

The Performance Curve

A Legacy Model in Modern Disguise

Alex Karp

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Picture this!

- You've just submitted performance reviews for your team
- Everyone on the team is:
 - solidly meeting expectations
 - delivering good work
 - hitting their goals
- Feeling great about your team's contributions



Really...?



"Is everyone really meeting expectations on your team? Or are there any outliers we should discuss?"

Or maybe try it again...

"These reviews don't align well with the performance curve. Can you take another look?"





Let's find out why!



Playbill

Act I

The vitality curve

Act II

The problem hiding in plain sight

Act III

What can we do?

Playbill

Act I

The vitality curve

Act II ...in which we learn about the end of the Golden Age of Capitalism, the man who normalized greed, and a boy from Boston.

Act III

What can we do?

What is a business?

“A business corporation is organized and carried on primarily for the profit of the stockholders.”

Dodge v. Ford Motor Co., 204 Mich. 459, 170 N.W. 668 (1919)
Michigan Supreme Court Justice Russell C. Ostrander, writing for the majority.



Shareholder primacy



*“Corporations have
no higher purpose
than maximizing
profits for their
shareholders.”*

Milton Friedman, “Capitalism and Freedom”

Jack Welch

Chairman and CEO

General Electric, 1981 – 2001

a.k.a., “Neutron” Jack

(A reference to the neutron bomb, which would vaporize people while leaving buildings standing.)



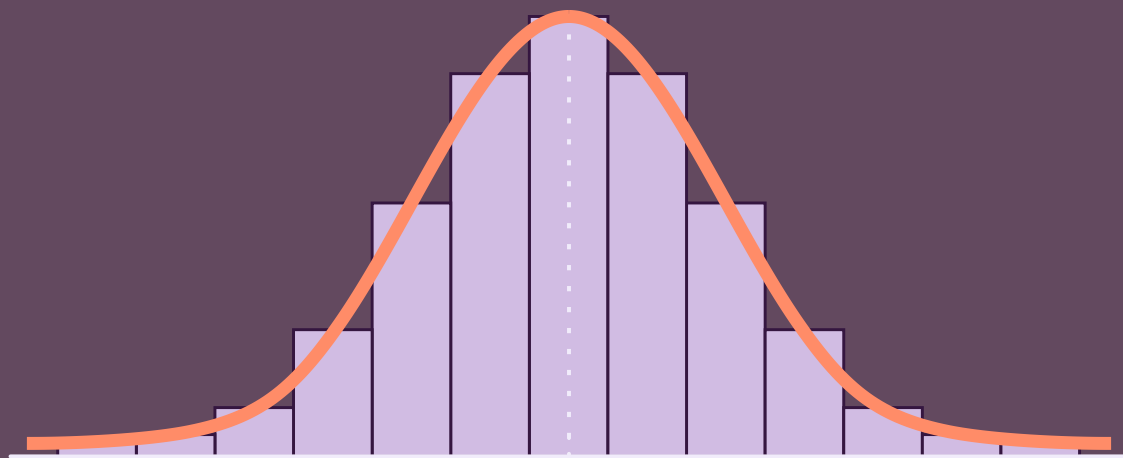
Differentiation

Employees get sorted into categories:

- **“A Players”**
 - 20% of the company
 - Promotions and rewards
- **“B Players”**
 - 70% of the company
 - Solid performers
- **“C Players”**
 - 10% of the company
 - Managed out of the company

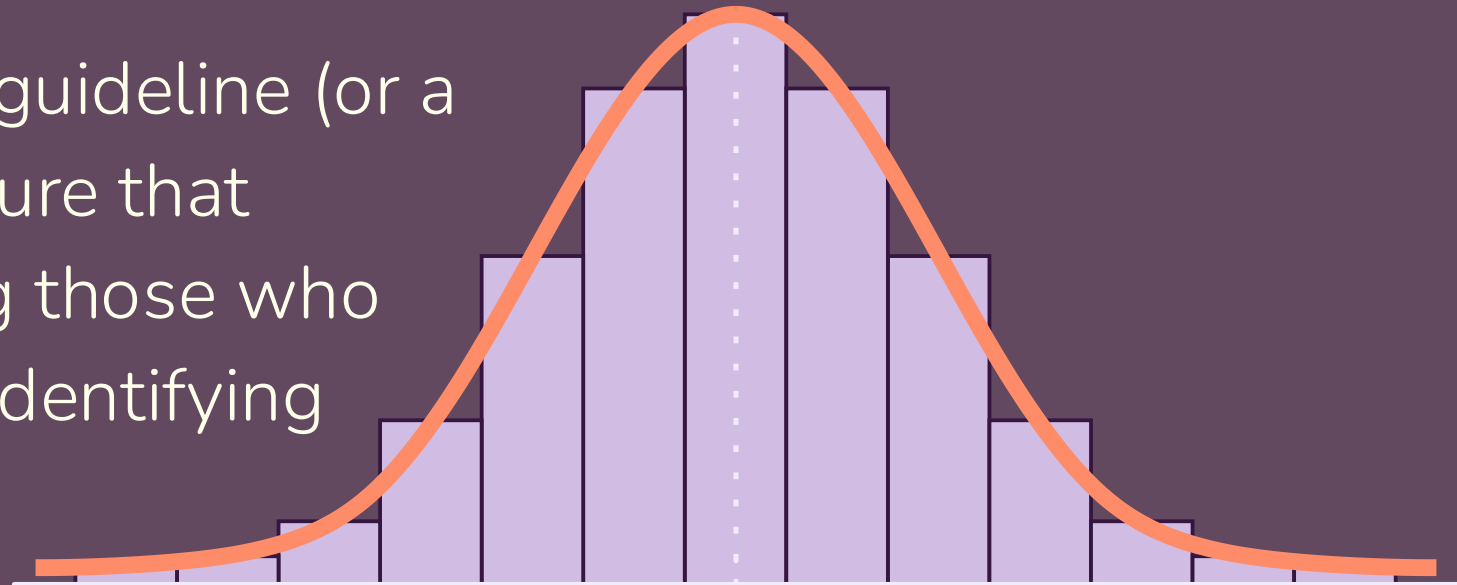


The vitality curve



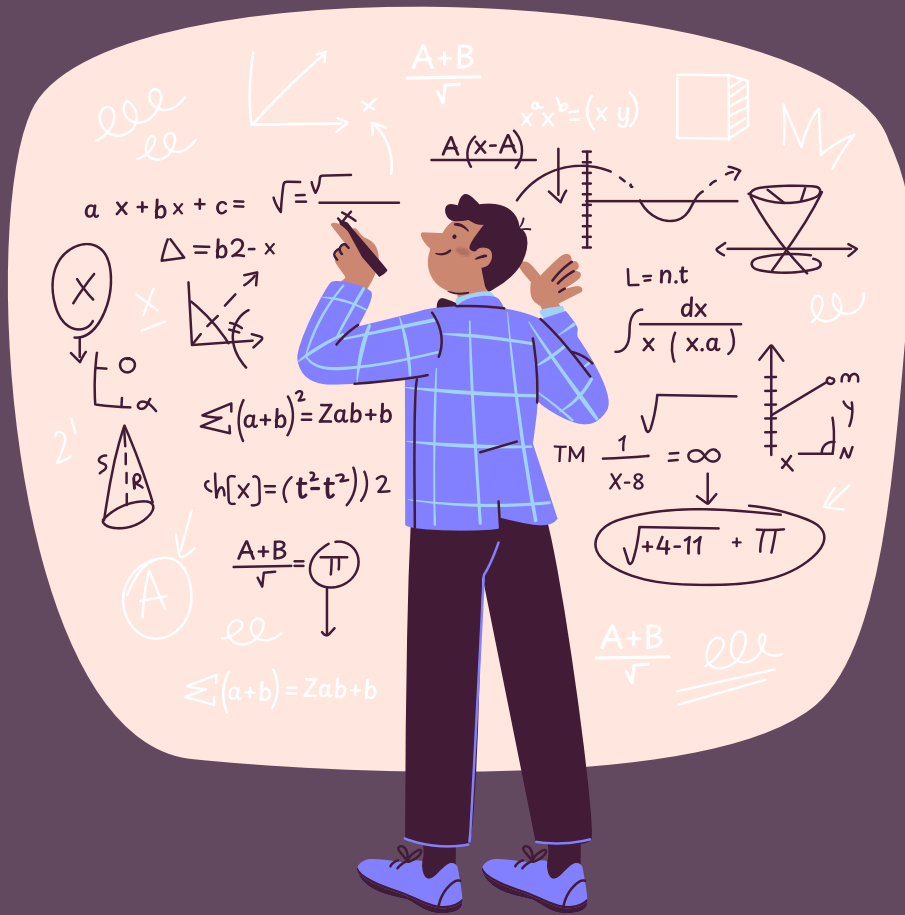
What is a performance curve?

- Theory that within a large group of employees, the distribution of the performance ratings will approximate to a bell curve.
- [Theoretically] used as a guideline (or a strict requirement) to ensure that managers are recognizing those who are performing well and identifying those who need support.





The law of large numbers



“The average of the results obtained from a large number of independent random samples converges to the true value, if it exists.”

Oh no... not another heads...

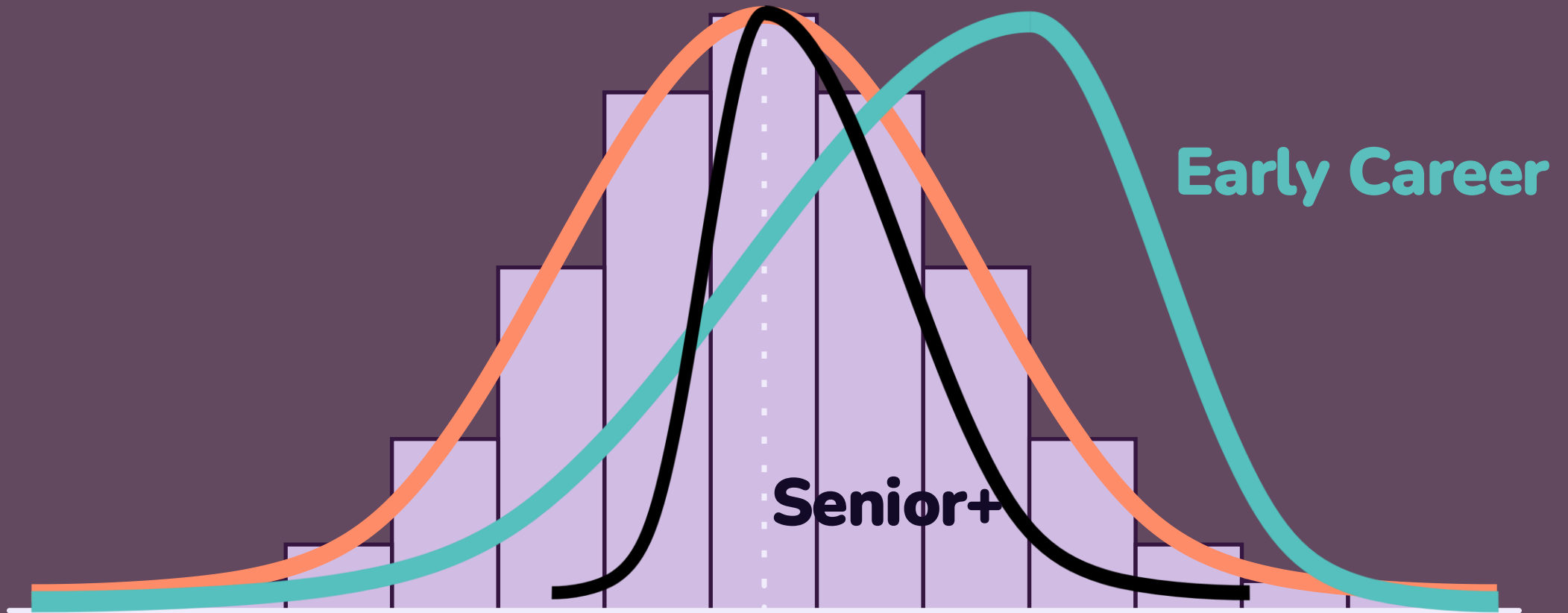
- You can technically flip a coin one million times and get all heads in a row.
- The law only guarantees convergence as you approach infinity.
- Most companies have fewer than infinity employees.



Acceptable sample size?

30

Not all levels are created equal



In summary

The bar for making decisions about people's careers and financial stability should be higher than the accuracy of the data that performance curves allow.

Jacking up the stock price

- GE's market cap went from \$12B to \$410B during his tenure
- Jack Welch's mentees went on to lead a ton of Fortune 500 companies, who all wanted their own Jack Welch.



Rank n' yank stank

By the early 2000s:

1 in 3

US companies

6 in 10

Fortune 500 companies

Hire... to fire?



Labor gets rank...led



The end????

Of course not!

Playbill

Act I

The vitality curve

Act II ...in which we draw some connections.

The problem hiding in plain sight

Act III

What can we do?

Question 1

What do performance curves look like in modern performance management?

“Numerous companies practice it, but mostly covertly to avoid direct criticism.”

The Modern Disguises

- Cross-team calibrations and “guidance”
 - Creates bias even with the best of intentions
- Shadow Ratings
 - Compensation and/or other metrics act as a proxy for performance.
- Highly Subjective Litmus Tests
 - *“If A were leaving the company, would I fight to keep them?”*



Rubric Devaluation

- Even when used as a guideline performance curves fundamentally undermine performance rubrics.
- Can lead to moving goalposts, which undermines employee's trust in the rubrics and the fairness of the system.



Question 2

Why do we still use them?

FOMO*

**also tradition, money, and the cost and difficulty of figuring out what to do instead.*

Hindsight is 20/20

“On the face of it, shareholder value is the dumbest idea in the world.”

Jack Welch, in a 2009 interview



Playbill

~~Act I~~

~~The vitality curve~~

~~Act II~~
*...in which we finally get to why we all
came here.*

~~The problem hiding in plain sight~~

Act III

What can we do?

A framework for action

1. Things you can do tomorrow morning
2. Things that can be done over the next 6 months
3. Things that will take years

What can we do...
tomorrow morning?

What can we do tomorrow morning?

Education

Introspection

Agency

Curiosity

What can we do tomorrow morning?

Education

- Do your team(s) understand how performance works at the company?
- Does everyone know what is expected of them for their level?

Introspection

- What biases and other factors impact the way that you manage performance?
- Are you spending your time equitably?

Agency

- Encourage your direct reports to keep a long-running accomplishment log.
- Draw a link between the work that they do, their impact, and their career development.

Curiosity

- Think critically about the status quo and ask questions when things change.
- Create space for others to ask questions and share their reservations.

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Questions to ask

“What is the problem that we’re trying to solve here?”

“How will this change impact employees across the company differently?”

“How does this affect the guidance we’ve given our teams?”

“I don’t feel comfortable leaving so much up to manager discretion.”



What can we do...
in the next 6 months?

With a little help from my friends

- Talk to other managers and leaders at the company.
- Find out what concerns others have.
- Build coalitions and use the power of numbers to push for change.



Help shape policy and process



- Take an interest in the performance review or promotions process.
- Does your company already have a group who owns that? If so, can you join?
- If not, can you start one?

What can we do...

in the next 10 years??

What can we do in the next 10 years?

Unionize

- Unions are about establishing a balance of power.
- We shouldn't be relying on the goodwill of those above us to survive.

Organize

- Advocacy groups, align on a feasible alternative.
- Coordinated movements and collective action.

Evangelize

- Promoting broader awareness of harmful practices can encourage companies to change.
- Can also lead to coordinated movements against unfair systems.

Legislate

- Push your elected officials for common-sense legislation that protects the rights of workers, including:
 - protection against mass layoffs
 - the right to unionize.

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The end!

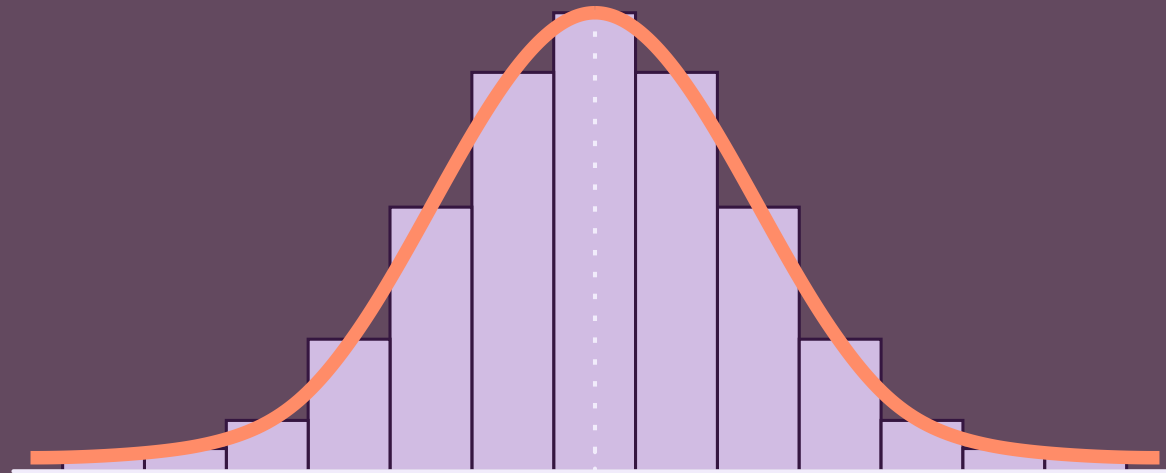
Connect with me!



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