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Shouldn't You Be Working Right Now?

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No society can provide its members with a high quality of life unless it has effective organizations.

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A former student of mine, now working as the business partner to a unit headed by an engineer, asked my advice. Her dilemma was that “the unit head believes in precisely engineering all aspects of the business and has devised a 10-dimension rating system with 15 points per dimension. Leaders are expected to complete the ratings for their direct reports, and to differentiate pay based on differences as small as 5 points.”

In contrast, the CHRO’s of companies like Juniper Networks, Sony Pictures Entertainment, and DirecTV offer rave reviews for abolishing ratings, citing improved leader and employee engagement, greater attention by leaders to authentic conversations about performance and development, and savings of up to millions of dollars a year in the time of raters, ratees, and HR leaders overseeing the process. For example, at a recent consortium of the Society for Industrial and Organizational Psychology (SIOP), virtually every presenting organization cited their specific examples of the benefits of removing ratings from performance systems.

At Juniper Networks, the HR team helped to institute a system that categorizes workers as “J-Players” or not “J-Players.” The designation “J-Player” signifies meeting a high standard of performance befitting continued opportunity to work and grow at the organization. However, within the J-Player group, there is little effort to distinguish performance levels. Again, the reduction in time and effort attempting to make distinctions among similar performers is stunning, and the system encourages a focus on developing the J-Players further, and on discovering whether and how those who are not J-Players can be improved. Many of those not designated J-Players voluntarily leave, recognizing the lack of fit with the organization.

The engineer supported by my former student might well wonder how an organization can function without clear meritocracy.

- Isn’t it obvious that one needs to distinguish better from poorer performers in order to properly reward and develop workers?
- Isn’t it true that in engineering, precise calibration of performance differences and other tolerances is essential to optimizing system performance?

Of course workers need to understand how their performance contributes to organizational and personal goals. When I work with C-suite leaders on organizational culture, performance and strategy, they often agree that one of their toughest challenges is aligning talented and capable workers with the goals of the organization. At one gathering of CEO’s, one described his experience of crafting a new strategic direction, and then working with his communications team on precise messaging. He announced the new strategy in a letter to employees, but workers did not seem to execute the strategy as he had hoped. So, the communication group suggested a video, then an interactive webinar, and then town hall in-person meetings. There was great enthusiasm from the employees, yet behavior didn’t seem to change. Around the room, lots of heads nodded.

One of my favorite questions for such leaders is, “Suppose I were to ask your employees, ‘In what part of your work does the difference between good versus great have the most impact, and in what part of your work is good enough sufficient?’.” How many levels below your level could I go before they would be confused, or their answer would not agree with yours?”

Virtually every time I ask that question, leaders get a bit uncomfortable, admitting that it might be only one or two levels before the fidelity of their strategic messaging is no longer clearly reflected in the priorities of their workers. Often, they realize that their execution problem is not that their workers are not motivated, nor that they are not performing well within their defined job descriptions and work roles. However, the workers’ idea of good performance, and the performance ratings and feedback from their supervisors and managers, was imprecise. They might believe that all elements of their work were equally pivotal and that it was necessary to push for great performance on every dimension. Or, they might believe that great performance in traditional areas was still valuable, when in fact the strategic shift meant they should strive for greatness in new arenas, and for sufficient performance on others.

Deconstruct Job Descriptions to Find the Real Performance Indicators

With most job descriptions, it can be difficult to break down the “return on improved performance” (ROIP) of work. For example, sweepers at Disneyland both sweep the park and help guests, but they usually make the biggest impact through their great interactions with guests (as long as the sweeping is good enough). However, typical job descriptions would list both sweeping and guest interaction as key performance indicators.

As another example, Boeing Co. aerospace engineers are tasked with designing aircrafts and collaborating with suppliers to deliver them. But suppliers often have more technical knowledge about composite materials than the Boeing engineers, making supplier collaboration a more pivotal part of the role than a job description might suggest.

What happens if you don’t deconstruct the job descriptions? Sweepers may mistakenly strive for excellent sweeping over guest engagement, and engineers may mistakenly strive for excellent technical design over collaboration—because “it’s all part of the job.”

In jobs like “science director” in the pharmaceutical industry, “software architects” in technology or “chief science architect” at a non-profit, the descriptions often include everything from publishing scholarly papers, to generating patents, to running processes (like drug development, software development-testing and charitable fund allocation).

Leaders in these jobs often believe that every work element is pivotal, but individuals who are excellent at everything are rare. So, these leaders are often frustrated, because they are admonished for the job elements where they are “only good enough,” yet they know they are excellent at other elements.

HR technology systems reinforce this by screening for job candidates that fulfill every qualification (such as possessing a Ph.D. and a lengthy research vita plus years of experience leading technical teams, plus global fame as a thought leader). This causes frequent failure to produce ready candidates on time.

Deconstruction reveals a more nuanced reality: The same job adds very different value in different situations. Sometimes, “leading the team” is most pivotal and “scholarly research” can be good enough. Other times, it is the opposite. Deconstructing reveals the “return on improved performance” for each part of the job, illuminating new solutions.

TQM and Performance Management

“Zero defects” is a popular slogan, but quality-management warns that not all defects are equally bad. “Zero defects” can impede quality if you try to drive out every defect. Optimal process improvement is applied only where its value exceeds its cost. You spend less to detect defects that are rare and/or not costly, and more to detect ones that are common and costly.

For example, in November, 2013 Microsoft ceased its long-held performance management practice of force-ranking employees, just as Yahoo! Introduced the same practice. Who was right? Perhaps both.

If we “retool” this debate using quality management principles, then performance management, including forced ranking, should be applied when value exceeds cost, and that depends on the consequences of the “defects” discovered and corrected. With performance management, the “defects” might be unaddressed poor performance (lingering problems) and/ or unrewarded high performance (which can cause top employees to leave), and/or poor or nonexistent discussions about growth and development.

Forced-ranking or other rating-based systems can clarify performance differences, and allow (or force) managers to improve or remove low performers. Scrapping forced-ranking means some high performance may not be rewarded as handsomely and some poor performance may linger longer. That’s

a good tradeoff if the lost value of rewarding high performers and weeding out low performers is less than the increased collaboration created without forced rankings or other ratings.

Three Vital Conditions

If performance and pay differentiation are viewed through the lens of total quality management, a fundamental premise is to remove variation unless it adds value. Reducing variation in performance and pay can be consistent with this premise. Differentiation in any process, including worker performance and pay, should only be attempted if three conditions are met:

1. Differentiation makes a pivotal impact on valuable Outcomes
2. Differentiation can be achieved with sufficient precision, reliability and accuracy
3. The cost of measurement does not exceed its value

Regarding condition #1, The “return on improved performance” or ROIP from good to great is not always significant, as with commercial airline pilots, where the key is to meet a high performance standard, but not to show who is “top gun.” Most organizations need financial reporting accountants who get their reports done accurately and on time, but do not need them to compete to show who is most innovative.

Don’t assume that performance increases in every job are valuable. Sometimes “good enough” is the optimum goal.

Regarding condition #2, performance ratings are prone to bias and unreliability. One research review found only between 8% and 32% of the variation in performance ratings is due to individuals and their achievements. People’s observations and judgments can be very inaccurate and performance appraisal research shows people display biases and take shortcuts that interfere with their judgments. Supervisors also have many agendas and aren’t always motivated to rate performance accurately. Factors beyond the control of the employee can also influence their performance, leading to errors in performance judgments. Finally, efforts to improve performance ratings through scale improvements, rater training, calibration processes, 360 degree feedback, and forced distributions have not met with much success.

Don’t assume performance can be accurately observed.

Regarding condition #3, the costs of differentiation are significant. Systems to measure and differentiate performance are costly to put in place, especially if there are technology applications involved. The cost and management attention required to manage a pay-for-performance system is enormous.

Don’t assume meritocracy is costless.

Perhaps a better approach is to make differentiation the exception not the rule, and use it only where it clearly pays off. Research supports this view.

When to dial up and dial down differentiation: It’s all in the curves

In the book *Lead The Work*, Boudreau, Jesuthasan and Creelman describe how to rethink work when it exists beyond regular full-time employment. A key decision is how to connect performance and rewards when work can come in different forms. They suggest analyzing three curves:

1. The curve that shows how different work performance levels relate to organizational value, called “return on improved performance” (ROIP)
2. The curve that shows how many workers perform at each different performance level, called the “performance distribution”

3. The curve that shows how different work performance levels relate to the cost of the rewards needed to motivate that performance, called the “cost of improved performance.”

Here are three examples:

Traditional Differentiation Is Optimum

In the figure to the left, the top graph shows that every increase in the value of performance provides a similar positive benefit for the organization. The middle graph shows the distribution of performance as a bell curve. The bottom graph shows that the cost to motivate higher performance is also a straight line, such as when performance incentives are paid based on sales levels. In this situation, the objective is to make the middle group better, and because the ROIP and cost curves are linear, it's probably possible to set up one system that applies to everyone. If a worker performs better, they get a linear increase in their reward, and that relationship is the same for everyone. A piece-rate pay system in a production line would fit this model. These assumptions are often implicit in most reward systems, even though they are only one of many possible situations. Assuming that this is the situation across all jobs, projects and work can lead to missed opportunities.

Meritocracy for Top Performers is not Optimum

In the figure to the right, the ROIP curve at the top is changed. Now, increasing performance from very low to where it reaches a certain standard has a high payoff, but once that standard is achieved there is little value in going beyond it. Examples include filing tax forms, piloting commercial aircraft, or basic cleaning. The key is to avoid low performance and mistakes, but not to strive for excellence beyond the standard. High performers may still demand more. However, in this case, there is very little advantage to differentiating rewards for high performers, particularly among workers who are already at standard.

Extreme Meritocracy is Optimum

The Figure on the next page shows a situation where individualization and differentiation should be dialed up to a very high level. It is typical of many situations where regular full-time employment simply cannot accommodate the needs of the work.

The top graph shows that an ROIP curve where the value of high performance is far greater than for low performance. This situation occurs in work that is very creative or where the right answer to a problem is extremely valuable, while moderately creative or partially correct answers are not. For example, in creating an internet advertisement, the vast majority of ideas are not very effective, but if you can find the idea that goes “viral” or becomes a catch phrase, the value is exponentially higher than for average ideas. The middle graph is different from the two earlier figures, and shows a very different distribution of workers from a “normal curve.” There are a large number of workers that would be low performers, and a few that are extremely high performers, which might be typical of situations where those who can create a winning idea or solve a thorny riddle are rare. Research suggests this may be more typical than you think. Finally, the bottom graph shows that the cost of motivating low or moderate performance is relatively low, but the cost of motivating high performance is much higher, such as when the elite designers or internet video makers know how valuable and rare they are.

In this situation, extreme individualization makes sense, with high performers receiving more rewards and a reward package that is highly tailored to their individual desires. It's worth it because the value of that rare performance is huge, and because those who can deliver it are so rare.

You don't have to measure the curves precisely for them to help optimize meritocracy. When I work with organizations, they find it helpful to categorize their work according to whether ROIP and the cost of improved performance are highly sloped or flat, and whether the distribution of performance is a bell curve or not.

Conclusion

Most HR and management systems presume that maximizing meritocracy and differentiation between performance levels is always a good thing. Leaders would do well to question that assumption, and to become as savvy about performance differentiation as they are about differentiation when it comes to customers, financial investments and operations.