organization relatively intact and reflected a common focus at each step in performance management. For example, the striving for excellence that originates at the corporate mission and values level, appears in spirit at the Management Services Officer contract five levels below. The emphasis on product (at the top level electricity) can be followed through the structure becoming narrower in scope, but displaying its lineage. The "awareness and responsiveness to customer expectations" can be found at each level of employee commitment. "Being open to new ways of doing things", elements are more difficult to trace, but their "softer" images contribute to their lack of definition. "Sustaining...technology" is a common factor, as is customer recognition. Financial soundness is a constant and reflects, perhaps, the ease of quantitative measurement. To sustain "effective working relationships" with peers and superiors is present at each level and "operat(ing) in a socially responsible manner" is in the personal contribution area of most contracts. It would appear that in this case the contracts demonstrated a series of objectives and that a "hierarchy of objectives" existed that could be integrated and aggregated to form a comprehensive view of measurement within the system and in so doing form a whole.

What is also significant is the low incidence of "rogue" measures. Except for one management-level position where a personal interpretation of some divisional goals was in error, the absence of variation in goals and objectives is notable. Of

course, this lack of variation may be seen as a lack of initiative, but in a large organization flexibility is perhaps best exercised within established parameters.

In reviewing the measures, it is also apparent that the traditional view of "big business" of being only concerned with costs in its performance evaluations is somewhat dispelled. While recognizing that the profit motive is not usually a factor in a crown corporation, it is interesting to note the comprehensiveness of the measures both from an operating and from a human perspective. This is particularly important when it is realized that these are actual working documents and not edited for public consumption or as part of a marketing or advertising programme.

## Chapter Nine

### THE USE OF PERFORMANCE CONTRACTS

The perspectives of the employees being evaluated has already been emphasised. In this chapter a number of the theories developed earlier are examined from the employee viewpoint. In reviewing the use of performance contracts, three methods were adopted. First, a questionnaire was conducted amongst senior managers to establish how they used performance contracts and their opinions of the contracts' effectiveness. Users of contracts were then interviewed to establish their opinions on, and their use of, performance contracts and appraisals. Finally, a pilot programme was used to examine the design of a performance contract being tested in a part of Ontario Hydro.

#### SURVEY ON THE USE OF PERFORMANCE CONTRACTS

To help to establish the level of use and effectiveness of performance contracts within the branch of Ontario Hydro being studied, a questionnaire was developed. The use of questionnaires was fairly common within the branch. Unfortunately because of this practice, survey "burnout" was considered a major issue. In designing the questionnaire, two considerations were fundamental. The first was to make the questionnaire as effective an information-gathering vehicle as possible. The second was to develop a package that would be completed by as broad a representation of managers as possible.

It was recognized that there could be conflict between what was an efficient way of gathering information and an effective way. Discussions were held with a representative sample, six, of the larger audience of managers. It was agreed that questionnaires were not popular amongst those to be surveyed. This was caused by a number of factors including: questionnaires whose results "vanished into a black hole", surveys that were not what they purported to be, too many surveys and there being nothing in them for the respondents. Some private survey groups had resorted to enclosing a dollar bill with their questionnaires to encourage completion of the information (Neilson Surveys, 1990). This was not considered appropriate for this group. The group to be surveyed were the senior managers in the branch. They were "supervisors of supervisors" with backgrounds that covered a range of experience, education and staff numbers supervised. The common element was that change was in the air and if the survey was to be effective, it would have to recognize both the apprehension created by the change and the opportunities that it presented.

A major temptation encountered in survey work is not knowing when to stop. Questions that are useful, but not necessary for the subject under review float around the edges. The tendency to look for information that can provide background for peripheral issues has to be examined with a critical eye. Working with the focus group, a set of objectives was developed for the questionnaire (United States Office of Management and Budget, 1983). By taking a "customer" view, a set of specifications was outlined. A questionnaire was drafted to address the specifications, and to help meet the objectives. The first draft met most of the criteria and was received with



enthusiasm by the sub-group charged with its development. Before implementing the questionnaire however, the tenets of the quality movement were addressed and the customer viewpoint sought. A pilot survey was done with five managers with different backgrounds. Working on their own, they completed the pilot questionnaire. On reviewing the responses it was obvious that while the content of the questions was good, their order and the layout of the form needed to be reviewed (Sanchez, 1992). Discussions were held with the managers and their comments incorporated into the final version of the questionnaire. Then the questionnaire was ready to be distributed to the managers within the branch.

In conducting a survey of a specific audience, the key factor was the methods to be used. It should be remembered that this was an audience that was surveyed on a regular basis and who were perceived to have a certain degree of cynicism about the process.

"Attitude surveys for employees have shown an increased level of dissatisfaction and when people are uncertain, they tend to be more dissatisfied simply because they do not know how they are doing" (Johnson, 1991).

Fitz-enz (1984) argued that attitude surveys suffered from a series of weaknesses. For example, unless there are norms to measure against, the results are of little value: a survey is a snapshot of one day in the life of an employee. Unless the responses have an importance scale built in, it is hard to tell whether there is a need to

respond to a low score, and all survey methods suffer from weaknesses of validity and reliability because they deal with human beings.

Various survey methods were considered (Roth, 1981). Mail questionnaires have a long tradition and high usage rate among various groups particularly in market research (Erdos, 1970). Response rates tend to be low and they often lack depth or consistency in interpretation. Interviews include ones with "people in the street", common in shopping centres where a match between potential customers and suppliers may be present, to the work of students trying to get data for their theses. Telephone interviews can be useful, as some people find it hard to refuse to be interviewed on the telephone. Many of the larger opinion poll and market research companies have moved to this methodology as it provides an effective way to reach a large audience while incurring relatively low administrative costs.

For the management audience being surveyed, all of the preceding were considered. The logistics of the face-to-face interviews proved daunting. Being experienced at trying to arrange meetings with these managers, the researcher was conscious of the time and effort that would be required. The attitude towards mail questionnaires was not positive and the response rate was not expected to be high enough to base recommendations on. A telephone survey was, therefore, expected to give the best combination of data and time expenditure. A flaw in this logic concerned the extensive use of answering machines by the managers to be surveyed. A corporate-wide automatic answering system was in place and used by many to gather calls for later responses, often back to the other person's machine. Electronic

mail was considered a more practical vehicle but not all of the managers were on the system and the process for sending, editing and returning packaged information was time-consuming.

At this point, it was noted that a major conference was being scheduled for the targeted management audience. It was decided that this conference would provide an ideal opportunity to distribute the questionnaire to what would be a somewhat captive audience and as the researcher was also a participant at the conference, background to or interpretation of the questions could be supplied in mini-interviews. This idea was cleared with the conference organizers and the questionnaire was prepared for this approach.

The method of distributing the questionnaire was reviewed to address some concerns expressed in the pilot survey. Earlier questionnaires had been distributed by managers who were responsible for the activities being studied and very high response rates had been realized. However, the direct involvement of the managers in information that could affect their careers raised considerable scepticism among the participants and readers as to the validity of the research. To avoid this kind of reaction, the questionnaires were placed in a neutral position next to the coffee urns and participants were asked to take one and return it later in the conference. Though this approach may have lowered the response rate somewhat, it added the element of optional participation. To avoid a "self-fulfilling prophecy bias" the purpose of the questionnaire was not discussed. The authors were not identified and there were no distinguishing marks on the questionnaire.

## ANALYSIS OF THE FINDINGS

In analysing the findings, it was important to remember their context. The vice-president, who had encouraged an open business style, had just resigned and a successor had not been named. The conference which she had been expected to lead was not, therefore, graced by her presence and the corporation had also just undergone an executive-level reorganization. As noted earlier, change was in the air and not too many people were sure where it was taking them.

The following is an analysis of the findings. The questions are presented first, followed by observations about the responses. The questionnaire was completed by 44 of the 103 participants at the conference, although not all participants replied to all questions.

To ensure consistency of interpretation, the questionnaire opened with a definition of the subject. The original wording of the questionnaire is in italics.

*Performance - execution of a task.*

*Contract - an agreement between parties to do something.*

*Therefore, a performance contract is an agreement between at least two parties on the execution of a task.*

Although this was a little stilted for the audience, it was felt to be necessary to use a uniform definition.

*The content could be based on objectives, work plan or job duties, could be annual, periodic or project based, and team or individual.*

This description was an outcome of the pilot test with the focus group of managers. They felt that it was important to describe the range of work that could be included.

*Please Note: The survey is in two parts:*

1. *To be answered from your perspective as an Employee.*
2. *To be answered from your perspective as a Supervisor.*

This two-pronged approach was developed after considerable discussion with the focus group. The clear delineation of approaches avoided confusion as to "which hat was being worn".

*Part 1*

*As an employee*

1. *Do you have (or have you used) a performance contract?*

*Yes*

*No*

*Go to Question 2.*

*What other process is used to evaluate your performance?*

.....

*Go to Question 2.*

By asking about "what other process" had been used, the contract and its alternatives could be directly compared.

The use of the performance contract was high, 93%, based on 40 of 43 responses. This demonstrated that it was a group with extensive experience of the use of contracts. The "other process" used was either an "open-ended discussion" or a standard performance appraisal.

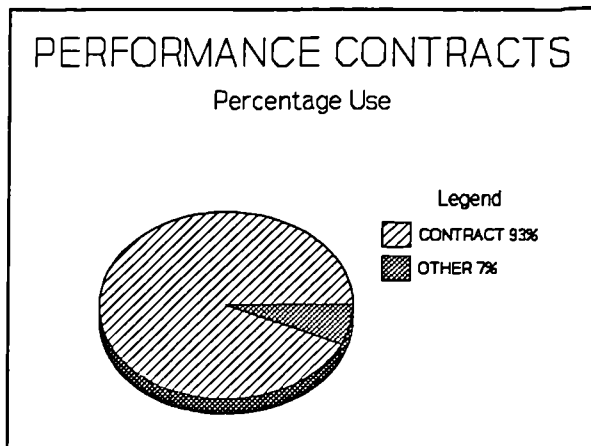


Figure 9.1

2.	<i>Is it used? (Mark as many as apply.)</i>	<i>Contract</i>	<i>Other</i>
		<i>Yes</i>	<i>No</i>
	<i>To evaluate performance?</i>		
	<i>To establish merit pay?</i>		
	<i>To plan work?</i>		
	<i>To establish priorities?</i>		
	<i>For career planning?</i>		
	<i>Other, eg, objectives, corporate objectives?</i>		

Not surprisingly, 100% (40 of 40) responses said that performance contracts were used to evaluate performance. However, the fact that 88% (35 of 40) reported they used them for merit pay was interesting. Also, its use "to establish priorities", 88% (35 of

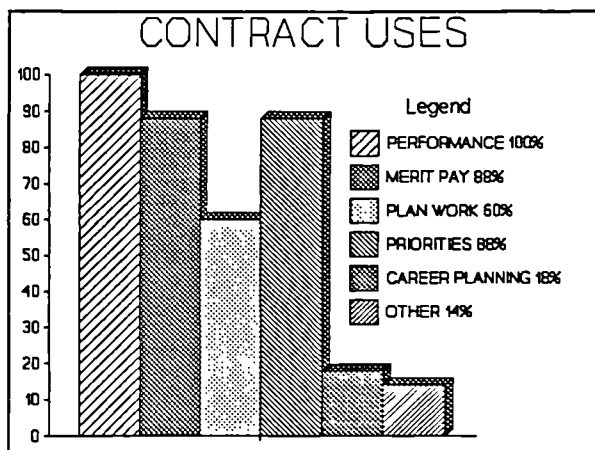


Figure 9.2

40), reinforced comments that arose in earlier interviews regarding this use of

contracts. The low use for career planning was somewhat surprising. The "other" column is included for consistency and reflects 14% (6 of 43) responses. As seen from the chart, the contract was used for a number of different reasons.

3. *Are your tasks/objectives in your supervisor's contract/process?*

*Yes No Don't Know*

The response was a positive "yes" 81% (35 of 43) with "no" being 9% (4 of 43) and the same 9% for "don't know". Again, this was a strong indication of the level of use of the contract.

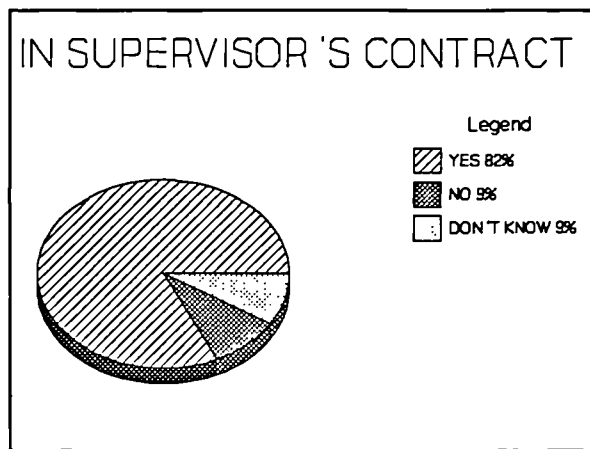


Figure 9.3

4. *How meaningful is the performance contract/process in your supervisor's evaluation of your performance?*

*Very Somewhat Little Not*

This was a very important question as it addressed the issue of whether the contract was meaningful to its customer, in this case the supervisor.

As noted, this was one of the key questions in the survey. Interestingly, everyone agreed that the contract or process had an effect on their supervisor's evaluation. The key difference was their impact. 48% (19 of 40) felt that the contract

was "very meaningful", 43% (17 of 40) felt that it was "somewhat meaningful". Therefore, 91% (48% + 43%) felt that the contract process was somewhat or very meaningful. This was a significant proportion.

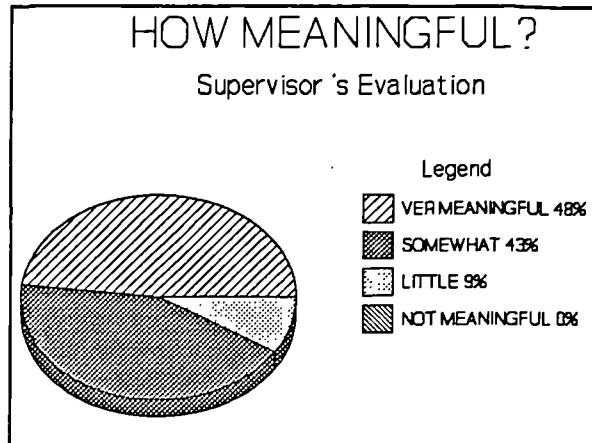


Figure 9.4

5. *How does the performance contract/process affect your performance?*

<i>Very Positive</i>	<i>Slightly Positive</i>	<i>Slightly Negative</i>	<i>Very Negative</i>
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As with Question Four, this question was a major indicator and addressed the central question of the effect of the contract approach on performance.

This chart illustrates the impact of the contract on the employees' views of their performance. The key finding is that 100% of staff (54% very positive + 46% slightly positive) did feel that the performance contract had a positive effect on their performance. That 54%

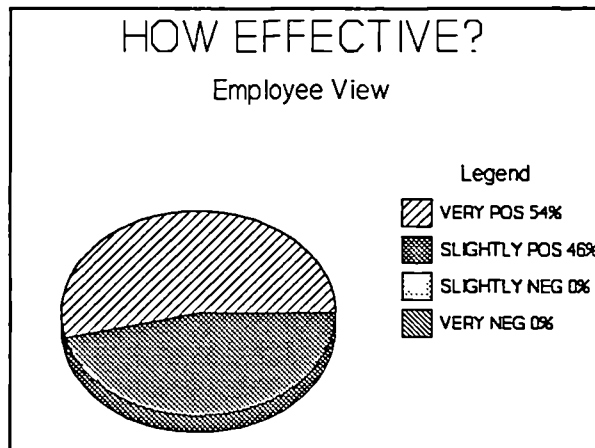


Figure 9.5

felt it had a very positive effect is a strong indicator of the views of the employees on the use of the performance contract.



6. *As an employee, how could the performance contract/process be improved?*

Question Six required a narrative response whereas the other questions had required only a check mark. The response was interesting with 32 of the 44 responders making the effort to put down their thoughts.

Designing a survey requires walking the fine line between questions that produce replies which are easy to compile for analysis and those that may provide insights or different viewpoints. In designing this survey, it was felt to be important to obtain some definitive numbers on the use and the perception of the use of the performance contract. However, the opportunity to ask this group questions did not come easily. So, a few narrative responses were asked to provide some depth to the questions and a view of the future. Difficulties can arise when trying to collate the responses and to establish a pattern, if any, from the information gathered. The process used was to try to group like responses to establish a base pattern. What emerged was a sequence that tended to follow the contract implementation process.

The "audience" was identified to provide a focus for the contract, such as emphasis on the individual. Levels above and below the "user of the contract" were a major grouping with the frequency of reviews of particular interest. There were a number of responses that addressed the contract's flexibility, simplicity, with the need for a "working document" being the most common. The measures aspect of the contract, the one that usually gets the most comment, had a broader range of responses but "objectives" were emphasized. Within this grouping, however, were two very provocative suggestions. One was to use an agreement with the customer as the main

measure and another was to ask the managers' subordinates for their views of their managers' performance. This led to the last grouping of "results". The direct link to merit pay was suggested by a number of responses.

This pattern was then examined to address directly the question of how to improve the contract process and to add the priorities:

- that the contracts emphasize the individual (4 comments) and indicate where the individual fits in, for example, what is in the contracts above and below;
- reviews of the contract should be frequent (4 comments) and the contract used more;
- the contract should be a working document; flexible, less formal and more consistent;
- measures should be based on objectives (3 comments) that are planned and targeted, more emphasis on fewer items and the bottom-line. Also, they should address corporate priorities and business plans and encourage human resource management, behavioural change and career planning;
- the supervisor's subordinates and customers should be surveyed and included in the agreement; and,
- the results should be tied to merit pay (4 comments) and the contract used for pay evaluation.

*Part 2*

*As a supervisor*

7. *Do your staff know what's in your contract?*

*Yes*

*No*

The high percentage (90%) of openness regarding the contract is a positive sign of its use.

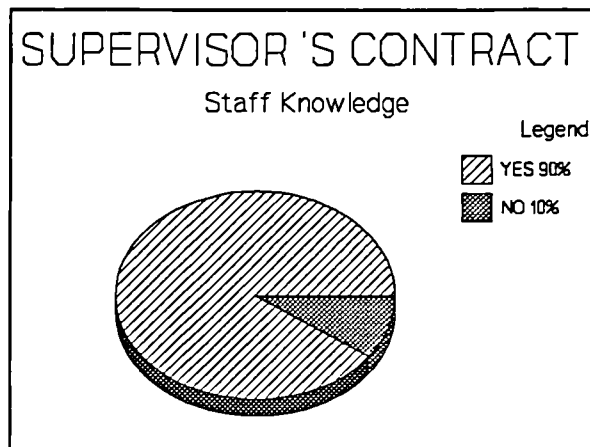


Figure 9.6

8. *Do your staff have a performance contract?*

*Yes*

*No*

*Go to Question 9.*

*What other process do you use to evaluate performance?*

.....

*Go to Question 9.*

The percentage of staff using contracts below the manager level was 51% versus 93% for the managers. The "other processes" tended to be the corporate

performance appraisal model or some type of informal process. To accommodate the 51/39 split in usage, the charts that follow reflect the responses to each use (that is, performance "contract" or "other process") separately.

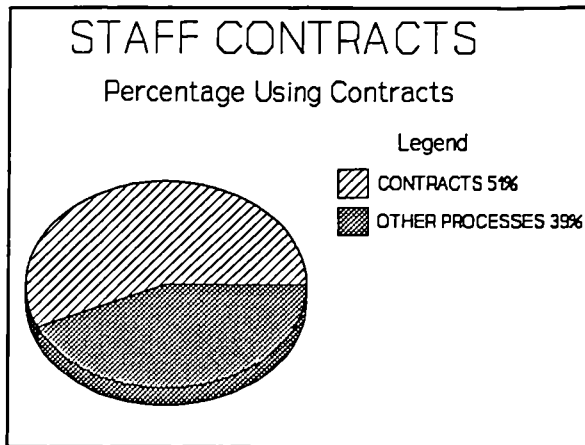


Figure 9.7

9. Do you use it? (Mark as many as apply.)

Yes No

- To evaluate performance?
- To establish merit pay?
- To plan work?
- To establish priorities?
- For career planning?
- Other?

The use of the contract to evaluate performance is well established as is its use for establishing merit pay. Establishing priorities (76%) was a major use. Although planning work (44%) and career planning (36%) were not as high, they were quite significant.

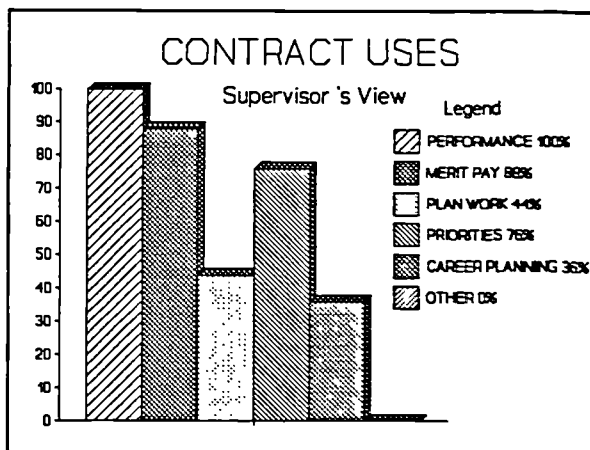


Figure 9.8

Although the other processes, usually performance appraisals, were used in 59%, 10 out of 17 responses, it is the lack of use (again 59%) for merit pay that is lower than expected. The combination of appraisal and informal discussion probably led to the 41%, 7 out of 17, level for career planning.

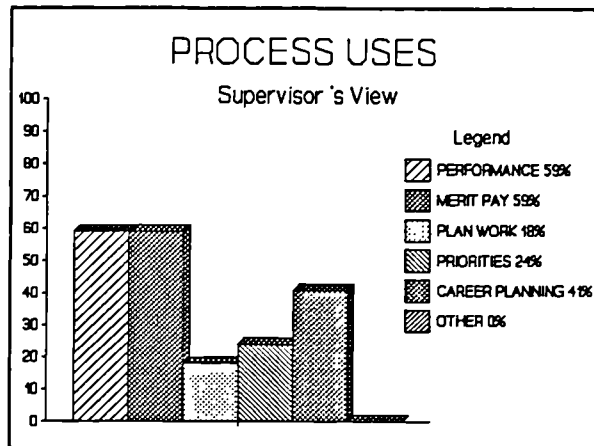


Figure 9.9

In comparing the uses of the contract and other processes, the differences are marked. Performance evaluation shows a distinct preference for the contract. That merit pay should be so low for the other process is somewhat surprising. Planning work

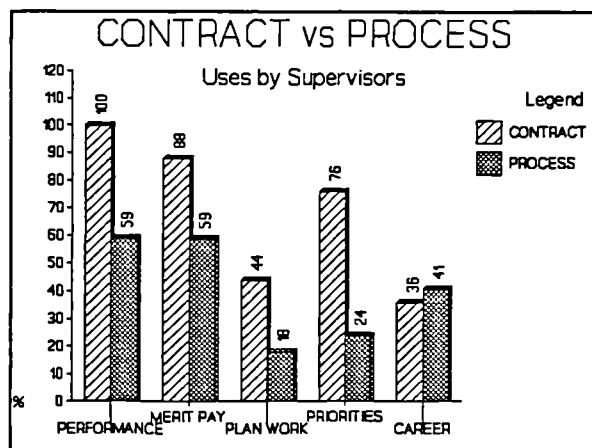


Figure 9.10

and priority setting is obviously a benefit in using the contract. However, neither would appear to address career planning effectively.

10. *Are your staff's tasks/objectives in your contract?*

*Yes*

*No*

The relatively high proportion 76% (67% + 9%) of staff tasks/objectives, illustrates the aggregating of tasks within the unit.

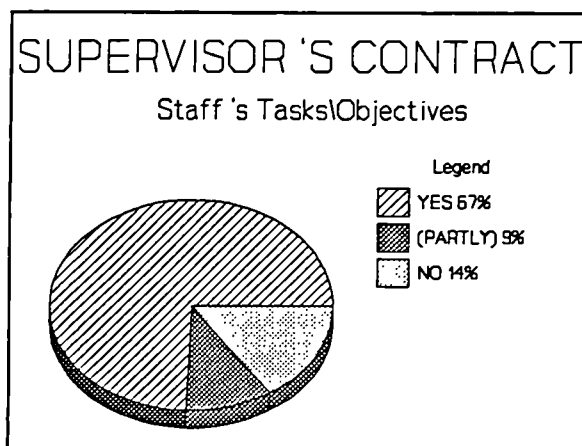


Figure 9.11

11. *How meaningful is the performance contract/process in your evaluation of your staff's performance?*

*Very*

*Somewhat*

*Little*

*Not*

This, as was Question Four, was a key element in the performance evaluation. The significant factor was that the contract was "meaningful", either very (52%), or somewhat (44%), for a total of 96%. This was a major endorsement of the contract approach as

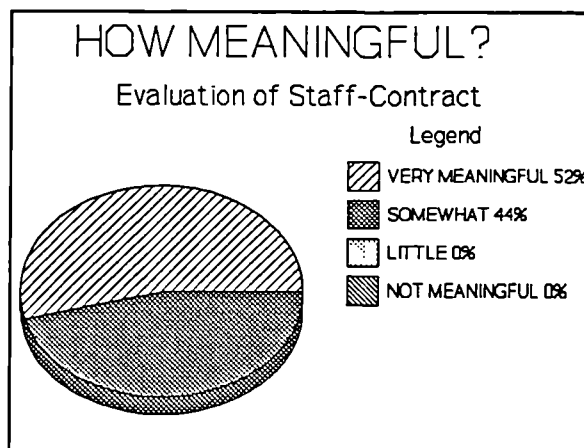


Figure 9.12

it says that all the supervisors who use contracts find them meaningful in evaluating their staff's performance. The "very meaningful" 52% was of particular note.

As can be seen from the chart, the other processes are still useful in evaluating performance with the "somewhat meaningful" being the majority. Its impact, however, is not as strong in the "very meaningful" category.

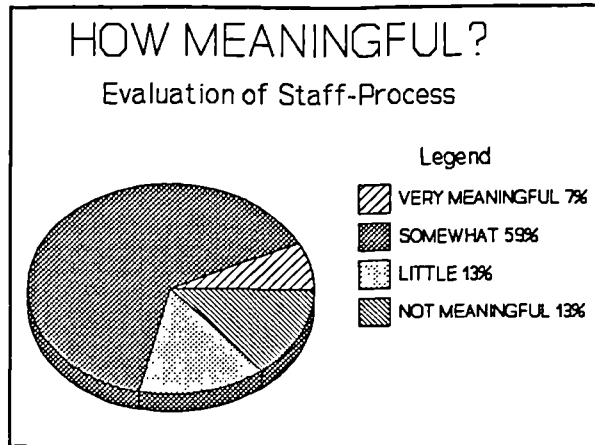


Figure 9.13

In comparing the two charts, the difference is most pronounced in the "very meaningful" area. Whereas both have a similar "somewhat", the difference between the contract's "very meaningful" at 52% and the "processes" at 7% is significant. The second significant point is that while the

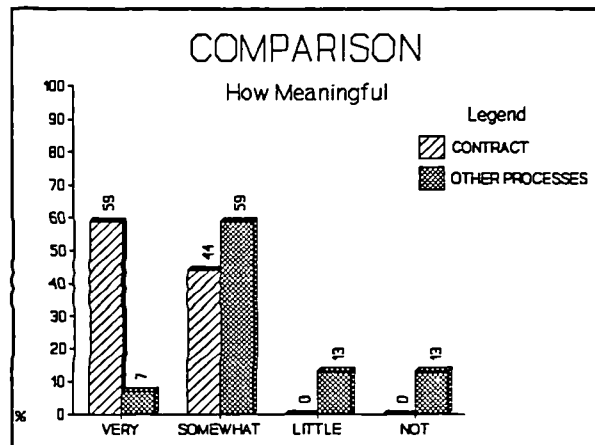


Figure 9.14

contract has zero responses in the "little" or "not meaningful" areas, the process has a troubling 26%. The "not meaningful" at 13% is of particular concern. It must be noted that the responses in this area are small in number, two responses in the "not meaningful" and two in the "little". However, the impact on the supervisor's evaluation of staff's performance has a heavy weighting towards the positive aspects of the contract.

12. *How does the performance contract/process affect your staff's performance?*

*Very Positive*                      *Slightly Positive*                      *Slightly Negative*                      *Very Negative*

The chart suggests that the contract has a positive effect on staff performance (100%). That the response should be so positive appears significant and the emphasis on "very positive" at 56% suggests that the supervisors found the contract approach generally useful.

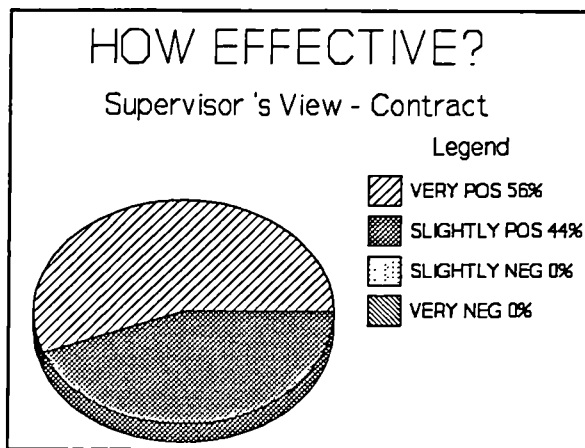


Figure 9.15

While the positive response was still quite high, with 6% very positive and 59% slightly positive, two interesting points emerged. One was the insertion of a neutral response from one participant. The survey was designed with an even distribution to avoid the neutral position and to encourage a go or

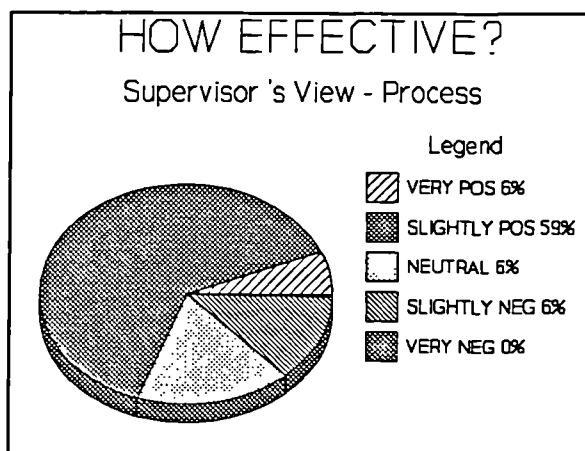


Figure 9.16

no go situation. By writing between the lines, a neutral response was indicated. The other was the single response to the "very positive" which was marked very emphatically. It would appear that although questions can be crafted to deliver a



certain response, individuality will still seek an outlet. The non-standard responses provided support for the decision to include narrative questions.

The results are significant when the two sets of responses are compared. While both the "contract" and "other processes" are both effective, the "very effective" of the contract is significant. The main point is the high level at which the performance contract approach was rated.

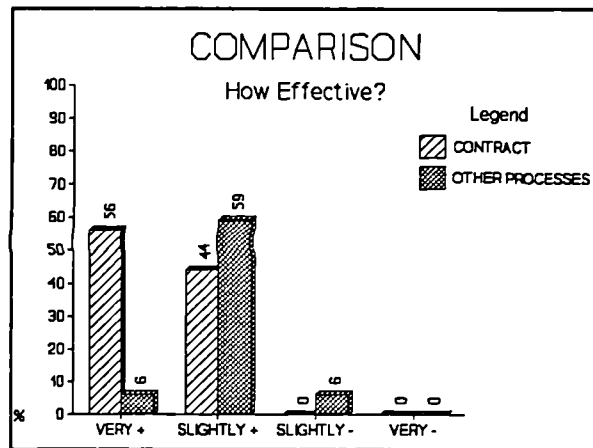


Figure 9.17

13. *As a supervisor, how could the performance contract/process be improved?*

As with Question Six, which asked the same question from an employee's perspective, the narrative responses from the supervisors required analysis. A similar, though less definite, pattern emerged. The supervisors felt that the contract should have an individual focus and that the format should be simpler, but that it should also allow for comparisons. The measures were seen as practical when focused on business objectives. Results should, they felt, be linked to merit pay with bonuses as an option. The customers' views should also be sought.

A comparison of the two summaries shows a very close parallel between the views held by the managers as employees in Question Six, and as supervisors in Question Thirteen.

"EMPLOYEE" SUMMARY	"SUPERVISOR" SUMMARY
- That the contracts emphasize the individual (4 comments) and indicate where the individual fits in, that is, what is in the contracts above and below.	- Contracts should be flexible and customized to the individuals.
- Reviews of the contract should be frequent (4 comments) and the contract used more.	- They should have more frequent reviews (3 comments) and extended to everyone with supervisory or project management responsibilities.
- The contract should be a working document; flexible, less formal and more consistent.	- The format should be simplified and generic wording reduced, a better comparative process used, and authority matched to performance.
- Measures should be based on objectives (3 comments) that are planned and targeted, more emphasis on fewer items and the bottom line. Also, they should address corporate priorities and business plans and encourage Human Resource Management, behavioural change and career planning.	- Objectives to be business oriented with an emphasis on important measures only, with more qualitative and quantitative measures.
- As well as the supervisor's view, subordinates and customers should be surveyed and included in agreement.	- Customer focus to the contract and its assessment with staff input to their own and to supervisor's contract.
- The results should be tied to merit pay (4 comments) and the contract used for evaluation.	- The results should be linked directly to merit pay (3 comments) and consideration to using bonus as the merit (3 comments).

The only noticeable difference is a slight variance in the emphasis on quantifiable or more business-oriented measures. This is, in general, a positive result as it indicated that the managers had consistent views on the use of the contract, both as employees and as supervisors.

### A USERS' VIEW OF PERFORMANCE CONTRACTS

In gathering data on contracts, it became apparent that most of the literature tended to address the activity either from the perspective of supervisors or in the trade journals from those of human resources managers. Comparatively little material existed that examined the issue from the viewpoint of those whose performance was being measured. This was particularly apparent in the literature aimed at senior managers. This may be an obvious point, but it reflected a thread that ran through most of the management literature. While both viewpoints, the top-down and the

bottom-up, were represented, the view down was often spiced with anecdotes which expanded or fleshed out the statistics. The view from below, on the other hand, tended to be purely statistical and any qualitative statements tended to be used to support the statistics. The reasons for this were many but worthwhile reviewing as they required consideration when reviewing the literature. First of all, more chief executive officers (CEOs) buy management books than people on the shop floor. For this reason, authors of management books tend to target CEOs. CEOs, and more commonly aspiring CEOs, are always looking for the new idea that will provide a breakthrough for them and/or their company. Also, a book written by a CEO has a much better chance of being published than one written by an ordinary employee. With readers and authors predominantly senior management it was not surprising that the vast majority of the literature did not address the issue from the workers' perspectives. Therefore, in analysing the impact of performance contracts, the views of the employees had to be supplemented by experience and business examples. One method used was to interview some users of contracts.

The interviews focused on the reaction of employees to using a performance contract, the differences from the standard performance appraisal format and the procedure used to develop the contract. They were designed to gather as much information as possible, both objective and subjective (Kahn and Cannell, 1967). Each person interviewed provided detailed insights into both the content of the contract and the process used.

Interviews were based on the following criteria: interviewees must have had at least two performance appraisals using the standard corporate form; they had to have been in their current jobs, or similar positions, for at least two years; and, they had to have used performance contracts in their jobs and had their on-the-job ratings determined by the outcomes of the contract discussion.

Experience with the use of mutually developed contracts was fairly new but one unit had used them quite extensively. This lack of volume may have led to less variation in the responses, however, the variety in backgrounds, experience and personalities was considerable and it helped to offset any tendency to think only as a group (Janis, 1972). Also, the purpose of the interviews was to provide background on the use of contracts rather than to gather broadly based data. The five people selected met all the criteria and agreed to be interviewed. Their ages ranged from their early thirties to mid-forties. They were middle-level professionals with ten to twenty years of business experience. The similarities ended there. Some had worked for one company for their whole career. Some had an eclectic mix of self-employment and industrial, academic, and government experience. Contrary to the norm for Ontario Hydro, the ratio of women to men was high with women being in a majority. Educational backgrounds were also unusually diverse for a professional unit, ranging from specialists whose education was focused in one particular area, for example, computers, to liberally educated generalists who had been writers and policy experts. Canada has a large multicultural workforce and this too showed up in this group with different ethnic backgrounds and immigration histories.

The interviews were held on site, usually in a company conference room. It was thought to be important to retain the business tone of the interviews but also to minimize distractions. The questions focused on two major issues. Did the contract reflect actual performance and did it do it better than other forms of performance appraisal? The key was that the responses were from the employee viewpoint with the emphasis on the fact that the employee was part of the process. The interviews were very positive and frank. This reflected, to some extent, that the people who met the criteria tended to be fairly assertive and confident about their future careers. In all cases, the interviewees were experienced in their jobs and rated highly by their peers. The absence of a perceived poor performer was initially regretted, but as the contracts were mutually developed and reflected the commitment of what was a well-organized unit, it was to be expected.

#### How the Contract was Used

The use of contracts in this unit had been in place for three years with the first year being a trial. The process was evolutionary and incorporated comments from staff and material developed by the unit itself. To launch, that is introduce, the programme the supervisor had met with each of his staff to discuss the concepts and logic of the process. These were informal meetings with considerable discussion to ensure that employees understood the process being adopted. To confirm that a common understanding of the unit's objectives was present, the supervisor used his contract and that of his supervisor as a guide. The objectives of the department and

the unit had been developed at an earlier workshop. In reviewing his own contract, the supervisor was careful to point out the linkages between his contract and that of his superior, but noted the different methods to be adopted to reach the objectives. Each staff member then developed their own contract, which while reflecting their own goals, allowed the unit's objectives to be met.

In all five cases, the development of the contract was seen as a positive exercise. In four of the five cases, the process worked approximately as planned. Objectives were developed and discussed and measures were established and agreed upon. In one case, the incumbent had difficulty in quantifying the measures to his own satisfaction. In the difficult to measure area of communications, there was a concern that the measures emphasized efficiency rather than effectiveness. Also, there was, as is often the case with professional writers, a need to rework the details of the wording that led to a delay in the finalizing of the document. However, he regarded the process as being a helpful one.

All five of the staff preferred using the contract process to the standard performance appraisal. The use of objectives and the personal involvement in the activity were cited as reasons for preferring the contract. While the sample group was small, its experience with contracts was fairly extensive. The primary purpose of these interviews was to provide more depth to the data generated in the survey of managers outlined earlier in this chapter.

### THE PURPOSE OF A PERFORMANCE CONTRACT

"The principal purposes of an appraisal and development system should be to nurture and sustain individual employee contributions to the continuous improvement of the organization as a team and to provide an assessment or evaluation of performance for the employee and management" (Scherkenbach, 1988).

Most of the literature on measuring performance concentrates on two points of view. First, there is the analytical or statistical one, where products or inputs are inspected, the finances are monitored or numerical data is generated. Second, there is the managerial or supervisory one, where both the product and the people who produce it are evaluated. Rarely do the employee viewpoints become part of the review. This is understandable as the audience for performance measurement literature tends to be one of analysts looking for new techniques and of managers searching for ways to reduce costs. The problem of omitting employee measures from the business gauges was addressed in the 1970s in North America under the heading of Quality of Work(ing) Life (QWL) (Davis and Cherns, 1975). Under this umbrella term, a number of issues were considered; accountability and/or responsibility, training and a broad range of traditional "personnel" issues. The concept was well received and a number of articles and books were produced to explain and demonstrate its relevance. The literature, however, was strong enough for the converted but lacked evidence of results to convince the more pragmatic members of business. A major point to be considered was that, within the business environment, quantifiable data was the basis for most decision-making. QWL's principles tended to concentrate on the

development of people through training, sharing of accountability and responsibility, and active involvement or participation by the workers. These were difficult elements to quantify. For each positive feeling shared because of joint participation, there was a budgetary argument for increased production and cost reduction. So, although it was recognized as a laudable goal, QWL, in the early 1980s, started to fade from the major business literature. The more aggressive approaches of mergers and takeovers favoured a quantitative approach that not only conflicted with QWL's qualitative measures but encouraged a return to using workers as resources to be allocated or mined for a short-term return on investment. However, the desire to quantify led to a mild resurgence of statistics as a management tool.

The resurfacing of some of the statistical icons of the 1950s such as Deming and Juran led to a rediscovery of quality assurance models. While adopted primarily for their promise of greater control and higher profits through reduced variation, the quality experts brought with them a view of employee involvement not often captured in the executive summaries or business magazine surveys. Points such as open communications between the employee and supervisor supported by opportunities for enhancement of professional, managerial and interpersonal skills read more as a liberal view of QWL than what they are, tenets of the quality (assurance) movement. A number of the larger quality management consulting companies have argued strongly that it is the human resources management aspect of the quality movement that makes it effective (Conway, 1992). The involvement of employees in the process was considered essential, particularly when it came to meeting customer needs. This was



demonstrated in a number of ways by the use of teams and teamwork being portrayed as "quality leadership" (Scholtes, 1988).

In most of the quality models, the emphasis has been on a shift from measurement of results to that of processes or methods (Steeple, 1992). A number of large employers have adopted this approach incorporating both the statistical and the human resource measures. A leading exponent of this philosophy has been Florida Power and Light (FP&L), a large United States electrical utility (Hudiburg, 1990). In 1989, FP&L won the Deming Prize for corporate excellence awarded by the Union of Japanese Scientists and Engineers. They were the first non-Japanese company to win this award. Their Quality Improvement Program (QIP) was established to be a total management system, involve all employees, produce spectacular results and utilize data and analysis. This blend of management and employees goals required commitment by top management and the support of the employees. The four principles for their quality management were: customer satisfaction, plan-do-check-action (PDCA), management by fact and respect for people.

The implementation program had FP&L poll their customers on nineteen different subject areas ranging from public safety to financial management and considerate customer service. The customers identified six of the concerns as high priorities. In order they were; public safety, considerate customer service, accurate answers, timely action, continuity of service and employee safety. A series of targets was established to meet these priorities and eight internal units worked on the six major customer demands.

In conjunction with this activity, 160 task and function teams involving all employees stressed improving the quality of their daily work. This acknowledged the fact that while it was beneficial to learn the customers' needs and expectations, it was only raising false expectations if the organization could not meet them. The teams not only corrected the problems, they were authorized to implement the changes. In implementing these projects, considerable emphasis was placed on the role of the managers responsible for the tasks. The, now former, chairman of FP&L, John Hudiburg, took a very personal interest in the projects and how they were managed. He developed a set of questions that captured both the scope of the managers' commitment and their knowledge of what they were expected to do. He asked each of his managers:

- (i) What is your job? (Answer in 3 sentences or less.)
- (ii) What are the six most important elements?
- (iii) How do you measure them?
- (iv) What are your goals? Where are you today?
- (v) What will you do if you are not achieving your goals?
- (vi) What will you do next when you meet your goals? and,
- (vii) How will you accomplish this?

Following a presentation by Mr. Hudiburg to Ontario Hydro's Human Resources staff, the Vice-President of the Supply and Services Branch decided as part of a Continuous Improvement Program (CIP) to adopt Hudiburg's questions for the performance contracts for senior managers.

The background to the CIP programme was an example of how change can have a wide-reaching effect. The vice-president was new to the organization having been hired only nine months before. As well as being new, a number of other factors came into play. She was the first female vice-president in an organization where women had not been well represented at the management levels. She came from a different industry, from petroleum to electricity, and had a very different management style from her inherited staff. The first major culture change, after the shock of working for a woman, was the introduction of the Continuous Improvement Process, a form of quality management. Building on her own experience and using an outside consulting company, she set about changing the branch. One element was the performance contract.

As noted earlier, the use of the plan-do-check-action cycle was an essential part of continuous improvement. Known as the Shewhart Cycle, it is a process which involves planning a change, carrying it out (a pilot or on a small scale), checking (studying the results) and acting (adopting the change, abandoning it or running through steps 1-3 again) (Shewhart, 1931). In planning the change, the use of the performance contract based on the seven questions developed by Hudiburg (1990), all of the staff reporting directly to the vice-president were asked to generate responses to the questions and in so doing to draft a performance contract. The exercise involved nine senior staff. Four of the direct reports, that is employees who reported directly to the vice-president, were line managers with staff ranging from 30 to 900. They provided services such as the acquisition of property, materials and fuels and computer

support. The five staff members were responsible for comptrollership, human resources management, health and safety, continuous improvement and corporate relations. Each direct report was asked to develop his or her own contract and to be prepared to debate the responses. The vice-president supplied a draft of her own contract for information purposes.

The questions were narrowed down to the current activities.

- (i) *What do you do?*
- (ii) *The six most important elements?*
- (iii) *How do you measure them?*
- (iv) *What are your goals, and where are you?*

In completing the contracts, a number of queries arose regarding scale and detail. It should be noted that this group had been using performance contracts for up to five years, and that a pattern had emerged. One problem was the change of scale. Previous contracts, particularly those used by the large line organizations, had reflected the performance of the unit more than the contribution of the senior manager. The results were often an aggregate of lower level measures and represented the contribution of various levels of management. Also, the contract's language was a carry-over from the former corporate management system, which, though very thorough, had tended to adopt a polysyllabic approach to communication. The experience with the language of the previous system had not been positive, but through usage it had, like the language of law, attained a common understanding through precedent. Therefore, a statement beginning "that the key effectiveness area

for cost is the extent to which designated corporate supplies and services are provided at the least long term total cost" was quickly translated to "don't just buy things because they are cheap". So, to ask for the information to be supplied in simple terms was not an easy task. In developing the contracts for the support staff however, the pattern was not as well established and a change in the words to be used was more easily accomplished. This was reflected in the Health and Safety contract where a need to be consistent with the application of continuous improvement was identified.

Within the corporation, a pay-for-performance scheme, using a performance appraisal system, was in place. This appraisal system was designed to reward ongoing performance based on a scale from 85% of standard, to 115% of standard. This meant that in a job of the same pay rate, an experienced, exceptional performer could be earning 30% more in terms of average pay than someone new to the position. In practice, this rarely happened as most units were rather conservative in setting the percentages and employees' ratings tended to straddle the midpoint. In comparing the current performance appraisal programme with the concepts of continuous improvement, a number of differences emerged.

#### Performance Appraisal

- The approach was people-focused.
- Appraisal is based on the individual.
- Appraisal tends to be subjective, based on opinion.

#### Continuous Improvement

- CIP is process-focused.
- CIP is based on the group.
- CIP tends to be objective, based on data.

Therefore, if a contract was to be developed based on CIP, a considerable change in focus would be required. The best way to accomplish this was to use CIP to develop the measures.

### The Measuring Process

The following figure outlines the CIP Process.

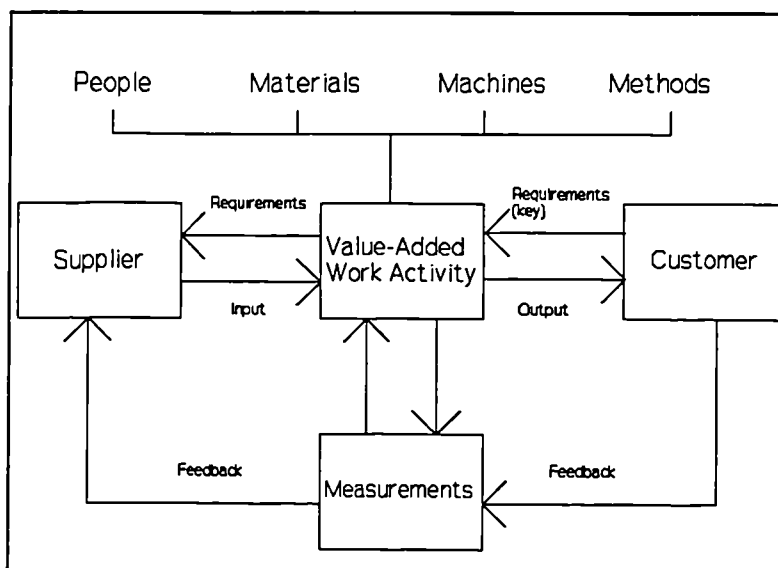


Figure 9.18

The key requirement was to establish "customer" requirements.

### Customers

Performance measurement for the organization had three major customers. The clients or "the view from outside looking in" had most of their needs met by standard measures of performance that were reported in documents such as the annual reports. The "inside looking out view" of management was usually the traditional cost

accounting measures that tended to reflect an internal corporate perspective. The appraisal process was used to try and address the employee focus.

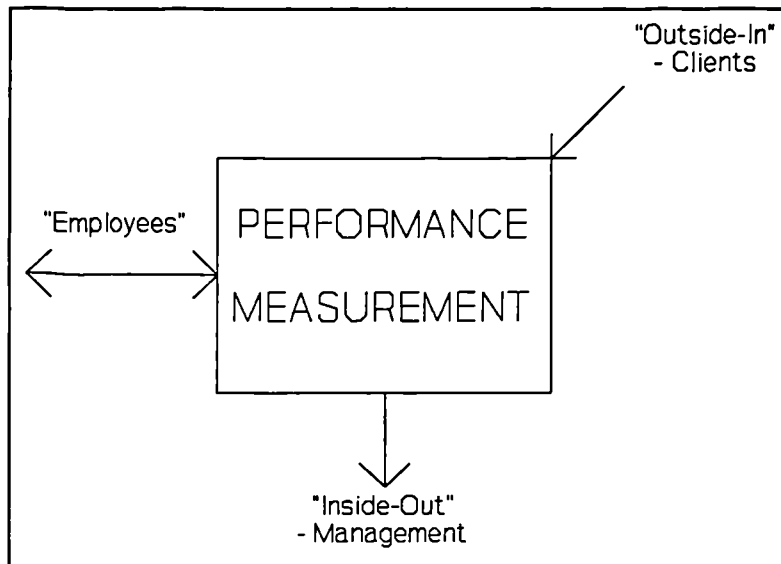


Figure 9.19

### Corporate Measures

The key components identified by corporate customers were, product (reliability, quality, price), service (personal service, responsiveness, demand management effectiveness), the environment (issue management, environmental position, sensitivity to communities) and corporate management (shareholder expectations, public health and safety). External or customer measures could be calculated from these components.

### Local Measures

As a provider of an internal service, the Supply and Services Branch used a slightly different CIP schematic:

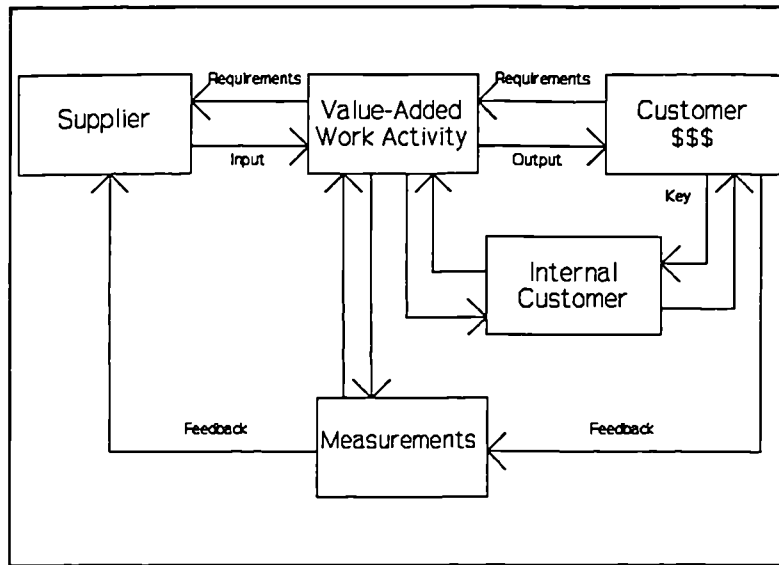


Figure 9.20

The key to the success of the activities is the way in which the internal customer (client) links with the external.

To get some evidence about customer expectations, the customer or client had to be examined or consulted. From this data, effective performance measures could be developed.

### AN EXECUTIVE-LEVEL PERFORMANCE CONTRACT

In developing a contract for an executive-level position, in this case that of a vice-president, the problem was that the contribution of the individual blends somewhat with that of the organization. Whereas at lower levels, the outputs of



specific tasks can be measured or evaluated, the value of the cognitive work at this level is often much more difficult to measure. In the case being studied, the process used was placed on an equal footing with the more common results approach.

The six questions adopted as part of the Florida Power and Light model were used. To recap, these were; what is the job of Supply and Services, what are the six most important things, how do you measure them, what are the goals for them, what happens if the goals are not being met and what will be done when the goals are met? By adding the question, "What is my job as VP of Supply and Services?" to her contract, the vice-president noted the two facets of her job, the personal and the business accountabilities. In this way, the individual contribution could be highlighted. The job was described as:

*Participate in the development of the Corporation's strategic direction and establishment of corporate goals.*

This is a statement that recognized the corporate officer element of the position and was broken down into its key elements.

*Leadership of the Branch that includes:*

The word leadership is key to this part of the contract.

*- Ensuring the direction and goals for the branch are consistent with the corporate goals.*

The corporate officer role applied.

*- Providing the right resources for Branch employees to meet goals. This includes adequate time and training.*

This is an interesting view that reflected concerns raised by staff.

*- Providing a working environment that fosters a willingness to continuously improve business processes so that our time and money are not wasted and our clients' needs are met.*

The major thrust of the changes planned by the vice-president in her new position focused very much on the use of the Continuous Improvement Process (CIP) to change the operating culture of the Branch.

*What is the job of Supply and Services?*

The functional part of the job required more emphasis on results. However, it was also important to retain a process approach in the accountability statement.

*- To ensure that the Corporation's employees are supplied with the material, land, fuel and information they need to do their business.*

This captured the essential external services focus of the Branch.

*- To provide a safe and secure workplace environment that maximizes the potential for employee productivity.*

Most businesses have to provide such an environment for their own staff. In this case, the Branch had to supply a positive work environment for their staff but also as the corporate "landlord" to ensure that the proper services and workplace support were in place across the corporate head office holdings.

To provide these services and work environment, the branch performed five main functions. These were outlined in the contract as:

*Supply provides material, purchased services, investment recovery and meter & relay repair services.*

*Fuels provides fuel for both nuclear and fossil generating facilities.*

*Real Estate provides real estate and real estate services.*

*Information Services provides information and information technology, systems and processing to the workplace.*

*Workplace Services provides services that affect a Head Office employee's place of work including safety and security; some services are also offered to other Ontario Hydro sites.*

These line functions (businesses in the language of the contract) were supported by the staff functions of Comptrollership and Human Resources.

From an operational viewpoint, the accountabilities were useful but the most important aspect was the measures to be used. In discussions with senior staff affected by this contract, the accountabilities were never mentioned. The measures were the sole item raised. This illustrates the perspective of those in the workplace. The strategic statements were important and aided tremendously in establishing the goals and direction for the functions but when measures are introduced, and they (the managers) are "to be hanged in a fortnight" (Johnson, 1777) this brings a certain focus to the work.

The measures adopted by the vice-president displayed an external perspective which addressed both strategic and tactical issues.

*What are the six most important things?*

*Client Service*

- *We will be timely and responsive to our clients needs;*
- *We will communicate accurate and current information on options available to meet client needs and on status of requests.*

In the current business environment, nearly every organization portrays customer satisfaction as its number one priority. This viewpoint was reflected in the first measure. However, there were some subtle differences. The use of the word client, rather than customer, recognized that the internal "customer" (client) was the priority. Service to the client had two facets. Being timely and responsive was the more usual of the two. Information (in the original meaning of the word before it was commandeered by the computer aficionados) was to be used to develop options for client needs, an integral part of establishing a contract for performance. The goal was not to just meet client needs, a one-way exercise, but to negotiate options based on their needs.

Interestingly, the "long term goals" had been integrated into the performance measure section. This followed the logic that if the measures were to be used to satisfy the "*six most important things*," then the long term goals should follow the same pattern.

For "client service" the long term goal was:

- *To improve turnaround times by 15% for both goods and requests for information;*
- and,*
- *to increase client productivity through availability of services.*

Both goals focused on client needs, but in a pragmatic manner, that was to meet an increase in service levels that could lead to increased client productivity.

### *Reliability*

*- We will deliver the right thing, on time, to the right place.*

As noted earlier, the delivery of products and services had traditionally caused problems. Two out of the three, usually the right things to the right place, had been performed relatively consistently but three out of three was not common.

The long term goal was:

*- To improve by 15%.*

This was a bold ambition that raised some concerns. To increase the level of service by 15% could be accomplished in some areas by short-term productivity initiatives, but in others it could require a change in corporate culture.

### *Value-Added*

*- We will ensure our clients receive the best possible price for goods and services acquired while meeting their requirements.*

Of all the concepts being emphasized, including client services, the one having *the most impact was value-added*. The idea was to go beyond the standard approaches and to use a phrase coined in the quality field: "delight the customer".

Prices better than or equal to plan price was the long-term goal. This was rather anticlimactic considering the measure but pragmatic all the same.

### *Productivity*

- *We will eliminate the things that waste time and money so that the cost of our services improves with time and is better than the competition.*

This was a more introverted measure than the previous ones. The focus was on improving the way in which things were done with an eye on the competition.

The long-term goal continues with the target of:

- *Costs of services to be less than market by 10%.*

The feeling was that without a profit factor, services should be cheaper than comparable ones provided by the private sector. This was a brave assumption for a public body.

### *Safety*

- *We provide the right training and work processes so that our incident frequency is improved annually.*

The use of accident levels as a barometer of safety is criticized in some areas. However, as a way of measuring things that are important, the injury rate is real. The potential for misinterpretation is also high but using only lost time injuries allow a certain degree of control.

The long term goal was basically a quantification of the measure:

- *Lost time incident frequency reduced by 50% over 5 years.*

This goal was extracted from the contracts developed for senior staff as the result of a safety strategy report.

### *Resource Management*

- *We will operate in an ethical and businesslike manner that will result in few complaints and no valid complaints from property owners or vendors.*

This was a strong external measure, aiming to capture comments from contacts beyond the normal client base. The use of complaints as a measure of resource management raised a few queries but was accepted as the best available.

- *We will manage our assets so that investment matches risk.*

To quantify these measures as part of the long-term goal was a challenging task. The use of complaints caused some discussion with much of the concern focused on what constituted a valid complaint.

### *Goals:*

- *10% reduction in complaints from those outside Hydro;*
- *0 valid complaints; and,*
- *materials management delivers \$100 million in corporate savings by 19--.*

As laudable as these goals were, they demonstrate the difficulties in linking the goals and measures back to the "six most important things".

The next major question in the contract was:

- *What happens if the goals are not being achieved?*

This was a question that sometimes got lost in the old performance system. If a goal was not achieved often the goal or the measure or sometimes both were changed rather than resolved.

With this contract the answer was:

- *using the techniques of continuous improvement, we will analyze the business processes involved in meeting the goal, find root causes for the problems and fix them (forever). We will be persistent.*

The use of the Continuous Improvement Process had just been introduced and was the logic behind the whole contract in practice. The phrasing "we will be persistent" is one that is consistent with CIP.

The closing question was:

- *What happens when we do achieve our goals?*

The answer was:

- *We will select the next six most important things, or set tougher targets for the six already in place.*

These were good answers to a question that tends not to get the consideration it deserves. The closing statement to this question is perhaps the most interesting and one that presents a different view of business.

- *We will congratulate ourselves and celebrate our success.*

This was a very positive, though, unfortunately, not very common approach, to the completion of a business project.

### A MANAGER'S PERFORMANCE CONTRACT

To analyse the evolution of the contract process and to evaluate the impact of the changes in format and philosophy, a specific position was selected and a



comparison made of the two contract approaches. The position selected was that of the branch health & safety co-ordinator. The reasons for selecting this position were that it answered to the branch vice-president and used a similar contract form. There was a recent contract using the standard format that had been used for a performance appraisal. There was a contract using the new format that had also been used as a basis for a performance appraisal.

To compare the two contracts directly was rather awkward as the sequence was somewhat different and the objectives and philosophy in place were at different points in the evolution of the function. However, they were broadly comparable in scope and the same incumbent was in place for both contracts. To provide an insight into the evolution of the process, both contracts were analysed in parallel with comments added to expand the material and observe the changes as the contract evolved.

*PERFORMANCE CONTRACT SAFETY  
PROGRAM(ME)*

*PERFORMANCE CONTRACT SAFETY  
CO-ORDINATION*

The job had been created to develop a safety strategy programme. The initial work concentrated on rebuilding a neglected function. The co-ordination of work was based on a health and safety strategy developed as part of the corporate safety agenda.

*1.0 DELIVERED PRODUCT*

*THE JOB*

*A health & safety process for  
Supply & Services Branch.*

*Co-ordinate the provision of a healthy  
safe work environment.*

How

*Display a commitment to safety.  
Get involved in branch health and safety.*

The scale at this point in the contract is different as one (the safety programme) is focused on product (and support accountabilities are part of the job description) and the "safety coordination" uses a more colloquial approach. However, they both cover the same area of responsibility.

Six Most Important Things*CLIENT SATISFACTION*Measure

*A process that meets the needs of management employees and safety staff in Supply & Services.*

Measure

*To provide program(me)s and services that exceed employee and management expectations.*

Both measures spring from the same root, the definition of quality as used in the quality management world. However, the "co-ordination" contract adopts the more challenging view of not just meeting the needs of clients, but exceeding them. This was perhaps a symbol of the impact of the quality presence or perhaps just aiming a little higher.

2.0 *SPECIFIC PRODUCT**RELIABILITY*

2.1 *To develop a program(me) for an increased safety "culture" in Supply & Services Branch.*

Measure

*Development of a program(me) that integrates safety into all Supply & Services products/services.*

Measure

*To provide services and information that meet client needs.*

*Health and Safety Action Plan delivered on time to stakeholders.*

The measures, though at different points in time, reflect a common concern for both process and results.

## ADDED-VALUE

2.2 *Create an awareness of dealing with hazardous materials.*

*Services must show benefit to clients.*

Measure

*Implement complete WHMIS Program(me).*

Measure

*WHMIS Program(me) integrated into business structure.*

The WHMIS Programme was a constant through the period and the measures are similar, though at different parts of the programme's evolution.

2.3 *Increased awareness of health issues in Supply & Services Branch.*

Measure

*A program(me) that meets the health needs of Supply & Services staff.*

Measure

*Communications initiatives to monitor health and safety bills and accident reports.*

Interestingly, the earlier contract reflects a stronger image than the initiatives explored in the later contract.

3.0 *MANAGEMENT PRODUCT*

*An effective reporting system in place.*

*Measure*

*A reporting system that meets the needs of the VP - Supply & Services. "NO SURPRISES".*

*ASSET MANAGEMENT*

*Level of services meets demand.*

*Measure*

*Branch Health and Safety coordinated with Corporate Health and Safety.*

*Safety*

*Measure of 0 lost time injuries and an improvement in incident frequency.*

The addition of this measure indicated a re-examination of the results emanating from the processes which had been developed. The introduction of a results-based measure is indicative of a change in the approach to measuring the role of the safety position.

4.0 *PERSONAL CONTRIBUTION*

*Establish a reputation for credibility in safety planning.*

*Measure*

*Work with peers and superiors to develop safety program(me)s and practices.*

*PRODUCTIVITY*

*Measure*

*Reduction of \$#M of cost of safety over # years.*

This was the only real diversion in approach in the contracts. Whereas the earlier contract concentrated on a personal input the later contract is a "bottom-line" measure. This change in approach is interesting in that one of the goals of the new contract concerned relevance and scope. By using a productivity measure, it brought

the Health and Safety Function into the mainstream of business. By dropping the personal contribution factor, it removed some of its human face.

## CONCLUSIONS

A number of issues were considered in this chapter by examining several experiences with and reactions to contracts. Included were a survey of managers, a case study on users, a pilot project and two examples of actual use case studies.

The discussion of the survey findings indicated a number of points to be considered. By asking each manager to respond to questions from the perspective of an employee and from that of a supervisor, some interesting answers followed. In the roles of employees, the managers' use of performance contracts was high. It was used to evaluate performance, for merit pay ratings, and to establish priorities. Contracts were not used as extensively for career planning. The level of inclusion of the employees' tasks or objectives in their supervisors' contract was quite high. The impact of the employees' contract on their supervisors' perceptions of their performance was very high. The effect on their own performance was also very high. However, the contract could be improved. Objectives, it was felt, could be more clearly defined if more consideration could be given to where the individual fitted into the organization. It was felt that the reviews of the contracts could usefully be more frequent and more flexible. As employees, the managers felt that their objectives should be the basis for contracts and linked to performance pay.

In their capacities as supervisors, the respondents indicated an openness to share the contents of their contracts with their employees. However, more managers than staff had contracts. The contract was used to evaluate performance and to establish merit pay. Its use for planning work and priorities was not as high, but still widely used. Performance appraisals were still used quite extensively but their application was inconsistent.

For evaluating performance, the respondents displayed a distinct preference for the contract process over the appraisal. Planning work and priorities also appeared to be better addressed by the contract. However, both the contract and the appraisal system did not appear to address planning effectively. The respondents felt that the presence of tasks and objectives in the contracts of their staff demonstrated an aggregating of tasks within the organization. That the contract was important in evaluating performance was significant; the high level of responses would appear to make it very significant. The appraisal process was also rated well, but not as strongly as the contract.

In comparing the two methods, the contract and the appraisal had similar levels of "moderate" effectiveness. However, the contract had a few "high" ratings while the appraisal had a few "low". The respondents appeared to believe that the contract had a very positive effect on staff performance. After comparing the contract and the appraisal the interesting part was that, while both were relatively effective, the contract also had a very effective element. From the supervisory viewpoint, the contract could be improved by allowing for an individual focus; an increase in business-based

objectives; and a link to merit pay. The customer view was also noted in a few responses.

In comparing the responses from the two views, that is the manager as an employee and as a supervisor, little variance was noted. Therefore, while the performance contract had some room for improvement according to the respondents, they also felt that it was superior to the standard appraisal system and that it was effective in measuring performance from both their viewpoints as employees and as supervisors.

In the case study, A Users' View of Performance Contracts, the five participants responded positively to the questions about whether the contract reflected actual performance and whether it did it better than other forms of performance evaluation. The key response concerned the lack of tension associated with the performance contract review. Both sides knew the results and the performance contract discussion was a review of actual work results not opinion or as expressed in the interviews, a "witch-hunt", a "voyage of discovery", or "turning over rocks to see what is under them". This lack of tension or apprehension was cited by all five participants as the major improvement over the other forms of performance evaluation. They also noted, the confidence with which tasks could be undertaken knowing that they were in the contract and that both the supervisor and the staff member knew their priority.

A criticism of the contract was the difficulty in capturing work defined as advice and guidance. Most of those interviewed were experienced staff who often

acted as sources of information for other employees. The time spent on this type of work could be significant but it was difficult to quantify and to display within the contract format. A concern was that performance would be measured against some outside source rather than that of the employee displaying their potential (Flynn, 1990).

The key element, however, was to "reflect actual performance" and display in one place the amount of work done by the employee. With some types of performance appraisals it was felt that the results of work performed early in the period being measured could lose impact as it faded from memory or was overtaken by more current activities. By using the contract process, the full twelve months received review and recognition. With these perspectives to the fore, all five participants felt that the performance contract process reflected their actual performance and that it was superior to the standard form of appraisal. Although the number of staff interviewed is low, and their backgrounds not dissimilar, the purpose of the interviews was to supplement the data gathered in the survey of the ninety managers and to add a little depth to the findings. Thus, the main purpose of the interviews was to test the survey data.

In gathering the information examined in this chapter, a number of contracts were studied. The pilot programme which focused on the purposes of contracts, identified issues that could provide guidance for their broader use. The quality of work(ing) life initiatives, while interesting, would appear to require more of a business focus if they are to become a factor in the performance measurement field. The quality management work undertaken in some companies would appear to be a vehicle



for helping in this process. The use of performance contracts by senior staff in Ontario Hydro appears to have combined some of these features. In analysing the contracts' content and structure, one can note their underlying consistency. Both the Executive Level Performance Contract and the detailed analysis of the two performance contracts for Health and Safety would appear to support this observation. The analysis appears to bolster the contention that if objectives are used as a base, the content of the contracts will follow a similar pattern. The structure, however, may be varied to allow for an increased degree of ease of use. For businesses where the use of contracts is new, a contract that uses a formal or structured approach may allow the content to be more systematic. As the contract becomes more integrated, the methods may be adjusted to reflect local conditions.

The use of the various business tools in this chapter reinforced some of the conclusions reached in the earlier ones and provided support for the objectives outlined in Chapter One.

## Chapter Ten

### **SUMMARY AND DISCUSSION**

The purpose of this chapter is to review the findings from the previous chapters and their relevance to the study. The main sections include a summary of the findings and a discussion on the main issues.

#### INTRODUCTION

Insight was gained into the use of performance measures in the services and government sectors in Chapters One and Two. In Chapter Three, performance appraisals and performance contracts were analysed. Then in Chapter Four, various types of management systems were considered. The worker perspective on performance was emphasized and quality management was reviewed to help generate a reasonably definitive view of measurement. The depiction of Ontario Hydro in Chapter Five completed the background to the research.

The data were obtained by using questionnaires, interviews, observation, workshops and case studies as outlined in Chapter Six. These methods provided the foundation for the projects undertaken in Chapter Seven which provided sources of more data. The analysis of the performance contracts in Chapter Eight provided a view of a large corporation and the methods used in it to measure individual performance. Analysis of the data in Chapter Nine helped to generate a detailed view of contracts and their use by senior managers in a large electrical utility.

## SUMMARY OF THE FINDINGS

One of the main objectives of this study has been to examine the use of performance contracts and quality management in a large publicly owned electrical utility in Canada. The thesis was organized into two main sections. The first addressed the general nature of performance measures, particularly in services and government. The second examined their use in Ontario Hydro.

The discussion of the issues raised by McGregor (1957) and other writers which were considered in Chapter One indicated that research would be useful for considering the status of performance appraisal and contracts particularly in a 1990s quality management environment. In Chapter Two, the review of key and emerging issues in performance measurement drew on a search of academic and business writings. The use of performance measurement in government and other services was emphasised. The impact of performance measures, customer viewpoints and of automation was reviewed from the perspectives of both employees and managers. The need to consider the viewpoints of those whose performance was being measured were also included as was the use of qualitative measures and quality management.

The types of measures used in the government and services seemed to vary. However, a few patterns could be identified by reviewing how some of them were used. The most interesting of these was that though the use of individual measures, or even a collection of measures, may be useful as indicators of performance, there appeared to be little confidence amongst their users that they would be a reliable way of actually measuring it. While the use of performance contracts may address some of these issues by using goals and objectives, more experience appears to be needed

before they can be adopted fully. A change in emphasis may be the adoption of important issues even if they are more difficult to measure rather than those that are easy to quantify but often less critical to the success of the enterprise. For example, and as was noted in Chapter One, the time taken and the timing of actions or products may become an even more important performance measure.

The transfer of performance measures from manufacturing and other similar "industrial" sectors to those of government and other services has not yet reached a stage where definitive measures are consistently in place. Although a number of measures and systems of measures have been proposed, there is little evidence of their long-term adoption. The cultures of organizations and the timing of any changes may be issues that have to be considered. Involvement of employees may help to bridge the gap which often exists between identifying good performance and being able to document it. There appears to be some evidence that performance measurement, while not needing all the trappings of the quality movement, may benefit from adopting some of its principles.

Various forms of performance measurement were identified for further study in Chapter Two. Some of these were examined in Chapter Three. The main focus was on performance appraisals and their use in business. The behavioural features of appraisal, where individuals rather than their performance were evaluated, were assessed. Performance appraisals were examined to establish whether the ways in which they were used affected the results generated. Performance contracts were examined as to their potential as agreements between employees and their supervisors.

Emphasis was placed on the examination of measures from the perspectives of the measurers and from those of the measured. While the volume of literature on performance appraisal was considerable, there was a lack of well supported literature on performance contracts and the perspectives of the people being measured. Because of this, the search for reference material was broadened. Much of what was found was in business journals. Although the quality of the evidence may have been lower than that discussed in the academic literature, this did none the less tend to mean that the writers had actually either participated in or observed the use of performance contracts or similar documents.

Chapter Three was concerned with the use of performance appraisals and contracts. When appraisals have been used as evaluation tools, managers have appeared to have concentrated on individual behaviour rather than work performance and this has raised some questions about their effectiveness. Further, the methods used in appraisals appeared to be almost as important as the appraisals themselves. This may indicate a need to involve employees in developing performance appraisals and their rewards. The use of contracts appears to address parts of this issue, though it may require some form of objective-setting. Objective-setting in services has presented some difficulties, for example in some cases the intangibility of the product, which may undermine some of the benefits to be expected from the use of contracts.

In Chapter Four, the relevance of a selection of management techniques, systems and concerns were analysed. They included Quality Circles, Just-in-Time Delivery, Project Management and the Quality of Work(ing) Life. Their relationship

with the technical and behavioural aspects of business were discussed. This analysis of management systems and employee focus led to a review of quality management. The origins of the quality movement in Japan and of its introduction into Western business were noted. Quality management and performance measurement were discussed with particular emphasis on their use in services.

The review of the literature on performance measurement in Chapter Two and its uses in Chapter Three suggested ways in which the work culture can affect performance measurement and that employee involvement may be significant. In Chapter Four, analysis of a number of management systems and techniques was used to explore some technical aspects of these questions. The combination of technical and business issues led to an examination of the management of quality, its evolution and its potential impact on business operations. Particular consideration was given to the effect of quality management in services and utilities. The focus on the customer and on the empowerment of employees in the quality management literature, which were considered in this chapter, generated further ideas on the effects of corporate culture or environment on the use of performance appraisals and contracts.

In Chapter Five the history, organization and environment of Ontario Hydro were reviewed. The examination of its Corporate Direction document provided some knowledge of the corporation's primary goals. The account of the objectives and measures showed the ways in which the goals could be achieved. The study by the consulting company provided insights both into the organization and into the processes used by the consultants. By focusing on productivity in the corporation and on its

attempts at corporate reorganization, knowledge was gained not only of the use of performance measures but also of the ways in which measurement can evolve. It can be difficult to change the culture of a large corporation and the work done by the outside consultants provided valuable data on how performance measurement fitted into the operation of Ontario Hydro. It showed how objectives, culture and measurement are interrelated.

The literature review and the discussion of issues in the earlier chapters indicated a number of particular foci for research into the effects of performance contracts on performance. The methods used to plan this work were developed in Chapter Six. It appeared that the process of objective-setting, whether by using a formal management by objectives programme, an informal objectives exercise or something in between would be one element worth testing. The use of teams and the individuals involved in the processes were also considered. The research methods included a set of instruments, which would address objectives, teamwork, customers and the individuals whose work was being measured. A review of some of the literature on information-gathering identified a range of opinions. Interestingly, the more recent literature recommended methods which were quite similar to those suggested in the 1950s and 1960s. The amount of detail had increased somewhat but the basic premises were similar.

The instruments that were selected included a questionnaire, for gathering information on appraisals and contracts from an individual standpoint; a case study, for providing details of Ontario Hydro's performance measures; and workshops, for

examining objective-setting in groups. Supplementary case studies and business projects were used to test some of the methods selected.

In compiling the material studied in Chapter Seven, a consideration was how it was to be used. It was decided to examine them in a business setting as the methods being examined included objectives, performance measures, and the environment in which they were used. As noted in Chapter Six, the use of observation and questionnaires was complementary and, in fact, a set of measures using both techniques was the preferred approach (Sieber, 1973). Workshops were used to examine the development of objectives in groups. Two projects were used to evaluate the use of the objectives in a business project, and productivity indicators were examined to evaluate their potential to augment the use of objectives. An examination of performance appraisals was undertaken to provide background on the use of appraisals in services. The case studies also provided insights into the theories being examined from the perspectives of the people who use them.

Objective-setting in a workshop can be frustrating and challenging, but it can also be stimulating and satisfying. It can indicate the directions by which goals can be reached as well as their specifications. The breadth of views and ideas expressed in the workshops suggested that, while objective-setting by groups may be difficult, the results are more likely to be acceptable than those developed in isolation. The workshops appeared to provide a broader perspective than observation or questionnaires. They encouraged discussion and a level of detail not as accessible in a questionnaire. The workshops also allowed shared experiences to be more fully



developed than would be possible only by observation. It would appear from the workshops that an objectives-based set of performance measures had potential for acceptance by the participating group.

The use of objectives and sub-objectives in the pilot projects provided guidelines for the projects. They kept the team on track, and by acting as a target they gave a sense of direction, and when they were completed, that of accomplishment. In testing methods, it is important to reduce, as much as possible, outside influences that may bias the results. The isolated character of these projects tended to provide a "laboratory" kind of control. Though not defined as such at the start of the projects, the objectives became the basis for "contracts" between supervisors and their staff, between team members, and with the client and suppliers.

As performance measurement tools, productivity indicators can act as flags for senior management, allowing them to focus only on variations in product or service delivery. As supplements to the performance contracts, the productivity indicators provided a broader focus than the individual performance measures, and acted as a surrogate for a bottom line.

All the staff interviewed expressed dissatisfaction with the standard performance appraisal form. They felt that, while the categories were useful for identifying issues, they did not capture their contributions to the effectiveness of their business units. It was obvious from the interview comments, that the performance appraisal form was not thought to be effective for the evaluation of performance. The section head conducting the appraisal interviews shared these concerns.

In recent years, a number of the actions more usually associated with the "profit" sector of businesses have been used in "not for profit" government or voluntary service activities. One of these is the measurement of performance. In Chapter Eight, this phenomenon was examined in Ontario Hydro. As noted in Chapter Five, the nature of Ontario Hydro as an organization providing services comparable to private industry but under the direction of its provincial government, provided an opportunity to examine both public and private sector issues. In particular, the effect of performance contracts on performance was studied.

The performance contract process within Ontario Hydro was examined in detail, with observations being made on all sections of and measurement in each contract. The analysis provided detailed insights into the workings of management and performance measurement in a large government corporation. Most of the analysis was on contracts for cognitive rather than manual work. This reflected the nature of a significant part of government work and provided information on a subject that has not been analysed as extensively as production. These included the study of performance contracts, users' views of these contracts, and an analysis of a pilot study of a new contract process. In studying this material, considerable emphasis was placed on the employees' perceptions of performance evaluation and of its use.

In analysing performance measurement in a company the size of Ontario Hydro, sampling of a cross-section was necessary to have a manageable and useful information base. The amount of data generated was considerable and at times this made it difficult to see the total picture. However, the apparent consistency of

information flow, the apparent lack of information gaps, and a scarcity of dead ends would appear to support the validity of the conclusions. The closeness of the researcher to the material provided access but this factor needs to be tempered with an awareness of the potential for the intrusion of preconceived opinions.

When the material was reviewed as a sequential pattern, linkages appeared that were not obvious when it had been displayed in its original form. The information was collected from a broad range of places, people and at different times. It often required considerable sorting and analysis to reach the form presented here. Considering its consistency, depth and breadth observations derived from the data would appear to have some substance. The primary message or objectives had a potential to become distorted when moving through an organization of this size and layers of hierarchy. However, in this case it would appear that the corporate goals migrate through the various levels of the organization relatively intact and reflect a common focus at each step of performance management. For example, the striving for excellence that originated at the corporate mission and values level appears in spirit at the management services officer contract five levels below. The emphasis on the product (at the top level, electricity) can be followed through the structure becoming narrower in scope, but displaying its lineage. "Awareness and responsiveness to customer expectations" can be found at each level of contract. Sustaining "effective working relationships" with peers and superiors is present at each level and "operat(ing) in a socially responsible manner" is in the personal contribution area of most contracts. It would appear that, in this case, the use of contracts demonstrated a

series of objectives and that a hierarchy of objectives existed. What was also significant is the low incidence of "rogue" measures. Except for one management level position, where a personal interpretation of some divisional goals was in error, the absence of variation in goals and objectives is notable. Of course, this lack of variation may be seen as evidence of a lack of initiative, but in a large organization flexibility is perhaps best exercised within established parameters.

In reviewing the measures, it was also apparent that the traditional view of "big business" as being only concerned with costs and public appearances in its performance evaluations is somewhat dispelled (Jackall, 1988). While recognizing that the profit motive was not present in this organization, it was interesting to note the comprehensiveness of the measures both from an operating and human perspective. This is particularly important when it is realized that these are actual working documents and not ones edited for public consumption or part of a marketing or advertising programme.

As noted earlier, the perspective of the employees whose performance was being evaluated has been emphasized in the study being reported here. In Chapter Nine, a number of the theories developed earlier were examined from the viewpoints of employees. In reviewing the use of performance contracts, three methods were adopted. First, a questionnaire was administered to establish the use of performance contracts and opinions about its effectiveness. Users of contracts were then interviewed to establish their use of performance contracts and appraisals and their opinions about them. Finally, a case study was used to examine the design of a

performance contract being tested in a section of Ontario Hydro. The analysis of the findings indicated that a number of points should be considered. Some interesting answers followed by asking each manager to respond to the questions from two perspectives, that of an employee and that of a supervisor. When responding as "employees", the managers rated the use of performance contracts as high. The contracts were used to evaluate performance, for merit pay ratings and to establish priorities, but they were not used extensively for career planning.

The level of inclusion of the managers' (employees') tasks, and/or objectives, in their supervisors' contracts was quite high. They reported that the impact of their contracts on their supervisors' perception of their performance was very high. They also said that the effect on their own performance was also very high. However, they felt that the contract could be improved. For example, by indicating where individuals fitted into the organization their objectives could be more clearly defined. They also argued that the reviews of the contracts could be more frequent and more flexible and that objectives should be the basis for the contract and linked to performance pay.

In their capacities as "supervisors", the managers indicated a readiness to share the contents of their contracts with their subordinates. However, more supervisors than subordinates had contracts. Contracts were used to evaluate performance and to establish merit pay. Their use in planning work and setting priorities was not as high but they were still used widely. Performance appraisals were also still used quite extensively but their application was not consistent.

For evaluating performance, the respondents displayed a distinct preference for contracts compared with appraisals. Planning of work and priorities appeared to be better addressed by contracts. However, neither contracts nor appraisals appeared to address planning effectively. The presence of tasks and objectives in the contracts of their staff suggested an aggregating of tasks. That contracts were important in evaluating performance, was significant. The two methods, contracts and appraisals, had similarly moderate levels of effectiveness. However, the contract had a few high ratings while the appraisal had a few low ones. From the supervisory viewpoint, the contract could be improved by allowing for an individual focus, an increase in business-based objectives and a link to merit pay.

In comparing the two views, that is from managers as "employees" and as "supervisors", little variation was noted. Therefore, while the performance contract has some room for improvement, it would appear to be superior to the standard appraisal system and could be effective in measuring performance from both the employee and supervisory viewpoints.

The five participants in the case study "A Users' View of Performance Contracts" felt that contracts measured performance better than other forms of performance evaluation. A key point was the lack of tension associated with the performance contract review. Both sides knew the results and the performance contract discussion was a review of actual work results not of subjective interpretations. This lack of tension or apprehension was cited by all five participants as the major improvement over the other forms of performance evaluation. Also noted

was the confidence with which tasks could be undertaken knowing that they were in the contract and both the supervisor and the staff member knew their priority.

The difficulty in capturing work defined as advice and guidance was a criticism of the contract. Most of those interviewed were experienced staff who often acted as sources of information for other employees. The time spent on this type of work could be significant, but it was difficult to quantify and to display within the contract format. The key element, however, was the "reflect(ion) of actual performance". It was easy to display, in one place, the amount of work done by the individual. It was felt that in some types of performance appraisal, work performed early in the period being measured could lose impact as it faded from memory and was overtaken by more current activities. By using the contract process, the full twelve months received perusal and recognition. With these points to the fore, all five participants felt that the performance contract process reflected their actual performance and that it was superior to the standard form of appraisal.

A number of different contracts were reviewed when obtaining the data for this Chapter. For example the pilot programme, looking at the purposes of a contract, identified issues that might provide guidance for their broader use. Quality of working life initiatives, while interesting, would appear to require more of a business focus if they are to become useful for performance measurement. The quality management work undertaken in some companies would appear to be a vehicle for helping in this process. The use of performance contracts by senior staff in Ontario Hydro appears to have combined some of these features. In analysing the content and design of the

contracts, one can note their underlying consistency of approach. The analysis of the executive-level performance contract and the comparisons of the two performance contracts for health and safety would appear to support this observation. The analysis appears to bolster the contention that if an objectives base is used the content of the contracts will follow a similar pattern. Their design may, however, be varied to allow for an increased degree of ease of use. However, in businesses where the use of contracts is new, a formal or structured approach may allow the content to be more consistent. As the contract becomes more integrated, the format may be adjusted to reflect local conditions.

The conclusions which follow from this study appear to have generated a number of theories and concepts that can address some performance measurement problems. One, especially, is that the methods used in measuring seem to be as important as the measures themselves. The conclusions also touch on the impact of quality management and its use in measurement. An issue in the change process might be the top-down versus the bottom-up approach, which may provide some direction for the combination of implementing and maintaining an organizational change.

#### THE MAIN ISSUES ARISING FROM THE FINDINGS

The main aim of the thesis was to examine contracts and conclude whether their effectiveness could be improved. However, in reviewing the literature, it became apparent that, while a spectrum of opinion existed, few areas displayed consensus. In



examining performance measures, it was noted that a great deal of work had been published which addressed the behavioural aspects of measurement. The expectation had been one of a preponderance of financial or other largely or purely quantitative approaches. However, safety was one measure that appeared in a range of sources. In some cases it was the safety of employees and in others, that of the public. Efforts have been made to quantify its impact and the prior effects on productivity (Pardy, 1990). Safety has also been portrayed as a symbol of good management. While the conventional measures of safety such as those of lost time injuries and fatalities are expected to continue their dominance over other safety measures such as radiation exposure, the difference between them may not be as great.

Many of the relevant writings on performance measures were found in trade publications. In reading this material a thread emerged that was not as obvious in the more academic literature. Usually couched in terms such as "customer satisfaction" or "delighting the customer", the underlying point was that the activities that form the basis of an organization's success must be measured, even if the measures themselves are poor and lack the reliability that one might desire. This thought permeates much of the trade literature without being addressed in detail. The idea was that it may be more beneficial to measure important elements poorly, than less important ones well. This idea, that poor measures can be preferable to good ones, may be hard to adopt in business where hard numbers are preferred, but it is an idea that has significance.

The development of performance measurements may have reached a stage where a shift in focus may be occurring (Eccles, 1991). Traditionally, most measures

of business have had a financial emphasis. The balancing of budgets or making profits have been the most important measures for most businesses. This is understandable as financial measures have a common base (money) and, at least on the surface, allow for comparisons. The financial focus is not only customary within businesses but also externally through the investor market with earnings per share, return on investment (ROI), and stock prices. Financially-based measures have not been as common in government but that may be changing as more private sector financial criteria are adopted by governments.

A change may be occurring where, instead of being the foundation for performance measurement, financial measures will be part of a set of measures. Eccles (1991) argued that this may affect decision-making and strategic planning issues. However, adding new measures to an old accounting-driven system would not accomplish real change. Of course, dissatisfaction with financial measures has been a problem for some time (Follett, 1940). Many companies have adopted broader measures to try to create a better fit with their objectives. The review of the literature in Chapter Two contained some discussion of these concerns. There may be an opportunity to test them with the growing adoption of quality management. Eccles (1991) suggested that the use of measures in quality management programmes could be the most effective way to improve the measurement of business performance. In fact, he suggested that when the traditional measures of quality are in place, customer service will become the measure that drives corporate strategies. A difficulty might arise if quality measures receive the same level of consideration as

financial measures. The cost of financial information gathering and the justification of that cost is entrenched in most large organizations. To parallel the financial infrastructure, at least in the initial stages, will demand major investments of money and time. Similarly, the history of financial data is considered an essential element in measuring, whereas the quality measures emphasize comparability with competitors not the company's past. This "benchmarking" will also constitute an added cost.

The effect of quality management measures on the performance evaluation systems was an important consideration for this study. Managers and staff tend to require considerable evidence that a new approach will add to, or at least not undermine, hard-earned gains. The open-ended characteristics of some quality measures may cause apprehension and the use of customer satisfaction as a performance measure could lead to ambiguity in the workplace. These concerns may support the use of performance contracts where each participant would know the rules by which they are being evaluated. Eccles (1991) suggested that by linking incentives to performance, but with managers free to negotiate the nature of the measures, could create an outline for a contract. Such a process would not just be a new way of measuring performance, but an evolutionary - Eccles says revolutionary - approach could need considerable efforts to be maintained.

Following Eccles' (1991) article, Lockamy and Cox (1991) suggested that cultural concerns and strategic planning, as well as performance measurement, should be included in the process and they argued that this may already be occurring in some companies. Similarly, Gould (1991) suggested that integration of company and

individual performance, could encourage employees to write their own performance plans so that they are consistent with those of their employers.

Although the ways of measuring employee performance are varied, they do tend to follow a similar pattern (see Chapter Four). They are usually based on appraisals where supervisors evaluate the employees' behaviour against rating scales or other forms of internal relativities. However, we saw that very few of the writers of articles reviewed had linked appraisals to changes in performance. One of the more interesting observations was Kerr's (1975) on the difficulty of linking the desired result to rewards. He described it as rewarding the employee for doing *A* while hoping for a change in *B*.

The difficulties inherent in evaluating staff, which sometimes is thought of as "playing God", also appear to be of some concern. In many cases, the evaluators were not trained in evaluation, and reluctant to commit career-limiting observations to paper. Confrontations portrayed in the folklore of management where employees have reacted violently to adverse evaluations, have led to understandable reluctance by supervisors to address major performance issues during appraisals. Even so if formal appraisals were not used, informal ones might spring up to take their place. This would be caused by the desire of employees to know where they stood and their employers' need to identify high and low performers for promotion and pay increases.

The use of performance contracts in the form of agreements on performance rooted in objectives and predictions of results, is not as well established as that of performance appraisals. However, their use appears to be growing. Although the

business writings on performance contracts tend to be anecdotal, the evidence suggested the contract approach may have potential uses. The psychological contract, defined as the sum of all unwritten and unspoken expectations of both employees and employers may be a starting point (Baker, 1985). However, Baker suggests that its breadth can lead to harmful misunderstandings.

The substance of the contract and the process used to develop it also raised some interesting points. The use of results and the difficulties in measuring individual contributions clearly need to be examined in more detail. The contract's content, however, can help to ensure that both the needs of organizations and those of the individuals can be addressed. Drucker (1964) captured some of these conflicts as "Defining a job in terms of skill and work is adequate for people whose contribution is faithful effort. For those who have self-direction, knowledge and excitement, the emphasis has to be on contribution and results".

An important purpose of the contract is to address the customers' as well as the employees' perspectives. Defining the customer is, often, an ambiguous task but it has to be considered. Some direction may be gained by questioning the purpose of the contract, and by asking who is the recipient of the work accomplished. It appears that using objectives may be beneficial, whether in a formal sense in a Management by Objectives (MBO) programme, or as an informal definition of purpose. In developing MBO, Drucker (1954) emphasized the need for mutual agreement on the tasks to be accomplished. Although there are some concerns about the track record of MBO (see Chapter Four) it would appear to address some of the measurement issues.

In reviewing the use of contracts, it became apparent that, while the idea may be sound, its acceptance has not been widespread. An important consideration may be the roles of the employees and the environments in which they work (Deal and Kennedy, 1984). To address some of these issues an eclectic mix of sources and systems was analysed in Chapter Four. A pattern emerged of a number of management systems and techniques being tried and in some cases adopted, but often in a rather piecemeal fashion. Quality Circles, Just-In-Time Delivery and Quality of Work(ing) Life were but a few of the more common ideas or techniques which had been tried. The impact on workers was also examined. The amount of material on this subject was copious and the number of opinions was almost as profuse. They included amongst others the observations of B.F. Skinner, the Hawthorne Studies, Maslow's writings about needs, and Taylor's views on Scientific Management. The business literature, while lacking the reliability of the academic material, included material that ranged from ancient war tactics to science fiction. However, one sub-category was the perspective of the workers presented in their own words. Much of the business literature on workers tends to be anecdotal or based on interviews with the workers with only edited details or excerpts printed. Though some of it can be quite insightful, for example Bennett (1990), it is still the experiences through a filter. Terkel (1974), although a journalist, and even more interestingly Hamper (1991) has captured the emotions of people in their work places as well as their words. The pent-up emotions presented in these books illustrated the desirability of looking carefully at

the nature and context of work before implementing a new system or process. Quality management was one approach that appeared to be relevant.

The quality management field seemed to have taken North America by storm (see Chapter Four). Numerous consulting companies had sprung up to address the needs of companies of all kinds. They have had a number of successes and some notable failures. Part of the problem in the latter cases appeared to be the methods used to introduce the new philosophies and practices inherent in quality management. However, the transfer of a management system from one setting to another requires an analytical approach and awareness of some basic assumptions (Gow, 1987). In a well-established system the defects and flaws may have been worked out and it could present a sophisticated face to its potential users. To transfer such a system to a less experienced organization can be productive, but it can also cause problems for the newer company. For example, in the established company, training and communications may be integrated and transparent to their users, or the transferred programme may be reaching a transition point where fresh ideas are required to ensure its success. The quality movement in North America appeared to be going through such a transition.

The act of transplanting a process or system intact from one culture to another can lead to difficulties in execution as well as form. In building a Chinese Scholar's garden in Vancouver, British Columbia, the designers had difficulties in finding suitable plants of Chinese ancestry in a Western environment. Importing the plants was not practical because of cost and although the correct plants were available locally

they were not mature enough to complement the buildings in the garden. After considerable discussion, the garden designer agreed that what was important was not just the botanical authenticity of the plants, but their character. Rather than planting small "correct" plants, large local trees were used that reflected the wisdom appropriate to a scholar's garden (Keswick et al, 1990). A similar awareness of context is necessary in business (Gow, 1987; Sorge, 1989).

Quality is still a difficult concept for some people to measure. Somewhat ethereal in casual conversation, it has assumed a special meaning in business, where it has been defined as meeting customer expectations. This definition originated in Japan, where it had become a mantra for many business leaders (Caropreso, 1990). It has been hard for many people to adapt to the paradigm shift from quality as a subjective opinion to an objective quantifiable measure. Of course, the paradigm shift had also to take place in Japan, but at a very different stage in that country's evolution. Japan was recovering from the Second World War and its economy was in chaos. To fill this void, new ideas were readily adopted. In more stable times many of them might not have been. Also there was the issue of the receptiveness of the culture to change. Locke (1989) argued that after the war the history and cultural assumptions of nations such as West Germany and France influenced the degree to which management science permeated their educational institutions. Locke maintained that this was much less so in Britain. While some writers maintained that historic cultural differences may allow one system to grow faster in one economy than another, there is evidence that the concepts of quality management are just as valid for Western



businesses as for Eastern businesses. Research in Europe suggested that, while the methods of implementation may vary, the basic elements of the quality movement are "natural" for Europeans (Van't Haaff, 1990).

The measurement of quality, that is meeting customer expectations, was seen in Chapter Four to be evolving in a number of sectors. However, a parallel may have existed between the evolution of product inspection and that of quality processes. Originally, the idea was to inspect each item to make sure that it worked. Of course, in spite of the inspection, perhaps because of it, the item did not always work. Companies started to rethink their methods and one major outcome was quality management. Instead of only inspecting the end-product, quality management focused on the process not just the end results of the work. In this way, the result may be more predictable and variation in product delivery reduced. A similar approach may be emerging in the measurement of individuals. Measures focusing on the end-result can lead to short-term thinking, internal conflicts, fudging of the figures, and blindness to customer concerns (Scholtes, 1988). Performance appraisals with their subjective judgements can lead to avoidance of responsibilities and to actual conflicts in some cases. To ease such situations, the performance contract appeared to have the potential to focus on processes not just results of the work, and to introduce a "win-win" (Fisher and Ury, 1981) attitude to performance evaluation. However, this may only be consistent if conducted in a setting that embraces the tenets of quality management.

The setting in which the most of the present study was conducted, Ontario Hydro, reflected to a great degree a number of the concerns and opportunities present in the broader business community. It was a corporation in transition from a predominantly construct, generate and supply mode, to a service organization responsible for managing both the supply of and demand for its products. It presented an excellent opportunity to examine some of the relevant theories.

The research methods which were used were designed to gather both quantitative and qualitative data. The generation of real-life case studies provided useful insights into the nature of the organization, often from employee viewpoints. The workshops supplied data that were invaluable and showed how the settings in which they were conducted might be important. The most important sources of data were, of course, the interviews and questionnaires completed by the management staff. The findings validated a number of the observations made in the case studies and workshops.

The pilot projects were designed to test some specific ideas in the real world. While the potential for external forces to impinge on the results is much higher than in a laboratory environment, the results are a truer reflection of working within the vagaries of business. They clearly supported the view that having objectives may be useful. Extensive insights into the use of performance appraisal were gained by the use of a case study. Here the unanimity and level of dissatisfaction with what was a well-established performance appraisal process was interesting. It showed from the

perspective of a group of employees who had been evaluated by the process that, in their opinion, the appraisal form was not an effective evaluation of their performance.

The review of the performance contracts spanning four levels of a corporation was a convoluted and time-consuming task. However, the results of the case study on contracts depicted actual work programmes that were designed for each level. Because of this it was sometimes difficult to aggregate the results and required skills more often found in solving jigsaw puzzles, with some pieces missing, and some left over. Yet in spite of this, a number of consistent patterns were gleaned from the material. The corporate goals moved down through the various levels relatively intact, and a number of the operational objectives appeared at all levels with their philosophies still in place. This demonstrated that, while the process of doing so can be unwieldy and complex in execution, a comprehensive view of measures can be obtained on a corporate basis.

The survey of the management staff demonstrated a consistency of thought that was a little unnerving. Considerable effort went into the design of the instrument and its application. The results appear strong enough to base conclusions on. The key question was, however, does it matter? This was phrased in the contract as, "How meaningful is the contract in your supervisor's evaluation of your performance?" The combination of "very meaningful" and "somewhat meaningful" equalled 91%. Similarly, the effect on actual performance was perceived as very high. The important issue, however, was the weight of the results showing a very high level of support for the use of contracts.

The test of contracts within a quality management environment illustrated the benefits of emphasizing process and customers. By using an executive-level contract for the case study, a range of impacts could be evaluated and a broadly-based contract developed. The analysis of the contract demonstrated the breadth and complexity of performance that can be captured in a relatively short document. The final case study pulled together all the elements and compared a standard contract with the newer style. The conclusion was that if an objectives approach was taken, the contents of the contract would follow a consistent pattern. The pattern adopted could allow for variation in application and ease of use and acceptance.

## CONCLUSIONS

The consistency of the findings from the interviews on appraisals and on contracts as well as the survey of senior managers was somewhat surprising. While the sample sizes may appear small they were used, primarily, to confirm observations made during my business life. However to go back to McGregor's (1957) position in Chapter One however, the question remained if the contract approach was so good, why was it not more widely used? Also, if performance appraisal lacked effectiveness why was its use continuing? The answer may require a shift in the use of performance measures and evaluation models. This change in focus, may require taking a different perspective on the way in which a situation is viewed. This can involve not just changing "opinions", but examining each of the opinions from the new viewpoint. This new viewpoint is examined in the next chapter.

## Chapter Eleven

### CONCLUSIONS

The specific objective for this study was to develop an integrated view of performance contracts and quality management in a large Canadian electrical utility so as to contribute to a broader understanding of performance evaluation. In the thesis we have seen that, while there is some evidence that performance contracts combined with quality management techniques may be beneficial, there are still some questions regarding their use. In this Chapter the objective for the study is reviewed and the wider implications of the conclusions are examined.

#### CONCLUSIONS

After examining performance contracts, two main factors came to the fore. First, the type of measures used. Were they based for example, on objectives or behaviour? Second, the way in which the measures were used, for instance as informal evaluations, piecework, appraisals, or as formal and informal contracts. Coupled with these factors was the atmosphere in which they were applied. As I reviewed the literature, the atmosphere or setting in which the measures were used seemed especially significant. In particular, my interest focused on its impact on the relationships between workers and employers. Having worked in such varied settings as the dirty and dangerous world of Glasgow shipyards, noisy and aggressive North American assembly lines, cold and tough Canadian construction work, and,

political mean-spirited corporate head offices, I can appreciate different viewpoints. In each of these worlds, I have found friendship, generosity, and some success as well as some less positive experiences. In reading books such as Rivethead: Tales From The Assembly Line (Hamper, 1991) and Working (Terkel, 1974) I was struck by the frustration and anger that permeates them. These are neither historical novels of the industrial revolution nor third world exposés of child labour and slavery. These are people who are working in the very recent past in factories and businesses in what was then probably the most affluent major nation in the world, the USA. To compare such materials to that of books on Robert Maxwell (Haines, 1988) and Lee Iacocca (Iacocca and Novak, 1984), is to bring these important differences into sharp relief. When performance bonuses are paid to members of the corporate elite while redundancies are happening on the shop floor raises a legitimate question about how we are seen to measure performance, as well as the more obvious one about how we do so.

In examining some of the original thinking on performance measurement, I was struck by Taylor's (1911) observations on employees. I also noted some of the work of Skinner (1957) regarding positive reinforcement and feedback. It was however, the writings of the other Taylor, Franklin V. (1957) which encouraged me to examine the evolution of performance measures. Frederick W. Taylor (1911) had been concerned with fitting people to machines whereas Franklin V. Taylor (1957) sought to fit the machines to people.

Initially, in manufacturing of products, each part was inspected to establish its conformity to specifications. The inspectors' job was to ensure that all parts were

correct. In the 1950s the adoption of statistical quality control (SQC) by Deming and Juran, amongst others, reduced the activity of measuring to selected parts or sampling. Thus the number of parts inspected was reduced. It then became apparent that, while inspection, an after-the-fact activity, caught some problems, it often caught them after they had left the place of manufacture. Therefore instead of just measuring results, engineers and statisticians started to examine manufacturing processes. The logic was that if these processes could be improved, the end products would look after themselves. This theory became the basis for the quality management movement often associated with the emergence of Japan as a world manufacturing power. As this activity grew, the views of customers and the involvement of employees were considered essential to the success of quality programmes. Therefore customer satisfaction and employee involvement were integrated into the quality processes. However, the processes were not always complete, as was seen in companies which only adopted the trappings of quality management such as statistics, teams and customer surveys, and which struggled with their implementation. What was really needed was a change to a new way of managing or a "Management Transformation" (Conway Quality, 1990), see Figure 11.1;

Though the "Transformation" can be seen merely as an extension of McGregor's Theory *Y* or of ideas associated with the Quality of Work(ing) Life, the key point for the authors was to use this strategy to reinforce the other elements of quality management. Thus Acuna (1974) argued that, "[w]hen growers can have irrigation for the crops but no running water in the homes of the workers, it can be hard to pick lettuce all day."

<i>THE MANAGEMENT TRANSFORMATION</i>		
	<i>THE OLD</i>	<i>THE NEW</i>
<i>IMAGE</i>	<i>Policeman</i>	<i>Leader</i>
<i>ROLE</i>	<i>Enforcer</i>	<i>Coach</i>
<i>OBJECTIVES</i>	<ul style="list-style-type: none"> <li>- <i>meet quotas</i></li> <li>- <i>keep the boss happy</i></li> <li>- <i>control</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>improve continuously</i></li> <li>- <i>satisfy customers</i></li> <li>- <i>delegate and support</i></li> </ul>
<i>ATTITUDES</i>	<ul style="list-style-type: none"> <li>- <i>intimidate</i></li> <li>- <i>protect turf</i></li> <li>- <i>be suspicious</i></li> <li>- <i>cover up problems</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>drive out fear</i></li> <li>- <i>knock down barriers</i></li> <li>- <i>trust people</i></li> <li>- <i>identify and solve problems</i></li> </ul>
<i>BEHAVIOURS</i>	<ul style="list-style-type: none"> <li>- <i>find out who is to blame</i></li> <li>- <i>punish when mistakes are made</i></li> <li>- <i>hoard information</i></li> <li>- <i>take credit</i></li> <li>- <i>react to a problem</i></li> <li>- <i>seeing what's wrong with a new idea</i></li> <li>- <i>reward based on individual performance</i></li> </ul>	<ul style="list-style-type: none"> <li>- <i>find out what we can fix</i></li> <li>- <i>learn from mistakes</i></li> <li>- <i>communicate openly</i></li> <li>- <i>give credit, take the blame</i></li> <li>- <i>anticipate a problem</i></li> <li>- <i>seeing what's right about a new idea</i></li> <li>- <i>reward based on team performance</i></li> </ul>

Figure 11.1

A comparison may be made between the evolution of manual performance measures and those used for employee evaluation. Historically, employees were paid based on the actual work done; parts made, acres of field cut, trips made to the well. This pay for performance, was refined after piecework was established in factories. However, as the quantification of work moved from factories to offices, problems arose. The output was not always as obvious and individual contributions were also less clear. The backbone of measurement, the counting of parts produced, was undermined as the level of cognitive work relative to manual work increased. Behaviour, as opposed to output, became the basis for much of the measurement. Using performance appraisal, supervisors would rate their staff on a scale using generic and often subjective themes such as timeliness or quality of work. However, the view of the individual was not included and while appraisals brought both "sides", management and employee to the table, it could not always make them talk. They



might yell occasionally, but they would not always talk as partners. The discrepancies in this situation were illustrated in a study developed by the Hay Group (1986). In an average company, in their study, the chief executive officers (CEOs) received a year-end bonus of 69% of their salary. For executives, the bonus was 40%, for managers 21%. Workers in 75% of these companies received no bonuses though 7% of the companies gave their workers hams.

The contract approach tries to address some of these concerns by basing itself on objectives. Its participatory character also eases some of the stress associated with subjectivity of measurement. However, the inclusion of a "customer" view is still not as common as might be desired. "The Management Transformation" still appears to be in an embryonic stage. In reading about philosophies and techniques such as MBO, performance appraisal and quality management, I was struck by the consistency of the experience of enthusiastic launches followed by dispirited maintenance.

Although Deming (1986) blamed Western managements' failures to observe his first rule of "constancy of purpose", the problem appears to go deeper. Most of the management systems reviewed identify top management commitment as a prerequisite for successful implementation. Yet research by Beer et al (1990) raised some doubts as to its necessity. They described the implementation of a company-wide change where the chief executive officer (CEO) performed what was portrayed as a textbook business change pushed the changes down through the company. After two years no appreciable change was noted in the behaviour of people in the company.

Beer et al (1990) argued that the CEO's assumptions had been wrong and that to implement organization-wide programmes in order to change organizations and

believing that employee behaviour is changed by such modifications was naive. The most effective approach was to start change at the periphery of the organization and to move these changes to the corporate core. While this approach may simply resemble Shewhart's Plan-Do-Check-Action, and the pilot studies common in product design, Beer's proposal may require further review. By emphasizing the roles, responsibilities and relationships which employees need to solve specific business problems companies can avoid the problems associated with top-down changes.

Performance measurement has to be a positive device for communicating with employees and customers as well as for exposing and correcting shortcomings (Flynn, 1990). To support this change, there should be an emphasis on process rather than specific content, unit by unit organizational change, and persistence over a long period. Perhaps Deming's (1986) comments on "constancy of purpose" were right.

The main aim of this study was to examine how the "effectiveness of appraisals and contracts could be improved". Blumberg (1968) stated that:

"There is hardly a study in the entire literature which fails to demonstrate that satisfaction in work is enhanced or that other generally acknowledged beneficial consequences accrue from a genuine increase in workers' decision making power. Such consistency of findings, I submit, is rare in social research".

However the evidence generated here, particularly by the survey and the case study while supporting the view that involving employees in the development and application of their contracts may be beneficial, indicates that "effectiveness" might require more elements. One, would be basing the contracts on objectives rather than subjective measurements. A second, would be ensuring that the contract is an agreement between the parties involved. It would also appear that the environment in

which the contract is used is of considerable significance and that it is the combination of these three elements that would improve the effectiveness of the evaluation process. It might be concluded that it is the presence of all three elements; the contract, the objectives and the appropriate environment, that contribute to the overall effectiveness and that if all three are not present the effectiveness of the evaluation process is diminished.

The specific objective for the thesis was to develop an integrated view of performance contracts and quality management in a large Canadian electrical utility so as to contribute to the understanding of performance evaluation. It is hoped that the material presented here, especially the corporate case study in Chapter Eight and the uses of performance contracts in Chapter Nine provides such evidence. From the data analysed it would also appear that the environment or culture created by the implementation of a quality management programme, that is the involvement of line employees, a strong emphasis on measurement and a customer focus, could provide the conditions necessary for an effective performance evaluation system.

A few final points should be considered. The case studies were conducted in an organization in which attitudes and habits were generally favourable regarding performance contracts. The relationship between the employees and management was not adversarial at the time of the research. Also some of the case studies and pilot interviews included some of the same participants and occasionally myself. However it is hoped that the range of methods used and the empirical nature of the data would offset these considerations. Nonetheless it would be useful to test some of the ideas discussed here in some other public or private sector organisations.

## Appendix A

### RESEARCH MODEL FOR THE THESIS

This model was developed to provide direction and focus for the research.

While a number of secondary issues were examined and other sources of data were used, the model was a useful tool in the drafting of the thesis.

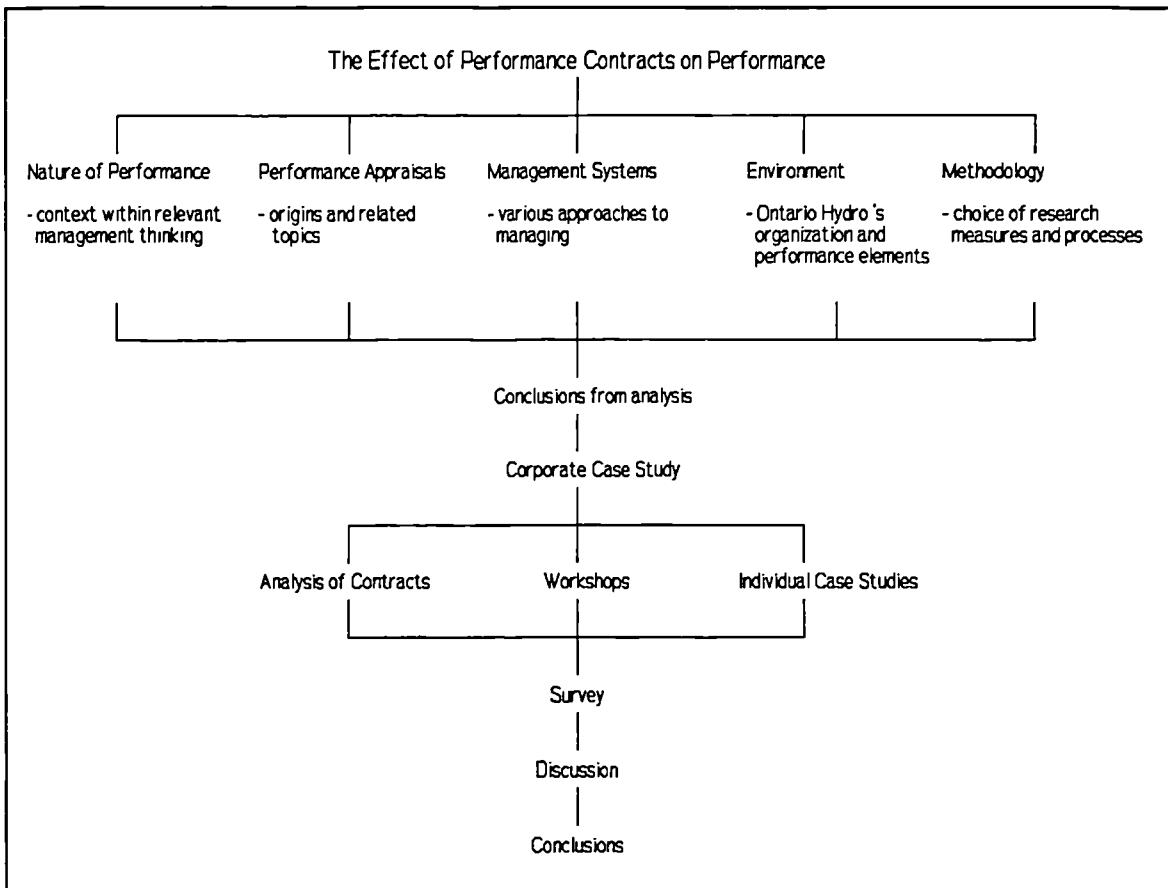


Figure A.1

## Appendix B

### DEVELOPMENT PROCESS FOR WHMIS PROGRAM(ME)

Figure B.1 illustrates the process used in the development of the WHMIS Program(me).

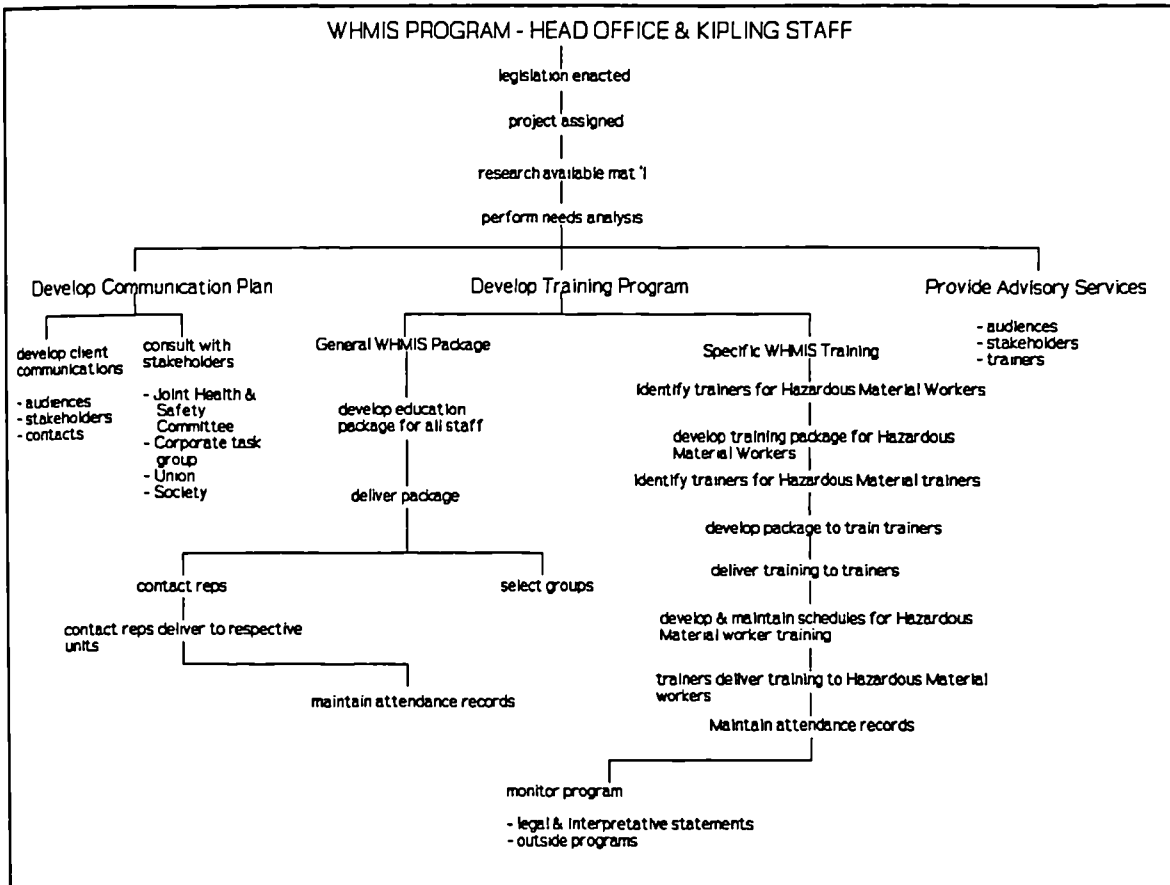


Figure B.1

## Appendix C

### ANALYSIS OF SELECTED PERFORMANCE CONTRACTS

#### INTRODUCTION

In Chapter Nine, the performance contracts of a selected group of managers were reviewed to provide data on the use of contracts. Some of the contracts were discussed only in part. These contracts are presented here to provide background to the review and information on the remaining performance contracts.

#### THE BUSINESS MANAGEMENT DEPARTMENT - MANAGER'S CONTRACT

##### 1.0 *STATEMENT OF FUNCTIONAL ACCOUNTABILITY*

- *Provide financial and other comptrollership-related services and products.*

This statement reflected a mild change in focus. Traditionally, the section had supplied standard financial support (budget preparation bill paying). The new manager envisaged a more comptroller (control) role to be played. The acceptance of this change was not well established.

- *Provide consulting and facilitating services for a range of Corporate and Divisional Management systems, elements and activities.*

This unit had grown in influence and contribution. Initially, a separate department, it had been combined with the administrative unit in an earlier reorganization.

- *Provide communications services and products.*

Organizationally, part of the consulting unit, this service was highlighted to reflect the high public and corporate requirement for communications in difficult areas.

- *Provide a range of office services and products.*

This unit provided standard office services, word processing, reception, filing, and so forth, and had developed a number of measures and procedures that illustrated the high quality of the service.

Throughout the contract, reference was made to a "Customer Satisfaction Survey, Service Level 2". The survey required customers to select one of the following:

*Service Level 1 = Meets all requirements,  
Service Level 2 = Meets most requirements,  
Service Level 3 = Meets some requirements, and  
Service Level 4 = Does not meet requirements.*

It was planned to use this system in a later survey.

#### BUSINESS MANAGEMENT DEPARTMENT: CUSTOMER SATISFACTION

For the purposes of this study, only items that appear in the contracts analysed are included in the survey.

This survey approach had been developed within the consulting unit. It was felt that the Business Management Department should serve as a model for the other departments when it came to providing services and in measuring these services. The customer survey approach was considered the most effective in measuring "soft" services and was a precursor to the move to a quality management system.

**BUSINESS MANAGEMENT DEPARTMENT  
CUSTOMER SATISFACTION SURVEY**

Instructions

Please circle one rating code for each product/service; use Section E for written comments, and for some details in cases where a rating of 3 or 4 has been circled. Pass over products/services you don't use.

Suggestions

1 - meets all requirements  
2 - meets some requirements  
3 - meets some requirements  
4 - does not meet requirements

PRODUCTS/SERVICES**A** Management Services

- |   |         |
|---|---------|
| i) Apply and interpret Corporation Strategy and Program(me)s to ongoing Divisional business | 1 2 3 4 |
| ii) Manage implementation of French Language Services Act for RESD                          | 1 2 3 4 |
| iii) Administer Annual Real Estate Conference   | 1 2 3 4 |
| iv) Develop and integrate Performance Contracts   | 1 2 3 4 |
| v) Develop, update and distribute policies, procedures, objectives, etc. (OOOH/OHMS)        | 1 2 3 4 |
| vi) Management Manual Reviews and Updates, eg, DSI's  | 1 2 3 4 |
| vii) Posting of Development Rotation Notices  | 1 2 3 4 |

**B** Staff Training

- |   |         |
|---|---------|
| i) Plan, develop and manage training sessions | 1 2 3 4 |
|---|---------|

**C** Information/Communications Program(me)s

- |   |         |
|---|---------|
| i) Coordination of:<br>- Responses to Executive and General Inquiries | 1 2 3 4 |
| - Corporate Relations Assessments                                     | 1 2 3 4 |
| ii) Prepare/edit speeches, presentations                              | 1 2 3 4 |
| iii) Produce and distribute "UPDATE"                                  | 1 2 3 4 |
| iv) Maintain Photoboards  | 1 2 3 4 |



D UNISYS Local Area Network

- i) Maintain System 1 2 3 4
- ii) Provide User Support 1 2 3 4
- iii) Produce and deliver training courses and user bulletins 1 2 3 4
- iv) Delivery, installation and start-up of standard terminals and system software upgrades 1 2 3 4

E Comments

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## 2.0 *DELIVERED PRODUCT*

### 2.10 *Provide a range of office services to meet agreed requirements of customers in RESD.*

This measure is a good example of quality measures in areas not usually measured from an external viewpoint. Normally, the measures (if any) reflect a productivity bias, for example, number of pages input and files delivered, which do little for the customer. To use these quality measures at this time, was an interesting breakthrough for the unit.

### 2.11 *Records Management*

*Evidence of customer satisfaction for accurate, secure and timely filing, storage and retrieval of official records.*

*Target: results of Customer Satisfaction Survey to indicate not less than service level 2.*

As a measure, this approach reflects the customer perception of the service and its delivery.

### 2.12 *Word Processing*

*Evidence of customer satisfaction for accurate, timely production of products.*

*Target: (i) results of Customer Satisfaction Survey to indicate not less than service level 2; (ii) reasonable relative to corporate standard; and, (iii) reasonable relative to an appropriate private-sector standard.*

This was a fascinating set of measures. The first measure, (i), is the standard within the department for customer satisfaction. The second, (ii), indicates a desire to measure productivity as well as service, a laudable goal for something difficult to measure from a customer perspective. For example, the customer may be happy with a product that far surpasses their own ability to produce, but it may not, in fact, be a quality product considering the technology and expertise brought to bear on its production. Conversely, unreasonable demands by a customer, for example turnaround time, may be physically impossible but still may result in an unhappy customer. Hence the use of, albeit with a difficult to quantify "reasonable", relativity to corporate standard. The most interesting measure, however, is the third, (iii), which asks for "relativity to an appropriate private sector standard". The fascinating part of this measure is that it is the only measure that has an external comparison in the whole package of divisional measures. Even though the functions of the Division, Real Estate, Facilities Management and Security, are well established in the private-sector, this is the only measure that asks for a direct comparison to that market. This was unusual especially from a service unit buried in a service department. It represents the emergence of an understanding of quality services and that objective measures are possible.

### 2.13 *Inter-Office Mail*

*Evidence of customer satisfaction.*

*Target: Results of Customer Satisfaction Survey to indicate not less than service level 2.*

This was a difficult subject to measure accurately. Delivery was based on timeliness and reliability.

### 2.14 *Telephone Switchboard Operation and Reception Services*

*Evidence of customer satisfaction.*

*Target: Results of Customer Satisfaction Survey to indicate not less than service level 2.*

This had been a problem area in the past. As a highly repetitive activity, the switchboard was often more an area for technology testing than telephone answering. Similarly, the reception area was often staffed by new entry-level employees who, at times, had little experience in business procedures.

### 2.15 *Implement outcome of office services study as required by Director.*

*To be established when study outcome is decided by Director.*

This was a measure added by the Manager at the last minute. It is in the wrong section and is clumsy in its objective.

2.20 *Provide a range of financial and management systems products and services.*

Though the accountability statement expanded this function to include comptrollership it was not incorporated into the delivered product section.

2.21 *Provide Director with:*

- *review of all CCP releases within his authority, and*
- *customized instructions for use by all departments of RESD based on Branch/Corporate level requirements for preparation of business plans, budgets, variance and performance measures reports, performance contracts and other comptrollership-related management system elements and activities.*

Like the Cheshire cat, the issue of comptrollership appears and recedes. This listing is more a shopping list of activities that required performing than a priority programme.

*Quality to be judged by Director*

*Target: Results of Customer Satisfaction Survey not less than service level 2.*

The problem of meeting customer satisfaction when you have only one customer is interesting.

2.22 *Production of RESD business plan and its budget, production of monthly variance reports and quarterly performance reports.*

The Division, at this time, had a number of performance elements in place. Their production and monitoring were well developed though their use was inconsistent.

*Quality to be judged by Director*

*Target: Results of Customer Satisfaction Survey not less than service level 2.*

2.23 *Implement the outcome of the Financial/Comptrollership Study as required by Director.*

*- To be established when study outcome is decided by Director.*

As noted earlier, the move to a comptrollership base had been evolving over a period of time. The study (as with the study on office services is in the wrong section) was an initiative to try to formalize what had, to this time, been an ad hoc activity.

2.30 *Provide a range of consulting and facilitating services and products.*

This unit was not, as yet, fully integrated into the department and a number of the measures reflect this stand-alone perception.

2.31 *Provide integrative services for all departments of RESD for the formal approval documentation and distribution of policies, procedures, strategies and other Corporate Management System elements and activities.*

This unit had formerly been a department and the use of "integrating services" is a carry-over from the previous organizational structure. It also captures the more strategic/corporate nature of the work performed by the unit.

*Quality of results to be judged by:*

- i) *Director for divisional level.*
- ii) *Customer for department/section/unit level.*

*Target: Results of Customer Satisfaction Survey to be not less than service level 2.*

The awkward positioning i) = Director and ii) = Customer reflected some of the difficulties experienced by the unit in measuring its performance. In some cases, divisional-level actions, while appropriate at that level, caused problems at the lower levels. The dual-based customer then could be pleased/displeased by the same action. Also, the breadth of products and services caused some concerns. The unit (as a department) had been set up by the previous Director who saw a corporate role to be played and encouraged a broad-based mandate for action. His successor did not share this viewpoint and took a more local view of the services provided.

2.32 *Provide communication services and products.*

As noted earlier, the Division had a sensitive public profile that led to the unusual situation of a divisional level communications position.

*Judged by Director - RESD*

*Target: Results of Customer Satisfaction Survey not less than service level 2.*

Again, the two viewpoints of the products and services had the potential to create problems. Initially, the communications programme was very open and based on customer feedback. Some of this input was difficult to rationalize so a more fact-based approach was adopted. The ranking of this change varied greatly depending on perspective.

2.40 *Provide a range of information management services and products.*

In this case, information management was the provision of computer services and support for integrated systems.

2.41 *Implement the outcome of the Information Requirement Study (IRS) as required by Director - RESD.*

*To be established when study outcome is decided by Director - RESD.*

This study was (as were the other studies) an attempt by the department head to analyse the services provided. Though the results were supposed to be measured by the director, it was the process (measured by the department head) that was given the closest scrutiny.



### 3.0 *DEVELOPMENT PROJECTS*

#### 3.1 *Specify, procure, install and commission a comprehensive business planning process application software.*

This was a personal initiative of the department head. The business planning process was efficient in gathering the information necessary to develop a financial database. It did not, however, have the flexibility to manipulate the data effectively.

Evidence that significant progress has been made to enhance the efficiency and effectiveness of the production, monitoring, analysis and adjustment of the RESD Business Plan and Budget.

This was breaking new ground so definitive measures were not possible.

#### 3.2 *Identify and contract for consulting/facilitating service for the application of RESD Product Quality Guidelines.*

This "Quality" Programme was an inspection and procedures development programme and was a carry-over from the department head's former department.

*Customer department manager's assessment of results.*

*Target:*

- *Minimum of one product of a line department*
- *Minimum of one product/service within BMD.*

The concept was to develop pilot programmes to test the various approaches.

#### 4.0 ADMINISTRATION

##### 4.1 *Review and update goal and primary delivery functions of Business Management Department.*

- *As evidenced by approval by Director - RESD.*

As noted in a number of parts of this analysis, there had been a change in managers of this unit and the new manager was very keen on wholesale changes to the department, its staff and responsibilities. Changing the goal and the primary delivery functions was to be the first step in this direction.

#### 5.0 BUDGET

*Execute work program(me)s and activities within the limits of approved budget.*

This was a stronger statement of intent than the divisional wording. Whereas, the director-level statement reads only of accountability, the department's talks of executing. While this may be a mild semantic variation, it does capture perhaps the manager's role in the budget.

##### 5.1 *Gross Costs*

*To match service, volume and agreed customer quality levels and not to exceed \$#.*

This was a slight enhancement on the Directors contract with "agreed customer quality levels" replacing "performance requirements".

5.2 *Retained Costs*

*Expenditures not to exceed \$#.*

This was a departmental slice of the divisional pie.

5.3 *Staff*

*Regular staff complement not to exceed # at year-end. Total hours not to exceed #.*

This was an addition of "total hours" to the divisional measure.

5.4 *Minor Fixed Assets*

*Expenditures not to exceed \$# without approval of Director - RESD.*

This was a departmental application of a divisional measure.

6.0 *PEOPLE MANAGEMENT*

*Accountable for acquiring, developing and deploying staff to produce the services program(me)s in accordance with approved budget.*

Basically, this was a paraphrase of the divisional statement.

6.1 *Staff Development*

*Evidence that all staff have been interviewed about career interests; minimum once.*

Interestingly, this item at the divisional level focused on human resource planning including predictions, succession planning, performance appraisals and staff planning.

## 6.2 *Employee Relations*

*Satisfactory employee relations are maintained as evidenced by: responses to Human Resources Survey, use of staff meetings (minimum twice), and operating decisions that are based on guiding principles of corporation direction.*

This was a much broader definition and target for employee relations than used at the divisional level. The use of "maintained" satisfactory relations versus "establishing" at the divisional level is an example of this change. The use of meetings and the corporate direction are in addition to the target levels.

## 6.3 *Staffing Initiatives*

*Evidence of use of initiatives dealing with affirmative action employment of youths and the handicapped, consistent with corporate direction.*

This measure is essentially the same as the divisional measure except for the use of "consistent with corporate direction" at this level and "dependent upon corporate direction" at the divisional level.

#### 6.4 *Health and Safety*

*Evidence of initiatives to deal effectively with:*

- *Employee health and safety including applying corporate requirements with respect to tobacco smoking in the workplace.*

An interesting extension of the divisional measure, this target reads as a much more positive, action oriented activity and as the manager was a smoker and the corporation had just started a controversial ban on smoking in the workplace, a particularly brave one.

- *Managing the use of sick leave*

This was the divisional-level measure without the directive of "review sick leave with identified staff".

#### 6.5 *Performance Management*

*Evidence that all staff have had a work performance appraisal (minimum once).*

This measure does not appear at the divisional level and interestingly treats the use of a career interests interview (6.1) separately from a work performance appraisal. Most other managers had found benefits in combining these two activities.

- *Recognition of good performance.*

As noted above, this section is not in the divisional measures.

- *Effective dealing with poor performance including developing plans to address personal limitations affecting department's performance.*

This was a much broader application of a measure for poor performance with a link to limitations not just effort.

6.6 *Review and update all job descriptions of approved positions in BM Department.*

A relatively innocuous measure on the surface, this measure was the battleground for ongoing disagreements between the department head and his staff. The demands for increasingly detailed information gave rise to concerns and a pervasive sense of paranoia.

- *As evidenced by position inventory agreed by HR Manager.*

This matching of services to responsibilities was a productive though troubling activity.

7.0 *PERSONAL CONTRIBUTION*

*Accountable for providing leadership to the department motivating it to perform its work program(me)s and activities in an effective, efficient manner that contributes to the RESD Supply & Services Branch and corporate level issues.*

This was a much more aggressive statement than at the divisional level. Whereas, the director's contract talks of "enabling it to fulfil its mandate" the manager writes of "motivating it to perform its work programmes and activities

in an effective, efficient manner". This was a strong indication of the manager's position.

7.1 *Leadership to the department in areas of production of services to customers and to Business Management Department needs.*

Again, this was a stronger more bottom-line approach with the emphasis on "production of services" rather than "mandate".

*As evidenced by Director's and other customers assessments of products and services provided by BMD.*

*Target: Not less than service level 2 of the Customer Satisfaction Survey.*

This was the only contract that used a department's actual performance to measure leadership by the manager.

*As evidenced by manager, maintaining a level of personal performance and credibility with subordinates, peers and superiors as necessary for the continuing effective performance of the job.*

As in other sections, the manager is working from the director's contract. It is insightful to note the change from "successful" in the director's contract to "effective" in the manager's.

7.2 *Personal Conduct*

*Evidenced by conduct becoming an employee and a manager of Ontario Hydro.*

This was a departmental perspective on the divisional measure.

### 7.3 *Community Relations*

*Evidenced by contact with the community at large through committees and meetings.*

Again, this was a departmental perspective on the divisional measure.

### 7.4 *Personal Assignments*

*As required and assessed by Director - RESD.*

However, this measure was a new entry not in the director's contract.

## PERFORMANCE CONTRACT - POLICY AND PLANNING SUPERVISOR

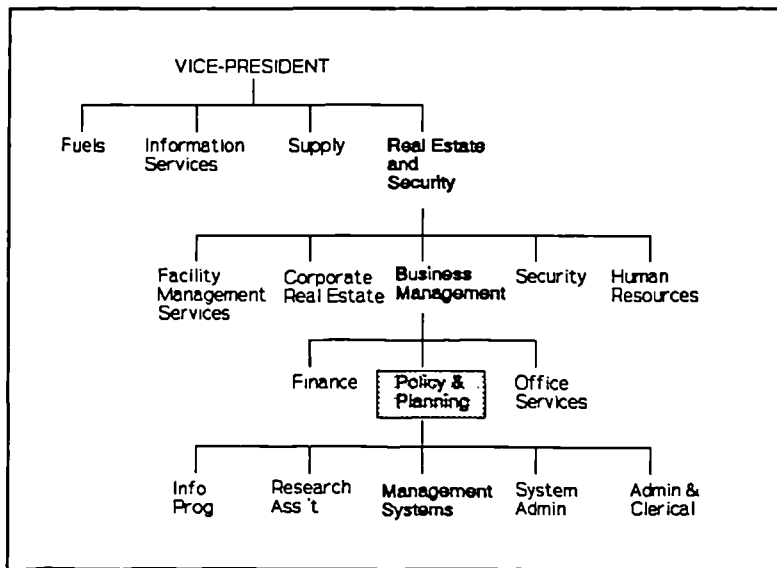


Figure C.1

The Policy & Planning Supervisor was responsible for the development and integration of the performance contracts for senior staff. In this regard, the position



was often used to test new concepts and formats for the contracts to be used in subsequent years. This "continuous improvement" ranged from major changes; moving away from the measurement of activities and administrative details to reformatting of the actual document. With accountability for management systems, it became apparent to the Policy & Planning Supervisor that the pre-occupation with the administration of an unwieldy corporate control system was on the way out.

Therefore, a more project (results) based approach was adopted for the contract. The old contract format reflected the technology of its time. Using a landscape (horizontal) format, the contract itself was drafted leaving space for answer in an extreme right-hand column. This allowed the person using the form to just fill in the gaps rather than a complete document. Unfortunately, it tended to pre-condition the answers, that is, a small space got a small answer and vice-versa or it caused a rewrite (retype) of the whole package. A paradigm shift was required to take advantage of the computer technology. By using a portrait (vertical) format and inserting the answers in a different typeface (font), the contract could be updated quickly and easily. This was a small change, but one that affected the perception of the use of the contract. In the old format, it tended to be completed only at year-end. In the new format, it could be updated easily on an ongoing basis. In this way, the contract could become a dynamic document.

Performance Area

1.0 *DELIVERED PRODUCTS*

*Accountable for providing business products and services including project management, communications, management systems and office automation LAN support.*

The unit was basically an internal management consulting group providing services in the areas outlined.

1.1 *Project Management*

*Provide management and administration for legislative corporate and divisional projects.*

This was a continuing service where the unit was used in a manner similar to management consultants.

1.2 *Communications*

*Provide communications products and services.*

When originally set up, the communications service was to provide assistance and expertise in contact with the public and property owners. A communications strategy study identified the need to broaden this scope to include corporate and divisional-level clients. In particular, the need to communicate with staff was identified. Therefore, the measures were broadened to include these client groups.

### 1.3 *Management Systems*

*Provide management systems products and services.*

As for the communications service, the management systems scope was evolving. Initially, very much a policy development and procedural documentation service the work grew into more of an advisory/interpretive service providing advice and guidance on logic and policy background.

### 1.4 *Office Automation*

*Provide office automation products and services.*

Office automation was a difficult service to provide to customers expectations. With a range of users from computerphiles to computerphobes, it was a challenge to provide an appropriate level of service. By focusing on system support, the majority of client concerns could be addressed. For example, system reliability was monitored on a downtime basis; turnaround time on responding to service calls; formal training on system applications; and, on-the-job training for specific applications.

In this way, emphasis was placed on meeting the customer's primary concerns for reliability and support.

## 2.0 Major Projects

As the unit's work load evolved, it became apparent that the most effective use of the broad skill base was to use a team approach to major problem areas.

## 2.1 WHMIS Project

- *Training program(me)s for all Head Office and Satellite employees developed and implemented.*

The WHMIS Project is presented in more detail (see Chapter Seven) under the case study section, suffice to say that the project was a major success and met the target.

- *Maintenance program(me) developed and implemented.*

This was an essential element in the process. It had been observed when working with external consultants that good programmes and solutions were often developed to meet the immediate problem, however, maintenance programmes were often not put in place.

- *Site specific program(me) developed and implemented.*

Again, taking advantage of local knowledge customized packages were developed for each site.

- *Emergency response program(me) developed and implemented.*

Although not an integral part of the WHMIS programme, this element was identified as a necessary link with other health and safety initiatives.

## 2.2 Paper Recovery

This project is presented as a case study in Chapter Seven. The performance elements are examined here.

- *Develop test program(me) (Phase I) and implement.*

Recycling was a new area for the unit and required considerable research and analysis. In light of the knowledge gained, the unit assumed a corporate role in recycling.

- *Develop and implement general program(me) (Phase II).*

As a measure, this had an interesting background as it involved a number of external groups.

- *Develop and implement custom program(me).*

As noted in the WHMIS measure, local knowledge was often useful in developing custom facets to larger programmes to ensure a better fit with the operational units.

- *Identify (Phase IV) program(me).*

As with the comments on maintenance, a good measure for an internal versus external consulting unit is the long-term implications of the recommendations. The knowledge that one is going to still be around, hopefully on the payroll, when the final results from the suggested changes come in, is a factor for the internal consultant but may not be for the external.

### 2.3 TIPS

- *Develop and implement Branch Program(me).*

TIPS (The Ideas People Suggest) was a corporate suggestion programme. Awards were made based on the savings realized by the suggestion. Each Branch was charged with developing and implementing their

own programme based on the principles developed for the corporate programme.

- *Administer Branch Program(me).*

The administration of the programme required considerable time and effort plus strong diplomatic skills to accept or reject certain suggestions.

#### 2.4 *UPDATE*

- *Develop and produce four copies of Update including special year-end addition.*

As a result of the communications strategy, a "newsletter" was produced to meet the needs of the internal audience. Using a strong operational slant, not just the usual "births, deaths and firings", the newsletter was a useful communications vehicle. By identifying the number of copies to be produced, and a special edition that replaced the more traditional annual report, a target was in place for quantity, an unusual measure for communications.

#### 2.5 *Place Nouveau*

- *Develop and implement communications strategy.*

In parallel to the internal (divisional) communications strategy, the use of communications as an operational tool was expanded. As part of a major company relocation, a number of staff were being moved from the Head Office (downtown) location to a suburban centre. This had the potential for concern

and difficulties in adjustment. To ease some of these concerns, an innovative communications strategy was developed.

## 2.6 *UNISYS 5000*

- *Integrate departmental systems with divisional/corporate hardware and software.*

In the original study done for the section to move to micro computers, a number of specifications were in place. Unfortunately, these specifications lost out to the political realities of a "government" entity. Tendering for lowest price against specifications resulted in a good system but one that was not compatible with corporate hardware and software. As a major project, the "orphan" system was changed to be compatible in the high priority areas.

## 2.7 *French Language Services (FLS)*

- *Develop strategy for implementing FLS.*

The impact of provincial legislation requiring the provision of French Language Services in areas where 10% or more of the local population was French speaking was a strong political initiative. Its implementation required a strategy that would be flexible with bilingual documents; practical, safe signage and cost effective conversion of existing documents. Measuring the impact of these actions was their comparison to the intent of the legislation.

## 2.8 *Affirmative Action/Employment Equity*

- *Develop contract and reporting format.*

The corporate Affirmative Action programme had been expanded from what was basically a programme to raise the number of women in senior and professional positions to a broader based initiative to include native people, handicapped, visible minorities as well as women. The main goal for the contract was to establish targets for various units.

## 2.9 *Real Estate Conference*

*Manage conference and its administration.*

The Real Estate functions were diverse in scope and location. To try to create an environment in which teamwork could exist and to provide information on emerging issues, an annual conference was held. Interestingly, it was this conference that, though a relatively straight forward activity, provided a basis for opinions on the performance of the unit.

### *Measures and Targets*

Because of the subjective nature of the work performed, a couple of quantifiable targets were established.

*Evidenced by results of annual Customer Satisfaction Survey.*

By use of a year-end survey, the level of customer satisfaction was established.

*Evidenced by savings realized by "make or buy" evaluation.*



A leading initiative within the corporation was the move to a "make or buy" analysis of services or products that could be purchased in the marketplace. To develop such an analysis, a procedure was developed to arrive at a target for the coming year.

### MAKE OR BUY

The cost of an internal product/service was difficult to quantify effectively but could be measured by comparing the cost developed internally with an external contract cost. Legislative and Corporate programmes had become the focus for the section. The following table, C.1, displays the flow of projects and programmes. A customer satisfaction survey was the primary measure of performance. The cost of such a service should also be measured to ensure its efficiency and economy.

MAY TIME REPORT - BY PROJECT

DATE	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	TOTAL
Program (hrs)																										
WHIAMS	4	2	1	3	1	2	2	3	1	3		3					2	2	1	2	1	1	1	1	3	36
TIPS																										
PLS																										
UPDATE F																										
UPDATE W	.5	.5																								
PERF CONTRACTORS																										
ORMS																										
AXES																										
PLC HOUR	.5	.5																								
PAGE	2	1	1	1	1	2	1	1	1	2	1	1														
REC POINT																										
TRNG																										
DEV ROT																										
EXEC BULLETINS																										
RESD CON																										
PHOT BDR																										
CON RM PO																										
MIS																										
DP RYA BR																										
SUP OR PRO																										
SAP OR PRO																										
HR TRG																										
ADM PROCED																										
POI																										
SVT MAINT																										
DEPT MTD																										
DRETT																										
PERSONNEL	.5																									
ADMRTN	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	14
SAVN																										
TOTAL	8.5	9	8.5	8	8	8.5	8.5	8	8.5	8.5	8.5	7.5	7	7	7.5	7	8	8	8.5	9	9	8.5	9	8.5	7.5	100.5

Table C.1

To measure the cost of products accurately, a record was kept of time spent on each product. A breakdown had to be made of direct charges, for example working on projects, and indirect charges, for example administration and local projects. These numbers could then be compared to external sources. To measure the time spent, a record was kept by project/product of the time spent. The time was then allocated to direct, for example product, or indirect, for example administration, and collated.

A review was made of outside consultant groups to establish comparables. (In establishing comparables, considerable effort was expended to ensure a close fit. A number of companies were studied to establish rates and qualifications.) By establishing the cost of the service by contract (buy) versus the cost of the service internally (make) a direct comparison could be made. The difference in costs would be the savings/losses to be realized.

#### Cost Comparison Background

To provide an illustration of the process, the projects worked on by the Section Head - Policy & Planning were listed. The time spent on them was input in .5 hour increments over a 4 month period. (See Table C.2.)

PROGRAM	FEBRUARY		MARCH		APRIL		MAY	
	HRS	%	HRS	%	HRS	%	HRS	%
<i>LEGISLATIVE</i>								
- WHMIS	34.5	23	31.5	17	14	9	36	19
- FLS	5	3	1	-	-		1	5
- AAOE	.5	-	2.5	1	-		6	3
- FOI	0							
<i>CORPORATE</i>								
- TIPS	6.5	4	7	4	2	1	14.5	8
- PARE	15.5	10	11.5	6	21.5	14	17.5	9
- OHMS	16.5	11	9	5	8	5		
- PLACE NOUVEAU	6	4	5	3	3.5	2	4	2
<i>DIVISIONAL COMMUNICATIONS</i>	10.5	7	5.5	2.5	8	5	18.5	10
<i>COMMUNICATION</i>								
- UPDATE SP	4		1	.5	.5	-	6.5	
- UPDATE PL	1.5		4.5	2	2.5	1	5	
- PHOTOBOARDS	-						1	
- EXEC INQ	2.5				1		2.5	
- DN ROT	1.5						1.5	
- RESD CON	.5							
BROCHURES	.5				4	3		
- ORIENTATION							2	
<i>MANAGEMENT SERVICES</i>	12.5	8.5	15	9	13.5	9	30.5	16
PERF CONT/MEAS	8.5		6.5	4	7.5	5	15	
REC MGMT	4		8.5	5	-		1.5	
DRAFTING					6	4	2.5	
OHMS							9	
MIS							2.5	
QA	5.5	4	6.5	4	4.5	3	6	3
TRAINING	1	.5	1	.5	2	1	4	2
<i>DEPARTMENT</i>								
- MTG	7.5	5	2	1	1	5	13	7
- BUDGETS/BP			29.5	16	6	4		
<i>SECRETARIAL</i>								
- FIN'L MONITOR								
- STAFFING REPORTS								
<i>INDIVIDUAL</i>								
- PERSONNEL	13	9	6	3	3	2	5.5	3
- SAVH	7	5	35.5	19	56	35.5	14	7
- ADMIN	9	6	16	9	14.5	9	20	10.5

Table C.2

The times spent were then aggregated to the various projects as outlined in the Project/Programme outline, as in Table C.1, and broken down into direct/indirect charges. The costs of the Section Head could be calculated by using this analysis.

In developing a financial evaluation, two methods were recommended:

1. *Salary plus 11% Burden - S&S Branch Comp.*
2. *Salary plus 23% (11% Burden + 12% SAVH) Corp Comp.*

Both sources directed that for evaluations of less than \$100,000 (internal) that overheads such as space not be used as they would not be of a scale to be recouped.

Research of consulting companies focused on a comparison of the skills necessary to manage the programmes. This was outlined as an experienced (10 year) consultant with extensive management systems and project management skills with a post graduate education.

#### Cost Comparison Example

For the 4 month period (Feb-May, 1989) the Section Head spent 422 hours (62% of total time) on direct (project) work.

TIME REPORTING	FEBRUARY		MARCH		APRIL		MAY		AVERAGE/TOTAL	
	%	HRS	%	HRS	%	HRS	%	HRS	%	HRS
PROJ & PROG	75	(113)	51	(94)	49	(77)	72	(138)	62	(422)
SUPRY & ADM	25	(37.5)	49	(90.5)	51	(80.5)	28	(52.5)	38	(261)
TOTAL HOURS		190.5		184.5		157.5		190.5		683
OT WORKED (HRS)		31.5		2.5		17.5		19.5		102

Table C.3

The cost per hour was calculated as \$45 (100% MP6 + 23% Burden & SAVH).

*The cost per hour for a comparable consultant was \$145.00.*

*Therefore, for the 4 month test period:*

*The Make cost was 422 hrs x \$45 = \$18,990*

*The Buy cost was 422 hrs x \$145 = \$61,190*

*Savings = \$42,200*

By extrapolation, this would realize a savings of Make over Buy for a one year period of approximately \$126,000.

This process led to the following measure:

*Performance Measure*

*For the 1988 performance contract, the section will test the following productivity performance measure "make or buy". All products and services will be reviewed for optimum productivity. Target = \$ TBD.*

### 3.0 MANAGEMENT OF HUMAN RESOURCES

*Accountable for managing human resources within prescribed limits and approved RESD Program(me)s.*

This was similar to the divisional and departmental measures.

#### 3.1 Regular and Non-Regular Staff

*- not to exceed approved levels.*

This would normally be a budget section item but the idea was to link production with resources and to manage these resources.

3.2 *Employee Relations*

- *Satisfactory relations with staff as evidenced by staff rating of supervisor.*

As a corollary to the performance appraisal process where the supervisor was expected to rate the staff, a rating system was established where the staff could evaluate the supervisor. This survey was discussed with the staff.

SURVEY OF UNIT HEAD PERFORMANCE				
	A	B	C	D
	All of the Time	Most of the Time	Some of the Time	Never
- Sets Realistic Performance Objectives for Staff				
- Provides Feedback on Staff's Performance				
- Emphasizes Quality				
- Is Conscious of Customer Satisfaction				
- Looks for Ways to Improve Existing Systems				
- Delays Taking Action on Urgent Tasks				
- Over Delegates to the Point of Losing Control				
- Does not Delegate Enough and Retains too Much Control				
- Solicits Subordinate Input				
- Uses Subordinate Input				
- Explains Key Business Decisions				
- Handles Disciplinary/Correctional Situations Positively				
- Keeps Staff Fully Informed				
- Encourages Team-Work				
Comments:				

Table C.4

### 3.3 Health & Safety

- *Effective monitoring and managing of issues as assessed by Department Head.*

Though the unit was office-based and safety exposures were minimal, a number of health issues were addressed to indicate a concern for the total health of the staff.

### 3.4 Employment Equity

- *Effective monitoring and managing of issues as assessed by Department Head.*

Targets were in place for employment equity. Interestingly, some concerns were expressed by the department head when it was noted that all the staff with the exception of the section head were members of target groups for the employment equity programme.

### 3.5 Planning for Effective Use and Deployment of Staff

- *Evidenced by effective use of rotations, training opportunities as assessed by Department Head.*

As part of each performance contract interview, development opportunities were identified and staff consulted as to the most appropriate vehicle.



#### 4.0 *PERSONAL CONTRIBUTION*

*Accountable for providing leadership to the Policy & Planning Section to enable it to meet its customers' requirements by maximizing the value added to their services and products.*

This is the first section where the "value-added" concept is used. A quality management term, it tries to capture the concept of increased effectiveness not just efficiency.

##### 4.1 *Leadership*

*- Evidenced by results of Customer Satisfaction Survey, Staff Survey and Department Head Assessment.*

This measure is a strong move to a more objective measurement of actual performance than noted in earlier contracts.

##### 4.2 *Provision of Service Products to Department Heads*

*- Timely input on emerging issues and topical highlights so there are "no surprises".*

This is perhaps the best definition of "no surprises" and the areas encompassed.

##### 4.3 *Innovation*

*- Evidenced by performing activities focusing on the section's productivity.*

This was a section where specific actions could be captured: use of contract services to meet deadlines and workload peaks; team approach utilized strengths and skills of team members; and, "product" approach to tasks to encourage commitment and self-fulfilment.

#### 4.4 Cooperation

- Evidenced that the Section Head has cooperated with peers and superiors as assessed by Department Head.

This was a measure added to contract by the department head to control a unit that he felt was difficult to understand.

### PERFORMANCE CONTRACT - MANAGEMENT SERVICES AND RESOURCE PLANNING OFFICER

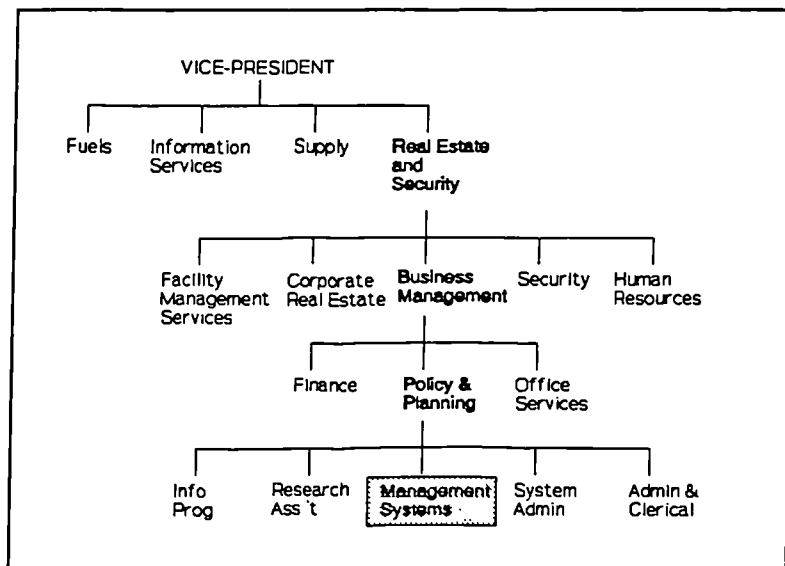


Figure C.2

This position was responsible for a number of the organizational elements of the management system and provided an extension of the link of performance contracts. The format used reflected the rather subjective nature of the job which, while retaining a number of specific accountabilities, was also a resource for other groups. This entailed duties in response to ongoing enquiries.

0.0 *General Accountability*

*Accountable for ensuring that key policy and planning issues are addressed.*

This was a key accountability primarily as the position was the link between corporate-level policy and operational functions.

*As evidenced by:*

*- The integration, revision and distribution of divisional/departmental policies, procedures, etc.*

This integration involved both the interpretation and administration of the policies.

*Integrate and administer the Ontario Hydro Management System (OHMS) on behalf of the Real Estate and Security Division.*

As noted earlier, Ontario Hydro had adopted a very comprehensive but occasionally convoluted management system to address issues at a number of levels throughout the organization. The administration of the various elements was an essential part of the process.

- *As evidenced by the acceptance by clients of advice/recommendations on policies, objectives, procedures, plans and program(me)s that support departmental/divisional management.*

This was a very good example of meeting customer needs in a difficult to measure subject. The advice given was often based on precedent and interpretation so its acceptance often required a high level of trust in both the ability of the analyst and the research undertaken.

*Identify, recommend, and develop office automation strategies, guidelines and standards.*

- *For use by management and staff.*

This was a theme that reflected the broad-based consulting nature of the work.

*Conduct studies/undertake projects to: examine and improve administrative effectiveness, and initiate opportunities for marketing and delivery of our products/services and those of our clients.*

This measure was to capture the impact of corporate studies of local activities, for example administrative effectiveness, and to market (an extension of the "make or buy" philosophy) local initiatives.

*Provide services/products for technical development of RESD staff and other human resource programmes.*

This measure reflects the second part of the position's title "resource planning". The job had evolved from a technical training position and was

now an integral part of the services provided. It illustrates that if measures are to be effective, they sometimes have to follow the job evolution as well as capture its objectives.

*Integrate and administer corporate program(me)s within RESD.*

A number of legislated programmes had a corporate impact that filtered down through the functional rather than organizational accountabilities. These programmes were administered by this position.

*Provide advice/guidance to other units in RESD and in Ontario Hydro on Divisional Policies, Procedures and Program(me)s.*

As well as interpreting information down through the organization, the position also reported information back up the chain. This is part of being a corporate service and an awareness of operational priorities.

*Recommend initiatives to the Section Head, Policy and Planning that promote leadership in the areas of general responsibility/accountability.*

Placing some of these activities under "accountabilities" was part of a development process to better outline the position and its scope.

*Leadership requires a dedication to integrity; a commitment to strive for positive growth and development, both individual and organizational and the ability to perceive change in future development.*

The purpose of a contract (agreement) is to allow both parties to develop measures that reflect not just the organizational requirements, but also those which the individual may feel strongly about. Organizational contracts

tend to reflect where the organization has been and perhaps is going in a linear way. The input of an individual view (vision) can cause a quantum leap or at least a change in perspective. For this position, the need to promote leadership was an important goal for both the unit and the organization. Interestingly, perhaps as an outcome of this measure, the incumbent of the position used this "leadership" view as a fundamental part of her master's thesis. This is an example of the application of acquired knowledge.

#### 1.0 *DELIVERED PRODUCT*

##### 1.5 *Administration of all elements of Divisional Management System.*

- *Develop, maintain and revise policies, objectives, procedures, performance measures by:*
  - *revising and maintaining divisional manuals and documents. Divisional standing instructions: OHMS Series 2-8-4, regarding: Policies, Procedures, Administrative Instructions, Pattern, etc., within one month of documentation approval.*

The Ontario Hydro Management System (OHMS), as has been noted, was a very comprehensive set of documents. It addressed the problem of general versus specific policies, procedures, etc, by creating a series of levels where Level 1 would represent the corporate level and each subsequent level and step down in the organizational hierarchy that is Level 2 was branch, Level

3 division, Level 4 section and Level 5 unit. For each level, a set of principles was in place to describe the business. The initial elements were external in focus and formed a framework from an "outside" view.

Place, described the setting or working environment for the work unit including outside groups and their relativity to the work unit. Constitution, was the controls including legislation that established the unit. Internal, the first elements included administrative requirements. Pattern, how the unit is organized comprising functions, structure and authorities. Objectives, for this study, this was an area studied in some detail. The objectives in this context flowed from the goal of the unit that is target to be achieved. The objectives were a series of specific accomplishments that led to the goal. Most importantly, from the standpoint of this analysis, was that the objectives provided "a basis against which results can be measured". Therefore, to help a unit to reach its desired accomplishments, each unit would tend to have a single goal with a series of objectives that could be measured. Procedures, were the "how" to carry out the activities or services.

Some would argue that objectives should be in the next section "Operating Requirements" not "Administrative" and in fact, this approach caused some confusion for line staff. This was one of the problems encountered in presenting a complex system in a linear form. The complete general process model illustrated the interaction of the elements which when presented in narrative form tended to assume discrete relationships.

Under "Operating Requirements" came: Predictions, which were a combination of forecasts of quantifiable items, workload and finance with a sensitivity to social and political conditions. From the predictions, goals and objectives, came the strategy. This was an attempt to identify major alternatives analyse them and select the most appropriate. Programmes were the schedules and resources for the work to be accomplished. In this context, they are plans to meet the selected strategy. Resources, was the point where reality started to impinge on theory. For the work done by units of Ontario Hydro, four categories were used.

*Natural resources, for example water*

*Financial*

*Information*

*Materiel*

In parallel with the "objectives" interest in this system was the "results" requirements. The major facet of this section was, of course, performance. From the perspective of this system, performance was "carrying out the activities required by the unit's work program(me)s" and "includes the execution of all activities in the organization".

The outcome of this performance was product. Considerable effort was expended to define product as in some cases, the product for one unit became a resource for the next step in the organizational chain. This was explained to the author as "one person's ceiling is someone else's floor". The policy on results measurement was one outcome of the performance and product



elements. This was very comprehensive document that illustrated the breadth and depth of the approach.

<b>RESULTS MANAGEMENT</b>	
<b>SCOPE</b>	<p>This policy establishes the requirements to be used by all units in defining their performance and product and service measurement system as part of the management control system.</p> <p><u>Definitions</u></p> <p><b>Effectiveness:</b> The degree to which an organization or an individual can demonstrate the results of performance conform to prescribed requirements and conditions.</p> <p><b>Efficiency:</b> The relationship of actual output/input to a performance standard.</p> <p><b>Economy:</b> The thrifty use of resources, for example conservation of resources, in terms of requirements, storage (inventories) and disposals.</p>
<b>GOVERNING PRINCIPLE</b>	<p>Performance shall be measured so as to achieve most effectively the requirements of the Ontario community for electric service.</p> <p>Each unit of Ontario Hydro shall specify and measure its performance, products and services:</p> <ul style="list-style-type: none"> <li>- to enable the units' effectiveness in achieving its program; and</li> <li>- to enable higher level management to assess the units' contributions to the corporate goal.</li> </ul> <p>Measurements shall be based on the management system model. They shall measure the model's elements and process with specific reference to the unit's functions.</p>
<b>DECISION RULES</b>	<ol style="list-style-type: none"> <li>1. A manager shall choose measures for the key effectiveness areas of the unit's work program(me).</li> <li>2. The measures shall encompass both past and future resource flows for managing, resourcing and delivering products and service.</li> <li>3. Effectiveness, efficiency and economy shall be measured in the following terms: quality, quantity, time and cost/benefit; and reported as quality, quantity, resource consumption, price/cost of the product/service, and impact of product/service on the unit, the organization and the community.</li> <li>4. Specific measures, within the content and criteria categories above shall cover significant activities or issues of the unit, and be: <ul style="list-style-type: none"> <li>- clearly understandable;</li> <li>- concise;</li> <li>- reliable to a specified standard; and</li> <li>- cost effective.</li> </ul> </li> <li>5. The measure shall be: <ul style="list-style-type: none"> <li>- of suitable accuracy with specified precision;</li> <li>- reliable;</li> <li>- appropriately complete;</li> <li>- reflective of both benefits and costs;</li> <li>- stable and sufficiently consistent to allow for the development of trend information</li> <li>- evolutionary to allow for the development of new measures where they are important, but currently non-existent; and</li> <li>- to keep the measurement system relevant to changing organizational activities and community requirements.</li> </ul> </li> <li>6. The total set of measures for unit should cover: <ul style="list-style-type: none"> <li>- measures relating to the unit program(me) and program(me)s in the same line of authority; and</li> <li>- authorized measures required by other managers with integrating functions.</li> </ul> </li> </ol>

Table C.5

The twelve elements came together as the management system.

The most important activity for this position was converting the various elements to the operating level for the operational unit. For example, a level one policy would be transcribed to the divisional level with the appropriate degree of detail. Similarly, an objective for one level could become the goal for the one below it and so on down through the various levels. An anomaly of the system and one that tested its effectiveness was the use of corporate services. These services were ones, such as Real Estate stewardship, that applied at the corporate level and missing the intermediary levels were managed at an operating level. The measure for this position was, as the wording indicates, a local application of this procedure the use of an elapsed criterion (one month) is an effective control.

*Develop, maintain and revise policies, objectives, procedures, performance measures by: providing guidance and advice to divisional staff on all aspects of the administrative and operating bases within a two-day turn around time.*

Again, the use of an elapsed time measure focuses the attention on the service to, in this case, the internal customer.

*- Providing advice to the Section Head/Manager on the performance reporting system.*

This was an ongoing measure that tried to close the loop on the performance measures cycle.

- *Providing guidance and advice, regarding: RESD policies, procedures and other operating documents to other units in the corporation within a two-day turn around time.*

As noted in the accountability section, this position not only interpreted data coming into the unit but provided interpretation of local data to outside groups. Again, the elapsed time measure was used to supplement the customer satisfaction survey.

- *Providing a control source from where all management system documents can be accessed.*

As can be seen from the analysis to date, a proliferation of data arose from the development of the management system. It seemed appropriate to have this administered by this position.

#### 1.6 *Integrate and manage services, products, program(me)s for staff development and other Human Resource program(me)s.*

This represents the second facet of the position and creates a base for the resource planning function.

*Effective development and coordination of staff development services/products and program(me)s by:*

- *Providing technical training services and products to RESD staff.*

A number of indicators were used to estimate the impact of the training. The number of courses run, the number of manuals developed for

each course and the handouts used gave an indication of workload and provided a context to the work involved. Also, in most cases, a post-course questionnaire was used to evaluate the presentation of the material.

*- Providing information on educational courses.*

As a resource for the division, this position provided data and consulting services on mainly technical subjects.

*- Providing information on educational facilities.*

This was a by-product of the research and development for internal courses and consulting.

*- French Language Services*

An implementation plan was needed to implement this legislation. This included workshops, translation services and ongoing liaison.

*- Freedom of Information*

This legislation was enacted to allow access to information affecting both individuals and functions. In sensitive areas, it required monitoring to protect confidential material and business interest.

*- Affirmative Action*

This involved monitoring the status of the programme and coordinating its reporting.

## 2.0 PROJECTS

### 2.3 *Administration - value for money initiatives to improve effectiveness efficiency and economy of services provided.*

As well as providing services to customers/clients, most units have measures of internal activities where the emphasis is improving the way the services are supported as well as delivered.

*As evidenced by:*

- *A study to examine the operation and services/products provided by the divisional records centre.*

In most cases, the initial target is acceptance by the primary client in this case, the department head and secondly, the implementation of the recommendations.

- *Establishment of a divisional quality products assurance program(me).*

This programme was designed more as a control/inspection activity than a true quality programme.

### 2.6 *Internal Communications*

*Marketing and performance measurement of services/products we can provide RESD clients.*

Again, as a project this had an internal focus and reflected a move within the unit to think of itself as a "stand-alone" operation.

*- The development and implementation of appropriate performance measurement tools for units in RESD.*

The "appropriate" performance measurement tool for this unit was customer surveys. The departmental customer satisfaction survey was supplemented by course and project evaluation forms. These proved effective for this type of work. Though sometimes perceived as a "smiles" test, that is a measure of how much the participant enjoyed a course rather than how much they learned, evaluation forms particularly for courses that were repeated or where part of a series, were very helpful in adjusting the content or presentation to meet the participant needs. The use of project evaluation forms was new and helped to support specific task accomplishments. These also helped to provide insight into the customer satisfaction survey. As noted earlier, the survey tended to take a broad overview approach to the delivery of a service. By cross-referencing project evaluation forms with the customer satisfaction surveys reasons could be developed for positive or negative comments in the survey.

## *2.7 Information Technology Strategy*

*A policy on how to write proposals for the acquisition of computers and peripherals.*

The whole area of information technology had made a significant impact on the division. In many cases, "cottage industries" had sprung up to

handle local issues. A number of these local issues, however, affected other subjects downstream and concerns were being raised on the compatibility of the systems and their products. A second issue was the emergence of the computer "hacker". In a number of areas, staff who had learned about computers at home or in school brought experience to the workplace. Their knowledge, though tending to be narrow, was, in many cases, far broader than some of the more senior supervisors. This led to an awkward development process where those who knew the products to be delivered had little knowledge of the information technology vehicles best suited to deliver the product or service. By using their own staff with their limited knowledge of business information systems, a number of data bases started to emerge based on isolated software and hardware that severely limited their potential and compatibility. Hence, the move to an information technology strategy.

*- A methodology for conducting a post-implementation audit.*

An excellent measure for areas difficult to quantify, the use of post-implementation audits was projected as a way to measure computer purchases to evaluate the expected versus the was a he realised benefits.

*Identify and recommend opportunities in office automation by:*

*- Providing guidance on the use of office automation.*

As noted earlier, the proliferation of local systems had led to some inappropriate applications. The purpose of this measure was to reduce some of the poor applications, and it was hoped, increase the good.

*- Recommending and developing improved methods for handling, maintaining and retrieving information.*

The major concern, at this time, was the incompatibility of some of the systems in use. In fact, the major hindrance was when compatibility between systems was claimed, but on closer inspection it became apparent that the degree of compatibility was the problem. For example, one system tested claimed to act as a bridge between two incompatible systems, but in practice, the transfer of the data caused the codes to be dropped and while the actual data were transferred the codes that made it coherent were not and gibberish appeared on the screen. A second system claimed to transfer the protocols intact, but again, in practice, while it transferred the data and the protocols it converted commands such as carriage returns to number codes so while the binary count may have been correct the material was very difficult to read.

*- Developing and maintaining divisional standards and documents for office and its use.*

A direct outcrop of the earlier comments on local applications, the answer was seen as the development of standards to be used when the local use may have a divisional impact.

## 2.8 *Policy and Procedure Documentation*

*Review, develop and update objectives, strategies, policies and procedures by:*



As part of the management system, new policies and or procedures sometimes had to be developed either to use the corporate policy (Level One) at the local level. Or, less common local issues required a policy or procedure to address a corporate-wide issue with local responsibility.

*- Integrating Branch, Divisional and Departmental management documents.*

An example of the "corporate-down" policy would be the impact of a reorganization where the responsibilities, authorities, etc, would have to be re-sorted to reflect the new pattern. Similarly, a "local-up" policy would be where an area of responsibility, the use of conference rooms for example, would require a local policy, but because of its scope require a corporate-wide distribution.

*- Reviewing, updating and identifying the key objectives for the successful planning and measurement of performance.*

Again, the impact of higher-level objectives rippled through the system and these ripples required documentation to capture their impact at the lower levels.

## 2.9 *Human Resources Development*

*- Development and delivery of training materials required by divisional, branch or corporate clients:*

As well as the major training responsibilities, a number of secondary training programmes had to be run to meet local needs.

i) *Customer Service Bureau*

This was a concept to provide better service to customers on standard office items and moves. The performance measure was the development of the materials and the number trained.

ii) *Financial Evaluations*

This was an ad hoc programme where the incumbent identified a need and a resource to meet that need. Though the performance indicator was the number trained, the notable action was the identification and satisfaction of the original need.

iii) *RESD Employee Orientation Package*

Though a number of orientation programmes had been used (and discarded) the need to orientate staff to new surroundings was considered an ongoing problem. Part of the problem was the variance in experience levels that is, some of the staff were new to the corporation and required an intensive comprehensive programme others were from other parts of the organization and only required an overview of the division, while others were moving internally and required little more than to be told where their desk was. The problem was to meet this range of needs without boring the experienced or baffling the new. A orientation package was developed which allowed staff to extract only what they required. The measure of performance was the acceptance of this package by the client group.

iv) *RESO Supervisory Orientation Package*

In developing the employee orientation package, it became apparent that a group who required orientation to the job as well as the work environment was the new supervisor. This was particularly important for entry-level supervisors who were sometimes selected for their line skills and thrown in at the deep end to supervise staff who last week may have been their work mates. Again the measure of performance was client acceptability.

v) *Workplace Hazardous Materials Information System (WHMIS)*

This item is covered in detail in Chapter Seven.

- *Initial supervisory responsibility*

This is an item that could be placed in the personal contribution or Human Resources section. It was placed here to demonstrate that learning/experiencing the responsibilities of supervision should be integrated with the business processes. In this case, it involved acting for the supervisor in his absence and perhaps more interestingly supervising a clerical staff member in the preparation of a specific task.

### 3.0 *MANAGEMENT OF DIVISIONAL AND DEPARTMENTAL PROGRAM(ME)S*

*Accountable for providing systems to maintain an adequate level of internal control.*

This is a good example of where one level's process is another level's activities. The section on systems is for most positions an application of

control mechanisms to manage the various programmes. In this position, the major accountability was the development and maintenance of these systems.

### *3.1 Program(me) Control*

*- Provide information on performance targets and performance measurements to the Section Head and Manager.*

This is integrated under delivered product.

### *3.2 Pattern*

*- Coordinate and document pattern changes for this division.*

This is covered in Section 1.5.

### *3.3 Budget*

*Prepare the budget for the Policy and Planning Section.*

Though a part of the management of programmes section, this was also used as a special assignment to obtain experience and knowledge in budget preparation and to provide an insight into the budgeting process in preparation for supervisory responsibilities. Though it could appear in a number of sections, the key was not to lose the record of the experience.

## 6.0 PERSONAL CONTRIBUTION

### 6.1 *Leadership to the Department/Division in areas of responsibility.*

- *On maintaining a level of personal performance and credibility with subordinates, peers and superiors necessary to continue performing on the job.*

This is a measure that cascades from level to level. At the lower levels it becomes more difficult to define leadership examples. In this case, the best measure was leading by example both in dealing with peers and superiors.

#### *Initiative/Creativity*

- *The introduction of new program(me)s/activities that have improved the quality of service or working relationships within RESD or between RESD and clients/the corporation.*

This measure does not appear in other level contracts and is, in fact, an import (at least the initiative/creativity title) from the performance appraisal process. It reflected to a great degree the nature of the position and its incumbent. A very innovative individual, she would take the initiative in a number of areas and often surpassed expectations in her striving to "delight the customer". This is another good example where the contract must occasionally deviate from format to capture an essential part of a job or contribution.

## 6.2 *Personal conduct becoming an employee of Ontario Hydro*

*- To apply the values and principles described in the Corporate Direction.*

Though this measure "conduct becoming an employee" and its measure "the values and principles of the corporate direction" have appeared a number of times in this analysis, this is the first time they have been directly linked. It is a good illustration of where a difficult to measure subject, conduct, is compared to a known standard. This was a good example of an agreement of performance based on an external comparator.

## 6.3 *Community Relations*

*Involvement with corporate/community activities.*

The slightly different wording of this measure (the inclusion of "corporate") reflects a view that the community may include the organization that one works for, but not in areas of direct involvement, for example corporate involvement in charity work. Again, this was a perceptive extrapolation of the contract as an agreement of performance for that individual in that position.

## 6.4 *Corporate Direction*

*On application of the guiding principles in Corporate Direction.*

As noted in the item on leadership, the emphasis here is in living the principles.

## 6.6 *Provision of Information and Advice to the Director/Manager*

*The provision of information to the Director/Manager about emerging issues in all areas that may effect RESD's performance of services/products to ensure awareness/response/actions.*

This was an intrinsic part of this position's accountabilities. It was often seen as an "early warning system" to keep abreast of emerging trends in business and technology. It is interesting to note that at other organizational levels of the contract, the measure addresses keeping the position's immediate superior informed, the "no surprises" philosophy. For this position, the information is provided at a plus two and plus three level. Whether this was a conscious decision to bypass the section head position or it was presumed that the section head would be aware of these issues is not apparent from the materials analysed.

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