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Dovernet

"Zynga's Tough Culture Risks a Talent Drain," by E. M. Rusli, *The New York Times*, 11/27/2011:

> General managers submit weekly reports, measuring factors like traffic and customer satisfaction. Every quarter, teams assess their priorities under an Intel-pioneered system called "objectives and key results." And Mr. Pincus, a professed data obsessive, devours all the reports, using multiple spreadsheets, to carefully track the progress of Zynga's games and its roughly 3,000 employees. . . .
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> But the heavy focus on metrics, in this already competitive industry, has also fostered an uncompromising culture, one where employees are constantly measured and game designers are pushed to meet aggressive deadlines. . . . Several former employees describe emotionally charged encounters, including loud outbursts from Mr. Pincus, threats from senior leaders and moments when colleagues broke down into tears.
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> For the top performers, the rewards are handsome. Zynga dispenses lavish gifts like vacations and $100,000 in vested stock. . . . Those who do not perform can perish. . . . While such a culture is not uncommon in the game industry, it can create problems. Employees at Electronic Arts and Activision Blizzard have filed lawsuits against their employers, with claims of hostile work conditions and withheld compensation. . . . "We've learned that when companies treat talent as a commodity, the consequences are severe," said Ms. Toledano of Electronic Arts. "It takes years to repair a reputation."

Kristina Chung, senior vice president of Dovernet's Consumer Innovations business unit, mulled over *The New York Times* article that had been published just two months ago. She knew that Zynga, the new darling of the online social gaming industry, had just been valued at $7 billion, following its initial public offering. She also knew that Zynga's founder, Mark Pincus, was an HBS graduate (class of '93) who had started the company only four years earlier. Pincus, a serial entrepreneur, had founded FreeLoader, an Internet-based broadcast service that he sold for $38 million in 1995, and Support.com, a computer support service that netted him an additional $30 million when it went public in 2000.

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Chung also knew that Pincus, like many other successful leaders—from GE's Jack Welch to Apple's Steve Jobs—was a strong proponent of using performance measures to create pressure for innovation, entrepreneurship, and high levels of achievement.

Dovernet's CEO, Param Venkatesan, was also a believer. Like Zynga, Dovernet had been built from the ground up with a management system that encouraged stretch goals and individual accountability to motivate high levels of performance.

But the devil was in the details. And the devil that now faced Chung was what to do about Trent Raynor and Gwen Davidson.

Dovernet

Founded in 2002 in Vancouver, British Columbia, Dovernet [a pseudonym] was a producer and service provider of enterprise social networking software and internet-protocol (IP) communications systems. The company's founder, Param Venkatesan, previously had founded a video-sharing website, which he sold for $13 million in 2000. Two years later, he launched Dovernet with $35 million in venture capital. The company developed a strong reputation among business users for its video networking and communications products and reliable customer support, and began expanding its customer base and business lines.

In 2006, Dovernet executed a much-anticipated IPO on the Toronto and NASDAQ stock exchanges. Over the next five years, as an economic downturn roiled the technology industry, forcing many firms to shed jobs and scale back, Dovernet maintained average annual revenue growth of 5.9% and grew its employee base by 30%.

By 2012, Dovernet had positioned itself as a niche player emphasizing video-based technologies for businesses and consumers. In addition to its North American and European businesses, it was pursuing growth opportunities in South America and Asia. In an industry with rapidly evolving technology and customer needs, Dovernet's strategy was to balance state-of-the-art technology with ease-of-use. The company faced steep competition from much larger industry leaders such as Cisco, Alcatel-Lucent, and Juniper Networks. As a result, Dovernet executives felt constant pressure to differentiate their company—and maintain its reputation as a cutting-edge player—through new product innovation.

The company earned $5 billion in sales—82% from products and 18% from services—with an $11.7 billion market capitalization. Its 6,000 employees were based in eight offices around the globe, with its Vancouver headquarters serving as its research and development hub. Through a combination of organic innovation and acquisitions, Dovernet had built a broad portfolio of technologies.

The company was organized into three major business units. The Communication Applications group (3,800 employees) provided internet-protocol video software and hardware for communications among employees of large and mid-sized businesses and government agencies. The Consumer Innovations group (1,200 employees), which sought to translate these technologies for individual use, had a portfolio of web-based programs and consumer products, including social networking applications such as video-sharing and location-based services. The Security Solutions group (900 employees), which had been acquired in 2006, provided consulting services to large enterprises and governments.

Each of the three business units was led by a senior vice president who managed several product- or service-focused groups. Each group consisted of numerous teams, ranging in size from four to 35 employees.

Performance Management

Dovernet employed a data-driven performance management system that emphasized transparency and accountability. The system was designed to identify and motivate high performers and to force managers to make tough decisions about improving or terminating those who fell short. CEO Venkatesan strongly believed that performance pressure could generate creative tension to stimulate creativity, innovation, and entrepreneurship—all critical for Dovernet's future growth. To make his point, he often quoted research that showed that the best-managed and most profitable businesses used some type of forced ranking system.[1]

The company's performance management system was built on three pillars: quarterly reviews, stack ranking, and upward feedback surveys.

Quarterly Reviews

At the end of each quarter, all Dovernet supervisors were required to conduct performance reviews for each of their direct reports. Review criteria varied depending on the employee's position, but typically included three to four quantifiable metrics as well as more subjective measures of the employee's contribution to Dovernet. For example, a group head might evaluate a product team manager against sales growth and specific project benchmarks, as well as leadership potential, mentoring skills, and team cohesion.

Stack Ranking

A central element of the quarterly review process was Dovernet's forced distribution system, known colloquially as "stack ranking," which required a manager to rank his or her employees within each unit: for example, a group of 20 people would be ranked 1 through 20. Then, the ranked distribution was split into three subgroups: 'A' for the top 20%, 'B' for the next 70%, and 'C' for the bottom 10%. Stack ranking was required for each team, group, and business unit of at least 10 employees; it was also applied horizontally to all employees at the same level across the company.

During one-on-one performance review meetings at the end of each quarter, supervisors informed each of their direct reports of his or her relative ranking and explained the implications. Over time, these labels took on a shorthand meaning in informal discussions throughout the company. People talked of "A-players" and "C-players." Everyone knew what this meant.

As was common in the industry, bonuses—which varied by management level—included cash awards (up to 25% of salary) and stock options that vested over a three-year period (up to 50% of salary). All bonus payouts were linked to an individual's performance ranking.

Employees receiving 'C' ratings (bottom 10%) forfeited their bonuses and option grants until their performance improved. In addition, they were subject to a Performance Improvement Plan (PIP), in which the employee's manager summarized the reasons for the low rating and outlined remedial action

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[1] For example, Dick Grot, *Forced Ranking: Making Performance Management Work* (Boston: Harvard Business School Press, 2005).

steps. In essence, the PIP served as formal notice to an employee that he or she faced termination unless performance improved substantially during the following quarter. Roughly 60% of employees who received PIPs left the company within three months.

Upward Feedback Survey

A third pillar of Dovernet's performance management system was the Upward Feedback Survey (UFS), in which each employee evaluated the performance of his or her supervisor. Employees completed these surveys at the end of every quarter, rating their supervisor's performance on five attributes: professional and technical skills, interpersonal and communication skills, credibility and integrity, teambuilding, and leadership. For each attribute, employees responded to several questions on a five-point scale, from "strongly agree" (5) to "strongly disagree" (1).

Each supervisor received a report reflecting the average upward-feedback scores given by all his or her direct reports for each attribute. This report was also sent up the line to the supervisor's boss. (To protect against the threat of retaliation, scores were aggregated so that recipients could not see what scores had been given by specific individuals.)

The UFS was intended primarily for feedback to the person being rated, but superiors all the way up to the CEO also received the upward-feedback reports and used the information to better understand the skills of their subordinates and their development needs.

Tough Decisions

Kristina Chung looked at the two folders on her desk. On the left were the "top-down" stack-ranking scores that had been proposed by her direct reports for their subordinates. On the right were the "bottom-up" UFS scores by which each of her direct reports had, in turn, been rated by their subordinates.

Chung was disturbed to see that Trent Raynor's UFS scores had fallen into the '3' (unacceptable) range. In the Dovernet system, any score below a '4' was considered cause for concern. She was also uncomfortable with the 'C' rating given to Gwen Davidson.

She picked up the UFS report for Trent Raynor . . .

Trent Raynor

In April 2011, Chung had promoted Trent Raynor, age 29, to manager of the Adapted Technologies Group, consisting of roughly 120 employees divided into four project teams. Raynor's group translated Dovernet's enterprise technologies into consumer-facing products by producing early-stage concepts and prototypes, which were then refined by the engineering and product development groups (see **Exhibit 1** for a partial organization chart).

Raynor had joined Consumer Innovations in 2008 in a sales job. With an MBA from a top business school, he had quickly impressed Chung by proposing, and helping to implement, a new system for generating online ad revenue. Chung was watching Raynor carefully to see how he was developing as a leader.

In the first two quarters in his new leadership position, Raynor had scored well on all five dimensions of the UFS: the bottom-up survey completed by his subordinates had given him all '4's and even one '5' rating. In the final quarter of the year, however, Trent Raynor's UFS scores had fallen significantly (see **Exhibit 2**).

Chung had planned to give Raynor an overall 'A' rating for his quarterly review. In light of what she was reading in the recent UFS, she now wondered if she was being too generous. As she dug through the documents on her desk, she looked for the copy of the Performance Improvement Plan that Raynor had prepared for Malcolm Wagner. She suspected that this may be part of the problem. She remembered the story that Raynor had told her as background to the PIP.

Two years ago, Raynor and Wagner had worked as colleagues in the sales and marketing group. In mid-2010, both had transferred to the Adapted Technologies Group within months of each other. Wagner, then age 34, had been asked to lead one of the group's project teams; this was his first management job. Raynor, age 28, took over the lead of another team. With his recent promotion to group head, Raynor was now Malcolm Wagner's boss.

Raynor's predecessor had given Wagner three quarters of generally positive reviews—solid 'B's with comments indicating that an 'A' rating could be possible in the future. Raynor continued this assessment by giving Wagner 'B's for the middle two quarters of the year. But Wagner's performance had gone downhill in the fourth quarter of 2011.

In late October, Raynor had been approached by a group of Wagner's reports. They complained that Wagner was arriving to work late and leaving early, and that his disengagement was hurting the team's morale and performance. They warned that some frustrated team members were considering job offers from Dovernet's competitors. Raynor took their feedback seriously. Under his predecessor, a team of some of Dovernet's star innovators had developed a toxic culture due to tension with their team leader. Raynor's predecessor took no action, and eventually four key team members left Dovernet. He had eventually been fired.

Raynor was determined not to meet a similar fate. He immediately confronted Wagner, who seemed surprised and promised to set things right. However, two weeks later, Wagner's subordinates again approached Raynor to reiterate their frustration. They said that while Wagner was physically present more often, he still seemed aloof—and sometimes hostile—towards them; they suspected he resented their complaints to Raynor.

Raynor again called Wagner to his office and told him that failure to improve as a manager would result in a 'C' rating, which could eliminate his bonus and impair his promotion prospects. Again, Wagner promised to change.

By late November, Wagner seemed to be making an effort to improve: he had called his team together to apologize and take responsibility for his lapse in commitment and had since appeared reenergized and genuinely invested in their work. But it would take a while to see if Wagner could rebuild the trust of his team. Nevertheless, Raynor wanted to recognize Wagner's efforts and sent him an email acknowledging and thanking him for his attempts to restore team morale.

In early January, Raynor began the quarterly process of reviewing the performance of his four team leaders. Raynor noted that Wagner had met two of his key performance indicators (KPIs) but missed the third—an important project development milestone—largely due to the negative dynamics created by his behavior with his team. Raynor's other three team leaders had clearly outperformed Wagner. Despite Wagner's recent progress, his problems had taken their toll.

Although Raynor was not obligated to strictly follow the stack-ranking distribution for his direct reports (because there were only four), he still had to assign each subordinate an 'A,' 'B,' or 'C' grade. He would have to defend these ratings to Chung and in larger meetings with his peers across the company where all managers at Malcolm Wagner's level would be stack ranked. Following CEO Venkatesan's dictum to reward results, not effort, Raynor decided to give Wagner a 'C' rating, accompanied by a Performance Improvement Plan (see **Exhibit 3**).

Upon receiving his rating, Wagner stormed into Raynor's office. He was furious. He said he had never before had performance issues and had remedied them as soon as he understood the severity of the problem. Raynor's email was evidence of that. He claimed that Raynor failed to communicate the problem clearly in their first meeting, and that was why he had not addressed it earlier.

Wagner promised to make his views clear in his UFS evaluation of Raynor.

Gwen Davidson

Later in the morning, Chung turned to the issue of Gwen Davidson. Tom Goldstein, a peer of Raynor's who managed the Web Strategy Group (see organization chart, **Exhibit 1**), had given Davidson a 'C' rating for the quarter. Chung knew that Davidson had recently suffered a personal loss, which undoubtedly impacted her performance. Given this information, Chung wondered whether to let Goldstein's 'C' stand or to ask him to upgrade Davidson to a 'B.'

When Gwen Davidson joined Dovernet in early 2011, Chung and Goldstein had high hopes for their new team leader. Davidson had previously served as vice president of marketing at an investment bank and as head of strategy at two successful software startups. Age 40 when she joined Dovernet, she was at least a decade older than the members of the team she managed. Goldstein had hoped Davidson would bring a level of stability to a team which, while highly creative and technologically adept, could too easily become bogged down by internal squabbling and insufficient discipline.

Davidson's performance had been somewhat disappointing. She had struggled to gain buy-in from her 13 young reports, who claimed her formal demeanor, rigid work habits, and tendency to micromanage undermined the relaxed culture that underpinned their creative process. While some on the team liked Davidson personally and acknowledged her struggle to gain acceptance among a younger, sometimes insular, group, others saw her as fundamentally incompatible with the team ethos and a threat to its success. The team had missed several key project deadlines throughout the year, most notably a delayed product release in mid-November that risked ceding first-mover advantage to one of Dovernet's competitors.

Nonetheless, Davidson had avoided a 'C' rating in her first three quarters at Dovernet. Goldstein awarded her a 'B' in quarter one, when she was just getting to know the company; an 'A' in quarter two, during which she seemed to be making solid progress on her KPIs; and a 'B' in quarter three, reflecting the unresolved friction with her team and several potential project delays. In the fourth quarter, Davidson's team missed several deadlines, culminating in the delayed product launch. In a "skip-level" meeting, Goldstein met with Davidson's team in her absence. During the meeting, team members complained that she seemed emotionally volatile and lacked passion for the work.

But there were personal circumstances to consider. In mid-October, Davidson's brother, who lived in Washington D.C., had been diagnosed with advanced-stage bone cancer. He died five weeks later. The physical and mental toll on Davidson had been obvious to those around her, and she had confided in Goldstein that she had felt overwhelmed since her brother's passing.

Goldstein had still awarded her a 'C' rating. When Chung called Goldstein to get more information on the situation, he said that he had based his decision on the product launch delay and several other areas where she fell short of expectations. While he said that he sympathized with Gwen Davidson's personal circumstances, he believed the integrity and effectiveness of Dovernet's performance management system required managers to deliver focused, blunt assessments, unmitigated by personal feelings or sympathies.

Moreover, Goldstein explained, because of the large size of his group and the rigid requirements of the stack-ranking system, if he lifted her out of the 'C' group, he would have to drag someone else down—someone who deserved a 'B'—to take her place and fill the 10% requirement at the bottom of the distribution.

Mark Albright

At the same time that Chung was in Vancouver deciding how to handle the situation with Malcolm Wagner and Gwen Davidson, Colin Kerr was in Seattle pondering how to fill in the UFS form for his boss, Mark Albright. Albright was the head of Dovernet's Seattle office for Security Solutions.

Kerr was a little afraid of Albright, a former military officer who was seen as an "A-player"—one of Dovernet's rising stars. Albright exuded confidence and discipline, and was very demanding in his performance expectations. Quarter after quarter, since joining the company in 2007, he had delivered market share growth numbers and financial performance that surpassed expectations.

Kerr had worked for Albright for only a short time, having transferred in from the Vancouver office. He vividly remembered his face-to-face meeting with Albright last month. Albright had come right to the point:

> Colin, I wanted to get your agreement on our performance expectations for the coming year. You have seen the approved growth plan that came down from HQ. They are looking for us to deliver 5% to 7% sales growth and tighten up expenses to improve our margin. But that's not good enough for me—we can do better. I have committed to take our business from $350 million to $500 million over the next two years. That's 20% annual growth. And that means that I need each one of my team members—including you—to sign up to deliver that number.
>
> So that's what I'm going to hold you accountable for: 20% revenue growth. And that's all I'm going to hold you accountable for. I don't care about any other initiatives coming out of Vancouver. You can have all the smiley faces you want on the corporate balanced scorecard. I don't care. I just care about results on this one number. And your rating and bonus will reflect that. I'll try to give you all the help I can, but it will really be up to you and your team to deliver. Are you in?

It was hard to argue with Albright. He had consistently driven superior performance and his people had often shown surprising creativity in thinking outside-the-box to propose new projects and approaches to meet his stretch targets.

Kerr looked down at the UFS form (**Exhibit 4**). He respected Albright, so he wanted to be honest and fair. Albright clearly had strong professional and technical skills and there was no uncertainty about his ability to communicate and make his expectations known. Moreover, he was an exceptionally hard worker who led by example. So far, the only question on the survey on which Kerr had scored Albright below '5' (best) was, "Receptive to suggestions and feedback."

More difficult were the survey questions relating to teambuilding and leadership. Of the seven questions in these two categories, only one seemed obvious: Albright provided full freedom to go out and get the job done as you saw fit. He did not micromanage. So Kerr scored him high on this attribute.

But how should he answer the other six questions? Did Albright's take-no-prisoners approach typify the essence of a high-performance team-builder and leader? He was not sure. The executives in Vancouver had been talking up new goals related to corporate social responsibility and diversity. But Kerr knew that performance on these dimensions would not impress his new boss whose well-known mantra was, "Hire the best; forget the rest."

Reluctantly, Kerr began to fill in his ratings for the final six questions of the survey . . .

Exhibit 1 Dovernet Partial Organization Chart

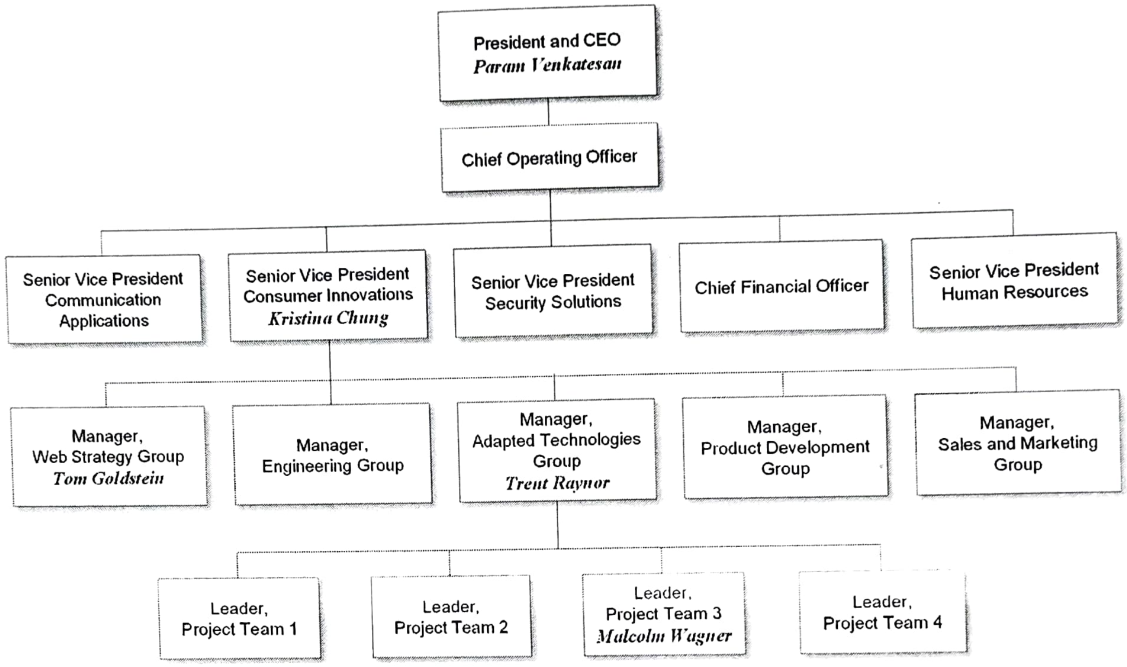

Exhibit 2 Upward Feedback Survey Scores on Trent Raynor, Current and Previous Quarter

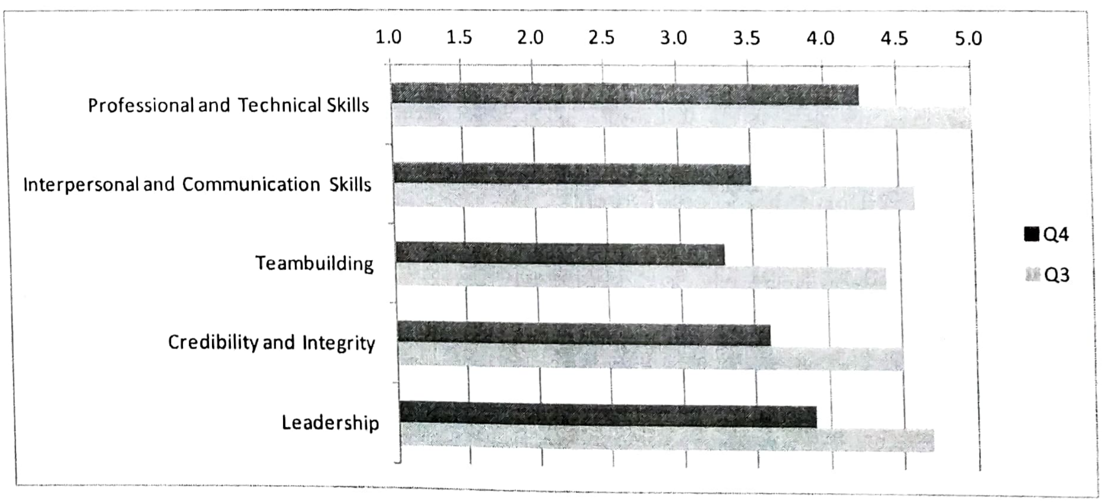

Exhibit 3 Malcolm Wagner's Performance Improvement Plan

Performance Improvement Plan

To: Malcolm Wagner

From: Trent Raynor

CC: Kristina Chung

Date: January 18, 2012

The purpose of this Performance Improvement Plan is to clearly state the areas in which your job performance falls short of expectations, outline requirements for performance improvement, and establish a timetable for meeting such requirements.

This Performance Improvement Plan details the deficiencies in your performance over the last quarterly period and establishes a set of performance objectives for the current quarter. By reviewing and signing this document with your supervisor, you acknowledge that failure to substantially improve your performance will result in termination of your employment at Dovernet.

As discussed at your most recent performance review, your supervisor has given you a 'C' rating because of your failure to meet expectations in the following areas:

- Lack of commitment and enthusiasm, putting team cohesion and success at risk.
- Neglect of managerial duties, resulting in miss of X31 Phase II milestone.
- Failure to remedy performance problems after being told the first time.

To address these deficiencies and achieve a satisfactory job performance, you are expected to fulfill the following objectives within 90 days from today.

1. Foster and maintain a positive, productive team environment.
2. Meet or exceed all quarterly KPIs.
3. Submit monthly reports to your supervisor (Trent Raynor) documenting steps taken to improve team dynamics and progress against KPIs.

Over the 90-day period, you will meet with your supervisor every two weeks to discuss your progress against this Performance Improvement Plan. In addition to satisfying the goals listed above, you are expected to demonstrate an ongoing commitment to your job and to Dovernet's values.

I have read and understand the above and agree to participate in this Performance Improvement Plan.

Trent Raynor — 1/18/12

[Employee signature] [Date]

Malcolm Wagner — 1/18/2012

[Supervisor signature] [Date]

Exhibit 4 Colin Kerr's Upward Feedback Survey on Mark Albright

	STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
PROFESSIONAL AND TECHNICAL SKILLS	**5**	**4**	**3**	**2**	**1**
Possesses necessary skills and knowledge	●	○	○	○	○
Proactively identifies and solves problems	●	○	○	○	○
Aligns tactical decisions with strategic goals	●	○	○	○	○
Stays on top of developments in his/her field	●	○	○	○	○
INTERPERSONAL AND COMMUNICATION SKILLS	**5**	**4**	**3**	**2**	**1**
Sets clear expectations	●	○	○	○	○
Delivers timely, thoughtful feedback	●	○	○	○	○
Clearly conveys logic behind decisions	●	○	○	○	○
Keeps others informed of key information	●	○	○	○	○
CREDIBILITY AND INTEGRITY	**5**	**4**	**3**	**2**	**1**
Shares information openly and honestly	●	○	○	○	○
Is receptive to suggestions and feedback	○	○	●	○	○
Leads by example	●	○	○	○	○
TEAMBUILDING	**5**	**4**	**3**	**2**	**1**
Does not micromanage	●	○	○	○	○
Fosters a congenial but competitive culture	○	○	○	○	○
Builds constructive relationships	○	○	○	○	○
Is responsive to employees' concerns	○	○	○	○	○
LEADERSHIP	**5**	**4**	**3**	**2**	**1**
Recognizes and rewards excellence	○	○	○	○	○
Supports and develops others	○	○	○	○	○
Is personally committed to the organization	○	○	○	○	○