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Getting Rid of Grades to Boost Performance

by Brian Dive

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Getting Rid of Grades to Boost Performance

The practice of assigning letter grades to jobs has had perverse consequences. Aligning jobs with accountability is a much better idea.

by Brian Dive

Most companies grade their employees' jobs using some kind of ranking or rating system based on job evaluation. The grades assigned are intended to assess fair pay for people doing the same work, and are usually public, like the letter grades of schools. In theory, these systems are supposed to help people manage their careers, by providing a comparison of jobs and individuals' competence across a large organization. But in practice, they have a terrible side effect: They end up adding to the costs of bureaucracy, frustrating employees, and undermining leadership development. The good news is that by changing this single factor in the human resources equation — replacing job grades with a system based on job accountability — companies can reverse many of their ill effects, reduce costs, and improve performance.

The problem is that job-grading systems at many companies migrated over time into the domain of organizational design. That's because most companies base their job grades on a points system: Points are allocated for size of budget, sales, and number of subordinates. This gives managers a tremendous incentive to increase budget and staff — both for themselves and for everyone reporting to them. Since the easiest way to do this is often to insert another layer in the hierarchy, job grading ends up creating unnecessary and counterproductive layers of management.

Job grading has an equally pernicious effect on leadership development. This is because bosses assign promotions based on grades rather than on value provided to customers, and set up the system so that they can continue to promote potential leaders rather than risk losing them. By adding enough rungs to the management ladder so that everyone can keep moving up, they end up designing the whole organization to make room for the people who have been promoted.

The heart of the problem in grade-driven organizations is that the three key pieces of the employee puzzle become disconnected: the layers in the hierarchy, the accountability to customers, and the employees' job grading. By reorganizing to bring those three pieces together and abandoning job grades, companies can save a great deal of money, be far more effective, and give their employees more job satisfaction.

The year 2008 saw many banks around the world stumble and fall. One key reason was a lack of accountability throughout management. It's no coincidence that banking is one of the industries in which job grading is most prevalent, and where it has led to institutionalized over-layering. For example, my colleague Adam Pearce and I worked with one bank

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whose operations could justify four layers of management based on clearly identified levels of accountability. But the bank had created, over time, six different managements layers, which had led to a silting up of the structure. We have worked with many banks in a number of different countries, and all, without exception, were overmanaged in this way: Many managers had very limited roles that lacked true accountability. And all these banks used job-grading systems.

Bringing Back Accountability

The starting point for change is to get rid of the current, grade-based system of job evaluation — at least as far as promotion and the hierarchy are concerned. Limit rankings and ratings to help identify fair compensation, in comparison with others at the same level in the same job, but no more than that. For all other managerial and organizational purposes, create a system of clear levels of accountability.

Accountability entails being answerable to another person for a product, process, or result that is measurable in terms of quantity, quality, and time. When reviewing an employee's role in an accountable system, three key questions should be asked: First, why does the job exist? Does it ultimately add value for the customers? (By "customers" we mean anyone who benefits from the organization's work or products, including the patients of a hospital or the beneficiaries of a government agency.) Second, for what is this person held to account? Finally, how well does this individual fulfill that accountability?

Accountable jobs provide the platform for leadership development. Accountable work has consequences: rewards for work well done and sanctions for work that is not well done. A promotion in such a system is a move from one level of accountability to another. Performance has consequences; employees are promoted only by serving customers well and productively.

Unilever PLC was the first company to introduce such levels of accountability (or "work levels") on a global scale, more than 10 years ago. The company carried out extensive fieldwork in its operations around the world to verify their number of work levels. I described this approach, based in part on the early work of Elliott Jaques, in *The Healthy Organization: A Revolutionary Approach to People and Management* (Kogan Page, 2004). The fieldwork involved researching hundreds of jobs at Unilever in both developed and developing countries and evaluating them according to seven criteria related to accountability. More than 500 top executives in about 40 countries were asked: "What decisions do you make that your subordinates cannot make, and in addition, what decisions are you making that your boss does not need to make?" The samples included labor-intensive, capital-intensive, and knowledge-intensive work, in such settings as laboratories, large head offices, and international consumer and trading operations.

The result was that, for 20,000 managers, 17 existing job classes or grades based on job evaluation were replaced with only five work levels based on accountability. These levels became the basis for compensation, organizational design, and career development in 100 countries — a global overhaul of the company's people management policies and systems that significantly improved Unilever's international competitiveness and made it a leaner, more nimble, and customer-focused company.

Getting the Number of Levels Right

Every organization, if it follows this type of accountability analysis, will end up with a different array of layers and reporting relationships; some parts of the organization will be deeper than others (with fewer people reporting to one person). Accountability varies in response to the demands of situations, depending on the quality of the work to be mastered, the changes to be managed, the objectives to be achieved, and the environmental circumstances and geographical range of the company. But some aspects of hierarchical design are universal, for example, only one layer of management is required in each level of accountability above the customer front line. Even a giant global organization like Unilever needs no more than six or seven layers of management.

In July 2001, Tesco PLC also began replacing its management job grades with work levels. CEO Sir Terry Leahy was concerned about his managers wasting time arguing over their job evaluation points. Leahy said, "I want a system that is simple, clear, and transparent, which managers understand, trust, and then forget about and get on and serve our customers."

Tesco has a tough touchstone against which any new initiative is evaluated. It must be "simpler, cheaper, and better for customers." Work levels met that challenge. To emphasize this message, Tesco inverted the structure pyramid in its work level workbook. The base of the pyramid — at the top — was "customers," with Work Level 1 and so on following, *down* to the top levels. To reinforce the importance of being close to customers, work-level organization charts were similarly inverted, with the customer on top.

Although initially introduced to solve a compensation issue (fair pay for accountable work), work levels have subsequently been applied in Tesco to drive more effective organization design, reduce cost bases, and help control costs in a time of great organic growth. They also now underpin the company's leadership development program, with key differentiating competencies linked to levels.

Making the Change from Grades to Accountability

One reason that most CEOs are comfortable with existing job grade systems is that they tend to organize top-down. They are trained to link structure to strategy. But the danger in this approach is they are prone to add jobs for the comfort of the boss that do not add value for the customer or to the work of others. Building an organization is like building a bridge over a river, where construction begins on both banks and must meet in the middle. Good organizational architecture needs to be designed both top-down and bottom-up. It needs to link with the purpose and mission of the organization as well as satisfy its customers and, indirectly, its employees.

Replacing grades with levels of accountability can accomplish this goal, and need not be difficult. The best way to assess value-added tasks is to start from the front line. What does the customer need? What does the person serving the customer need? And so on up the chain of command. By interviewing jobholders and asking what decisions they make, one can establish the discrete levels of accountability in any organization, and thus define the optimal layers in a company's hierarchy. +

Resources

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