

AMAZON.COM: SELLING EMPLOYEE PERFORMANCE WITH ORGANIZATION AND LEADERSHIP REVIEW

Amazon.com, which started as the biggest online bookstore, has become a household name by expanding rapidly in the retail market. It offers millions of movies, games, music, electronics, and other general merchandise products in several categories, including apparel and accessories, auto parts, home furnishings, health and beauty aids, toys, and groceries. Shoppers can also download e-books, games, MP3s, and films to their computers or handheld devices, including Amazon's own portable e-reader, the Kindle. Amazon also offers products and services, such as self-publishing, online advertising, an e-commerce platform, hosting, and a cobranded credit card.

To keep this megastore running at a fast pace, Amazon hired 115,000 employees who generated \$74 billion in 2013. **Target** and **Home Depot** made a combined income of close to \$74 billion in the same year, yet they employed more than 340,000 people between them in their retail stores.⁵⁹ Why does Amazon only need one third of its competitors' labor force to produce the same revenue? Like the other mega retailer, **Wal-Mart**, Amazon has delivered creative business solutions to their own processes to continuously increase their operating effectiveness. However, their strategy focuses on enhancing the customer shopping experience and providing excellent customer service rather than providing the lowest-priced products. To meet their customers' needs, Amazon must deliver more speed and efficiency in its giant warehouse. They use more automated work processes that reduce the company's operational costs and also increase labor efficiency and employee safety. The quality of Amazon's warehouse labor has become the critical issue in the firm's success, and hence, hiring and retaining the best, most suitable candidates for the company's manual labor positions is a key success factor. That being said, Amazon's turnover rate at these lowest-ranked positions in the organization is high since Amazon lets go of its lowest-performing employees to make room for new, more appropriate candidates while promoting the very best. To detect the lowest- and highest-performing employees, Amazon initiated a performance evaluation system called the Organization and Leadership Review (OLR). OLR actually has two main goals: (1) finding future leaders and preparing them to be able to face the most challenging tasks presented in a fast-paced work environment, and (2)

determining the 10% of employees who are the least effective and taking necessary corrective action with them. OLRs take place twice a year to grant promotions and find the least effective employees. Only the top level managers attend these meetings, where there could be two reasons why an employee's name may be mentioned. Either the employee is being considered for a promotion, or the employee's job might be at stake. OLRs start with the attendees reading the meeting agenda. Then supervisors suggest the most deserving subordinates to be considered for promotion. All executives in the room evaluate these suggestions and then debate the alternatives. Promotions are given at the end. During the process, instead of using hard data, executives tend to evaluate employees' performance on the basis of personal, anecdotal experiences. Anyone in the meeting may deny a promotion; therefore, ambitious employees seeking a promotion should also be very friendly with their boss's peers. If an employee's supervisor cannot present that worker well enough, another's favorite subordinate will get the promotion. In terms of promotion, Amazon CEO Jeff Bezos expects the managers to set the performance bar quite high to allow only the most exceptional talent to progress.⁶³ Promotions are protected by well-written guidelines, which focus on delivery and impact but not on internal politics. People spend less time campaigning for their own promotions, and top performers are highly compensated based upon the quality of their work. Therefore, only a few promotions are available each year, and receiving positive feedback from a supervisor is quite rare. The approval that employees get from their supervisor is not enough to earn a promotion; employees still have to "fight" for a promotion, which may not occur immediately.

Questions

1. Do you think OLRs increase employee motivation? If not, why would Amazon conduct such performance appraisals?
2. How might rater bias, stereotyping, and traits appraisal impact the accuracy of OLR? Could this be corrected? If so, how?
3. Given the differing appraisal systems described in this chapter, which appraisal systems most closely resemble OLR?
4. Given your answer to the above question, what appraisal system do you think would best meet Amazon's objectives of retaining the best employees while taking corrective action with the bottom 10%?
5. Amazon is a high-technology firm. How might it use electronic performance monitoring to supplement the OLR process?
6. What are the advantages and disadvantages of having performance reviews like OLR that only involve one-way communication, rather than MBO?