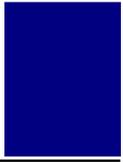




## **Aventus Partners Knowledge Series**

### *Moving Past the Bell Curve while Managing Performance*

**2015**



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# 1 BUSINESS DRIVERS & THE TALENT MANAGEMENT CHALLENGE

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The 1990s were characterized by globalization and by organizations aggressively increasing their global footprint. The demands on businesses and managers were to deliver growth and ensure that teams around the world are aligned in terms of where the organization wants to go and to deliver on those goals. The key drivers of success were ability to dominate the market (GEs famous strategy being No 1 or 2 in every business/market they operated in or exit that business or market) and deliver economies of scale.

Differentiation of employees' basis their levels of performance became a key lever in delivering on this strategy. Systems were introduced that segregated the entire workforce into top, average and bottom performers. This gained quickly in popularity and adoption.

Its popularity also had much to do with GE's aggressive expansion strategy and success and within a decade this system became a trusted mode of assessing and rewarding performance. It worked for over 2 decades primarily because:

- It facilitated a top down goal setting approach with a pay-for-performance system motivating employees to perform better and better over time
- It led to an improvement in the overall organizational performance as the poor performers at the bottom either voluntarily moved on or were eased out

While differentiation has the above merits the system quickly morphed into one of forced rankings and in crept the statistical tool of the "Bell Curve". Organizations across the world started equating differentiation of performance with forced rankings that followed the bell curve pattern and this became the default system in most places.

Cut to the present. The last few years have seen clear shifts in the drivers of business. Rapid growth and market dominance today comes from Innovation and Intellectual Property that is created through interdisciplinary collaboration and high levels of service orientation (both external and internal). Goals no longer are purely top down but emerge through a dynamic interplay between levels and various parts of the organization. Business leaders and managers are looking at ways of attracting, retaining and empowering more and more top talent from the market. The belief is that more the number of people

who perform at the maximum of their potential the more is the value that will be created for the customers and consequently for the organization.

And then, all of sudden the trusted bell curve is not working anymore.

Why did the big bell (curve) stop resonating?

- The bell curve assumed that performance follows a “normal” distribution, i.e. there would be an equal number of employees falling above or below the mean. This principle resulted in forced ranking by Managers to fit performance within the established norms of the bell curve, resulting in disgruntled employees and unconvinced managers. The finger is pointed towards an unseen hand called “Moderation”
- The bell curve measured of “Relative” performance. In other words, it compared an employee’s performance with those of others in the organization, irrespective of their absolute performance. Thus an employee who has over achieved on all performance parameters may be forced to be rated as an average performer because others in his team have performed even better
- It came with the stigma of being a poor or under performer building a hostile environment of high pressure that negatively influences innovation, risk taking and collaboration.

The last 2 years have witnessed a large number of organizations both global and Indian making the shift towards systems that drive high performance behaviors of innovation and risk taking. Google, Adobe Systems, InMobi, Mindtree being just a few.

## 2 WHAT LIES AHEAD: LOOKING PAST THE BELL CURVE

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So what lies beyond the bell curve?

We at Aventus partners believe that the way forward is to:

### 2.1 RATE ABSOLUTE PERFORMANCE

Follow a system of absolute rating where performance is assessed on the basis of an employee's achievement of individual and team goals set at the start of the assessment period. These goals need to be clearly measurable and impacted by the individual. His/her performance ratings for the year would be assigned purely on the absolute level on achievement of these goals and not in relation to others in the work group/organization. At a group/ organizational level there would be no moderation of the performance ratings.

### 2.2 RELY ON HOLISTIC ASSESSMENT

There will be roles and levels in organizations where it is not possible or advisable to have quantifiable individual goals. In these cases, institutionalize a process to capture feedback on individual performance and service delivery from internal stakeholders in addition to the input from the immediate manager. Initiate a multisource/ 360 degree feedback process if you don't have one, and incorporate data from the above processes while rating performance and having growth and development discussions.

### 2.3 LET THE "DATA SPEAK "

Do not force fit performance data into a "Normal Distribution". Instead allow the performance curve to emerge from the "performance data". Let the "data speak". Correlate this data with the group /organizational performance. See what the data is telling you.

## 2.4 HAVE CONVERSATIONS

Periodically review and categorize employees basis the levels of “*Consistent Actual Performance*” and inputs from the “*Holistic Assessment.*” The objective of this process is to have conversations with the individuals, let them know where they actually stand and enable them move to the next level.

It should enable the decision makers identify and take steps to retain “Consistent Over Achievers “, create growth opportunities for “Consistent Achievers” and provide tools and coaching for “Near Achievers “ and “Under Achievers “ to help them achieve their goals.

This will serve the dual objectives of raising the overall performance levels of the organization and fostering a culture of innovation, risk taking, collaboration and professional development.

## 2.5 COMPENSATION INCREASES TO BE BASED ON COMPOSITE FACTORS

Effect increases in fixed pay on a composite set of 2 or more factors most relevant to your context, performance rating which is “Consistency of Achieving Goals”, being just one of them. The other factors could be the critical nature of an employee’s skills, the criticality of the role internally, employee’s current compensation positioning Vis a vis the comparator market, employee’s current compensation positioning Vis a vis the internal compensation bands and estimated cost of replacement.

Variable pay increases should be used as the primary tool to reward absolute performance in a given period (annual/half yearly).

You will be surprised at what this can do for overall performance - both of the individual employees and of the organization!

*If you are interested in seeing how this can be operationalized, we would be glad to take you through a simulation.*

### 3 ORGANIZATIONS THAT HAVE MADE THE TRANSITION

Listed below are organizations, both global and Indian that have found alternatives to the Bell Curve:

#### Google:



- Goals are set through quantifiable “Objectives and Key Results (OKR)” that will lead to fulfilment of the set objectives. OKRs are set annually and quarterly.
- The appraisal process begins with employee’s own synopsis of achievements and missed opportunities to be followed by Manager’s ratings.
- A lot of focus is also on 360 degree feedback received when considering upward/ lateral movement for an employee

- Forced ranking has been replaced with the “check in” system where goal- setting is a collaborative process initiated by an employee
- Employees get real time feedback in order to implement it in their projects and not 6 months later.
- At the end of the Quarter, a comprehensive feedback session is scheduled

#### Adobe:



- Appraisal templates have been replaced with meaningful conversations & annual meeting to streamline feedback
- Managers to create individual one page report on their team members at year end encompassing all achievements, areas of improvement and growth plan for the employee
- For employees in non- sales function, variable pay has been replaced with Fixed pay to do away with the carrot-and-stick approach

#### InMobi:

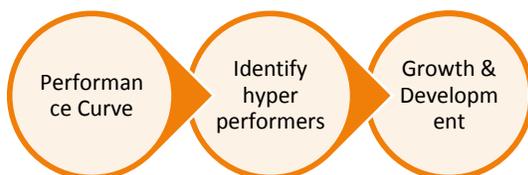


- Target achievement is the most important criterion for individual performance management
- “Blank goals” are provided to employees wherein they can assign 20% of their goals for independent projects

#### MPhasis:



#### Mindtree:



- Bell curve has been replaced with The Performance Curve based on the Long Tail Method
- Aim is to identify, reward and develop skills in hyper- high performers, high performers, potential high performers, and so on till one reaches the end of the tail

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