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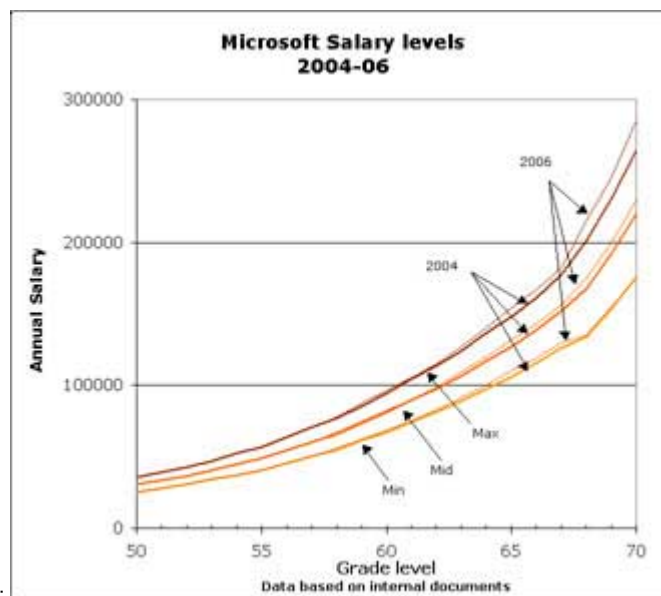
Rising Frustration with Microsoft's Compensation and Review System

By Jeff Nachtigal

Defections by high-level engineers have stung Microsoft in recent months, prompting questions about a rush of creative minds for the door. One explanation is the Redmond software giant has grown too big and cumbersome to keep its top engineers happy and productive.

But the star engineers who are jumping to younger technology companies, such as Google and Yahoo, aren't the only employees who are disgruntled with day-to-day operations.

Internal Microsoft documents obtained by WashTech News show that Microsoft salaries have been stagnant or nudged only slightly higher over the past two years. Comments from current and former employees about the company's compensation and performance review system suggest a growing level of frustration among rank-and-file workers.



Example:

The documents outline 20 salary grade levels with a low, medium and high range of pay for 2004 and 2006. A software design engineer in Test, for example, might start at level "58," earning about \$67,000. An employee at the Product Manager level could earn a \$74,000 base at level "59," and a Program Manager might start at level "62," earning a mid-range annual salary of \$99,000.

Some employees have access to pay levels, but others do not. And although most are aware of the different pay levels, some have only a vague understanding of how the system works as a whole. At Microsoft there is an unspoken code that co-workers not share compensation information with each other.

What is causing considerably more ire than pay levels, however, is a performance review ranking system that uses a bell-curve model to decide who gets high scores and who takes the low ones.

Microsoft Corp. has over 60,000 employees, and like almost all large corporations, it uses a performance review process to rate them. The idea behind any corporate performance review system is to provide an accurate and fair assessment of employee contributions, but some employees say Microsoft's system promotes politics over fair reviews.

According to employees, who said they would be fired if they spoke on the record, the annual review amounts to little more than a closed-door popularity contest in which managers "fight" for higher scores for their team, or defer to higher-level decision makers who mandate how many workers drop to the bottom of the review scale.

One employee in the company's Mobile and Embedded Devices group said when it comes to her review score, "my performance is about 10 percent of the whole equation."

Another employee denounced a compensation system that is “capricious in its tolerance of managers who corrupt the system for their personal gain,” and blamed consecutive low-rankings on a “well-entrenched culture of favoritism.”

She said that even though she had received division awards for good work, two consecutive low review scores blocked her from moving to another, less-politically driven team, and the low reviews exclude her from getting any raises. Now her only option, she said, is to leave the company.

Microsoft spokesman Lou Gellos said the company conducts an annual poll of its employees, and that it was aware of the “different feelings” about the performance review system.

“The theme of this is something that is not new. We’re aware of what employees feel about this issue and others,” Gellos said in answer to a question about the level of frustration among employees.

Gellos said senior vice president Lisa Brummel, who was promoted to Human Resources Director in April last year, has been conducting an open door “listening tour” over the past month to solicit feedback from employees, and that compensation is high on her list. Gellos stressed that Brummel’s listening tour wasn’t an exercise, and that there would be action once sufficient information is collected.

Behind closed doors

In many groups, an employee’s review score may have less to do with their performance than their popularity, or their manager’s ability to negotiate to give out more high review scores. Another variable is when a marketing manager who does not have the technical background to fairly assess technical work is expected to review individual contributors in their team.

Review scores range from 2.5 to 5.0, but the process by which scores are arrived at occurs behind closed doors, employees said.

A writer who has worked at Microsoft for over six years, first as a contractor and now as a full-time employee, said her team numbers “have to be distributed in some way along a pseudo-bell curve: a certain percent get 4.5, a different percent get 4.0.” She said a 3.0 score officially meets expectations, but, “we all know that 3.0 is a red flag that you’re on your way out the door - after all, Microsoft wants only people who exceed expectations.”

Unfair or not, she noted, “At least the company actually has enough money to give out raises, and bonuses, and stock.”

One former employee who worked at the company for over a decade said that if someone received a low review score and was overheard by a manager discussing it with a colleague, they risked a serious reprimand or being fired.

“No one would even talk about his level,” said the former employee, who said any open discussion about pay or review scores was taboo.

Microsoft’s bell-curve grading system has been in use, in one form or another, for years. A “stack ranking” system, which identified employees as “number one” and “dead last,” was changed in recent years to a “bucket system” in which employees are placed in a categories. The change occurred after lawsuits were brought against Microsoft alleging racial and gender bias in the closed-door meetings that determined the fate of an employee.

But the system hasn’t changed much, said the employee who worked at Microsoft over 10 years. “That’s why people are so irritated; there’s no way to predict your bonus, or ranking,” he said.

“Now the big problem is that those bucket meetings are behind closed doors. And where you get ranked depends almost entirely on who your lead is, how hard they fight, and what you’re working on,” he said. “Somehow that passes legal muster.”

Another employee who has been a test developer for several years said the reviews have always been a political process.

“The more peoples’ consciousness that you can get into, managers or peers, the better your rewards,” he said.

“In other words, your performance is meaningless unless everybody knows what you’ve been doing and see that it has a value or benefit to them or the team.”

A blog run by an anonymous Microsoft employee argues that the company is alienating employees with the review system and needs to overhaul it or risk further damaging morale. A post on the [“Mini-Microsoft” blog](#) sums up what appears to be a growing sentiment at the company once famously known for its overachieving workforce: “Microsofties have had enough.”

Comparing Microsoft’s review system with Boeing’s

If Microsoft is one side of the economic engine in the Northwest, Boeing is the other.

Each company employs highly educated, skilled workers. But Boeing’s engineers enjoy far more transparency about pay

levels and their review system due to collective bargaining agreements between Boeing and the Society of Professional Engineering Employees in Aerospace union (SPEEA). SPEEA represents about 22,000 engineers, the majority of whom work in the Northwest.

Software sales are more predictable compared to sales of 737 jets, so Microsoft employees don't face cycles of layoffs like at Boeing, but there are similarities in the review systems. Boeing engineers are assigned "Retention" numbers, from "R1" to "R3." The 20 percent of the group who are categorized R3 know they are the first to go in a layoff, and explanations for R designations are available to all workers.

SPEEA makes [salary grade level information](#) available to all members. Retention ratings, layoff information, and salary adjustments are also readily available. At Microsoft, annual bonuses and review scores are determined behind closed doors. The difference between the two groups is the collective bargaining power of the Boeing engineers.

According to the Mini-Microsoft blog, Microsoft employees "own their own career." For employees who work hard and manage to land on the high side of the review scale, the statement rings true. But for others, the bureaucracy in Redmond is wearing thin:

"I love working at Microsoft but cannot stay in an environment where I am treated shabbily and afforded no opportunity to defend myself against such treatment."

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