Read the article titled “How the Peter Principal Works”, by Josh Clark. Then, answer the following 5 questions.

1. What is the Peter Principle?

2. What is a hierarchy in relation to the workplace and how is it usually organized?

3. Do companies usually like to hire from within or outside the company? Why can this end up being a problem?

4. How, according to Edward P. Lazear, do employees tend to manipulate the reward system to get a promotion?

5. What is one way to address/solve the Peter Principle?
Chapter 5 Focal Review: The Peter Principle

How the Peter Principle Works

by Josh Clark

After Hurricane Katrina struck New Orleans, millions of families were stranded or displaced, food and water was scarce, and public safety became an issue of grave concern. The city was in a genuine humanitarian crisis, and many were calling for aid from the Federal Emergency Management Agency (FEMA).

But following Hurricane Katrina, FEMA proved to be sluggish and unresponsive. The agency had trouble coordinating efforts between subordinate agencies, like the Red Cross and state departments, and delivering supplies to families that needed them.

President George W. Bush complimented the head of FEMA, his friend and appointee Michael D. Brown, but to the people in need of help in New Orleans as well as the press, Brown bungled the relief operation. In fact, the U.S. Congress held an investigation into the series of mishaps that made up FEMA's operations in New Orleans.

It was later revealed why Brown experienced hardship as the head of FEMA: Brown was the victim of a poor promotion. Put simply, he had risen to a job with responsibilities that he couldn't fulfill. Before his role as FEMA director, Brown served as the commissioner of judges for the International Arabian Horse Association. He excelled in that position, and as such, was promoted by President Bush into a role with greater responsibilities: that of FEMA director.

Brown was widely perceived to have failed in this position. To make matters worse, his incompetence was displayed as publicly as is possible, with the international media focusing their attention on his every misstep. Brown eventually requested to be removed from his position as FEMA director, with his famous question, "Can I quit now?" [source: CNN].

Brown was vilified by the media, but it's difficult not to commiserate with him. He was good at his previous job, and -- as is dictated by the American Dream -- when offered a position with more prestige, salary and potential for growth, he took it. The person who gave him the job had faith in his abilities, so why shouldn't he take the job? But Brown proves that a promotion isn't always a good thing.

While the stakes aren't usually as high, promotions like Brown's happen frequently in business and government bureaucracies. A person who excels at his position is often rewarded with a higher position, eventually one that exceeds the employee's field of expertise. This is called the Peter Principle, an observation put forth in the late 1960s by Dr. Laurence J. Peter, a psychologist and professor of education [source: Business Open Learning Archive].

"In a hierarchically structured administration, people tend to be promoted up to their level of incompetence," or, as Dr. Peter went on to explain in simpler terms, "The cream rises until it
sours." The Peter Principle has even found its way into Masters of Business Administration (MBA) curriculum.

So what does the principle imply about the structure of the companies that supply our livelihood and the governments that rule us? In this article, we'll learn about the Peter Principle and ways to combat it.

**Peter Principle Models**

The Peter Principle was first introduced in an article written by Dr. Laurence J. Peter in the January 1967 issue of Esquire magazine. It struck a chord among American office-dwellers. Following the response to the article, Peter, with the help of writer Raymond Hull, wrote the book, "The Peter Principle: Why Things Always Go Wrong."

Although the book presents its ideas humorously -- using cartoons, funny anecdotes and elaborate terminology for office foibles, like the insistence of some workers to maintain a clean desk -- the Peter Principle uncovers a real flaw in the structure of hierarchies.

A *hierarchy* is one way a company can be organized. In this type of composition, work is spread out in a pyramid shape, with lots of regular employees doing the largest amount of the work completed. Above them are supervisors, then management and so on until the top of the pyramid is reached in the form of the CEO, chairman, owner or president.

Many companies prefer to promote from within their hierarchy. In theory, employees promoted from within are already familiar with the inner workings of the companies and have a good grasp on the company's goals. But the Peter Principle reveals a problem with internal promotions.

As a person continues his path of promotion, he's eventually promoted right out of his field of expertise and into a position where he's utterly and helplessly incompetent. A Web designer, for example, can excel at his work, and as a reward for his effort and skill might be promoted to director of the Internet technology department. In this position, he could flounder. His skills at designing will, of course, come in handy. But there'll also be added duties -- like hiring and firing employees, motivating workers and dealing with a budget -- for which the promoted Web designer could be unqualified.

At the point where his level of incompetence is reached, an employee's promotional trajectory usually ends, and he's stuck in a position where he no longer has confidence in his abilities and produces less work for the company than he did in the position in which he excelled. The problems created by this promotion are compounded by the idea that an incompetent manager will make incompetent decisions -- including deciding who to promote. Eventually, says the Peter Principle, the higher levels of a bureaucracy become populated entirely by incompetent people.

Once an employee reaches his level of incompetence, in general, he won't be fired from the position, unless he's what Dr. Peter dubs a "super-incompetent" -- a person who's actually defined by his mistakes. Instead, the promoted employee is usually mediocre in his new position. He's able
to cover up his incompetence and spends a lot of time doing just that. Most hierarchies don't have a fail-safe that includes demoting a person who isn't qualified for a position. The employee is usually left alone or fired.

Since the bulk of the productivity within the company is generally carried out by the regular employees who form the base of the hierarchical pyramid, companies can operate indefinitely, so long as the incompetence of the higher levels doesn't present itself through catastrophic decisions.

In the next section, we'll look at other interpretations of the Peter Principle.

**Peter Principle Interpretations**

Dr. Peter's principle is weighted slightly in favor of the regular employees. Another explanation -- one put forth by Edward P. Lazear, a theorist at Stanford University's graduate business school -- takes the blame largely off management's shoulders and places it on the employees.

In his article, "The Peter Principle: A Theory of Decline," Lazear states that some cunning employees manipulate the reward system to get a promotion. An employee with his eyes on the prize of a bigger paycheck, higher status and a corner office will work his tail off to get a promotion. After the requisite amount of time working tirelessly, the employee will most likely receive the promotion he seeks. Once the goal is attained, the employee gives himself a break, taking time to relax after a period of intense productivity [source: Lazear].

From an outsider's view of the employee's work history, it appears that the promotion was the trigger for a decline in work, when all the while, the productivity being demonstrated before the promotion was actually artificial. In Lazear's view, it's not incompetence that's the eventual result of promotions, but an employee's desire to work less that's to blame for less productivity in his new, elevated position.

This is also seen in human courtship rituals. When a man finds a potential mate, he'll spend more time and energy on making himself appear attractive and interesting. When a commitment is reached, the amount of time and energy spent on these pursuits inevitably declines, what some refer to as "letting yourself go."

This notion is reflected in another theory, one posed before the Peter Principle by the English historian C. Northcote Parkinson in The Economist magazine in 1955. Parkinson's first law states that "work expands so as to fill the time available for its completion." Like the Peter Principle and Murphy's Law, Parkinson's Law is a tongue-in-cheek revelation of what may be a universal truth. In this case, that employees tend put off until tomorrow what can be done today.

There are, however, ways around the Peter Principle. In the next section, we'll take a look at some clever and not-so-clever solutions.
The technology boom that began in the early 1990s produced a new business model, the start-up company -- a type of company put together quickly with minimal cost and size. But time has shown that the Peter Principle can still apply to even these new companies.

In his essay, "The Peter Principle of Innovation," Nitin Borwankar applies the Peter Principle to innovation. He proposes that a young company has room to innovate, producing new ideas and advancing old ones. However, when one of the innovations is a success, all of the company's energy and resources become attached to that particular model. At that point, innovation turns stagnant and homogeneous. This is the innovation equivalent of a promotion to the level of incompetence.

Those in the company who desire to continue to innovate may leave, start their own company, and begin relentlessly innovating again, carrying on the cycle of innovation and stagnation.

Fighting the Peter Principle

Perhaps the best way to address the Peter Principle in a corporation would be to institute a policy of demoting employees -- without the stigma of failure -- to their most appropriate level of work competence. If an employee isn't working out in a higher position, allowing him to go back to whatever position he excelled in would avoid the effects of the principle. This would, however, require the supervisor who made the poor promotion decision to admit he made a mistake, an act not often found in the higher levels of a hierarchy.

Another solution to the Peter Principle calls for higher pay without promotions. Employees often accept a promotion -- not for the power and prestige -- but the increased pay attached to it. If companies were willing to offer large pay increases for excellent work within the same position, the Peter Principle would be averted, and the employee could make more money while staying in the position he enjoys and in which he's competent.

Peter suggests that a manager who finds himself saddled with an incompetent employee has the ability to get rid of that employee without firing him. Peter suggests a lateral arabesque, or giving an incompetent employee a longer title with less responsibility. This way the employee still feels important, but is kept away from the flammable material, so to speak.

Peter also recommends percussive sublimation as a way to get an incompetent employee out of a manager's hair. In this method, the incompetent employee is simply promoted to another position in another division.

Perhaps the most important factor in avoiding the Peter Principle is an alert employee, one who is aware of the extent of his capabilities. The offer of a promotion is tempting, but the employee must consider the extra responsibilities and jobs that come with it. Of course, the employee can
simply turn down a promotion if he feels it's beyond his capability, an action Peter referred to as Peter's Parry.

Outsmarting an employer is another option. The employee who knows his limits has a fail-safe from being promoted to his level of incompetence: self-sabotage. Peter terms this as "creative incompetence." He advises the employee who is happy in his current position to take steps to make himself appear less desirable for a place in the ranks above him. Subtly painting your personal life as morally questionable, wearing too much perfume or cologne and parking in the company president's reserved space from time to time are all examples Peter gives of this method [source: Time].

You just have to make sure that your efforts to sabotage your chances for a bad promotion don't get you fired from your current position.

Sources

Exercise Answers

1. When a person who excels at his/her position is rewarded a higher position, eventually one that exceeds the employee’s field of expertise.

2. A hierarchy is one way a company can be organized. In this type of composition, work is spread out in a pyramid shape, with lots of regular employees doing the largest amount of the work completed. Above them are supervisors, then management and so on until the top of the pyramid is reached in the form of the CEO, chairman, owner or president.

3. Companies usually like to hire from within. This can be a problem because the employee is eventually promoted right out of his field of expertise and into a position where he's utterly and helplessly incompetent.

4. An employee will work tirelessly to earn a promotion, but as soon as he attains it, he lets himself decline/ take a break from the intense period of productivity.

5. To institute a policy of demoting employees -- without the stigma of failure -- to their most appropriate level of work competence. Another solution to the Peter Principle calls for higher pay without promotions. Employees often accept a promotion -- not for the power and prestige -- but the increased pay attached to it.