



**JACKSONVILLE CITY COUNCIL
PERSONNEL COMMITTEE**

March 8, 2017

1:00 PM

**Lynwood Roberts Room 1st Floor
117 West Duval Street - City Hall – St. James Building**

**Honorable Lori N. Boyer, Chairperson
Honorable John R. Crescimbeni, Vice Chairperson
Honorable Anna Lopez Brosche, Finance Chairperson
Honorable Garrett Dennis, Rules Chairperson
Honorable Scott Wilson, Member- Appointed**

**Dr. Cheryl Brown, Director
Kirk Sherman, Council Auditor
Kristi Sikes, Chief of Council Administration Services
Jeff Clements, Chief of Council Research
Peggy Sidman, Office of General Counsel
Carol Owens, Chief of Legislative Services
Laura Dyer, Executive Administrator
Diane Moser, Director of Employee Services**

AGENDA

- 1. Call to Order**
- 2. Roll Call**
- 3. Topics of Discussion**
 - **Council Auditor's Position**
 - **Evaluations**
 - **Employee Services- Directives**
- 4. Personnel Committee:**

Next Meeting: March __, 2017 _____.m. to _____.m. - Conference Room A Suite 425
- 5. Comments/Questions**
- 6. Adjournment**

The Employee Performance Evaluation Process

Performance Management – 3 key areas:

1. Performance Planning = Effective performance management is based on setting clear expectations
2. Performance Coaching = Address specific accomplishments and concerns as timely as possible
3. Performance Appraisal/Evaluation = Individual performance is formally documented and feedback is delivered

Ongoing communication and documentation are key elements of performance management

Performance Planning

Creating a Performance Plan lets the employee know:

1. What is expected with regard to performance
2. Where he/she stands as a performer during the evaluation stage
3. What is needed in order to improve job performance if there are performance issues

Test each work factor to make sure that it is:

- ▶ **S** Specific: Describes clearly what is to be done.
- ▶ **M** Measurable: Can be measured or described in a way that is easily understood. The expected result should be observable by the employee.
- ▶ **A** Attainable: A good objective will stretch capability and present a significant challenge, but must be within the employee's ability and capacity to attain.
- ▶ **R** Relevant: Can be completed within available resources, will have real meaning to the employee, and is within the realities of organizational life.
- ▶ **T** Time-bound: Uses due dates and milestones.

Communication and Documentation

- ▶ Hold regular meetings to discuss goals, accomplishments and concerns as they happen, rather than only giving feedback once a year. Documenting these items will help in your year-end evaluation process.
- ▶ If an employee is not meeting expectations, it is important to address it as soon as possible with specific examples, consequences of lack of improvement and a time frame for improvement when appropriate. Document these examples, the outcome and the improvement plan discussed.
- ▶ Each time you find reason to praise or warn an employee regarding his/her performance you are evaluating the employee's job performance. Documenting such incidents as they occur will greatly assist you in the evaluation of your employees.

Employee Log - It is highly recommended that supervisors keep notes during the year

- ▶ It is the supervisor's responsibility to keep good documentation on employee performance and development throughout the year.
- ▶ Documentation should include a statement that details to what extent the employee's performance exceeds or fails to meet performance requirements.
- ▶ Examples must be cited. Be specific.

ABC's of DOCUMENTATION

Accurate

- Record objective facts concerning actual performance as it occurs, rather than from memory.
- Record only job-related behavior.
- Record direct observations rather than relying on hearsay.

Behavioral

- Describe specific behavior rather than making evaluative statements or describing an individual's personality.

Consistent

- Record both positive and negative behaviors rather than emphasizing either.
- Keep the same basic format and level of detail of documentation for each subordinate. Specifically, one should not be full of details where another one lacks details.

Be consistent in your documentation, communication, and actions.

Cautions – Writing Evaluations

- ▶ Rate the entire year, not isolated events, and provide clear and specific examples to support ratings above or below a Satisfactory rating (examples on slides 9–11).
- ▶ In order to make sure that employees who do perform well continue to do so, they need to be properly recognized. Grade appropriately based on the group as a whole.
- ▶ Be honest when indicating a rating; inflated ratings will hurt the whole team. Unsatisfactory and Above Satisfactory ratings should be the exception, not the norm.
- ▶ It is important to understand the performance levels and to deliver the right message of what constitutes a “Satisfactory” job expectation rating.

Examples for Above Satisfactory Ratings

Justification for an Above Satisfactory Rating: Adheres to safe office practices

- “Mary not only adheres to safe office practices, but has posted several safety guidelines for using office equipment on the employee bulletin board and ordered a special guard to go on the office shredder to add an additional layer of protection. She has also volunteered to train all new employees on safe office practices and provided the employees with a safety handbook she developed. This extra effort has insured that accidents have not occurred in the past 12 months. Mary sets the example for other office staff in the safe and efficient operation of office equipment.”

Justification for an Above Satisfactory Rating: Prepares, scans, and organizes records and other documents for imaging/scanning process.

- “Rose consistently scans and organizes records and other documents in a timely manner. They are usually scanned and saved appropriately the same day they are received. She also goes out of her way to help others get all of their scanning done. Rose also noticed a need to have the staff trained on the new scanner equipment and reached out to the vendor and had them come in and provide training and tips on shortcuts.”

Justification for an Above Satisfactory Rating: Distributes paper copies of the City Council calendar to security and building maintenance weekly.

- “Scott not only distributed paper copies of the City Council calendars to security and building maintenance, he also created an online calendar that all could access and had it set up to send email reminders to all those involved. This has cut down on issues that we have had to deal with in the past.”

Examples for Satisfactory Ratings

Employees who are doing their job with no performance issues should be evaluated as satisfactory.

Justification for a Satisfactory Rating: Coordinates work and leave schedules for VAB staff.

- “Katie coordinates all work and leave schedules for VAB staff and handles any issues that may arise. She also ensures staff coverage at all times.

Justification for a Satisfactory Rating: Answers incoming telephone calls to provide general information and when applicable, routes calls to the appropriate recipient.

- “John answers all incoming phone calls very professionally. He provides clear and accurate information and is knowledgeable of staff responsibilities so he accurately routes calls to the appropriate staff person.”

Justification for a Satisfactory Rating: Prepares and maintains official minutes, official records, and other correspondence.

- “Sue does a great job preparing official minutes and official records. The completion is timely and the finished product is professional and accurate.”

Examples for Below Satisfactory Ratings

Justification for a Below Satisfactory Rating: Reports to and departs from work in accordance with scheduled work hours and without excessive absenteeism.

- “Ted had a continuing tardiness problem during the evaluation period and failed five times to call in timely when he was unable to report to work.”

Justification for a Below Satisfactory Rating: Prepares and maintains official minutes, official records, and other correspondence.

- “Sue has only completed 61.5% (16 of 26) official minutes on time. While most of the minutes were only one day late, they delayed the information getting out to those that need it.

Justification for a Below Satisfactory Rating: Distributes paper copies of the City Council calendar to security and building maintenance weekly.

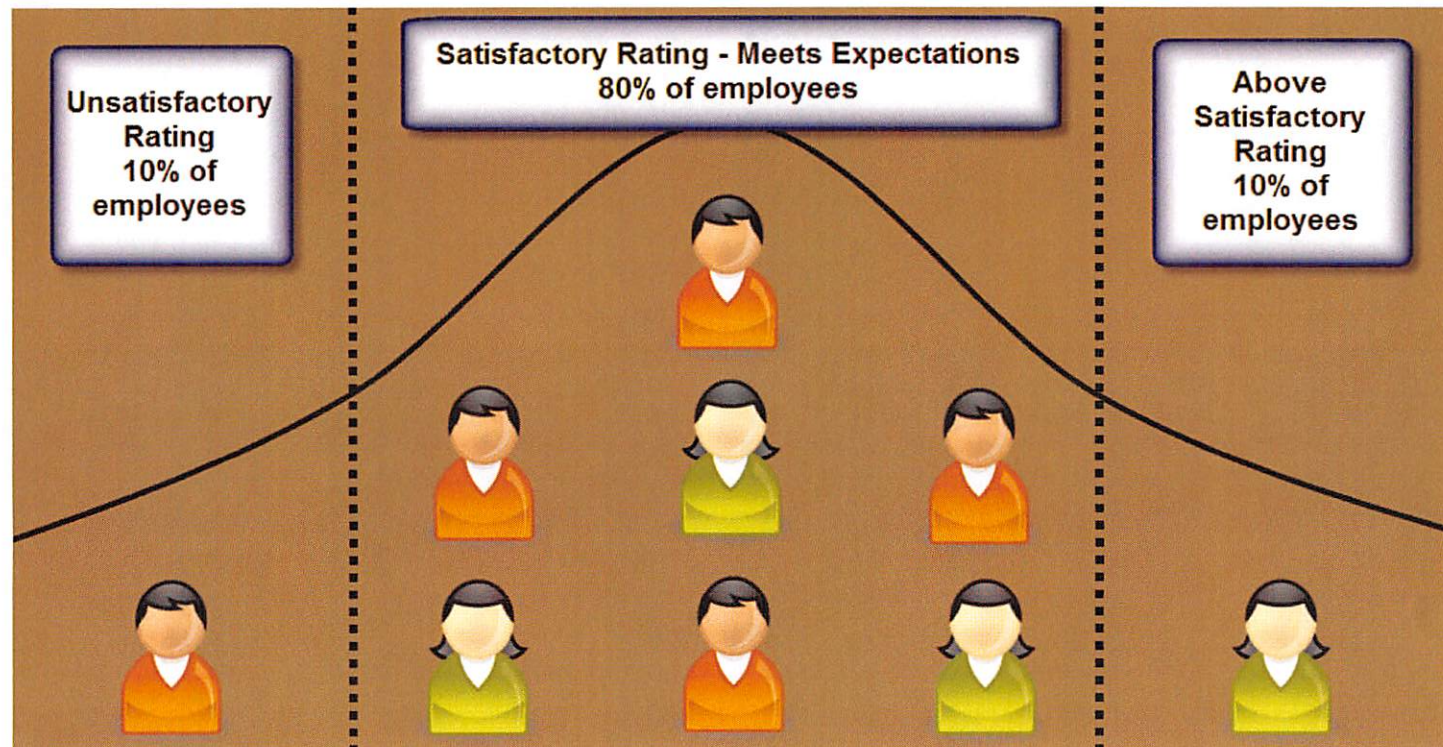
- “Scott did not distribute paper copies of the City Council calendar to security and building maintenance 4 out of the last 16 weeks. This has caused us to rush to find security for 2 City Council meetings and have had to call in building maintenance at the last minute on three different occasions.”

Common Rating Errors

Performance ratings should reflect actual performance, not irrelevant or incorrect information

- ▶ 1. **Central Tendency** – Rater consistently rates employees close to the midpoint of the scale when the employee's performance warrants a substantially higher or lower rating. This error may occur when the rater has insufficient information to accurately rate the individual, so the supervisor gives an average or “middle of the road” rating.
- ▶ 2. **Halo** – Rater inappropriately generalizes from one aspect of an individual's performance that is rated higher on the job. This error occurs because the rater fails to discriminate different levels of performance. Most workers are better at some tasks and perform less well on other tasks.
- ▶ 3. **Contrast Effect** – Tendency for a rater to evaluate a worker relative to other individuals rather than in comparison to the performance standards.
- ▶ 4. **Similar-to-Me Error/Friendship Bias** – Tendency on part of rater to judge persons they perceive as similar to themselves more favorably.
- ▶ 5. **Recency** – Tendency for supervisors to rate employees based on what they remember, which is generally more recent performance. This error often occurs when supervisors fail to take notes throughout the year.
- ▶ 6. **Leniency** – This error is the most common. The rater gives ratings higher than the employee deserves. That is, the rater gives ratings at the high end of the scale even though the employee's actual performance does not merit that rating.

Rating employees fairly: The Bell Curve System



- ▶ **Above Satisfactory**
 - Employee is going above and beyond on a consistent basis in many areas of the job
- ▶ **Satisfactory**
 - The employee is successfully meeting all requirements of the position.
- ▶ **Unsatisfactory**
 - A signal that performance improvements are needed in some areas.

Advantages Of The Bell Curve

1. Identify Top Performers Through The Bell Curve Grading:

- This philosophy compels managers to make decisions and differentiate between the performances of different employees. Those who are identified as high performers are rewarded by higher ratings; they feel motivated and work harder to grow in the organization. Their growth and career plans can be developed and initiatives taken to retain them. This not only helps retain the top talent but also builds succession pipelines.

2. Manage Lenient And Strict Ratings Of Managers:

- Unbalanced ratings may demotivate high performers and retain mediocre employees. The average manager has a tendency to rate on a lenient scale. Lenient ratings mean a larger cluster of employees in a high-rating group (a right-skewed bell-curve), and strict ratings mean large numbers of employees in a low-rating group (a left-skewed bell curve).

Holding Successful Evaluation Meetings

- ▶ Schedule a 1:1 meeting with ample time to deliver your review and discuss your ratings.
- ▶ Have one printed copy of the evaluation for the employee and one for yourself. Be sure to provide your employee with a copy at least 2 hours prior to the meeting for their review.
- ▶ There should be no surprises. Major performance concerns should have been addressed prior to delivery of the annual evaluation.
- ▶ Treat the employee with respect and professionalism. If the employee becomes upset, stop the meeting and resume the next day.
- ▶ Come prepared with examples to back up your ratings and evaluation.

What If An Employee Does Not Agree With The Rating?

- ▶ If an employee does not agree with the rating, listen with an open mind. If the employee provides specific information to change your opinion, adjust the rating. If not, explain factually to the employee the reason why not.
- ▶ If you are changing the way you have been evaluating performance in the past, communicate that clearly up front.



Office of the Council Director-Council Secretary Jacksonville City Council

Employee Assessment and Review (EAR)

- The **Employee Assessment and Review (EAR)** will provide employees, managers and supervisors the opportunity to plan for on-the-job success.
- **EAR** emphasizes a partnership between supervisors, managers, and their employees that supports a close collaboration regarding daily job tasks and responsibilities, departmental and organizational goals.
- Additionally, **EAR** will offer emphasis on **professional development** and **career goals** for employees
- The **EAR** process provides more than the usual **rating** of an employee's job performance.
- **EAR** gives each employee, supervisor, and manager the ability to develop **EAR** work plans together for individual and continued workplace success.
- Create and Develop: Vision, Goals, and Missions.

Example: The **mission** of the **Employee Assessment and Review (EAR)** is to provide a fair and balanced approach to performance management that supports a **culture of high performance** by **developing** and **celebrating** employee **accomplishments** and **service**, and **contributions** to the **residents** of the City of Jacksonville.

- The **vision** for the EAR project is to:
 - **Educate** employees on the new process and future application
 - **Establish** SMART performance measures, expectations, and developmental opportunities
 - **Align** performance plans with departmental strategic goals and objectives
 - **Promote** ongoing feedback between the employee and supervisor; and
 - **Keep** the EAR process simple and positive

Goal #1

- **Improve employee performance**
 - **Objective 1:** Improve information related to EE performance
 - **Objective 2:** Improve communications between EE and supervisor
 - **Objective 3:** Increase interaction (coaching) between EE and supervisor

Goal #2

- **Create a positive city culture**
 - **Objective 1:** Provide timely communication throughout the EAR lifecycle
 - **Objective 2:** Deliver effective training to all stakeholders
 - **Objective 3:** Respond to employees' questions and concerns

Objectives

At the end of this process, you will learn how to work with their supervisor or manager to:

- Actively participate in the development of work plans and goal setting for the EAR Assessment cycle;
- Make recommendations for adjustments to SMART goals when/if situations change during the year; and
- Participate in EAR work progress reviews and the final EAR assessment

The Importance of the EAR Process: The EAR process helps employees understand important aspects of your service:

- **EAR** will measure your success using descriptions and criteria defined by job tasks and responsibilities
- **EAR** will assure that tasks and responsibilities are accurate and achievable
- **EAR** will promote opportunities for correction, coaching, and counseling support versus punitive measures as a first choice
- **EAR** will offer support and focus on your development and training as needed

The EAR Assessment Tool: The EAR assessment tool has **THREE (3) major areas of emphasis.**

Supervisors, managers, and employees must work closely to determine if these areas are accurate and mutually agreed upon for the final **EAR** assessment scoring:

- **SMART goals:** Are your tasks and responsibilities SPECIFIC, MEASURABLE, ACHIEVABLE, RELEVANT and TIME-BASED?
- **BEHAVIOR factors:** Are you demonstrating competencies and abilities in other necessary and important areas of your work?
- **WORK Progress meetings:** Are all tasks and plans for success clearly documented?

What is a SMART Goal? Developing SMART goals simply means that you and your supervisor or manager has defined one or more important tasks that will be **reviewed** on your **EAR** assessment. The **EAR Assessment** tool will require that supervisors indicate at least one (1) and up to four (4) SMART goals to assess. To successfully develop these goals, they must be:

- SPECIFIC
- MEASURABLE
- ACHIEVABLE
- RELEVANT
- TIME-BASED

NOTE: SMART goals will vary in description and degree from employee to employee. The supervisor and employee should agree on the context of the task and the SMART goal descriptions for the final **EAR** assessment.



The Behavioral Factors:

The **Behavioral Factors** are other specific criteria regarding the employee's observable and measurable engagement at work. These specifics will vary, but will reference the employee's particular skills, abilities, and performance levels. For example, some of the **Behavioral Factors** include:

- Analytical Skills
- Communication
- Ethics and Values
- Judgment
- Problem Solving
- Teamwork
- Safety and Security

NOTE: The **EAR Assessment** will offer multiple selection choices. The supervisor and employee must select at least one (1) and up to four (4) that are most important and relevant to the employee's job functions. The supervisor and employee should agree on the **Behavior Factor** criteria used for the final **EAR** assessment.



Work Plan Sessions: Supervisor and employee **Work Plan Sessions** set the tone for the success of SMART goals. When this **important step is done well**, both supervisor and employee understand the specifics of work expectations and how to achieve them.

The **Work Plan Session** is a strategic component of the overall **EAR** process that serves as the link between supervisor and employee that will:

- Guide and support the goals of the department and organization.
- Make time available with your supervisor or manager to discuss various areas of your responsibilities and development.

Work Process Meetings

The Work Progress Meeting is an opportunity to discuss:

- SMART goals
- Employee development
- Career goals
- Issues and concerns
- Any other relevant topics regarding the employee

NOTE: It is important that the supervisor and employee reach a mutual agreement on every aspect of the Work Progress Meeting.

Simple Strategies for writing SMART Goals

Using your list of tasks and responsibilities, you and your supervisor or manager will develop at least **one (1)** and **up to four (4)** SMART goals that will be used to review your performance on the **EAR Assessment**.

REMEMBER: Each goal will be SPECIFIC, MEASURABLE, ACHIEVABLE, RELEVANT, and TIME-BASED.



SMART GOALS - Reinforced



S = Specific – The task or responsibility should be clearly and easily defined using the description from the employee's list of job duties.

M = Measurable – The quality, quantity, time, and cost of work.

A = Achievable – Does the employee have the knowledge, experience, and skills for the task?

R = Relevant – Does it directly contribute to the mission and goals of the department and City of Jacksonville organization?

T = Time-based – The employee's tasks and responsibilities should clearly state a timeframe, deadline, or other time-based expectation in which the action, activity or behavior will take place.

NOTE: Once a SMART goal is defined on the **EAR** work plan and agreed upon by both the employee and supervisor, additional breakdown of the goal is required to identify the success criteria that will be used for rating the final **EAR** assessment.



Writing Smart Goal Rate Criteria: (Take into consideration Job Specs from Employee Services Division)

- In the majority of cases, **SMART goals** will be reviewed for success using variables that describe whether you have met job expectations or not.
- Some positions will have tasks and responsibilities that can be easily defined by a certain 'value,' while others will not. For example:

Task: Maintain safety and cleanliness of facility.

SMART GOAL: Consistently maintain safety and cleanliness of facility daily.

- **SMART goal rating criteria** is determined by the level of success placed on each SMART goal. For example:
 - **Exceptional:** Consistently maintains safety and cleanliness of facility and reviews and completes final checklist of safety and cleanliness guidelines daily. Double-checks all safety protocols before leaving each day. Replaces and upgrades minor equipment and supplies
 - **Exceeds expectations:** Consistently maintains safety and cleanliness of facility. Completes final checklist of safety and cleanliness guidelines daily
 - **Meets expectations:** Consistently maintains safety and cleanliness of facility and reports daily
 - **Below expectations:** All cleanliness and safety issues are maintained by the end of the day. Cleanliness and safety reports are not turned in daily
 - **Needs Improvement:** Facility is not being maintained consistently to meet cleanliness and safety requirements each day. Cleanliness and safety reports are not being turned in. Complaints have been filed about lack of cleanliness in the facility
 - (The above SMART System of Rating provides an additional level of examination. The City of Jacksonville uses the rating measures listed below.)
- **Above Satisfactory** – Completing tasks above and beyond expectations on a consistent basis.
- **Satisfactory-** Completing work expectations and goals
- **Unsatisfactory-** Working below expectations and goals
- **Unable to Evaluate** – Where opportunities to perform work factors are minimal mark “U” unable to evaluate.

Rating Smart Goal - (Suggested Rating for EAR In House Program)

Each **SMART goal** must be rated according to the following values:

- **Exceptional = 5**
- **Exceeds Expectations = 4**
- **Meets Expectations = 3**
- **Below Expectations = 2**
- **Needs Improvement = 1**

DISCUSSION: Developing SMART goal success criteria. Note: City of Jacksonville Does not utilize a numerical system associated with its rating Criteria

The Work Progress Meeting

Work progress meetings provide opportunities to:

- Provide input about your performance
- Offer and ask for feedback and support
- Offer your ideas to improve performance
- Discuss progress toward professional development and growth opportunities
- Summarize points discussed and determine future goals for next meeting

EAR Assessment Schedule

Conduct EAR sessions:

- During the 6th month evaluation period of the employee's probation period.
- 3rd month and 6th month's evaluation for probationary period.
- During the 3rd month following a promotion (as a follow up for employment improvement, and support.)
- Whenever the employee changes supervisors or tasks.
- Weekly or Bi-Weekly individual employee and Team office meetings are encouraged to provide group assessments on office based team processes and goals. This will enhance individual performance and guide employee or employee expectations.
- **REMEMBER:** New employees should be given an initial work plan that guides the goals and objectives of the future work progress meetings.
- All employees must have written **EAR** work plan within thirty (30) days of the following events:
 - Hire or rehire date.
 - Beginning of the assessment period.
 - Date of promotion.

NOTE: Work plans are critical components in the EAR process. It is important that employees have a clear and documented understanding of job expectations.

SUMMARY

- A **positive** and **productive workplace** is one of the major goals of the new **EAR Assessment**. Our success greatly depends on all **employees working together to meet goals and expectations** successfully
- Let's use this new **EAR process** to move forward more **enthusiastically** and **more committed** to the **future** of the **City of Jacksonville** and the **development** of our **Council Office Workforce**.

NEXT STEPS

- Review the Employee Plan, Job Specifications, Office Work Assignments, if you haven't done so already.
- Review the EAR Guidelines and current work plan.
- Talk with your employee, supervisor or manager about the new EAR Process.
- Document your performance as well as your strengths and weakness on your own.
- Continue providing optimal service to the residents of the City of Jacksonville.
- Prepare for the launch of the EAR process application for Departmental In House Employee. Empowerment Process Plan.

Remember: You have our **“EAR”** and we **“hear”** you!

Punishing by Rewards: When the Performance Bell-curve Stops Working For You

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Abstract

Many organizations today use a bell-curve for performance evaluation process. They reward a small percentage of top performers, encourage a large majority in the middle to improve, and lay-off the bottom performers. Companies believe that such pay-for-performance system encourages employees to perform better. The question we explore in this paper is: *does the system increase the overall performance of the company over time?*

We observe that pressure, if maintained below a certain level, can lead to higher performance. However, with lay-offs, constant pressure demoralizes employees, leading to drop in performance. As the company shrinks, the rigid distribution of bell-curve forces managers to label a high performer as a mediocre. A high performer, unmotivated by such artificial demotion, behaves like a mediocre. Further, managers begin to reward visible performance over the actual. Finally, the erosion of social capital could cripple the company.

We recommend the use of a semi-bell-curve where someone who performs like a top performer is rewarded as one. Further, we recommend balancing pressure and morale. We recognize that such a balance is very difficult to strike, and can be successfully achieved only by decoupling the issue of lay-offs from the performance evaluation process, to some extent.

Alpha's pride – their performance evaluation process

Alpha is a design and development company. It designs highly reliable network equipments. Their core competency is research and development of products. Manufacturing is largely outsourced, while sales and marketing are done through direct or indirect channels.

Four years ago, Alpha adopted a new performance evaluation process that uses a bell-curve. Every evaluation period – 6 months in the case of Alpha – employees are categorized into three buckets: top 10% as high performers, middle 80% as normal or middle performers and bottom 10% as low performers. Alpha calls this a pay-for-performance system where the high performers get a big reward (bonus or salary raise), the middle performers get some reward, but the low performers are often laid off or given a clear signal that their job may be affected. Over the entire period of using this performance process, Alpha has been shrinking 10% every year on an average. Many such companies that use the bell-curve for performance evaluation today (Gary 2001; Grote and Grote c2005) can be represented by an aging chain shown in Figure 1.

Many at Alpha believe that such a system keeps employees under pressure and motivates them to be more productive. The question really, from the human resource management perspective, is: *does the system increase the overall performance of the company over time?*¹

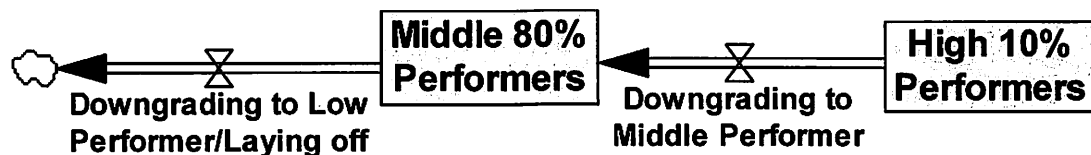


Figure 1 Aging chain of employees in a bell-curve

The bell-curve and the shrinking company

Before discussing the dynamics of how the organization reacts to such a performance system, let us first understand some basic properties of the bell-curve. Figure 2 below shows that before the company starts using the bell-curve, the company employees represent the world. Their performance is normally distributed with a certain average performance and standard deviation very close to that of the labor market. After the first performance evaluation, as the low performers are identified and let go of, the company shrinks. The average company performance shifts upward – a desired outcome from the manager's point of view. The standard deviation in performance is smaller – the company is

¹ This work was carried as a consulting engagement. The duration of the project was four months. We worked with a research division of Alpha that had been interviewing employees internally, at various levels, for more than a year. The model was developed through personal interviews and weekly meetings. The hypotheses in this model are supported by the interview notes collected by Alpha's research division. We followed the standard method developed by Jim Hines for model development and analysis.

slightly more homogeneous now. This process repeats every time the company goes through performance evaluation and lay-off without hiring new employees.

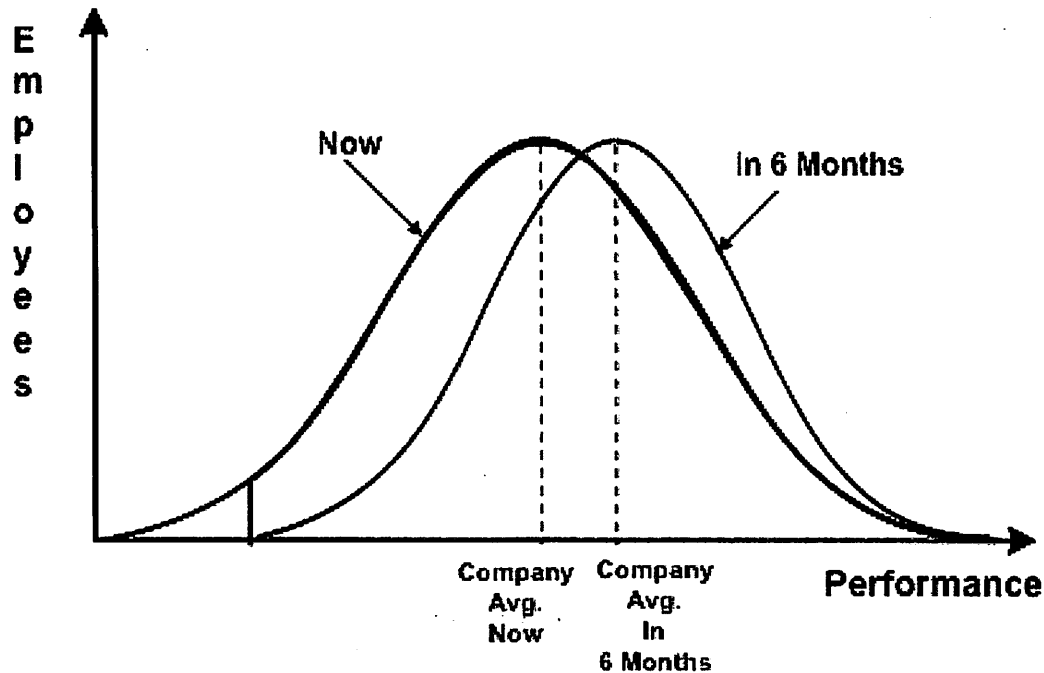


Figure 2 Bell-curve and the average company performance

Manager's expectation – pressure motivates employees to perform

Let us now turn to the dynamics. Figure 3 shows that when an individual receives a low performance rating (evaluated performance), they feel the pressure to perform better to maintain higher performance rating. The causal hypotheses in Figure 3 models what a manager expects every time the employee performance falls. A corollary to this expectation (not shown in Figure 3) is that other forces such as reward or reputation to keep up the performance of a high-performer once they receive a good evaluation.

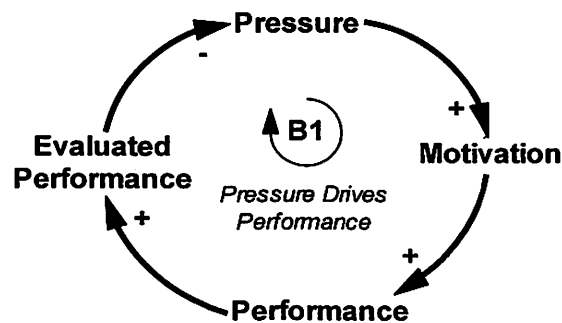


Figure 3 Pressure motivates employees to perform

So what is the effect of pressure on performance? Figure 4 shows the relationship we derived from our interviews. When there is no pressure to perform, an employee may slack. As the pressure mounts, the performance improves. However, there is a limit to performance. If the pressure becomes unbearable, the performance fall below the best possible level, as people are stressed and being to cut corners². This is the tipping point beyond which the company should try not to operate.

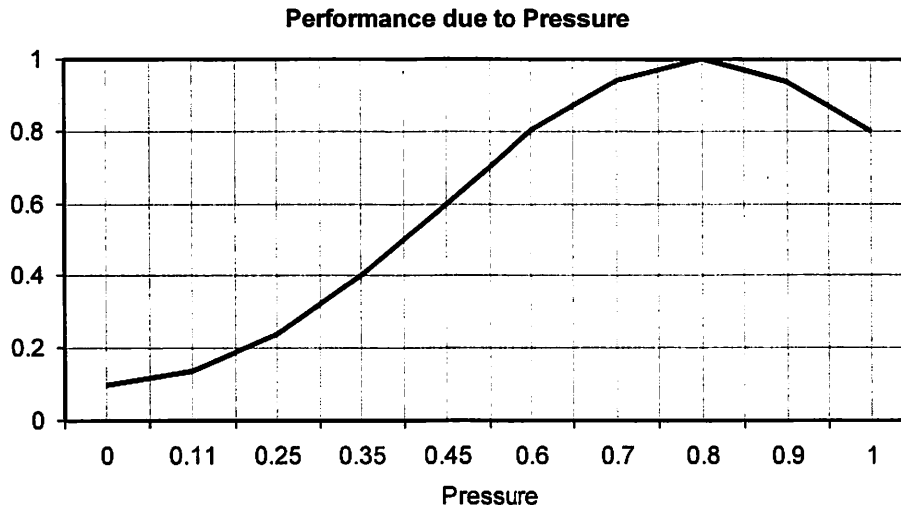


Figure 4 Effect of pressure on performance

But constant pressure demoralizes the workforce

With periodic performance evaluations and the shrinking company, employees are under constant pressure to perform. Such an environment begins to demoralize employees – many due to not receiving the desired reward despite working under pressure for long periods, others from the fear of lay-off and yet others from having lost their colleagues to lay-offs. Figure 5 shows these dynamics.

² Related to the point we made earlier, a process point here is that behavior shown in Figure 4 applies to the large majority of employees in the middle bucket, but not to a small number of top performers who may continue to perform well for a long period under very high pressure. In our final model, we modeled the dynamics of the large majority versus the few very high performers separately. The phase plot in Figure 4 was implemented using a table function.

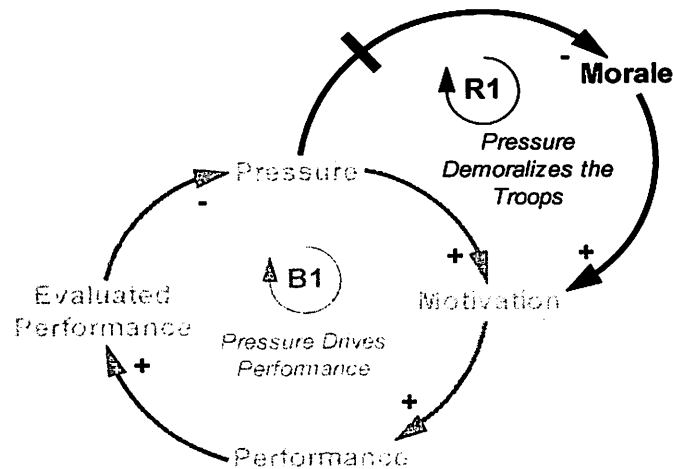


Figure 5 Constant pressure demoralizes employees

So what is the effect of morale on performance? Figure 6 shows the reference mode we derived from our interviews. Even when an employee is very demoralized, she can be expected to deliver some performance. As her morale goes higher, the performance gets better with it. The smoothening of performance at the top is from reaching the limits to performance.

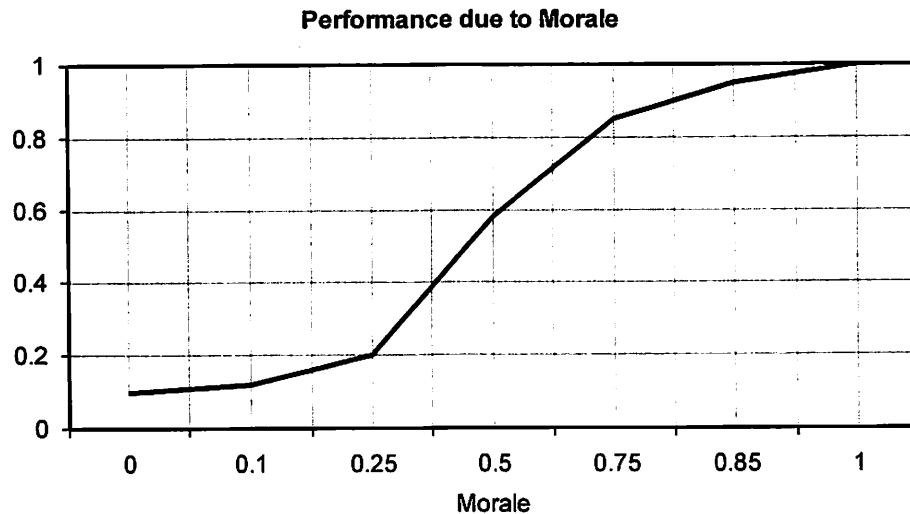


Figure 6 Effect of Morale on Performance

With layoffs, manager rewards visible performance over the actual, employee responds

Figure 7 shows what happens as the lay-offs occur and the company shrinks. As the company shrinks, the average company performance goes up. The standard deviation in performance reduces and individuals are increasingly difficult to differentiate from each other. As a result, manager begins to value visible performance more than the actual

performance³. Highly visible acts such as resolving customer emergencies are rewarded more than those that prevent such emergencies in the first place (Repenning and Sterman). Employees soon respond by performing what gives them visibility, while spending less time on doing what might actually help the company.

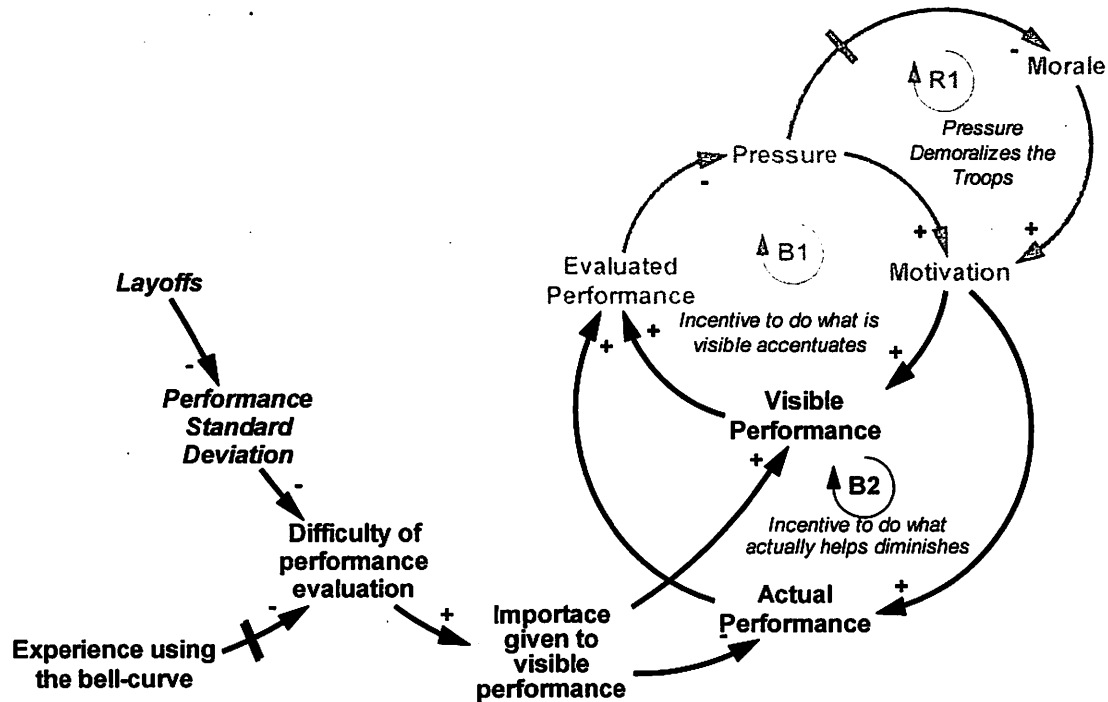


Figure 7 Manager rewards visible performance, employee responds

Erosion of social capital debilitates employees

Finally, our interviews made us aware of what happens to the social capital in a company with such an environment. We conceptualized social capital to be a combination of skills (the ability to help), teamwork (the ability to work together) and the zeal to help. With lay-offs, people with skills, however little, leave the company. This is the most visible of the impacts to the social capital. Most managers think about this. But on the not so visible side, such a climate of constant pressure makes individuals more self-concerned. As a result, they are less inclined to help and the teamwork suffers. All of this leads to erosion of social capital. Now, those that sincerely want to be productive are crippled, as they find that the social capital necessary to work effectively has left the company. Such erosion of social capital can be a huge problem, especially in development organizations like Alpha that expects to innovate rapidly.

³ Notice the splitting of the variable "Performance" into "Visible Performance" and "Actual Performance."

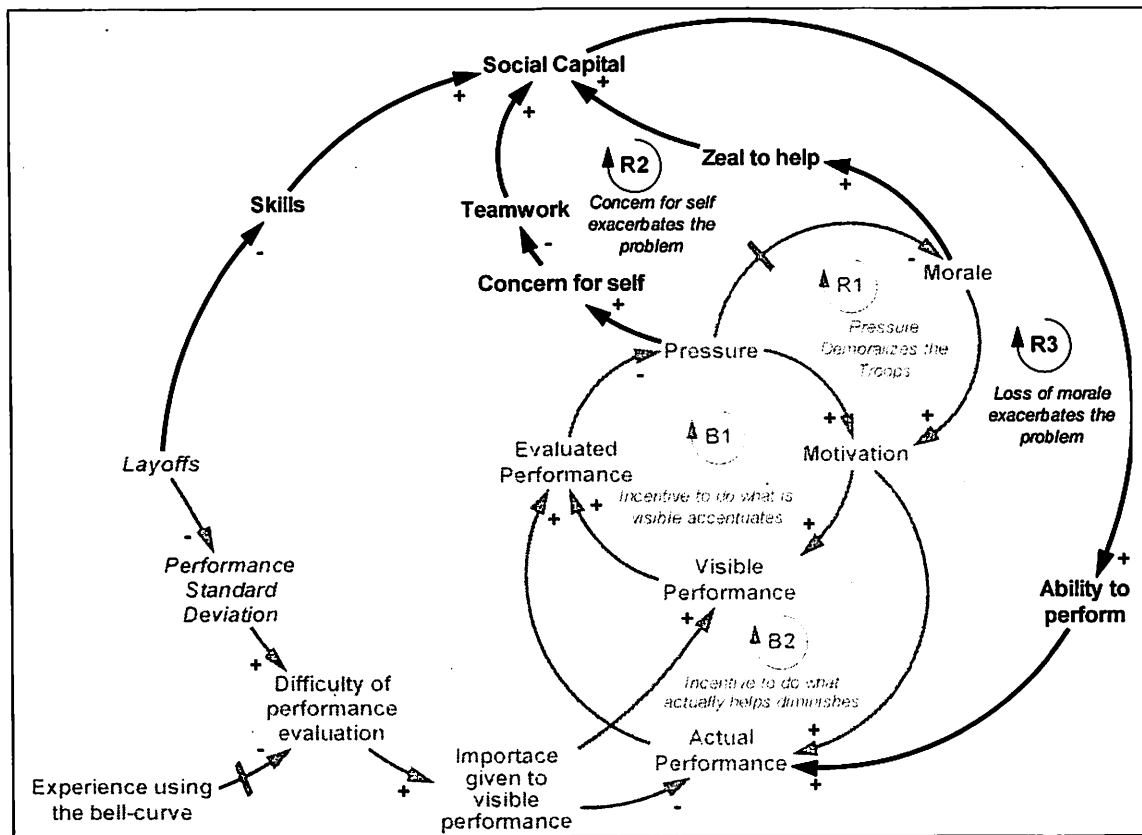


Figure 8 Loss of social capital exacerbates the problem

Call a top performer a top performer

The rigid distribution of the bell-curve plays an important role in the dynamics we observed. It leads to a situation where managers are forced to call a genuine top performer (when compared to the rest of the labor market) a mediocre. Such a top performer will face the same fears an average performer does. So, although the managers expect that by getting rid of all low performers and pushing the average performers to do better the company will eventually consist only of the top performers, this is not the case as shown in Figure 9 (*top performers relabeled* curve). Those top performers forced by the ranking system to the middle class, will no longer work as they used to. They start emulating a performance of a mediocre. Hence, the net performance would be lower than expected.

One remedy to the above situation is to assure top performers that they will be always ranked high as long as their performance remains high. This idea might be challenged by the question of how to maintain the pressure to achieve the highest possible performance. Alternative strategies to keep top performers motivated by other means rather than pressure maybe to rely on their self-motivation, challenging assignments, and other rewards.

A possible alternative strategy to control pressure, while not forcing the top performers into the middle category, is to avoid using a full bell-curve in the evaluation process. As the company shrinks and those ranked in the bottom percentiles are laid off, the *actual* distribution of the performance in the company is no longer a bell-curve. Consequently,

using a bell-curve to assign the ranking is not correct any more. A *semi-bell-curve* (one with its lower tail cut), somewhere between the actual distribution of the performance and the original bell-curve could be good candidate to maintain the pressure, yet not to force the rigid ranking. The idea is to resize the buckets to bring them closer to the true distribution. For example, instead of imposing a rigid limit of 10% on the top bucket, if the company has 30% of the employees that are high performers when compared to the rest of the labor market, the size of the top bucket could be 30%. The effect of such a policy is shown by the *top performers unaffected* curve in Figure 9.

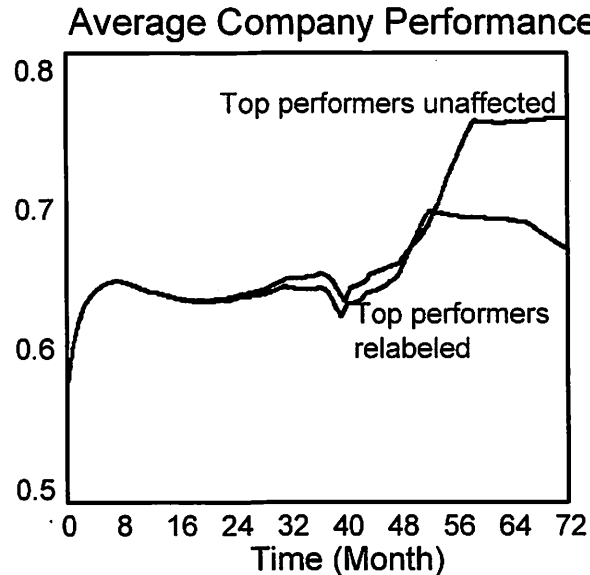


Figure 9 Average company performance depends upon how top performers are treated

Balance pressure and morale

As discussed in Figure 3, Figure 4 and Figure 5, one of the most important factors in determining the employee's performance is the balance between pressure and morale. Ideally, one wants to keep the pressure high enough to motivate the employees to work hard (as long as the pressure is not too high to pass the tipping point shown in Figure 4), but not too high to cause demoralizations. In Alpha's organization, pressure is maintained by the evaluation process and the associated fear of the lay-off. As the company continues to shrink, the pressure increases to higher and higher levels. As demonstrated in Figure 10, initially the pressure is relatively low, average performers are relieved, and the morale is high. If there are lay-offs, it does not instill fear yet as everyone believes that the company is getting rid of the low performers. However, as the company shrinks further, the average employee starts to feel the fear, the pressure builds up and the morale goes down. The average performance stays relatively constant for a while, as the drop in the morale is being compensated by the increase in the pressure. However, after the pressure reaches a certain point, it will not improve the performance anymore; there might even be some loss of performance. The morale is too low, adding up to a net performance that is very small.

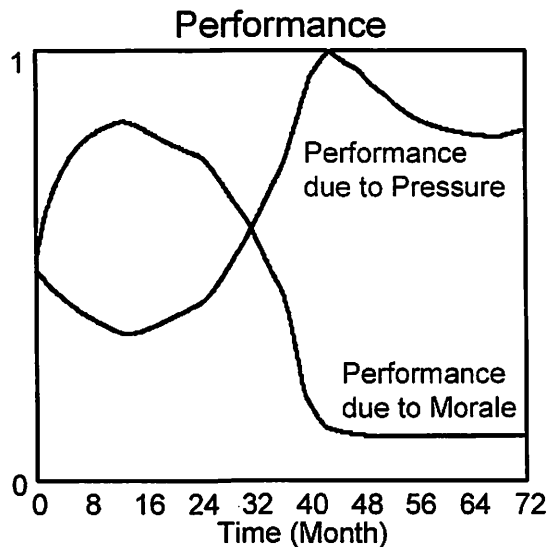


Figure 10 Behavior of average performance over time due to pressure and morale

When analyzing the balance of the pressure and morale dynamically, it is necessary to consider the possible delays in the causal loop of Figure 6. In fact in Alpha it takes six months from the day a manager gives her employees the first informal indication of their evaluated performance to the time they receive the final formal indication that they may be affected by layoff (the delay between *evaluated performance* and *pressure*). While some employees might react promptly to their manager's review, feel the pressure, and have more motivation to work harder, many will not feel the pressure until it is too late. As shown in Figure 11, how fast the employees react to the feedback has a considerable impact on their performance. With slow reaction, the performance does not improve until it is actually the time for the next review, and then with a performance that is even lower than the last round, the employee receives a worse evaluation. With fast reaction, on the other hand, the employee's performance is improved by the time she is preparing for the next review; a good review is received and the morale is kept high. This in fact might be one of the differences between a top performer and an average employee.

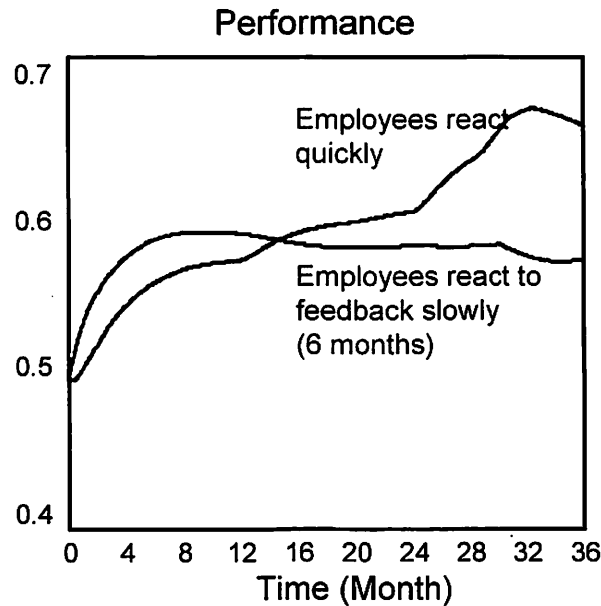


Figure 11 Behavior of average performance with how quickly employees act on the feedback

We recognize that in the current system, balancing pressure and morale is almost impossible. With lay-offs, the pressure inevitably builds up while the morale constantly drops. The only way we see of keeping the pressure at the optimum level and the morale high is to decouple to some extent the performance evaluation process from the issue of lay-offs. The semi-bell-curve can still be used to provide feedback on an employee's performance, but *not* a definite implication of impending lay-off. When lay-offs become necessary, managers can still use the semi-bell-curve results as one, but not the only, criteria for deciding who to let go.

Reward actual performance

A not-so-visible consequence of using the bell-curve in the evaluation process is the issue of rewarding the right behavior. As indicated earlier, as the downsizing of the company continues, the distribution of the employee performance becomes more homogenous. In other words, it becomes increasingly difficult to distinguish between the different employees' performance. The employee ranking process practiced today does not encourage discerning the actual performance from the visible performance. It is, in fact, a fighting match, where managers are forced to tout the most visible emergencies their employees responded to. Employees soon discover how to respond to an evaluation process that rewards visible performance rather than actual performance. In such a situation, even if the *evaluated* performance of employees improves over time, the company will not benefit much, as most of it is visible and not actual performance.

The idea of not forcing the performance distribution to fit into a bell-curve but instead using a semi-bell-curve, discussed above, can be used by the mid-level managers to highlight the problem of having to deal with a narrow performance distribution when practicing the evaluation process to the top managers. Although such a tight distribution is inevitable when

downsizing the company, using a semi-bell-curve relaxes the comparison made in the evaluation process. The difficulty of distinguishing between different employees is deferred to the layoff step. So, it is less likely that the evaluation process would credit the visible activities.

Summary of Lessons

In this paper we have analyzed the question of what happens to the overall performance of a company that uses the bell-curve for their performance evaluation process. We have studied the case of Alpha, a development organization that has used such a process for the last four years. Over the entire period of using this performance process, Alpha has been shrinking 10% every year on an average.

We observe that pressure, if maintained below a certain level, can lead to higher performance. However, as the lay-offs take place, constant pressure demoralizes employees, leading to drop in performance. As the bottom performers depart, the rigid distribution of the bell-curve forces managers to categorize a high performer (when compared to the rest of the labor market) as a mediocre. A high performer, unmotivated by such artificial demotion, behaves like a mediocre. Further, in a shrinking company, managers find it difficult to differentiate employees. As a result, they begin to reward visible performance over the actual. Beyond a certain point, the erosion of social capital has the potential to cripple the company.

We recommend the use of a semi-bell-curve that does not follow the rigid percentage distribution, and where someone who performs like a top performer is rewarded as one. Further, we recommend balancing pressure and morale. We recognize that this balance is very difficult to strike, especially in a company that is constantly shrinking. The only way we see of keeping the pressure at the optimum level and the morale high in such an organization is to decouple to some extent the performance evaluation process from the issue of lay-offs.

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