

# Relevance of **Bell Curve** to Employee Performance Appraisals – Exploring the Alternatives!



# House Keeping Instructions



All phones are set to mute. If you have any questions, please type them in the chat window located beside the presentation panel.

We have already received several questions from the registrants, which will be answered by the speakers during Q&A session.



We will continue to collect more questions during the session as we receive and will try to answer them during today's session.

In case if you do not receive answers to your questions today, you will certainly receive answers via email shortly.



Thank you for your participation and enjoy the session.

# Speakers' Profile



Speaker



Speaker

## **Parived Bhatnagar**

Organization Effectiveness Lead,  
General Industries,  
AON Hewitt India

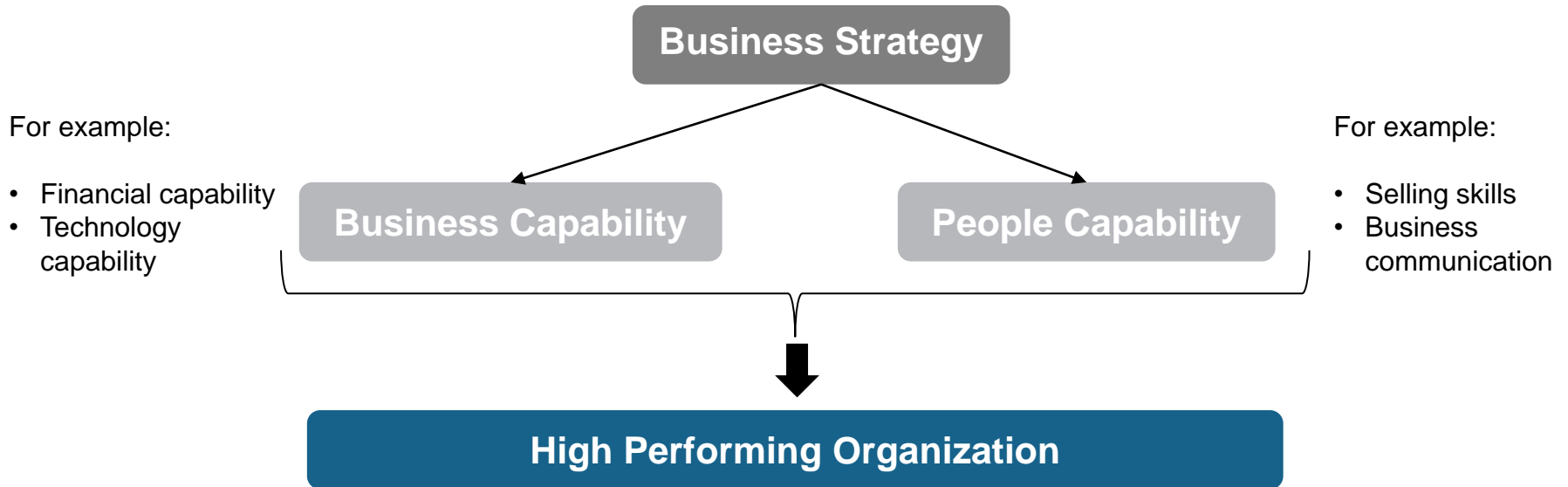
## **Prabakar Marimuthu**

Director of Engineering at Synergita

# A high performing workforce is critical to achieving business outcomes

Organizations today exist in a **VUCA world**. This entails facing new, aggressive growth targets and renewed pressure **to get the best from their existing workforce**.

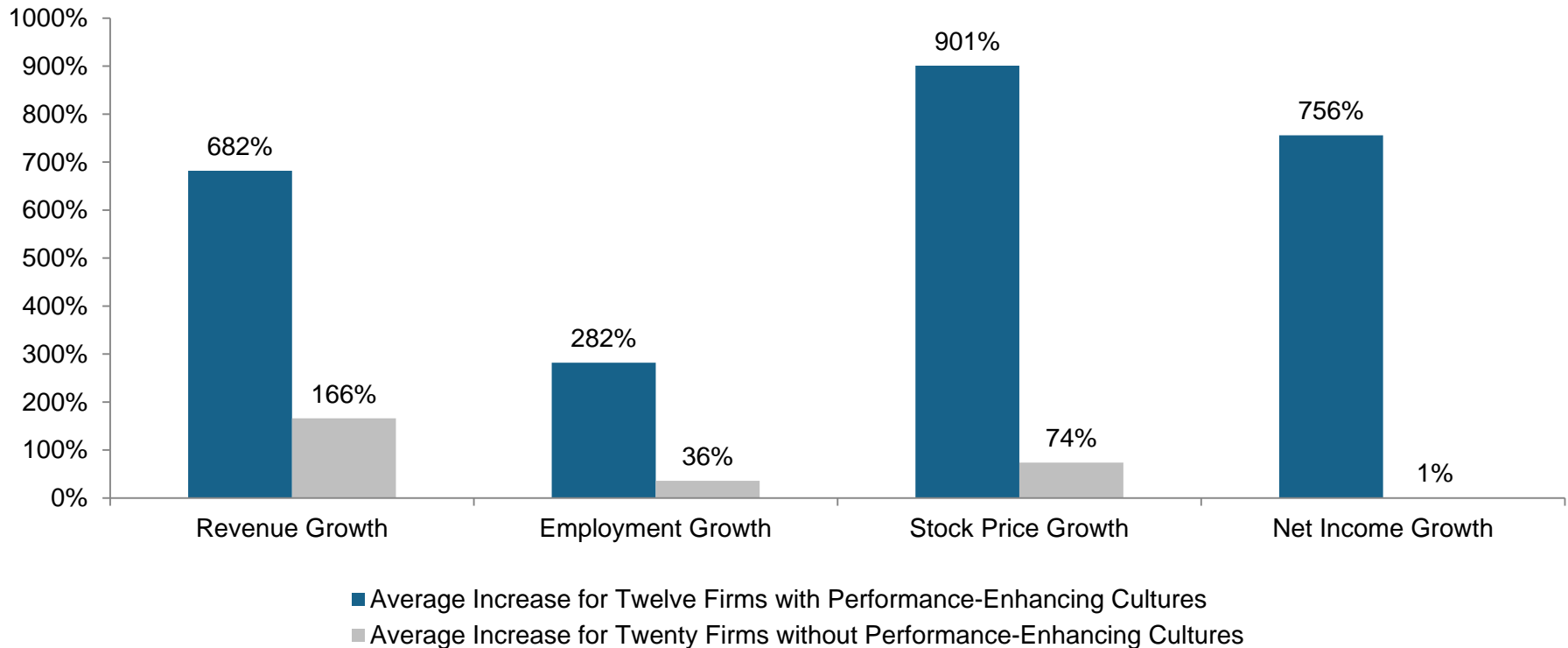
This means that there is a critical need for the organizations to strive and **become high-performance organizations**.



*High-performing organizations have been found to have best-in-class employee engagement, labor-related regulatory compliance, rewards for high performance, and leadership development.*

# The impact of high performance culture on financials & valuation is huge

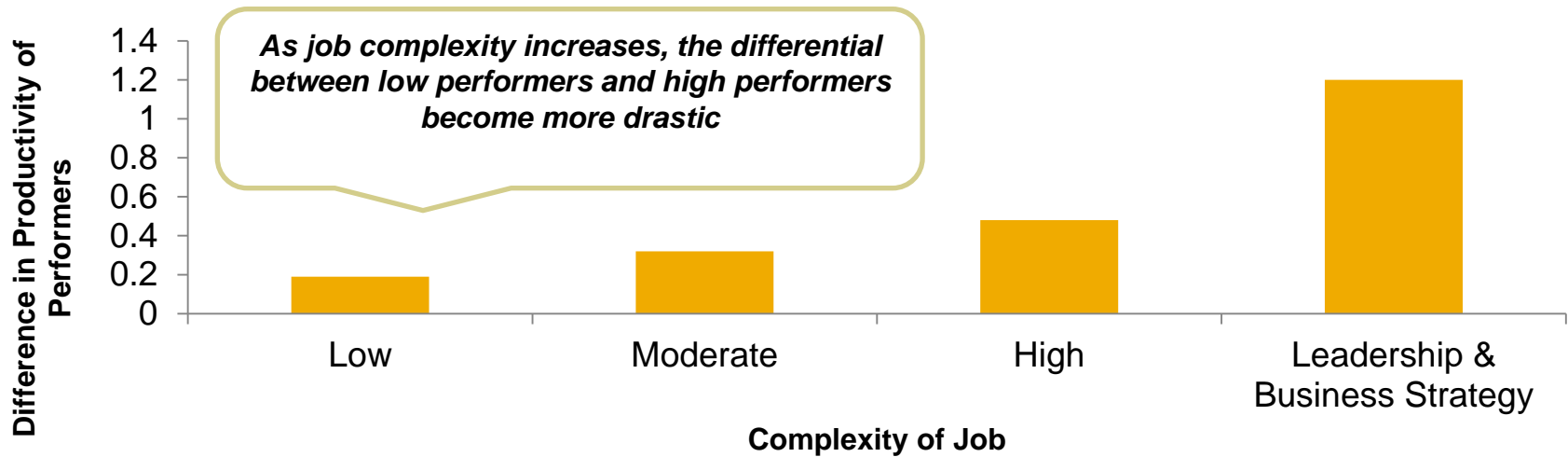
**200 organizations** were studied over an **11 year** period. Those having high performance culture have **outperformed** the ones without high performance culture **by a huge margin.**



Source: Forbes, 2011

# As job complexity increases, the positive financial impact of a high performer increases as well

A **high performing organization thereby leverages its workforce** and ensures that the most complex jobs are taken by the “high performers”. This **alignment of high performers with the complexity of the job** in turn creates value for the organization.



*This in turn translates into financial impact, which is directly proportional to the complexity of the job.*

Source: J.E. Hunter, et al., “Individual Differences in Output Variability as a Function of Job Complexity,” *Journal of Applied Psychology*, 1990

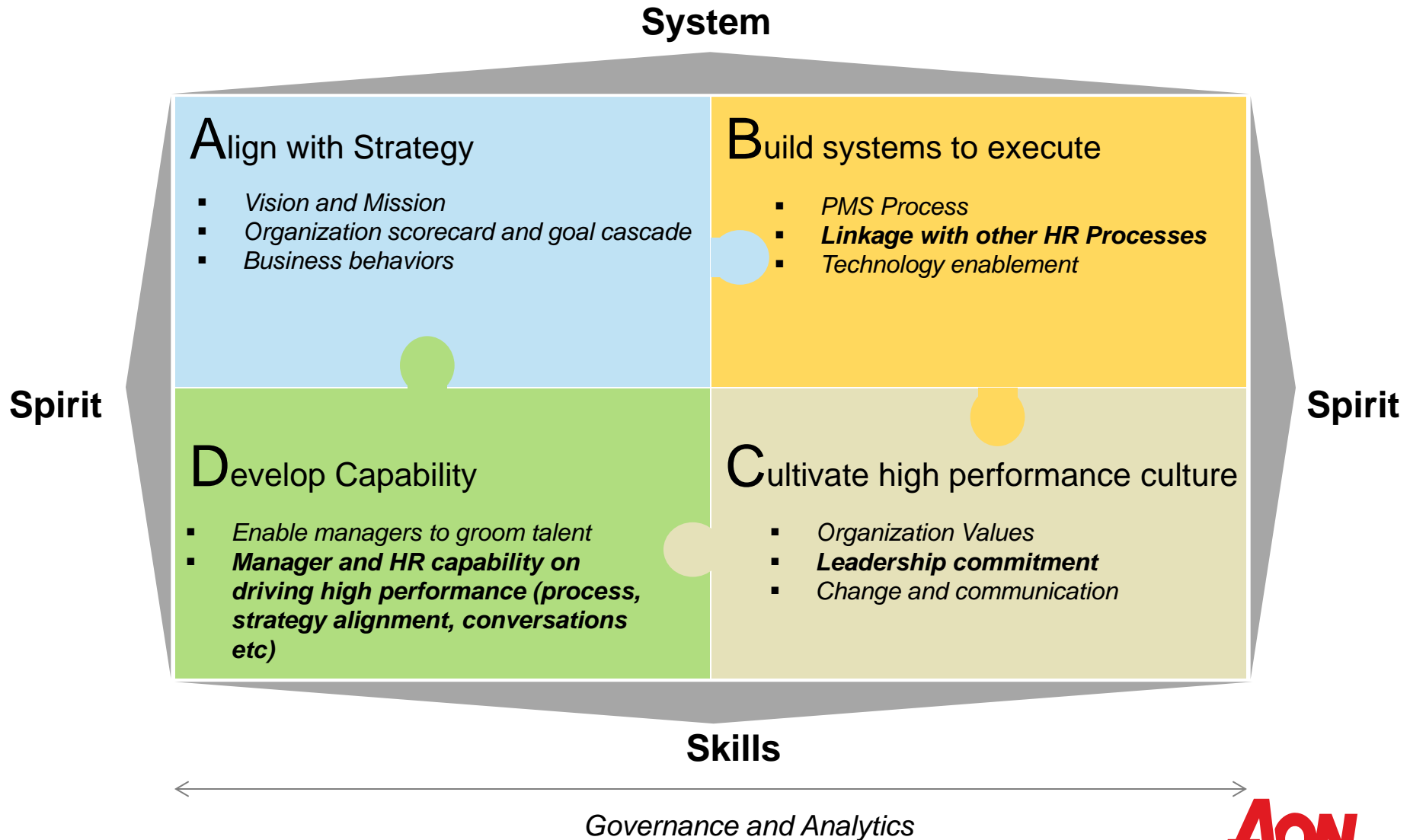


### What are the key tenets to building a high performance workforce in an organization?

- A. *Alignment with business strategy*
- B. *Defined Performance Management process and tools*
- C. *Managerial Capability*
- D. *Employee Communication*
- E. *Process Automation / Technology Enablement*

*You may choose one or more possible options*

# ABCD of 'Building High Performance Workforce'





# Classifying Performance

## *Need to classify performers*

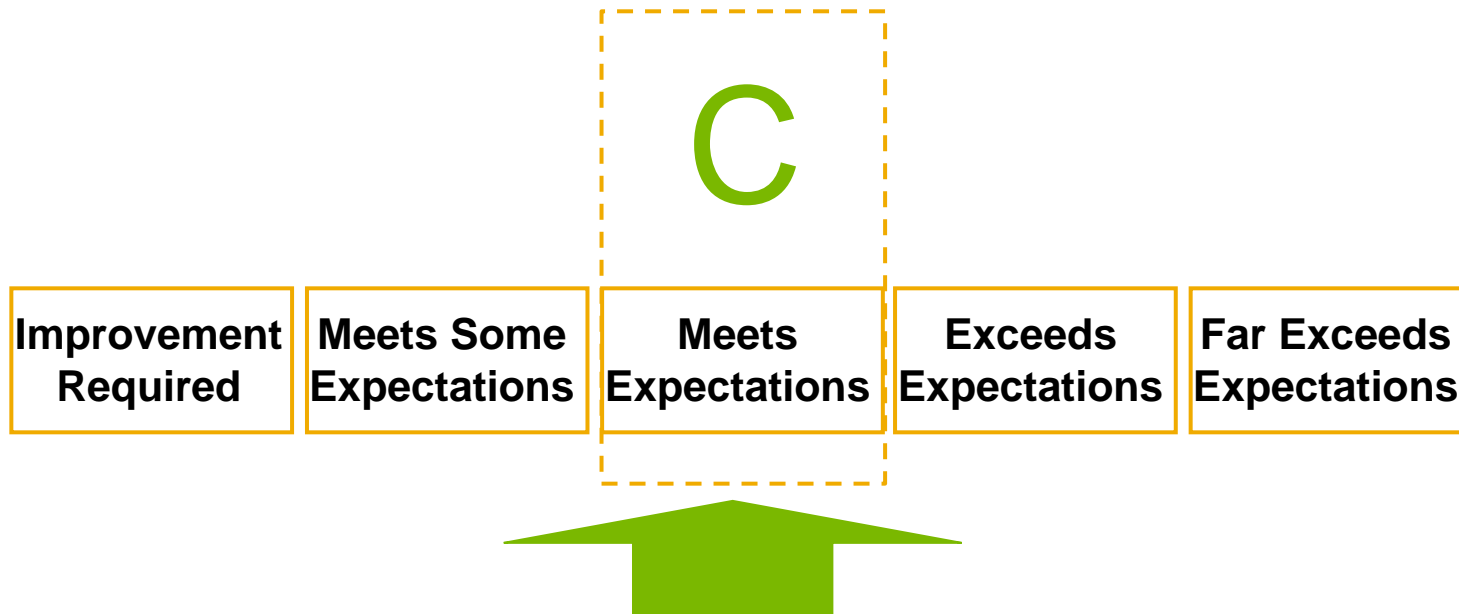
- Different people perform differently – differing ability, experience or training can cause this. Hence for an organization it is essential to bet on those who can get high returns especially in times of distress.
- **Classifying talent into categories helps in differentiating talent and ensuring that the right talent does the right work.** In an organization, high performing individuals make major contributions but are typically less in number. Medium level performers often make up most of the team and are the solid citizens. Low performers can be few in number but will have a strong, negative impact on the team.
- **The benefits of this process are these:**
  - Eliminates low performance, and in some cases, low performers
  - Medium performers are challenged to become high performers
  - High performers are challenged to duplicate themselves

All of which creates a consistent and high performing team.



# Classifying Performance

## Rating Scale - Middle Rating Paradox



- “Meets” feels to most people like they’re getting a “C” grade—it doesn’t say, **“you’re a winner!”** Managers can be reluctant to give good performers this rating Or they can be reluctant to give poor performers below this rating to avoid confrontation
- And having two levels above “Meets” can erode the message that goals should be *set* at a challenging level: If people set the aggressive targets we ask for, how likely is it they can achieve *two* levels more?

## Participant poll

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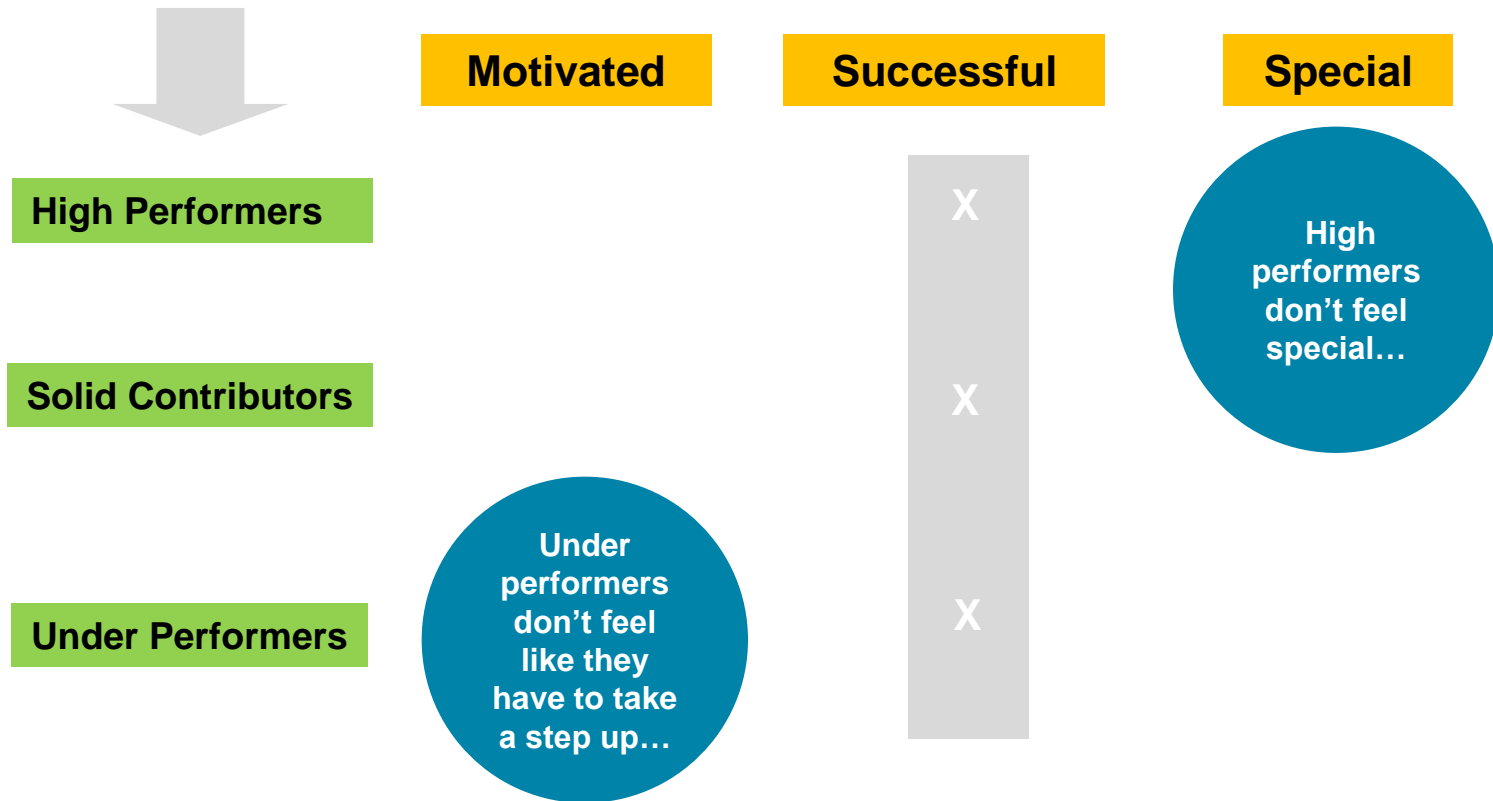
**How do employees tend to perceive a statement such as “ your performance for the year has been very good”**

- A. *Open to feedback / Feel motivated*
- B. *Defensive*
- C. *Dismissive of feedback / Feel discouraged*

*You may choose one or more possible options*

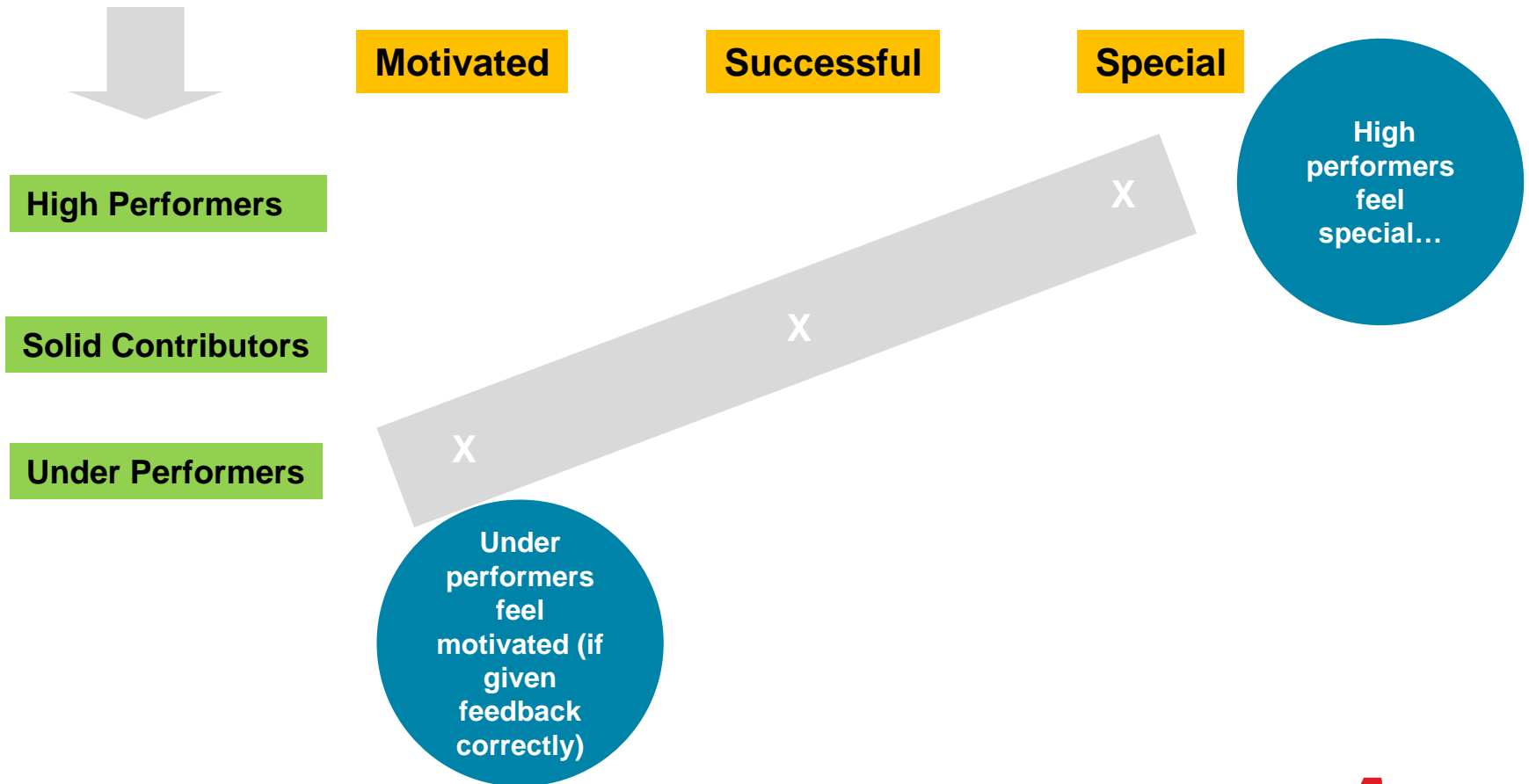
# Building a case for employee differentiation (1/2)

If all employees are given a high rating...



## Building a case for employee differentiation (2/2)

If all employees are rated by their contribution...



# Distributing Performance

## *Need for comparing individual performance*

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- **Post rating performance it is also crucial to assess it relatively amongst the peers.** This provides an understanding of the achievement with the lens of comparison.

### **Advantages of distributing performance:**

- **Objective manner of comparing A to B**, a high performer in a non performing team may not necessarily be a high performer for the organization, similarly a low performer of a medium performing team can indeed be a high performer for the organization
- Aids in **differentiating talent into high, medium and low performers** for the organization
- Provides an input for **objective differentiation of rewards**

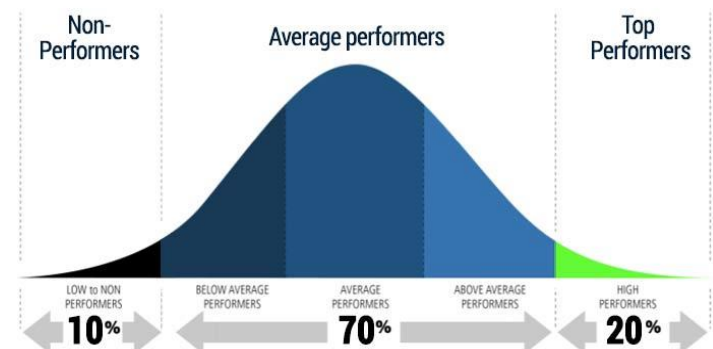


# Distributing Performance

## using a Bell Curve

**The forced distribution method (Or Stack & Rank or Bell curve)** prescribes the outcome of performance appraisals in terms of the distribution of ratings over an employee group.

- It may not sufficiently take into account absolute company performance. **Company revenue is likely to be positively associated with employee performance, but this is not reflected as such in the method.** For example, if revenue drops by 10%, the method still 'forces' you to rate around 84% of your employees as at least 'meeting expectations', whilst one would expect, based on the drop in revenues, that employee performance has decreased.
- It **provides a rigid relative performance distribution.** The normal distribution forces organizations to rate around 68% of its employees as 'meeting expectations', leaving 'only' 32% for differentiation. The conventional performance distribution does not allow companies to differentiate more on individual performance



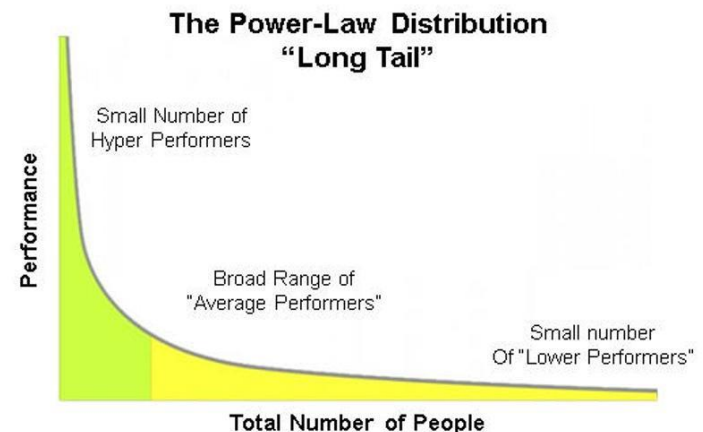
# Distributing Performance

## using Power Law curve

A "Power Law" distribution is also known as a "long tail." It indicates that people are not "normally distributed." **In this statistical model there are a small number of people who are "hyper high performers," a broad swath of people who are "good performers" and a smaller number of people who are "low performers."**

- In the Power Curve most people fall *below the mean* (slightly). Roughly 10-15% of the population are above the average (often far above the average), a large population are slightly below average, and a small group are far below average. So the concept of "average" becomes meaningless.

**The distribution reflects the idea that "we want everyone to become a hyper-performer" if they can find the right role, and that we don't limit people at the top of the curve - we try to build more of them.**

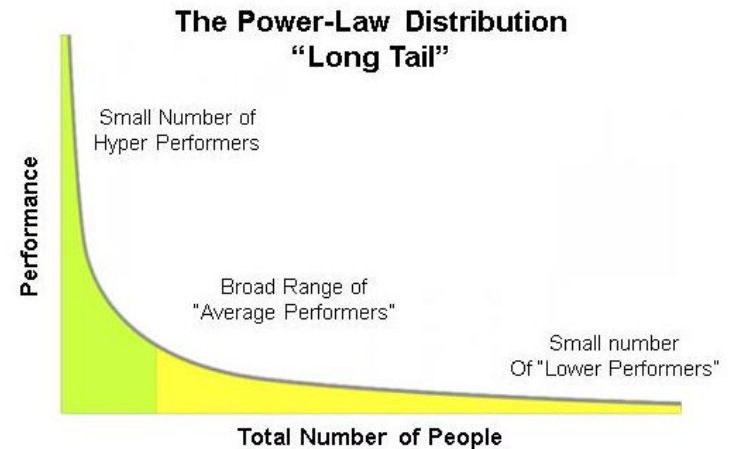
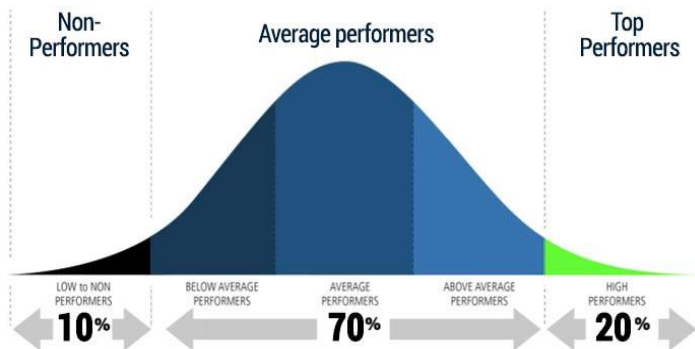




## Is it time to 'bell the curve'?

Research indicates that in growing organizations, a small number of people are 'hyper-performers', a large number are 'good performers' and a small number are low performers.

Hence, there is no 'average' category as such, as compared to the traditional bell curve.



**Organizations prefer the bell curve, but consider it unreliable because :**

- These create too much competition between employees and take away from essentials such as team work and collaboration
- Sometimes, good performers are "force ranked" to a below expectation performance level
- It is a futile exercise since organizations have devised methods to "rotate" high ratings, based on seniority/ promotion eligibility/other criteria

## Participant poll

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### What could be the possible reasons for the organizations to move away from bell curve ?

- A. *No intent to differentiate performance / Building a socialist culture*
- B. *Lack of objective & fair performance assessment leading to demotivation amongst managers / employees*
- C. *Would not move away due to lack of alternatives*

*You may choose one or more possible options*

# Bell Curve and Rating

If given veto power and autonomy to decide, would HR remove 'performance ratings' and 'bell curve' in their organizations?

Yes

*41% of the organizations would like to retain formal ratings but not the bell curve, but 14% would like to remove both*

No

*28% would not do away with it due to lack of alternatives, but 17% seem to be satisfied with the current system of bell curve and ratings*

If yes, how would differentiation be driven and high-performers retained ?

1. Effective conversations with managers for continuous feedback throughout the year
2. Performance vs Potential (9 Box Grid for all employees)
3. Manager discretion to reward high performers

Source : Performance Pulse of India Inc. 2017-18

# Incorporating Performance Distribution in the PMS design



## Forced Distribution

- A forced bell curve is created to assess and rate performance.
- May lead to high performers not being adequately rewarded because of adherence to bell curve.
- Traditional and most prevalent way for measuring.

## Dynamic distribution

- Fixed percentages are not maintained to rate performance.
- The percentages are decided on the basis of the business performance.
- Used in small departments or in high growth businesses

## No Pattern

- No Ranking is used to evaluate performance.
- Rewards are given on the basis of individual performance
- Newer method for evaluating performance, usually the linked rewards are on growth and learning opportunities

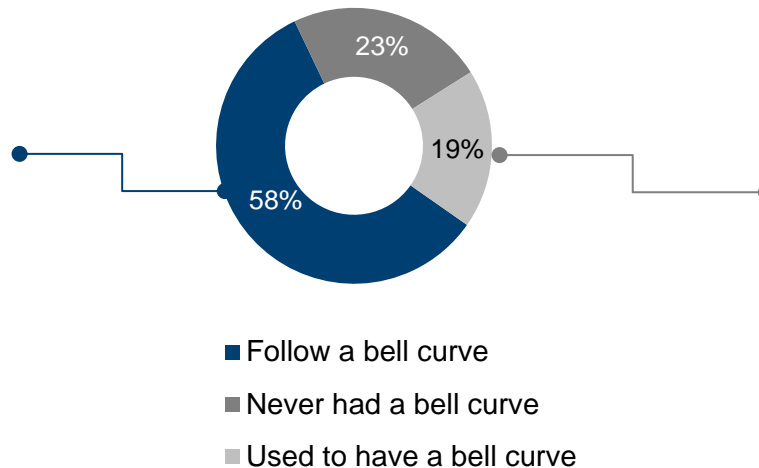
# Incorporating Performance Distribution in the PMS design

## What organizations are actually doing ?

### How is bell curve distribution decided?

**48%** of the organizations follow a dynamic bell curve, but the remaining either follow a global mandate or a static distribution

### Spread of organizations following bell curve



### What was the primary motive for removing bell curve?

**85%** of the organizations wanted to ensure quality conversations between managers & employees, followed by increased collaboration & employee engagement



### Aon Insights

Some of the firms that removed bell curve to allow managers to do quality conversations with employees feel that manager employee conversations in their organization are highly effective

Majority of the firms that removed bell curve to allow managers to do quality conversations with employees feel that managerial capability to do performance conversations is a challenge

Source : Performance Pulse of India Inc. 2017-18

# Key Takeaways

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***The decision of using or moving away from bell curve by any organization is contingent on a number of organization imperatives and the organization's capability to identify and use the imperatives to build a high performance culture***



## **Intent to differentiate performance**

*The organization needs to decide on its PMS philosophy of building a socialist culture vis-a-vis meritocratic culture*



## **Manager Capability**

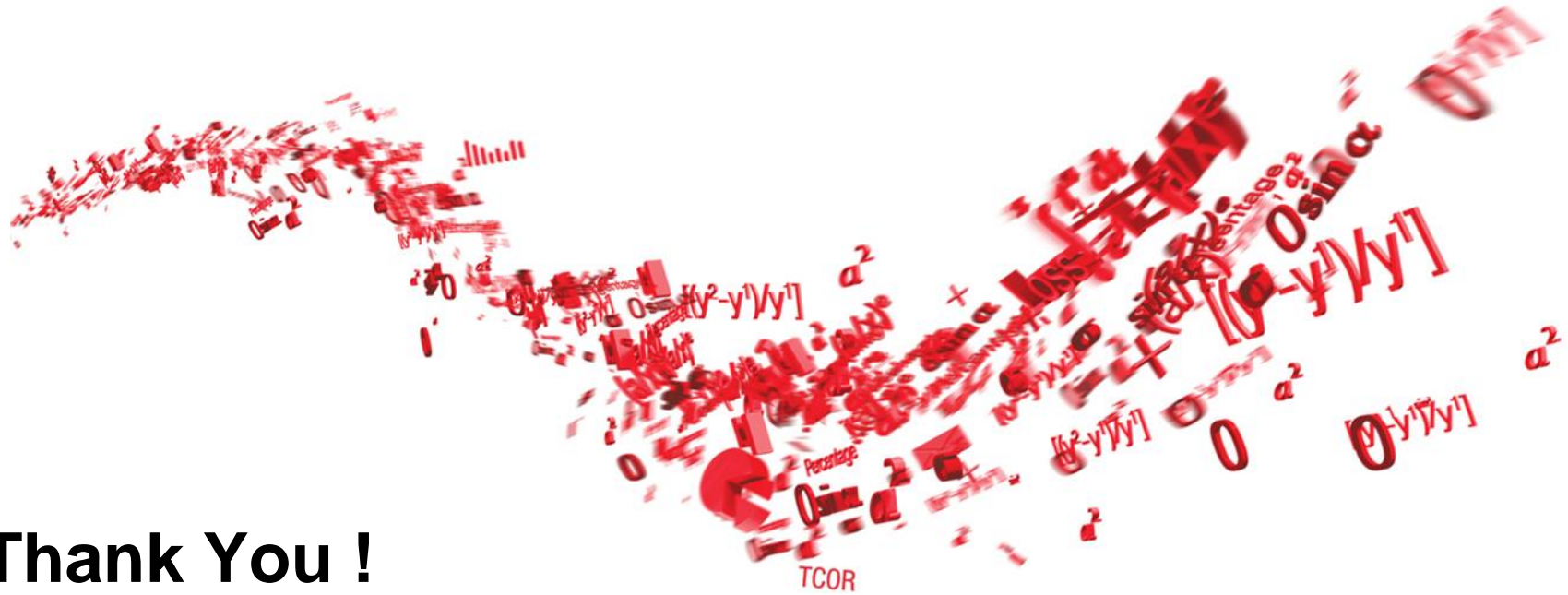
*The organization needs to assess and improve the manager capability to do quality conversations and share constructive feedback with the team members*



## **Linkage of Performance Management to other HR processes of Rewards, Talent Management & Learning & Development –**

*The organization needs to identify the required output of the PMS process to serve as an input to all activities related to the employee lifecycle and building a talent pipeline*

While **ongoing performance management** is an alternative to using a bell curve, it is critical for organizations to develop the mechanism to sustain continuous performance management through building the **right manager capability** and structured **ongoing performance conversations** with the employees



# Thank You !

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