Empowering Times

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Dear Reader,

As we are now approaching the end of the financial year, it is also the time when companies get busy with the Performance Appraisals. We thought of visiting the subject of Performance Management in this edition of Empowering Times.

Performance today is no longer about meeting expectations, but creating an impact at an organizational level. The Bell curve or the Gaussian Curve introduced by GE has almost become the standard practice in most organizations for differentiating performance of employees. **P. Vijayan**, Principal Consultant, calls the Bell Curve as a necessary evil and expounds on the concept of forced ranking in Thinking Aloud.

On the Podium, we have **Srikanth Karra**, Director - Human Resources at HP, who shares with us what it takes to implement a good Performance Management System. Srikanth, as a senior professional with his vast experience in various companies reveals that it is not just performance but performance driven by values, which matters the most.

Some more help on the difficult area of performance management is here. We recommend the book **Forced Ranking** by **Dick Grote**. **Sachin Bhide**, Management Consultant and founder of Book Readers Club, Pune, reviews the book in Between the Lines.

Be very careful while designing your performance management system, says Vikram Nandwani in Figures of Speech.

We value your opinion. Like always, do let us know about how you like this issue. To visit our previous issues you can visit the Media & Archives section on the website or simply click here.

Geetanjali Sharma
Editor

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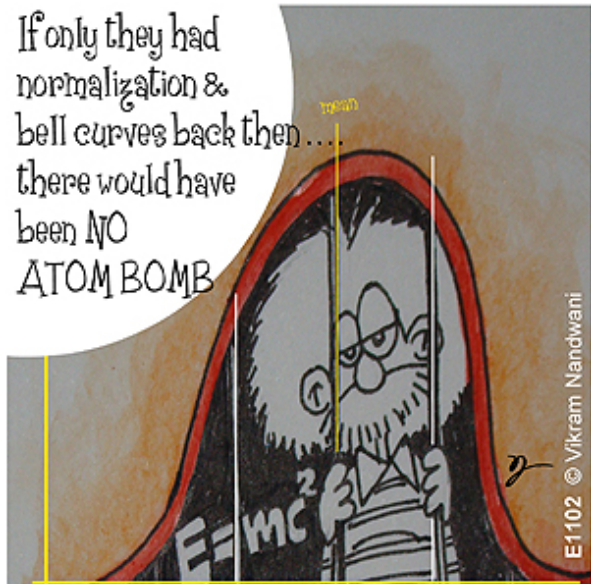**PODIUM**
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THINKING ALOUD

PMS and the 'Bell Curve' - *P . Vijayan*

I was recently on a web chat with fellow members of the HR community on the subject of Performance Management System (PMS). One of the questions that occupied the minds of many participants was the Normalization process(popularly known as the Bell Curve) and its relationship with PMS. Let me share my views and thoughts on this 'useful and controversial' method.

Normalization process in assigning Performance Ratings stems from two core beliefs:

a. Managers, when asked to assess on an absolute basis, inherently tend to overrate good performance and tend to also be 'less harsh' when performance is below the expected standards or norms.

b. All natural processes have an inbuilt variability. This is a universal phenomenon. Hence, performance levels of employees in a team or a unit or an organization are also inherently 'variable' and statistically tend to follow a pattern, as depicted by the Normal Distribution Curve*, (Fig. 1).
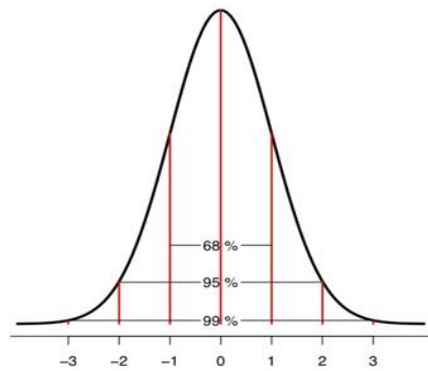
Fig. 1

Applying the Normal Distribution Curve in PMS means that the majority of employees (about 60 percent) are expected to be performing at an acceptable level of performance and are referred to as 'solid citizens or steady performers'. On both sides of the 'solid citizens', are the outliers - those employees who are either significantly above or significantly below acceptable performance standards. These outliers form 10 to 15 percent in each category. The rest 10 to 20 percent get spread out in a 5 point performance measurement rating scale. This results in the 'perfect bell shaped distribution curve', also referred to as 'Normal Distribution Curve'.

It will be unrealistic to state that all employees in a work team are performing equally well. Normalization compels Managers to 'force rank' or 'rate' each employee in the team, vis- a-vis other employees with a fixed number of employees being rated as good, very good and so on. It promotes a healthy debate amongst Managers to truly recognize outstanding performance and is of immense value when the performance levels of employees across different types of businesses (in a large business context) have to be compared.

It may be also noted that there are exceptions when the 'perfect bell shaped curve' is distorted. It happens in situations wherein a company is in an industry of high growth, employee turnover is very high or there is a shortage of key skills. Normalization also does not deliver useful results when team size is small and the roles are extremely specialized and different from each other. Normalization, however, also leads to Manager behavior of 'Quota Management', so as to keep morale and egos happy. This is the most significant downside and undesirable consequence of this 'quantitative centric' approach.

My personal view is that normalization is a 'necessary evil'. Until Managers develop improved capability and courage to differentiate performance levels more sharply, externally imposed normalization curves cannot be made altogether redundant.

A normal distribution of data means that most of the examples in a set of data are close to the 'average', while relatively few examples tend to one extreme or the other.

PODIUM

INTERVIEW: Srikanth Karra

Srikanth Karra, graduated from TISS in 1987 and started his career with Blue Star. After spending close to 10 years with ITC, he joined a start up company and moved to the then emerging IT sector. This saw him moving to GE Capital International Services (GECIS), where he was the Head of Human Resources. A little after the sale of GE's stake in GECIS, he moved to Syntel Inc. as the Global Head of HR.

Srikanth, currently is the Director of Human Resources at HP, where he heads the function for the country. With his vast experience in designing and implementing HR Systems and Practices, and having worked in companies recognized for their strong HR practices, we requested him to share his thoughts on the subject of Performance Management. Read on to know more...

ET: What are some key tenets in designing a performance management system?

SK: The key elements are Differentiation, Performance and Values. These key elements need to be integrated into an evaluation matrix which in turn is flexible enough to align with the business needs and performance. In other words, the matrix needs to be constantly revisited to that year's business goals and needs. For example, the percentage of differentiation could vary from year to year depending on business performance, just as you change performance goals every year.

ET: How does one institutionalize a 'performance culture' in a globally diversified organization like HP?

SK: The basic golden rule is ownership of the performance management system by the CEO and business leaders. HR should only act as the key consultant, designer and facilitator. The other factors are discipline and rigor of follow up, prompt actioning of development needs, a hard coded system with goal setting & measurable outcomes, defining & evaluating the values and not just performance, clearly establishing the interdependencies of Values vs. Performance, principles of differentiation and the resultant compensation distribution.

ET: What are some pitfalls to be watched for while designing and implementing a performance management system?

SK: The biggest pitfall is said through these famous words "It is easy to measure hard stuff, but difficult to measure the soft stuff'. It is simpler for leaders to give quantifiable targets like - sales, earnings, attrition, margins, etc., evaluate performance against those targets and assign ratings to their people. But, many fumble when it comes to measuring and stacking their people against the values or desired behaviors. We see many leaders who are short on values, high on short-term performance who in-turn, ruin institutions in the long run. Institutionalizing values and living by them is what creates sustained performance and strong organizations.

Lastly, but very important is that one word which ruins a strong performance management system - 'Objectivity'. There is nothing called objectivity in human dynamics. Many believe that putting numbers and metrics makes a system objective. Nothing can be farther from the truth. Performance management system is purely relative and differentiated ratings are relational to a benchmark goal and situational. HR should clearly establish these expectations and should clarify that the design of the system is to reduce subjectivity as much as possible but not to make it objective.

ET: How does one build consensus on what constitutes performance?

SK: A cascading method or joint evaluation or all relative rankings in an atmosphere of healthy and intellectually stimulating debate is the best way. By this, you ensure joint ownership, a strong buy-in and team building. For example, one layer above jointly evaluates the reporting layer facilitated by a good HR person.

ET: A large number of organizations use the Forced Ranking method today. What are your thoughts on the Forced Ranking method?

SK: Forced ranking is unfortunately used as another word for differentiation. A general guideline on what you expect as percentage differentiation derived from business results and the flexibility allowed for teams to justify their distribution, in case of deviation from the guideline, is a healthier practice than forcing a hard coded percentage distribution.

ET: Can you please share some best practices followed by organizations in managing performance?

SK: I would say GE's Performance / Values matrix is a well-accepted best practice. HP's emphasis on leadership values is an excellent practice.

BETWEEN THE LINES
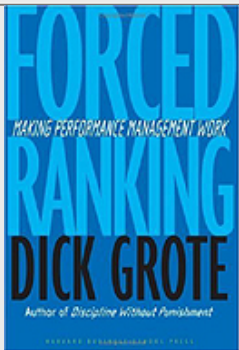
Forced ranking
- Dick Grote

In the year 2000, General Electric's CEO Jack Welch in his final shareholder's letter, stressed the reasons why he favoured evaluating employees on a relative basis and systematically eliminating the lowest performers. Since then, this method of ranking employees has gained a lot of attention. The author mentions that the reaction to forced ranking was universally negative but information about this talent management process was not widely available.

Dick Grote in his book 'Forced Ranking' has effectively explained how this technique can become an important part of an organization's total talent management. Forced ranking compliments the performance appraisal system and is not a replacement for it. It helps in understanding the depth of the talent pool and identifying leaders. The traditional method of appraising performance against standard performance is an absolute comparison approach. In a forced ranking approach employees are evaluated in terms of how well they did in comparison to how well others did - it becomes a relative comparison approach.

The author elaborates upon the technique of forced ranking, risks & rewards of forced ranking, and getting started with system. Dick Grote says that it is not just the design, the quality of execution is equally important and he further takes you to the practical side of implementing a forced ranking system. He elucidates on how to train assessors and conduct forced ranking sessions with a detailed example of how it is introduced in an organization.

The appendix section of the book is useful where you can get scripts for discussing results of a forced ranking procedure. Also, the Frequently Asked Questions (FAQs) may come handy to explain the process to employees and the legal aspects of forced ranking.

It would have been effective if the book included more cases and exercises on forced ranking. Nevertheless, if you are thinking of introducing this system in your organization, the book will be of enormous help in understanding how and when to use forced ranking.

About the Author: Dick Grote, is a management consultant, specializing in the field of performance management. With his over 30 years of practice, he has helped many organizations develop, implement and refine their performance management systems. He has also authored books on performance management. Discipline Without Punishment is another classic from the author.

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