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under the
BONNET



DIFFERENTIATION
OF TALENT IN INDIA



CAN WE MAKE IT SUCCEED ?

totus consulting services (p) limited



Dear Reader

It gives me great pleasure to return to you with the next edition of Under the Bonnet, totus consulting's research-based journal and platform for thought leadership.

It is human nature to see the enemy as being out there. This is equally true with Organisations. Organisations have always had some external enemy to battle with, or at least so they thought. It was the licence raj, the trade unions, the FDI threat and the competition from China. The latest in the list is "skills shortage" or the much-banded "war for talent". It seems as scary as the "war on terror".

In all this fuss about skill shortage, many organisations are failing to pay attention to the problem of managing the talent that is already there. There are obviously several challenges in the management of talent in India and we have covered many of them in our previous issues of UTB. In this issue, we deal with what I consider one of the most contentious and volatile of all. This edition of UTB which is the result of over a year's research on the subject attempts to understand why the differentiation of talent in India is such a huge challenge and agonizing journey.

I do hope you find this issue mirroring some of your own challenges. I also hope it does offer you a handle to deal with them more effectively.

As always, we would be delighted to receive your comments and feedback.

Warm Regards

Ganesh Chella

"Differentiation is the mother's milk of building a performance culture."

- *Larry Bossidy, Former Chairman & CEO, Honeywell International Inc.*

DIFFERENTIATION OF TALENT IN INDIA



CAN WE MAKE IT SUCCEED ?

"In the past, someone without the "right" qualifications could succeed, through an apprenticeship or by working his way up from the shop floor. Today, that is becoming impossible: we are creating societies in which the sheep and the goats are marked for life in their teens."

- *Alison Holf, Professor of Management and Professional Development, King's College, London*

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Introduction

A Personal Story

The year was 1994. I was the head of Compensation and Management Development in an International Bank. It was appraisal time. My manager, the HR Director had just returned from the management committee meeting that was convened to complete the forced ranking process for all the employees above a certain level.

My manager walked up to me quite sheepishly and handing me a piece of paper asked me to get the employee database updated. I looked at it and found that it contained the forced ranking results for the HR team. I had been downgraded one level. My heart sank and I was filled with a range of emotions - sadness, anger and disappointment. My manager told me that I deserved something better and that he had tried hard but could not convince the rest of the team. It was not so much about losing out on the bonus. It was the sense of unfairness, the sense of having failed, the sense of having been judged unfavorably, the sadness that my hard work was not recognised. I left the Bank a few months thereafter and joined an Indian conglomerate that was setting up a green field Retail initiative, at a 30% discount in my pay.

The year was 1997. I was adjudged "The Best Manager" of the year in the conglomerate I was working in, for my contribution to the Retail initiative. I was elated, thrilled and touched at the recognition and appreciation of my effort. It was the satisfaction that all my hard work had been recognized and that I was singled out for this distinction.

The year was 2006. We were invited by a large Indian company to help them with the process of making differentiation work. Given the culture of the organisation, we agreed that we needed to adopt an inclusive process. After several weeks of discussions with operating managers and individual employees, external benchmarking and large group workouts, we came up with a process that we thought was fair, objective and transparent. We believed that we had crossed the 'it's and doted the 'it's in its implementation. Even as we were waiting for final word that it was all done, we were told that it was shelved because the managers were unwilling to implement it.

Welcome to the world of differentiation!

Employees are not sure if they want it or not. They like it when it is good for them and hate it when it is bad for them. HR pushes for its implementation with a heavy heart. Managers abhor it. CEOs believe it is good for the organisation but would like HR to get it done.

There is nothing else in the field of human resources management that evokes as much of a cocktail of emotions as the subject of differentiation does. In fact, it is this diversity of views and opinions, differences in perspectives and interpretations that make *differentiation of talent in India* such a difficult task.

Differentiation defined

What is differentiation of talent all about? What is the business case for differentiation? What is the current situation in India? Why is it such a complex subject? Is there a model to help manage it any better? Is there life beyond differentiation? These are some of the questions we will try and answer in this issue of UTB.

According to the Webster's dictionary, to *differentiate* is to constitute a difference between; to perceive and indicate the difference of or between; to discriminate.

In an organisational context, differentiation is the process of discriminating between or among people based on some predetermined criteria.

People are typically differentiated on the basis of performance, potential, tenure, seniority, criticality of job, specialization of skills and so on.

Differentiation forms the basis for decisions regarding pay increases, a wide range of rewards - short-term and long-term, career progression, eligibility for leadership or other coveted positions and for the conferment of other special privileges and benefits.

What is central to the philosophy of differentiation is the approach of assessing performance on a relative basis, in comparison with others / peers rather than on an absolute basis against pre-determined goals.

Differentiation basics

As illustrated in the mind map, differentiation is basically a means of managing outcomes which could be many. The criterion is typically performance or potential. The mechanism is typically a system of ranking, or through mandating a certain kind of forced distribution.

The comparison is within or across teams, functions, divisions or the entire organisation, normally by levels of impact.

Organisations adopt differentiation under two typical circumstances:

1. When they have to find a way of distributing a limited pool of rewards among a group of eligible employees such that the most meritorious get the lion's share.
2. When they need to search for and find from a large pool, those people who hold the most potential for future positions and in whom they can make a significant amount of investment for development.

As much as differentiation leads to the identification of winners, it also leads to the identification of losers and their eventual separation from the organisation.

What seems to necessitate the involvement of the CEO and HR to drive differentiation is the belief and experience that, left

As much as differentiation leads to the identification of winners, it also leads to the identification of losers

India's journey towards differentiation

The subject of differentiation is fairly new to India. While the practice of differentiation has been prevalent in one form or another in pockets, the drive for its widespread implementation is a very recent phenomenon. The business requirement for its systematic implementation is also a very recent one. In fact, the drive for differentiation in India has been a very reactive effort.

The evolution of the business case

The pre-1991 era

We all know what business in India looked like before 1991. Much has been written about it. The lack of opportunities in the labour market meant stagnant pay, employer led HR practices and a great concern for internal parity. In the absence of the need for significant pay increases and the lack of significant career development opportunities other than routine time based grade progressions, there was little business case for differentiation.

The only occasion when organisations practiced differentiation was when they had to periodically identify the so called "dead wood" for considerations of costs and had to separate them through carefully crafted Voluntary Separation Programs. People "chosen" for such "voluntary" schemes were through a certain contentious process of differentiation.

It was also the era of significant union activity. Unions have always espoused the cause of socialist principles and have always maintained that the only two fair and objective measures of differentiation were a person's date of birth and date of joining. The rest of the work was left to the computer program or the time office clerk as the case may be.

As a result of all this, differentiation was a non-issue.

The 1991 - 2000 era

This is the period that saw the entry of the multinationals into the country, few through the direct route and others through joint ventures. They had the need to start and ramp up faster and therefore the need to use pay as an entry strategy. This was also the period that saw some ad hocism in pay since the focus was to get in the talent fast. As a result the norms of internal parity were broken.

The labour market turned vibrant and in fact turbulent and compensation levels in India grew to match the regional levels at least in some pockets across organisations and definitely at the leadership levels.

When the first correction took place post the stock market scam in 1996, for the first time, organisation woke up to the reality of having to get bang for buck. While pay levels were continuing to grow, organisations were beginning to get concerned about across the board changes (there were no deep pockets) and started ensuring differentiating in pay.

It is in this context that organisations started focusing on external parity, job family or position based compensation increases, variable pay programs that pegged pay increases to organisation and individual performance and finally sharper performance planning, review and assessment systems. All this

was however still quite reactive.

The post 2000 era

By 2000, the concept of differentiation of pay based on performance was well established though not well accepted or well executed.

Today, organisations are no longer having to explain or justify actions around paying for performance.

The next big battle of differentiation that most large organisations have to grapple with is to do with differentiation from a career progression perspective. While organisations have hired in large numbers over the past few years, they realise that not all of them will rise to the middle level, leave alone the top.

Coming to terms with this reality and acting on it in a vibrant labour market is the challenge that confronts organizations today. However, the reality is that in trying to create an egalitarian organisation, organisations might have given employees the impression that opportunities for growth are limitless and that they would come by the way of all those who stand and wait.

The new business environment challenge

While the problem of scale and the accompanying pressure of managing expectations are placing pressures on differentiation for the modern businesses, for the more traditional businesses, their stage in the business cycle is placing a different set of business pressures to differentiate.

Clearly, organisations in traditional businesses who are reaching a stable stage or are trying to fight decline or just need to compete with new entrants (with higher levels of automation and a much leaner workforce) are realising that they need fresh talent and new skills to face such competition. This obviously means a shift to external equity. They realise that they can pay market salaries only to those with the skills. They also realise the need to urgently drive a strong performance culture within their organisations, especially among employees who grew up in the pre liberalisation era. The only solution in sight seems to be a very strong dose of differentiation.

To manage the situation in the short run, Organisations are creating a parallel pay structure or a shadow pay structure to take care of attracting talent until such time the existing talent is in a position to adjust and cope with the new realities of work.

In summary, as the going gets tough and the pressures of the labour market drive up the premium for good talent, organisations are responding in equal measure with a seemingly mercenary approach to driving differentiation hard, albeit unwillingly.

Clearly, differentiation is here to stay. It is on top of the agenda of business leaders in both traditional and modern businesses. Without differentiation, organisations would be saddled with inefficiency and an artificial sense of egalitarianism. What is critical is its execution in as painless a manner as possible. However the search for such an appropriate Indian model continues.

Current level of success

While it seems quite evident that most organisations in India need to follow some form of differentiation or the other, the ability of the organisations themselves to make it work and the effort required to make it work seems quite varied.

In our experience, older organisations with a stable workforce with a long history of working relationships, are finding the journey of differentiation quite difficult.

Similarly, newer organisations with a workforce whose maturity levels are quite low and managerial skills are not well developed are also finding it quite difficult to make differentiation work.

Multinationals have obviously found it easier to implement differentiation compared to Indian organisations given the fact that it is seen as a global practice and as something that is non-negotiable. People also seem to accept it as a part of the deal of working for an MNC.

Therefore, the current situation in India is by no means uniform. This is reflected by the varied voices of the practitioners of differentiation. We were able to pick up at least three distinct voices right now:

- 1. Differentiation is alive and kicking and is the core of our people strategy*
- 2. Differentiation is a struggle but is on our agenda and is evolving steadily*
- 3. There is just too much organisation energy spent on Differentiation. Is it worth all the efforts at all?*

In our six years of consulting we have personally experienced all the three scenarios among our clients. The question is really about where the vast majority is. In our opinion, only a small minority of organisations has managed to accept and adopt differentiation as a way of corporate life.

The vast majority is in the second and the third situation. While they know that it is the "right" thing to do, for them, differentiation is still a far cry. They are either far from its conceptual understanding or are driving it in the most barbaric manner that creates a blood bath in organisations (and this is not an exaggeration from what we have seen being practiced).

In short, employees hate it, managers and leaders dread it and HR drives it mechanically. If we were to rate organisations (on a scale of 1 to 10, with 1 being low and 10 being high) on their readiness to practice differentiation, we would place most of them at a 3 or 4. That's the state of affairs and also the severity of the challenge ahead of us.

Key issues in India today

There are at least four issues that are causing concern.

1. The challenge of differentiation in an egalitarian structure

In the past, organisations had a clear management and non-management divide. While the non-management employees lived in the protected world of internal equity they also had to be content with a very "no frills" employee value proposition. On the other hand, while the management staff had a much richer employee value proposition, they were also subjected to all the capitalist principles of merit and differentiation.

Many of today's organisations are however classless and egalitarian, at least on the surface. As a result, we now have the onerous task of practicing differentiation across the entire population (a good part of whom in the past would have been part of the unionised or non-management group and would not have been part of the population for differentiation).

Having attempted to hold out an equally attractive employee value proposition for everyone and not being able to deliver on it in good measure, we have quite a challenge on hand. The popular term for this is "managing expectations". The technical term for this is "differentiation".

Managing such a large population in terms of pay and career progression through principles of differentiation is not proving an easy task. This is especially the case in the service industry including banking / insurance and to some extent in the low end of the ITES and BPO industry.

2. Employee dissatisfaction with the process

While organisations may indeed claim victory in their ability to differentiate talent, it is fairly evident from all indications that the vast majority of employees especially at the 0

- 5 year experience group are quite dissatisfied with the process. In fact, quite often their dissatisfaction is more with the basis on which reward decisions are made rather than the rewards per se.

Employees perceive the process to be unfair for several reasons:

- The performance planning process is not robust in many cases. So, they claim they do not know what performance they are being measured against.
- Others believe that the yard sticks for assessment are subjective.
- Most important of all, they are unhappy that they never received timely feedback to be able to do something about it.
- The most fundamental of all reasons for unhappiness is to do with their inability to accept the process of relative rating of performance. They maintain that the circumstances under which they performed were indeed unique and that the process of bunching them with others is not fair and equitable.

Having attempted to hold out an equally attractive employee value proposition for everyone and not being able to deliver on it in good measure, we have quite a challenge today. The popular term for this is "managing expectations". The technical term for this is "differentiation".

3. Manager inability to have the conversation

This inability of employees to come to terms with the very process only gets further aggravated by the fact that many of the managers themselves do not necessarily believe in the process and therefore do little to sell it or make it work.

For one, many managers take the easy route of choosing to be the popular person who wants to be nice and transfer the blame onto the system which they claim forces them to do what they are doing.

More importantly, managers are seldom able to muster the emotional courage to confront poor performance and call a spade a spade. The issue is much deeper than what can be solved by giving them performance counseling skills. The issue relates to emotional courage. I have personally seen very few managers who can take the responsibility and transact it well.

4. The use of “force” to achieve the goal of differentiation

Given the resistance from managers and the pressure from employees, organisations end up having to resort to “force” to make the process work. As the very terms indicate, “forced” ranking, “forced” distribution are two of the most popular and notorious means deployed to achieve the objective.

The consequence is that the **force** makes the entire process unpleasant. From the process owner’s point of view, there seems to be little choice but to do this, given managers’ reluctance to do it on their own. However, from the employees’ point of view this force seems to go against the grain of everything else that the organisation says and does.

Differentiation - Is there something to learn from our education system?

Many have asked us to explain why the same individual, who for 20 years accepts differentiation as a reality in the education system, starts to fight it the day he enters the organisation. We have attempted to find some answers. Maybe you have some more to add!

Education

You are clear about the system of grades and ranks the day you enter the educational institution. This is made very explicit. In fact, what signifies “pass”, “fail” and “merit” is clearly spelt out.

When you are in the educational institution, you actually look forward to getting the best scores, talking about it, getting on to the merit list and so on. Competition is seen as the life blood of the system and is encouraged.

The teacher’s attitude to rating and ranking is almost mechanical. He has no stakes and is not an “interested party”. He certainly does not lose sleep over it. “Playing God” is seen as part of his job. He is in fact quite selfless about his role.

The system is seen as too large, too powerful and beyond negotiation.

When you are a student you believe that it is ok to be judged.

Industry

This is the last thing that is spoken about when you enter an organisation. Organisations go overboard and say all the other nice things and leave this as “fine print” that the manager will talk about.

Organisations talk about team work, cooperation and so on. Performance ratings are confidential and no one likes to talk about his rating, leave alone putting it up on the board for all to see. Competition is seen as bad.

Managers are scared to death about “playing God”. Their relationship is interdependent and they have serious stakes in the rating through consequences like morale, attrition, non-cooperation and so on. The manager’s rewards are deeply linked to team performance and Managers therefore have a selfish interest.

The system is seen as negotiable with ample evidence of arm twisting leading to favourable results.

Getting a job is seen as having “arrived” and many believe they now deserve to be treated with respect and dignity which also means that they should not be judged in any manner.

Is there something about our culture that inhibits us from practicing differentiation?

Many believe that the culture of differentiation thrives in the West because their society strongly believes in the philosophy of meritocracy and lives the slogan of 'No free lunch'. This they believe is drilled home in every aspect of their societal life and also includes the way children are brought up.

In the same breath, many say that Asians in general and Indians in particular find it difficult to accept differentiation as a culture and practice in everyday life. This they believe is because Asians are by nature "high context" in their cultural orientation whereas the westerners are seen to be "low context" in their cultural orientation. What this really means is that Asians attach a lot of meaning to the contextual elements in the way they communicate, perceive and relate - they look at who said things and read between the lines - whereas the Westerners go purely by what is said and attach little value to the context. As a result it is believed that Asians tend to place a premium on relationships even if it comes in the way of getting things done whereas Westerners tend to be able to separate task requirements from their relationship needs.

It is also believed that Indians have a high need to be nice with others, find it difficult to say no or to confront others and fear that relationships might be adversely affected if they tell people "as it is". They carry guilt about weeding out non-performers, because jobs are not easy to come by and the curse of taking away someone's livelihood is seen to be too severe.

These are the reasons attributed to the Indian managers' inability to differentiate between their employees.

Some of the professionals we spoke to felt that performance differentiation works quite well in other countries. They believe that this is because these countries have a strong culture of system conformance and greater transparency both of which enabled their managers to handle it well. More importantly, they believe that in the West, people are able to draw clear boundaries between task and relationships.

Another opinion was that in the US, performance differentiation is better accepted because employees see no other option.

We attempted to understand this better and spoke to a wide section of people in addition to tracing this back to our historical and cultural roots. **We came to the conclusion that there is indeed nothing to suggest that our culture inhibits differentiation.**

On the contrary, we were able to locate significant evidence to suggest that Indians have been quite adept at practicing

differentiation for centuries.

If we look at our scriptures, we find that there has always been differentiation based on abilities and traits believed to have been inherited from past births.

Caste did not prevent people from going to Gurukuls or getting the 'sacred thread'. An example would be that of Satyakama. He was the son of a woman by name Jabala, whose father's name and caste were not known. However, the teacher Haridrumata Gautama appreciated his simplicity and truthfulness in speaking about his birth, and therefore administered the sacred thread to him. Although there was no evidence that Satyakama was born from a brahmana family, Haridrumata Gautama accepted him as a brahmana simply on "the strength of his brahminical character".

By the same token, there is ample evidence that people were discriminated against based on their caste. Ekalavya's story is a case in point.

The Mahabharata gives us interesting clues about the practice of performance differentiation during the Kurukshetra war.

A person's position in the army, including that of the commander was based on how many warriors he had faced simultaneously, in the past. For example, there were positions such as Maharathi and Ardharathi for chariot warriors.

Future commitments of war achievements (similar to present-day KRA's!) were also made based on such past achievements.

The practice of swayamvara in ancient India is yet another excellent example of the practice of differentiation.

Therefore, history tells us that in India differentiation was based on people's abilities, traits or character, as well as the ability of the guru or the leader to foresee and spot potential and give guidance and direction accordingly. It is unfortunate however, that in India differentiation was also based on caste.

To get a present day perspective of differentiation in India, you only need to look at our educational system - the ranks, the lists, the competitive exams, the segregation of students within schools based on grades and the special grooming they receive in preparation for the competitive exams and so on. It would be very hard to say that we grow up with no preparation to face differentiation.

All things considered, Indians certainly have the cultural grounding for differentiation. Citing culture as an excuse for not differentiating therefore seems untenable.

Why the subject of differentiation is so contentious - the four logic bubbles

The different logic bubbles

We do realise that differentiation is important for business. Businesses cannot afford to carry everyone along or keep everyone happy. Intellectually, managers too understand that they need to pick their winners and deal with laggards. Even employees do not publicly oppose differentiation. They will always stand up and say that they support meritocracy and would want rewards to be commensurate with performance.

Having said all this, we realise that the progress in implementation is rather weak because of the very nature of the subject. It seems to go beyond logic and reason and seems so heavily laced with emotions, social and cultural connotations. More importantly there seem to be strong ideological differences that creep in the way people interpret the issue and would expect to see the solution. In fact, we believe that any solution that does not take into consideration these deep rooted social and psychological manifestations will not be long lasting and effective. In that sense, differentiation is as delicate an issue for organisations in India as religious tolerance and equal opportunity is to the country at large.

As a consulting company, we therefore decided to go beyond systemic solutions and try and look at the subject from a range of social, behavioural and business perspectives. In other words, to borrow a phrase from Edward de Bono, we attempted to understand the "logic bubbles" of the different interest groups.

A 'logic bubble' refers to that bubble of perceptions and values within which an individual acts logically. This was an idea de Bono suggested many years ago in one of his books. The logic bubble concept is more powerful than just asking people to focus on the reasons behind the action. It is asking people to consider why a particular point of view and even behaviour may indeed be inevitable and justified for that person.

In other words, different people have different views about differentiation based on which they act and react in a certain manner. To understand and appreciate each of their views and actions it would be important to understand their logic bubbles.

After a fair amount of research, we zeroed in on the beliefs and philosophies of four prominent thinkers / leaders representing four distinct logic bubbles that bear relevance to the subject even though their views were not in the direct context of differentiation (except Jack Welch). What makes the study interesting is that each of them is on a different plane and represents a different dimension of the subject of differentiation.

The four men with their respective logic bubbles are:

1. Jack Welch's vitality logic
2. Michael Young's anti-meritocracy logic
3. Herbert Spencer's Social Darwinism logic
4. Carl Rogers' force of life logic

You will notice that while Jack Welch brings a strong business case for differentiation by taking the plea of

meritocracy, Michael Young brings a humanistic perspective against meritocracy.

Again, while Herbert Spencer's argument on Social Darwinism attempts to extend Darwin's 'survival of the fittest' evolutionary theory to society, Carl Rogers' force of life view argues that every individual strives to do the best for himself and is indeed capable of doing so.

These four views, while not necessarily opposed to each other, are quite diverse and distinct in their perceptions of reality and hopefully give us the much needed fresh and new insights into the troubled practice of differentiation.

We start this journey with Jack Welch.

Jack Welch's Vitality logic

No business leader has been a greater and more vocal votary and supporter of differentiation than Jack Welch.

Philosophy rooted in personal experience

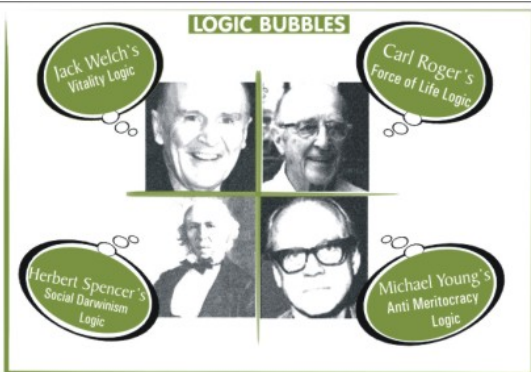
The following true story as narrated by Jack Welch himself in his bestseller book became the evolutionary point of differentiation in the corporate world.

In 1961, Jack Welch had been working at GE for a year as an engineer making \$10,500 when his first boss handed him a \$1,000 raise. He was okay with it until he found out that what he got was exactly what all four of his colleagues sharing an office received. He thought he deserved more than the standard increase, spoke to his boss, found the discussion going nowhere, felt frustrated and started looking for another job. Just as he was about to leave the city, his skip-level manager, Reuben Gutoff called him out for dinner and made a hard pitch to retain Jack Welch.

By putting more money on the table (adding \$2000 to the \$1000 raise), by promising an increase in responsibility and more importantly, by promising to keep the bureaucracy of the company out of his way, Gutoff showed Jack Welch that he really cared.

Gutoff's recognition that he considered Jack Welch different and special made a powerful impression on him and Jack Welch says that ever since that time, differentiation has been a basic part of how he managed. He claims that the standard raise he got over four decades ago had probably driven his behavior to an extreme.

According to Jack Welch, "Differentiation is all about being extreme, rewarding the best and weeding out the ineffective. Rigorous differentiation delivers great stars and stars build great business. Some contend that differentiation is nuts - bad for morale. They say that differential treatment erodes the very idea of teamwork. Not in my world. You build strong teams by treating individuals differently. Just look at the way baseball teams play 20-game winning pitchers and 40-plus home run hitters. The relative contributions of those players are easy to measure, their stats jump out at you, yet they are still part of the team."



Everybody's got to feel the stake in the game, but that doesn't mean everyone on the team has to be treated the same way.

Jack Welch conceded that differentiation isn't easy. Finding a way to differentiate people across a large company has been one of the hardest things to do, he claims. Over the years, GE used all kinds of bell curves and block charts to differentiate talent.

The Vitality Curve

Every year, GE's businesses were asked to rank all of their top executives. They had to identify the people in their organizations that they considered in the top 20%, the vital middle 70% and finally the bottom 10%. If there were 20 people on the management staff, GE wanted to know the four in the top 20% and the two in the bottom 10% by name, position, and compensations. The under performers generally had to go.

Jack Welch conceded that making these judgments was not easy, and they were not always precise. But he also believed that companies had to compromise on a few stars and a few late bloomers, but ultimately stood a good chance of building an all star team.

Jack Welch believed that when practiced year after year, differentiation raises the bar higher and higher and increases the overall caliber of the organization. GE saw this as a dynamic process and no one was apparently assured of staying in the top group forever. They had to constantly demonstrate that they deserved to be there.

No leader enjoys making tough decisions. GE constantly faced severe resistance from even the best people in the organization. Jack Welch had struggled with this problem himself, and has often been guilty of not being rigorous enough.

In his words, *"This system like any other has its flaws. Identifying the As is one of the treats of managing. Everyone enjoys doing that. Developing and rewarding the valuable keeps in the middle 70% pose little difficulty. Dealing with the bottom 10% is tougher."*

According to Jack Welch, performance management has been a part of everyone's life from the first grade. It starts in grade school with advanced placement. Differentiation applies to football teams, cheerleading squads, and honor societies. It applies to the college admissions process when you're accepted by some schools and rejected by others. There's differentiation for all of us in our first 20 years. Why should it stop in the workplace, where most of our waking hours are spent, he asks.

Michael Young's anti-meritocracy logic

While Jack Welch strongly argued the case of differentiation to build a culture of meritocracy, Michael Young argued against it.

According to Michael Young, who coined the term meritocracy, the central criticism of meritocracy was that a system in which social position is determined by objective characteristics would still be inequalitarian and unstable.

In his 1958 bestseller *"The Rise of the Meritocracy"*, which was a satirical history of British society from 1870 to 2033, Young argued that the modern school system established a pecking order that was even more divisive than the old class system because it divided people by IQ instead of by wealth.

His view was that a meritocracy simply produced a change in the pattern of inequality and yet in the end, a fundamentally unequal society remains. He believed there are certain human rights that shouldn't be distributed on the basis of merit. These

included health care, education and police protection all of which today are much more easily available to the rich.

Young had meant the term "meritocracy" to point towards an undesirable elitism. Young explained: "It is good sense to appoint individual people to jobs on their merit. It is the opposite when those who are judged to have merit of a particular kind harden into a new social class without room in it for others."

"Ability of a conventional kind, which used to be distributed between the classes more or less at random, has become much more highly concentrated by the engine of education. A social revolution has been accomplished by harnessing schools and universities to the task of sieving people according to education's narrow band of values."

"With an amazing battery of certificates and degrees at its disposal, education has put its seal of approval on a minority, and its seal of disapproval on the many who fail to shine from the time they are relegated to the bottom streams..."

Young argued that the elite, in a meritocracy, tend to feel they are much more entitled to the privileges they enjoy. This breeds a dangerous arrogance. Young said, *"They believe, as more and more of them are encouraged to, that their advancement comes from their own merits, and they deserve whatever they can get. They can be insufferably smug, much more so than the people who they had achieved advancement not on their own merit but because they were, as somebody's son or daughter, the beneficiaries of nepotism. The newcomers can actually believe they have morality on their side..."*

Conversely, the underclass in a meritocracy is made to feel more deserving of their misfortune. This breeds hopelessness. Young said, *"It is hard indeed in a society that makes so much of merit to be judged as having none. No underclass has ever been left as morally naked as that."*

In a speech "Equality and Public Service" published in September 2000 by the Fabian Society (www.fabian-society.org.uk), Michael Young re-stated his egalitarian vision:

"Were we to evaluate people, not only according to their intelligence and their education, their occupations and their power, but according to their kindness and their courage, their imagination and sensitivity, their sympathy and generosity, there would be no overall inequalities of the sort we have got used to. Who would be able to say that the scientist was superior to the porter with admirable qualities as a father, the civil servant to the lorry-driver with unusual skills at growing roses?"

"A pluralistic society would also be a tolerant society, in which individual differences were actively encouraged as well as passively tolerated, in which full meaning was at last given to the dignity of man. Every human being would then have equal opportunity to develop his or her own special capacities for leading a full life which is also a noble life led for the benefit of others as well as the self."

The bottom line of Michael Young's philosophy is that what is considered as meritocracy at a certain point in time becomes a right and privilege and social class over time and fails to be merit any longer. He also advocated a much more inclusive society where everyone was respected for who and what he or she was.

Herbert Spencer's Social Darwinism logic

Social Darwinism takes a very fundamental and even radical

view about the reality of differences and the legitimacy of promoting the survival of the fittest.

Social Darwinism is a belief which states that the strongest or fittest should survive and flourish in society, while the weak and unfit should be allowed to give up the ghost. The theory was chiefly expounded by Herbert Spencer, as an ethical theory. Not only did he mention that survival of the fittest was natural, but that it was also morally correct. At various times it has also been used to justify laissez-faire capitalism, racism or imperialism. Tied to Social Darwinism in the late nineteenth and early twentieth centuries was the idea of superiority and competition.

The Origins

The term "Social Darwinism" itself was only coined in 1944, when the American historian Richard Hofstadter published a book entitled *Social Darwinism in American Thought*. Historically, proponents of Social Darwinism have used the theory to justify social inequality as being meritocratic.

Social Darwinism is an application of the theory of natural selection to social, political and economic issues. In its simplest form, Social Darwinism follows the mantra of "the strong survive" including in human issues. Scientists and evolutionists maintain that this interpretation is only loosely based on Darwin's theory of natural selection. They admit to an obvious parallel between Darwin's theory of Natural Selection and Spencer's beliefs. According to Social Darwinism, those with strength (economic, physical, technological) flourish and those without are destined for extinction.

Although a simple racial view of Social Darwinism was that some nations had to civilize the savage nations of the world, there were other more complicated ones. Throughout history it was the weak species and races that died out or were exterminated, with one regarded as the greatest race because it had an attitude of superiority and a will to conquer. Although Social Darwinism was highly influential at the beginning of the 20th century, it rapidly lost popularity and support after World War I (1914-1918).

Despite the fact that Social Darwinism bears Darwin's name and Darwin's works were widely read by Social Darwinists, the theory also draws on the work of many authors, including Herbert Spencer, Thomas Malthus and Francis Galton, the founder of eugenics. However, Darwin distanced himself from Social Darwinism.

Positive results

The belief in this theory did bring about positive results:

- Discouraging wanton handouts to the poor, favoring instead providing resources for the fittest of all walks of life to use, or choosing specific, genuinely deserving people as recipients of help and support.
- Setting up hundreds of public institutions like universities and libraries for the benefit of those who would choose to avail themselves of such resources.

Some serious demerits

This theory did have some serious flaws and problems:

- It makes the faulty assumption that what is natural is equivalent to what is morally correct.
- The term has negative implications for most people because they consider it a rejection of compassion and social responsibility.
- For many political scientists, sociologists, and military strategists, this strain of Social Darwinism justified overseas expansion by nations (imperialism) during the late 1800s.

Consequences from the theory

The theory and belief has found its way into everyday social and political life by giving legitimacy to a wide range of actions by individuals and nations alike:

- **Ranking** - The idea that not only can human beings be classified into different 'races' but also that the 'races' could be ranked on a scale from higher to lower; as criteria for this ranking, sometimes culture or technology was used.
- **Rejection of the idea of morality** - Morality was not seen as an important consideration in human affairs. Thus, it was not 'right', but survivability or plain 'might' that counted. Nature, it was argued, was amoral; the strong should and would inherit the earth.
- **Social policies were called into question** - While on the one hand, some social reformers argued that inadequate attention to education, slum conditions and physical deprivation by governments and society was contributing to intellectual and physical deterioration of some members of the nation, Social Darwinists argued that the nation could not afford to waste its human resources by allowing so many of its members to grow up stunted both mentally or physically.

Conclusion

The ideology was that the cream naturally rose to the top - the successful made a lot of money simply because they were superior to the unsuccessful. Those who found themselves in poverty were poor because they were intrinsically inferior. This political philosophy resisted suggestions like universal education, welfare, minimum wage - in short, anything which interfered with the business of the "superior" ascending to the top of the heap and squashing the unfit beneath their expensive shoes.

While many today who support differentiation may not call themselves Social Darwinists, it seems quite evident that the roots of such a belief system have their origins in the Social Darwinism school, consciously or unconsciously.

Carl Rogers' force of life logic

Carl Rogers is perhaps one of the greatest psychotherapists that we have ever seen. As the founder of the theory and practice of Client Centered Therapy (his landmark book was also of the same title), Carl Rogers' theory was based on years of experience with clients.

His belief about people influenced his philosophy and gives

a refreshingly different perspective to the practice of differentiation.

He saw people as basically good and healthy, and saw mental health as the normal progression of life. His theory was very simple and based on a single "force of life" called the actualizing tendency. It can be defined as the built-in motivation present in every life form to develop its potentials to the fullest extent possible. Rogers believed that all creatures strive to make the very best of their existence, and if they fail to do so, it is not for a lack of desire. It is this belief of Carl Rogers that makes the study of his works very relevant to the subject of differentiation, at least from his logic bubble.

Rogers captured with this single great need or motive, all the other motives that other theorists talk about. He felt that it is in our nature as living things to do the very best we can. Unlike Maslow's use of the term, Rogers applied it to all living creatures, as well as to entire ecosystems!

The following are the key features of his theory:

- **Organismic valuing:** Organisms know what is good for them. Among the many things we instinctively value is **positive regard** (love, affection, attention etc.). Without this we fail to become all we can be. Yet another thing is **positive self-regard** (self-esteem, self-worth, a positive self-image) without which also we fail to become what we can. We achieve this positive self-regard by experiencing the positive regard others show us over our years of growing up.
- **Conditions of worth:** (This element of his theory is particularly relevant in the context of differentiation). As we grow up, our parents, teachers, peers, the media, and others, give us what we need only when we show we are "worthy," rather than just because we need it. Rogers calls getting positive regard "on condition" as **conditional positive regard**. Because we do indeed need positive regard, these conditions are very powerful, and we bend ourselves into a shape determined, not by our organismic valuing or our actualizing tendency, but by a society that may or may not truly have our best interests at heart. Over time, this "conditioning" leads us to have **conditional positive self-regard** as well. We begin to like ourselves only if we meet up with the standards others have applied to us, rather than if we are truly actualizing our potentials. And since these standards were created without keeping each individual in mind, more often than not we find ourselves unable to meet them, and therefore unable to maintain any sense of self-esteem. Carl Rogers' theory seen in the context of differentiation, leads us to believe that setting standards of relative performance and having people to work towards it may actually rob them of their self-regard.
- To the extent that our society is out of synch with the actualizing tendency, and we are forced to live with conditions of worth that are out of step with organismic valuing, and receive only conditional positive regard and self-regard, we develop instead an **ideal self**. By

"ideal", Rogers meant something not real, something that is always out of our reach, the standard we can't meet. This gap between the real self and the ideal self, the "I am" and the "I should" is called **incongruity**. Rogers referred to this incongruity or being out of sync as **neurosis**.

Carl Rogers' theory becomes very relevant when we discuss the role of the manager in delivering differentiation.

The manager is expected to wear his "managerial cap" when it comes to managing performance and delivering differentiation by giving conditional positive regard to only those of his team members who "make the grade".

On the other hand, he is also expected to wear the cap of a coach and champion to development of his people which calls for giving unconditional positive regard. It is this deep-seated contradiction that makes the manager's role in differentiation so difficult and ultimately strains his very relationship with his team member.

Seldom do organisations recognise the limitless ability of their employees to reach their potential. Even if they do say this at

the time they hire them, they are soon overcome by the anxiety to go back on this belief for "systemic reasons".

Of course, Carl Rogers was criticized for being too idealistic and for quoting his logic bubble; we too could be so branded. Yet, it is our deep conviction that it all starts with the manager - the primacy of the relationship is between the manager and his team member.

Anything that the manager does to support the display of unconditional positive regard will actually lead to change in the team member.

Anything that promotes conditional positive regard will

only lead to neurosis.

Carl Rogers' theory seen in the context of differentiation, leads us to believe that setting standards of relative performance and having people to work towards it may actually rob them of their self-regard.

What the four logic bubbles mean to us

The objective of sharing the four logic bubbles was to drive home the point that the subject of differentiation will mean different things to you and kindle different emotions in you, depending on the logic bubble you are operating from. Each of them holds some truth and is right in its own way. To find common ground, we need to see things, albeit for a short while, from the other person's logic bubble too.

Making differentiation an inclusive process - towards a new model

One major objective of this issue of UTB was to throw new light and bring new insights to the subject of differentiation. Given the diversity and even the conflicting interests of the stakeholders involved, finding common ground around the subject is no easy job. In fact, it has been our experience that while many organisations claim victory in implementing differentiation, the employees in these organisations feel otherwise.

Whose victory should be the yardstick to measure effectiveness? Can organisations afford to ignore the human implications while driving differentiation and will such a victory be sustainable?

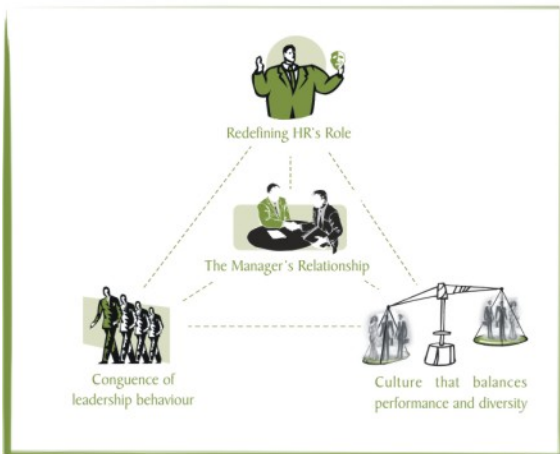
Similarly, history has taught us that the other extreme is

true too. Lack of meritocracy and performance orientation can end up stifling organisations and lead employees to become parasites. The market place has been able to teach the most stubborn trade unions lessons on market orientation and performance focus.

It is our belief that for differentiation to be sustainable it needs to be inclusive. It also needs to be humane.

The model that we present here is built on the basis of these beliefs.

Obviously, solutions to such a complex problem are not as easy as they sound. Nor can some parts of the solution be applied conveniently. To that extent this model goes beyond the more obvious systemic solutions.



The Manager's relationship

At the core of differentiation is an honest and trust based relationship between the manager and team member. The manager must, out of concern take the effort to objectively evaluate his team member's performance and on that basis give him candid but considerate feedback. The intention of the feedback must be to help and must be based on the belief that the employee has the inherent ability and willingness to improve.

Differentiation has to be built on this solid foundation. Organisations which attempt to circumvent this and instead place

a premium on systems and process over people, or start with the belief that differentiation must be forced because managers are weak, are only likely to weaken the long-term climate of performance within the organisation.

Leaders with the support of HR must make all the necessary investment in helping managers cope with the process of differentiation.

What does it take to develop such a Manager? We see three dimensions to the development of such a manager. We call this the three domains of the differentiating manager.

The three domains of the Differentiating Manager

Differentiation of talent is all about making sound judgments, transacting the truth and acting on it to see it through. Let us understand this better.

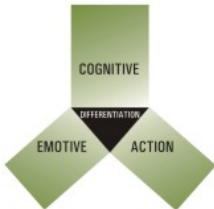
The **cognitive domain of the Manager** is concerned with the rational, analytical and logical abilities. This is what helps the manager make judgments about performance - good or bad.

At the core of differentiation is an honest and trust based relationship between the manager and team member.

At the Cognitive level, the manager:

- Understands that Differentiation is for the good of the organization, the team and the employee
- Knows that while it is difficult, a planned approach will help
- Is aware that clarity in goals and performance parameters is essential
- Understands that differentiation is not limited to performance but also spans recognition of potential, retention of core skills, career development initiatives and finally even the time spent by the manager on

individual employees is familiar with the corporate policies and guidelines on Differentiation



'Powerful Conversations'

It is a universal truth that more than any other single factor, conversations create and sustain the culture in which we live. Today, organizations recognize that unless they change their conversations they cannot change anything.

Conversations are powerful tools available to everyone. If the attitude of the manager is such that he is indifferent, or just does not care about his people, then his conversations can create cynicism and helplessness; on the other hand, if he is genuinely interested in their development, he can have conversations in a manner that creates enthusiasm and optimism.

Phil Harkins defines a Powerful Conversation as an interaction between two or more people that progresses from shared feelings, beliefs, and ideas to an exchange of wants and needs to clear action steps and mutual commitments.

Managers have countless opportunities to have such powerful conversations with their people - when they give feedback, while coaching their subordinates, as part of mentoring, during reviews and appraisals, and when they differentiate.

Communicating to average performers after differentiation can be a difficult conversation. How managers handle this can determine the effectiveness of the differentiation process to a large extent. Instead of being put off by the potential awkwardness of the situation, they should try and convert it into an opportunity to have a powerful conversation, so that their people are inspired to perform better in future. Similarly, the top performers should also feel that their efforts have been recognised and their enthusiasm should be sustained by the manager's appreciation.

The **emotive domain of the manager** is concerned with feelings and emotions and comes into play wherever relationships are involved. Demonstrating concern for others, building trust, taking care not to hurt others or allow others to hurt us, nurturing and maintaining good relations with people, being nice yet firm and assertive, are all part of this.

At the emotive level, the Manager:

- Gives feedback to the employee
- Deals with the emotional fall out of the feedback process
- Demonstrates empathy and concern in helping the employee process the feedback
- Shares his personal support, personal journey and commitment to the development process
- Does everything to uphold the self worth of the team member
- Appreciates the team member for his strengths but also challenges him to be open to new insights and data
- Is aware of and sensitive to the impact of his behaviour and feedback on the team member

The **action domain of the manager** is concerned with actual tangible behaviours and actions that are consistent with the cognitive and emotive dimensions of differentiation. It has to do with acting on his judgment in a congruent manner without fear but with sensitivity.

At the actions level, the manager can do a lot.

- The manager can continuously communicate and clarify performance expectations and the reality of where each employee stands.
- The manager can demonstrate his commitment to performance by driving mid year reviews scrupulously.
- Through consistent actions and on-line feedback, the manager can ensure that the employee knows where he or she stands and ensure there is no end of year surprises on the ratings.
- He or she also takes decisions on pay, rewards and actions based on performance / non performance.

The more you think of it, the more you realize that management theorists have over the years complicated and over systematized what is essentially a simple dyadic process. Over systematized what is essentially a simple dyadic process.

If the manager can actually have a **powerful conversation** with his team member, performance and differentiation will happen.

Congruence of Leadership behaviour

A lot has been written about creating high performance cultures. We do not see the need to restate this. There is however one aspect of performance orientation that seldom gets mentioned. This is to do with ensuring that the day to day actions of leaders are consistent with their stated philosophy of differentiation. We call this congruence.

The actions of the leaders throughout the year speak a lot more than their year end mails and memos on differentiation. Leaders' day to day actions must reinforce differentiation.

- Do they hire right?
- Do they put the right person on the right job?
- Do they steer clear of political considerations when they take people decisions?

- Do they take the courage to unseat erstwhile "starts" even if they have failed to remain stars?
- Do they display latitude for poor performances in very visible ways that lead employees to perceive double speak?
- Do they allow some of their managers to get away with violations while they push others harder?

Once organisations embark on the path of differentiation, they are on watch and constant scrutiny. Any actions that are inconsistent with stated policy tends to erode credibility and compromises on the organisation's ability to implement it well.

Culture that balances performance and diversity

One of the greatest dangers of differentiation is the temptation to adopt a "one size fits all" approach. Leaders sometimes forget the fact that organisations are organic and human entities with significant differences within. What works for one section or group of employees may not work for the other. What is easy for one group to accept may be difficult for another. Organisations are seldom made up of one homogenous group of employees. Their educational profile, socio-economic profile, tenure in the organisation and position within the organisational hierarchy has significant implications on the applicability and ease of implementation of differentiation.

It is important that organisations recognise and respect these differences and work around them.

Based on our own consulting experience we have identified three groups of employees who need to be handled quite differently as far as differentiation is concerned, given that they have a unique set of needs and concerns.

Young employees / new entrants

When organisations hire young employees, they emphasise the fact that these employees must focus on learning and skill acquisition. If this was indeed true, it would be important to give these young employees time before they are brought under the rigours of differentiation.

If this is not done, we have seen that young employees tend to get unfairly compared to older employees who get better ratings and rankings. More importantly, we would end up giving the message that the real expectation is performance at all costs and not really learning. This premature emphasis on performance may also lead them to make mistakes or learn to do things in ways that bring discredit to the profession.

Similarly, when Organisations hire employees laterally from other organisations, it might be necessary to give them the time to settle down (despite their relatively higher costs) and plan for a sustainable long-term contribution. If new entrants do not get the time they need to adjust, they are likely to focus on short-term wins, which may even compromise long term interests. **The theme here is one of "giving time"**

Promotees

Many organisations have programs by which they promote employees from one cadre to another over a period of time. This

could include workmen becoming supervisors or clerical staff becoming officers or managers and so on.

These typically tend to be employees with sound functional skills and long tenure but without the intellectual and managerial abilities of some of their younger counter-parts.

If you were to put these employees along with others who have professional qualifications, in a differentiation process, the results are all too evident. On the other hand, these are a bunch of employees who give great stability to the organisation and also carry with them years of experience and wisdom.

It would be prudent to compare them within their own peer group first rather than comparing them with people across the organisation. (For example, a bank may have promoted a clerical staff to an officer position while also having hired officers from premier business schools. The truth is that if you were to compare these two groups, the conclusion might be all too obvious. However given that the Bank needs both the groups, its differentiation policy needs to be sensitive to this diversity. **The theme here is to differentiate within the right segments.**

Workmen (unionized or otherwise)

We have seen little evidence of real differentiation among the workmen in manufacturing and service organisations. While a large part of the resistance is on account of unionization, we believe that the issues are far deeper.

For one, there may not be a great business case to differentiate either from a job design perspective or from a pay and rewards perspective.

Having said this, we do see the need to identify workmen with potential and invest in their development and progression. In a tight labour market, it makes great business sense to invest in the development of those employees who demonstrate the commitment to stay and contribute and also the eagerness to learn and grow. **The theme here is to differentiate from a developmental perspective.**

Redefining HR's role

In many of our consulting engagements, we have been left with the impression that the HR professionals see themselves as the sole custodians of differentiation and performance orientation. However, the reality seems otherwise. While HR is investing a lot of effort, the employees on the ground are seeing these efforts as administrative and not as supporting them and adding value to the process. As a result, HR professionals experience frustration even as they carry the burden singularly. Employees see them as the villains who drive differentiation. Managers see them as unsupportive and unhelpful in their efforts to retain and motivate people. CEOs see them as mere administrators unable to influence the organisation and get it done.

A lot has been written about how HR needs to go well beyond the administrative tasks of closing out appraisals and taking pay actions and be a champion of employees. We will not belabour this point.

The role that HR plays in the entire process must be redefined urgently:

1. HR should stop being the process owner for the performance planning and goal setting process. It is our view that this is the primary responsibility of the manager and is best done by him under the leadership of the CEO. HR ends up merely becoming a progress chaser which is best avoided.
2. HR should stop controlling the pay budget. If managers do not get to participate in the pay decisions and are merely expected to conform to the forced distribution norms, they never get to see the big picture and therefore do not do a good job of it. Managers should be involved not only in differentiation but also in seeing through the implementation of rewards in line with their recommendations. HR's role should be to focus on obtaining necessary external information, establishing pay increase guidelines, designing new reward programs and facilitating the process of managerial decision making. It is our belief that ownership comes with the opportunity to take decisions and act responsibly.
3. HR has a huge role to play in supporting the CEO in building a performance culture. This can involve several key tasks:
 - a. Developing the skills and abilities of people
 - b. Building clarity around the larger goals of the organisation
 - c. Promoting a culture of collaboration
 - d. Ensuring that measurement and reward systems are aligned
 - e. Addressing the impediments to employee engagement
4. HR also has a huge role in using communication to ensure that the process of performance measurement and differentiation is well understood and fear and apprehensions are allayed. What is well understood by HR may not necessarily be well understood by the junior most employees in the organisation.
5. HR has an equally significant role in providing the managers with the skills to have powerful conversations.
6. Finally, HR has a role in ensuring that they listen to the voice of the employees to see that the principles of fairness and objectivity have been upheld in the entire process.

HR should stop being the process owner for the performance planning and goal setting process.

One of HR's greatest challenges is to communicate the real meanings of the various rating scales or levels and ensure that people do not undervalue it. Quite often the meanings that people attach to ratings make the selling process a very difficult exercise.

We quote a mail sent by Dr. Jairam Varadaraj, the Managing Director of ELGI Equipments, one of our clients to his employees, explaining this. What makes the message interesting is the analogy and the meaning he has attempted to give to the entire process.

The understanding of what a rating means has a big impact in terms of the value attached to it by the recipient.

We (at Cliphorne) follow/interchangeably the nomenclature of numerical and alphabetical rating points namely 7-rater, 2-rater, 3-rater and 4-rater or simply A, B, C and D. It looks like we have formed some mental connections associated with each rating point. It was coming across that any rating below a 2-rater in the numerical system and below a B in the alphabetical system is considered as bad performance. While in a conventional rating system this may be true, in the context of our performance management system and the way it is designed, this is a dangerous misunderstanding. I have attempted to explain the interpretation of our rating points below.

A 7-rater or an A is a truly exceptional individual who has exhibited superior performance. And this performance is judged not only by his manager but also his "customer's managers". They would be the equivalent of the Tiger Woods or the Roger Federer or the Ricky Pottings of the world.

A 2-rater or a B would be a good performer. They would be the equivalent of the Vijay Singh or the Clayton Kershaw or the Rafael Nadal of the world. They are solid players who are in the fringe of becoming exceptional.

A 3-rater or a C would be an average player. They would be the equivalent of the Dinesh Singh or the Nathaniel Phillips or the A's partners of the world. These people are a strong backbone of the company and who have all the potential to track up.

Any of the people in any of these ratings have tremendous potential to significantly contribute to the future of the company. The rating in any given year is not a reflection of their capability but a result of a combination of skills and the environment and circumstances. There could have been technology issues, or customer issues or supplier issues that may have impacted ratings across these levels in a given year.

But the fact remains that people in these three rating levels are considered to have the promise for the future.

If the past year has been a mediocre one, the company restricts the performance pay out to the 7 and 2 raters. But this does not detract from the belief that a much more comprehensive envelope of people exist in the company to take the organization forward.

When people receive their ratings it would help if they were to receive them in the light of the above. As they say....

A year does not a banana it can make
As does a rain not make an ocean
Many rates and the measure create
The glory of nature and not so soon.

Regards
Jay

Dick Grote and Forced Ranking

Dick Grote is one of the authorities on the subject of Performance Management and perhaps the only one to have dedicated an entire book to the subject of forced ranking. His views are therefore centered around finding a sound process and also creating the right boundary conditions to manage differentiation. Central to his argument is the belief that forced ranking assesses employee performance relative to peers as against the predetermined goals in a conventional Performance Management System that is absolute in nature.

Advantages of forced Ranking

Dick Grote dispels common misperceptions about forced ranking and offers a clear-headed, convincing argument for why it should be a necessary part of any robust performance appraisal system.

- Combats inflated ratings - Forced ranking combats artificially inflated performance appraisal ratings, the failure to differentiate and forces the truth into performance management. It also helps ensure accuracy in performance evaluation.
- Fosters talent management efforts - It is a valuable tool to supplement an organisation's overall talent management efforts.
- Basis for action - Forced ranking provides a sound and defensible rationale for all important actions including pay raises, promotions and bonuses.
- Raises the bar - Forced Ranking forces managers and organisations out of complacency and creates a culture of raising the bar on performance.

Drivers of successful forced Ranking

Having recommended a process to drive differentiation, Grote goes on to identify the following as the drivers of successful differentiation, specifically, forced ranking.

Organisational readiness

Organisations should start by surveying their workforce to assess whether the employees will support the introduction of a forced ranking system. It is important to conduct a specific audit of the organisation's current performance management system and processes.

The organisation should create the right environment where competition and teamwork are fostered.

Tackling Managerial Resistance

The organisation should try to combat any possible resistance from either the managers or the employees by being proactive in communicating the essence of forced ranking. A culture where managers don't flinch at the prospect of having to sit down face to face, and deliver an honest appraisal of a subordinate's performance must be created.

Performance driven culture

Forced ranking works in some cultures, not so well in others. It is more frequently used in companies that have a strong performance culture and greater leadership support for the importance of performance management as a whole.

The Downside to Forced Ranking

According to Dick Grote, the following are the downsides or risks associated with forced ranking:

- The process may produce culture shock and generate an environment where competition trumps teamwork and corporate goals are sub-optimized. The process may promote excessive competition instead of collaboration and collegiality.
- Resistance - Some managers and some employees may resent and resist the process. Employees may become demoralized.
- The judgments made in forced ranking or similar relative comparison procedures are necessarily subjective and speculative and therefore inappropriate.
- A forced ranking system may influence managers to concentrate only on developing their stars.
- A forced ranking process may unfairly penalize managers and departments that adhere to high performance standards and act to remove poor performers in advance of ranking sessions.
- Forced ranking is not a sustainable process. It's simply impossible to keep "raising the bar" indefinitely.
- Forced ranking isn't appropriate for an organization that already consists entirely of all-stars.
- Forced ranking and comparing one individual against another is somehow unfair.
- Mistakes are inevitable. You're bound to miss a few late bloomers and overrate a few glib duds.
- Lower-ranked employees who are members of a protected class may believe that the ranking procedures produce illegally discriminatory results.

Conclusion

Dick Grote believes that forced ranking when used well can be a highly beneficial process for an organisation that is serious about rapidly accelerating its talent management efforts. He believes that implementing a rigorous forced ranking, relative comparison process to identify an Organisation's best talent can provide an enormous pay-off and will be worth the effort to do so.

He concedes that while forced ranking is a performance management tool that when used right increases productivity, profitability, and shareholder value, results in confusion and controversy when firms have misunderstood what forced ranking is or implement it poorly.

Dick Grote sees forced ranking as a valuable component of a company's total talent management palette. He also sees it as a means of supplementing and not replacing the familiar performance appraisal system used by virtually every organisation. He warns that forced ranking is not a panacea that every company should use.

Beyond differentiation

Before we conclude, it would be important to submit that there is life beyond differentiation.

Labour market realities

We have seen examples of some of the most respected organisations that have declared their will and desire to differentiate and have then climbed down quickly in the face of pressures of attrition.

What is working well in the US may be so because of the labour market conditions there. If we in India are facing challenges with differentiation, it is not entirely attributable to poor managerial abilities. It must be acknowledged that we cannot wish away the realities of the external labour market forces.

For this purpose, leaders and HR should have a good understanding of the external and internal labor market situation to decide on the extent of differentiation. This would mean making the right choices in terms of how deep and how much we want to practice differentiation.

Employees very readily accept differentiation when they are most concerned about keeping their jobs. When the external market is buoyant, it becomes very hard for organisations to go

out and practice deep differentiation. From this perspective, both India and China are likely to face similar dilemmas in driving differentiation while also battling attrition.

Talent is Universal

Many organisations have a Talent Management System through which they identify the top 20% to 25% of their super achievers and critical resources as part of a pool for "special treatment" to ensure retention. While this is good differentiation practice, it could be viewed as an elitist program if the rest of the talent is not provided the opportunity to grow and aspire for similar reward and recognition.

In the Indian context, we recommend that the platform for talent development be initially broadbased before we attempt to embark on any exclusive identification of a talent pool. The problem gets confounded by the fact that it becomes difficult for managers to dislodge people from the "A list" during subsequent review processes. Hence once identified as superior talent it almost becomes a permanent residency in the pool and these individuals become permanent stars.

In closing

The business case for differentiation of talent in India is strong and irrefutable. The fact that we are far from achieving any significant success is also irrefutable. That the subject is extremely complex given the multitude of logic bubbles is also irrefutable.

It is fairly clear that there is nothing in our culture that inhibits our ability to differentiate. What seems to inhibit us is our fear about the consequences or our genuine differences with the way it is practiced.

The social fallout of differentiation is strong and cannot be denied and we cannot turn a blind eye to it.

It is equally evident that in a tight labour market, differentiation is a hard goal to achieve.

It is our conclusion that differentiation is good for business and also for individuals. However, its practice calls for preparation, sensitivity and a genuine effort to make it inclusive. While Indians are capable of practicing differentiation, it is also evident that what works for the US may not work for India. (Incidentally, what is supposed to be working in the US is actually not!)

At a time when we seem to be experiencing the most acute levels of skills shortage, the focus of differentiation should be to

encourage people to know where they stand and what they need in order to grow rather than to exclude them from freely and enthusiastically participating in the labour market. Needless to say, in difficult times, employees quickly come to terms with the realities of differentiation.

If one were to systematically study the processes which led to the birth of trade unions across a reasonable sample of organisations, one would realize that the seeds were always sown by perceptions of unfairness, victimization and discrimination and then watered and nurtured to growth by the behaviour of bad managers. It is our opinion that badly administered differentiation practices can end up sowing such seeds of deep seated discontent and over time lead to many forms of counter productive or dysfunctional behaviours and actions.

All this means that we need to make very urgent and serious investments in developing our managers, for without their support and leadership, differentiation will remain not merely an HR thing but a dangerous weapon in untrained hands!

Yes, discriminating between people is critical but it has to be done with a lot more care and a lot more humanness than marking sheep and goat for life!

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***totus consulting is proud to announce its sixth anniversary colloquium
titled "Managing in Transient Times"
to be held on Saturday, November 25, 2006 in Chennai.***

This colloquium will help develop understanding about the challenges of living & working in today's world of transient organisational membership and will also be able to suggest what it will take to be effective & even successful in this new reality.

In this colloquium, we bring together people representing different walks of life and forming each others' "environment" - business leaders, HR professionals, managers, employees, consultants, free agents, behavioural scientists, counselors and even students of philosophy.

You will find the gist of our previous Colloquiums on our website www.totusconsulting.com

about totus

We are a strategic HR consulting firm that partners with organisations by designing HR solutions that meet their business needs.

Using our expertise in conceptualising, designing and implementing end-to-end HR solutions in a variety of business contexts, we help organisations harness their potential and manage their growth. Thought Leadership and Implementation Excellence are the two pillars on which we build our solutions.

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This core end-to-end offering from totus addresses the needs of the following clearly defined customer groups:

- ◇ **Interim support for start-ups:**
totus has the expertise in providing interim HR support to start-ups of any size and complexity.
- ◇ **Institutionalisation support for SMEs, Professional Entrepreneurs and Family Businesses:**
totus has been working closely with CEOs of SMEs, entrepreneurs & business owners to provide them strategic and operational solutions meant to help institutionalise their HR and organisation building processes.
- ◇ **Improvement support for all Organisations:**
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An HR@work engagement would typically last from three to twelve months depending on the complexity involved and the maturity of existing systems. The scope is highly customized to meet the Organisation's needs and covers a wide spectrum of human resource initiatives including:

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|-----------------------------|------------------------------|---|
| ✕ Organisation Design | ✕ Workforce Management | ✕ 360-Degree Feedback Systems |
| ✕ Job Design & Capabilities | ✕ Career Development Systems | ✕ Employee Satisfaction & Sensing Surveys |
| ✕ Performance Management | ✕ HR Function Development | ✕ Coaching |
| ✕ Compensation & Benefits | ✕ Change Management | ✕ Service Quality |
| ✕ Staffing | | |

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