



Aligning Performance Management with Your Total Rewards Program

About us



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HCI.org



Today's agenda

- Understand what's wrong with traditional performance management
- Explore performance management innovation
- Discuss the use of ranking and ratings
- Align performance management and total rewards





How is Performance Management Broken?

What's Not Working?

31%

I am **satisfied** with our performance management process.

35%

I **trust** ratings of employees to be accurate readings of their performance.

27%

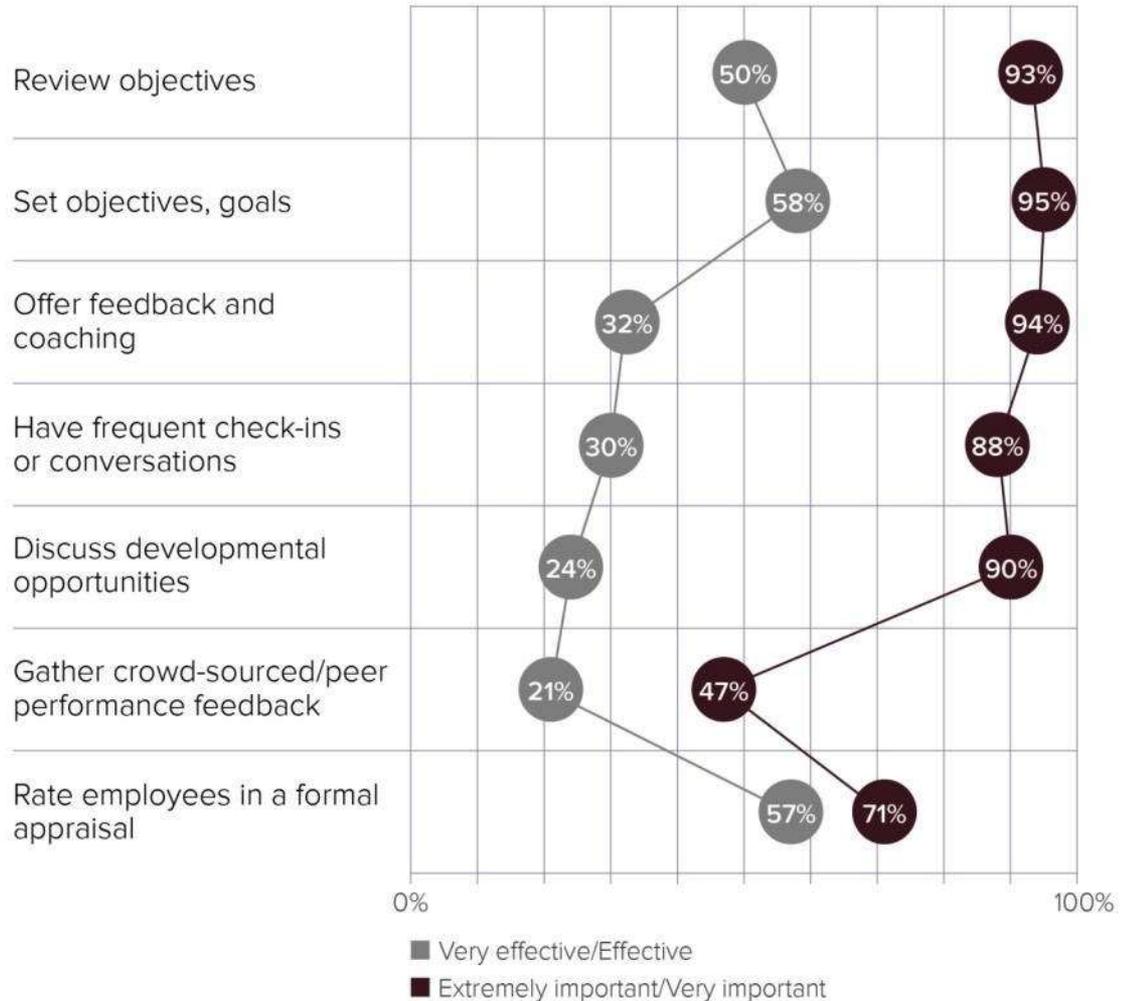
Our performance management process is **effective in developing** the knowledge, skills, and abilities of our employees.

30%

Our performance management process **improves the performance** of our employees.

*(HCI, 2015, "No Review, No Problem")
Percentage strongly agree/agree.*

Performance Management Wish List



How did
coaching,
feedback, and
development...



Turn into this?



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The History of Performance Management



Peter Cappelli

*Professor of Management
Director of Wharton's Center for HR*



The History of Performance Management

- Managers had larger spans of control
 - While also serving as individual contributors
- Dissatisfied managers pushed back on multiple reviews
 - Resulted in the annual review as a one-time-event
- There was a decreased focus on development because of a belief that people's abilities were fixed
 - GE's Jack Welch and forced distributions

*(Peter Cappelli, 2016 HCI, "The Performance Appraisal Revolution: The Shift Toward Learning."
Retrieved from <http://www.hci.org/lib/performance-appraisal-revolution-shift-toward-learning>)*



“Here’s your report card
... I mean, review.”

What

are the most time-consuming parts of your performance management process?

How

is feedback and coaching incorporated in the performance management process at your organization?

Problems with Annual Performance Reviews

DISLIKED

Next to firing employees, appraisals are the most disliked managerial task.

(Forbes, 2012)

HARMFUL

Poor performance review processes result in lower job satisfaction, lower organizational commitment, and higher intentions to quit.

(Brown, Hyatt, & Benson, 2010)

INEFFECTIVE

To induce behavior change, feedback must be given within close proximity of an event.

(Pulakos & O'Leary, 2011)

MISGUIDED

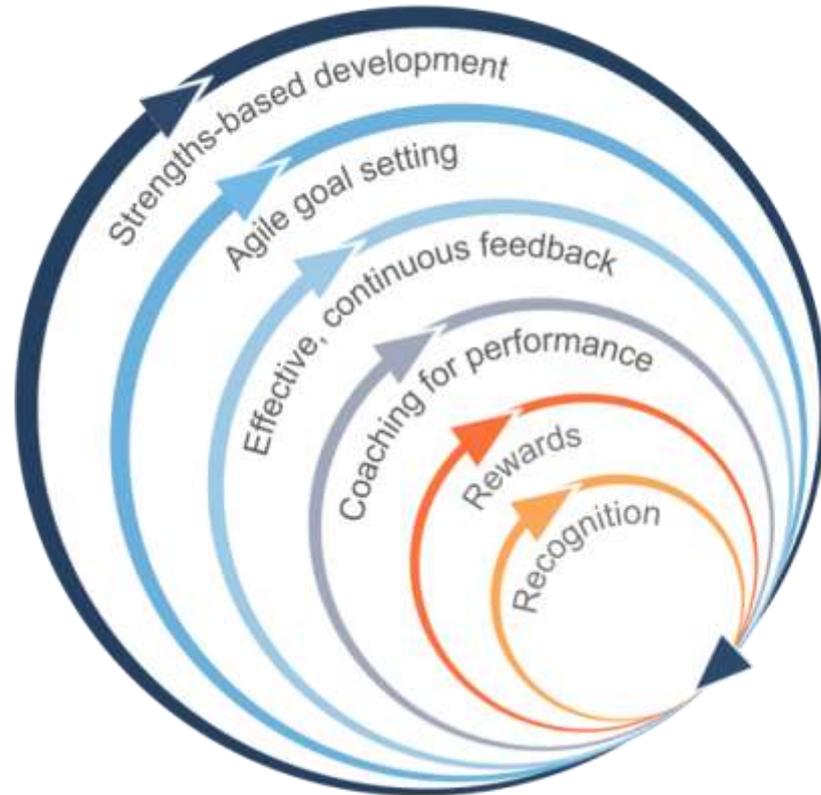
Administrative processes and tools are prioritized over training people how to engage in performance management behaviors.

(HCI, 2014)

A collection of colorful wooden puzzle pieces is scattered on a light-colored wooden surface. The pieces are in various shapes and colors, including yellow, red, purple, blue, green, pink, and orange. Some pieces are arranged in a way that suggests they are part of a larger puzzle, while others are isolated. The lighting is soft, creating gentle shadows on the wood.

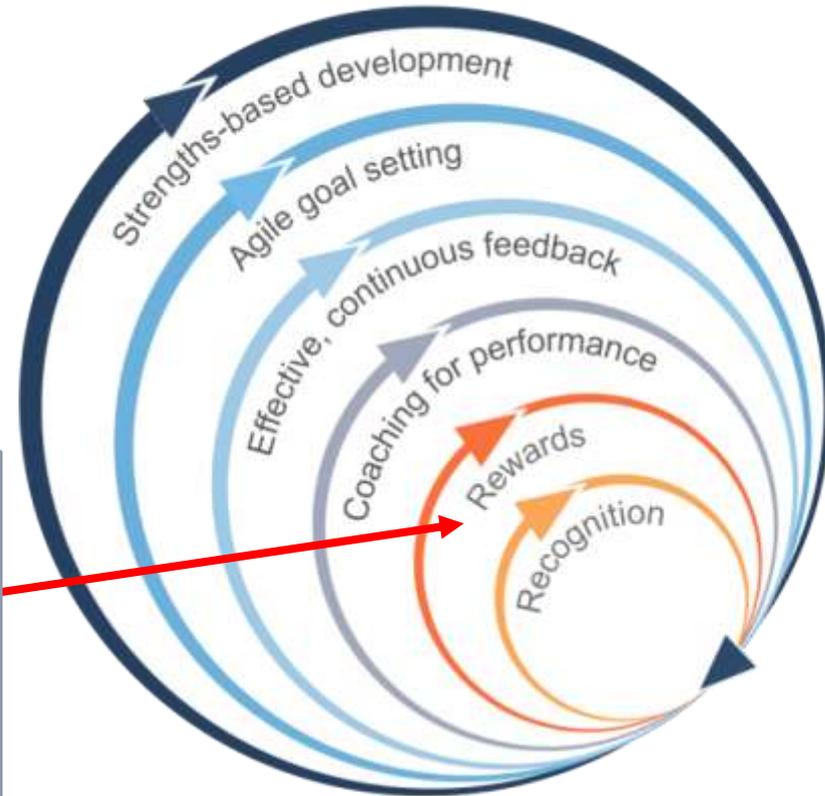
Performance Management Innovation

HCI Performance Management Innovation Model



HCI Performance Management Innovation Model

- Shift the timing of the performance review so that the compensation decision isn't based solely on a rating.
- Consider non-monetary rewards.
- Find new ways to allocate compensation and reward top employees by aligning to the external market.



Yes (1) or No (0)

- ✓ Has moved away from/de-emphasized ratings and rankings from the performance management system.
- ✓ Has changed the timing of performance reviews so that the compensation decision isn't based solely on a rating.
- ✓ Aligns compensation and bonus structure to the external market.
- ✓ With HR and senior leadership oversight, enables managers to allocate salary increases , bonuses, and non-monetary rewards beyond what the market dictates.

A collection of colorful wooden Tetris blocks scattered on a light-colored wooden surface. The blocks are in various colors including yellow, red, purple, blue, green, pink, and orange. They are arranged in a somewhat chaotic pattern, with some blocks standing upright and others lying flat. The background is a light-colored wooden surface with a visible grain.

Problems with Rankings and Ratings

Problems with Rankings and Ratings



“

In the last 20 to 30 years we have maximized the threatening nature of performance management conversations. We've done everything we can to make them extremely uncomfortable. And as a result, **they're not honest. They're not real. They're not authentic.**

People don't spend two weeks coming into the review thinking about how they can grow. **They come in thinking about how to defend their position. And that's not helpful to anyone.**

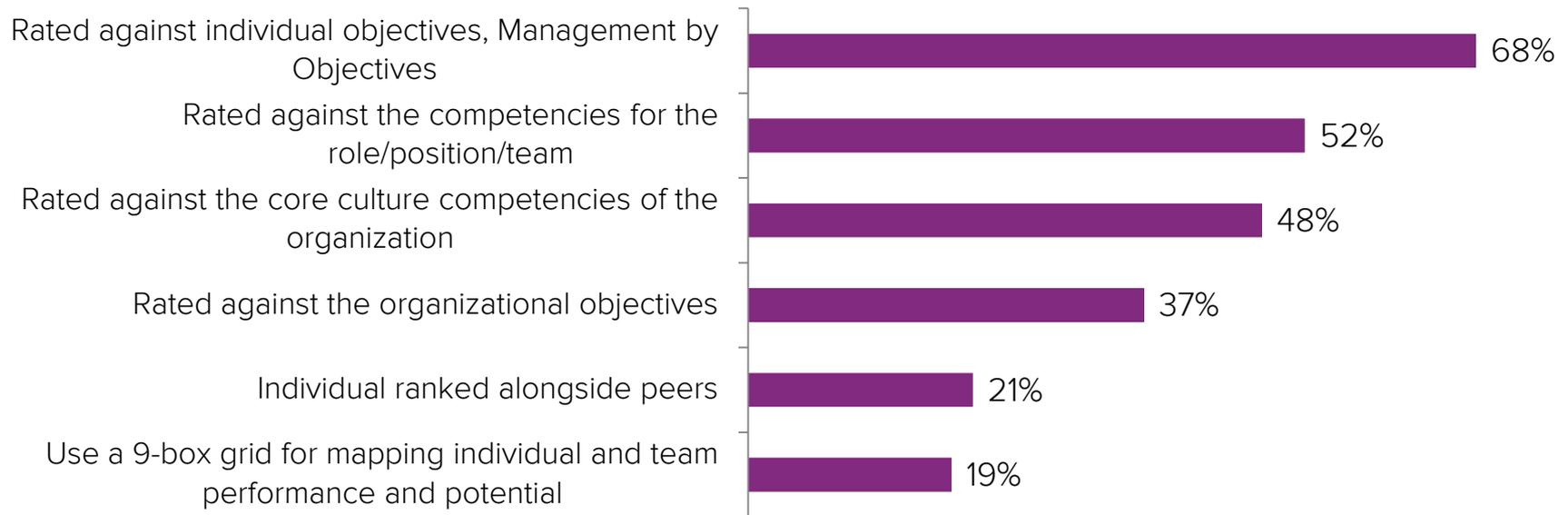
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(Rock, 2015)

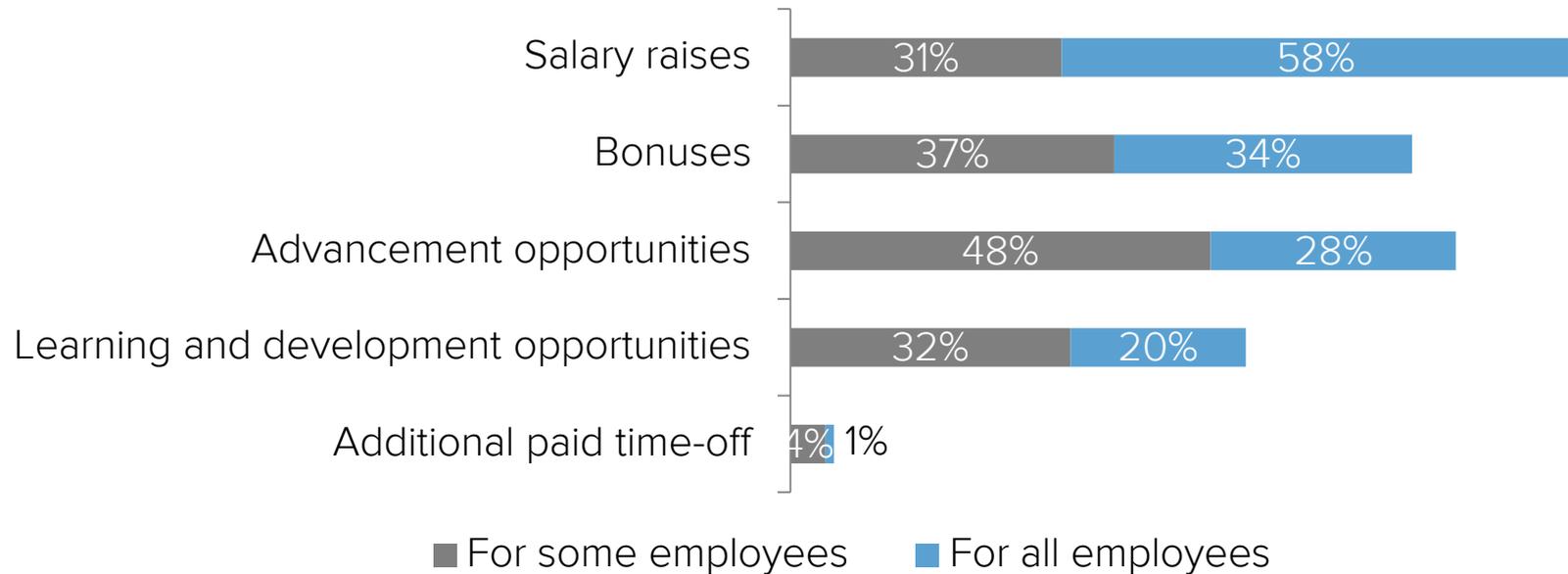
Problems with Rankings and Ratings

- The act of being rated **provokes a “fight or flight” response** that neutralizes a manager’s ability to coach and deliver feedback effectively. (Rock, 2015)
- Researchers found that 62% of the variance in performance ratings could be accounted for by individual raters’ **peculiarities of perception**, while actual performance accounted for only 21% of the variance. (Scullen, Mount, & Goff, 2000)
- **Ratings used for decision-making** tend to be lenient, while **ratings for developmental purposes** tend to be more variable. (Greguras, Robie, Schleicher, & Goff, 2003)

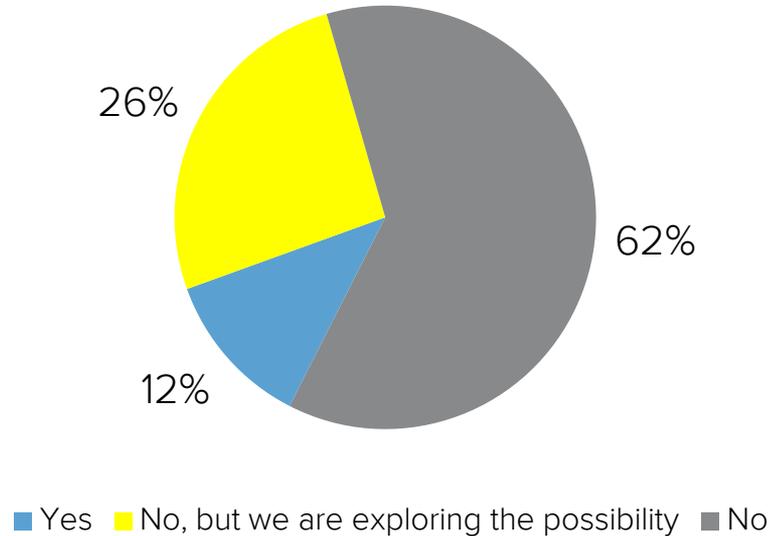
Evaluation Types



Evaluation Outcomes

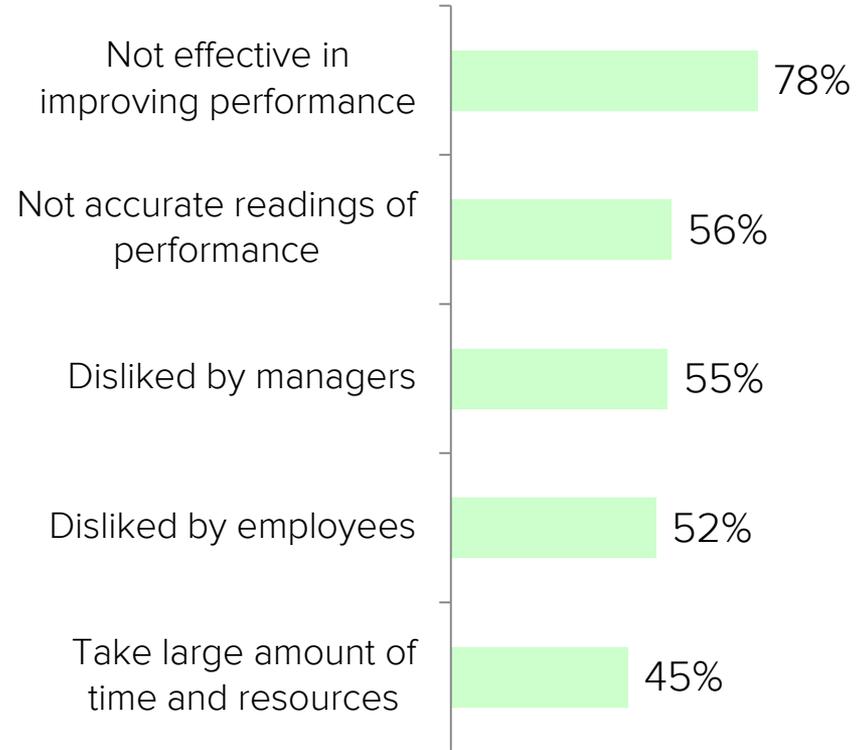


Eliminated Ratings?



(HCI, 2015 "No Review, No Problem")

Why?



HCI



Deloitte.

Deloitte.

Their annual performance review process took up **two million hours per year**.

Process changes:

- Every team leader to checks-in with each team member once a week.
- There is an annual compensation decision.
- At the end of every project (or once every quarter for long-term projects) team leaders respond to four statements about each team member.

Assessment of Performance

Deloitte's four statements create a portfolio snapshot.

Given what I know of this person's performance and were it my money, I would award this person the highest possible compensation increase and bonus.



Overall performance and unique value

Given what I know of this person's performance I would always want him or her on my team.



Ability to work well with others

This person is at risk for low performance.



Identifies low performance or at-risk employees

This person is ready for a promotion today.



Identifies potential



Aligning Performance Management and Total Rewards

HCI



Separating Compensation and Performance



Ellie Gates

*Former Director of
Management Effectiveness*



Debate.

In favor of shifting the timing of the performance management conversation so that compensation decisions aren't solely dependent on rankings or ratings.

In favor of keeping performance management conversations and compensation discussions coupled in the same, traditional cadence.

Factors to consider in making reward decisions



Performance

(aligned to feedback and reflecting both the what & how)

+

Market

(Both Internal and External)

=

Recommendation

(Base salary, AIP Payout*, Equity*)

* For eligible participants

AIPs or Annual Incentive Plans refer to annual bonuses.

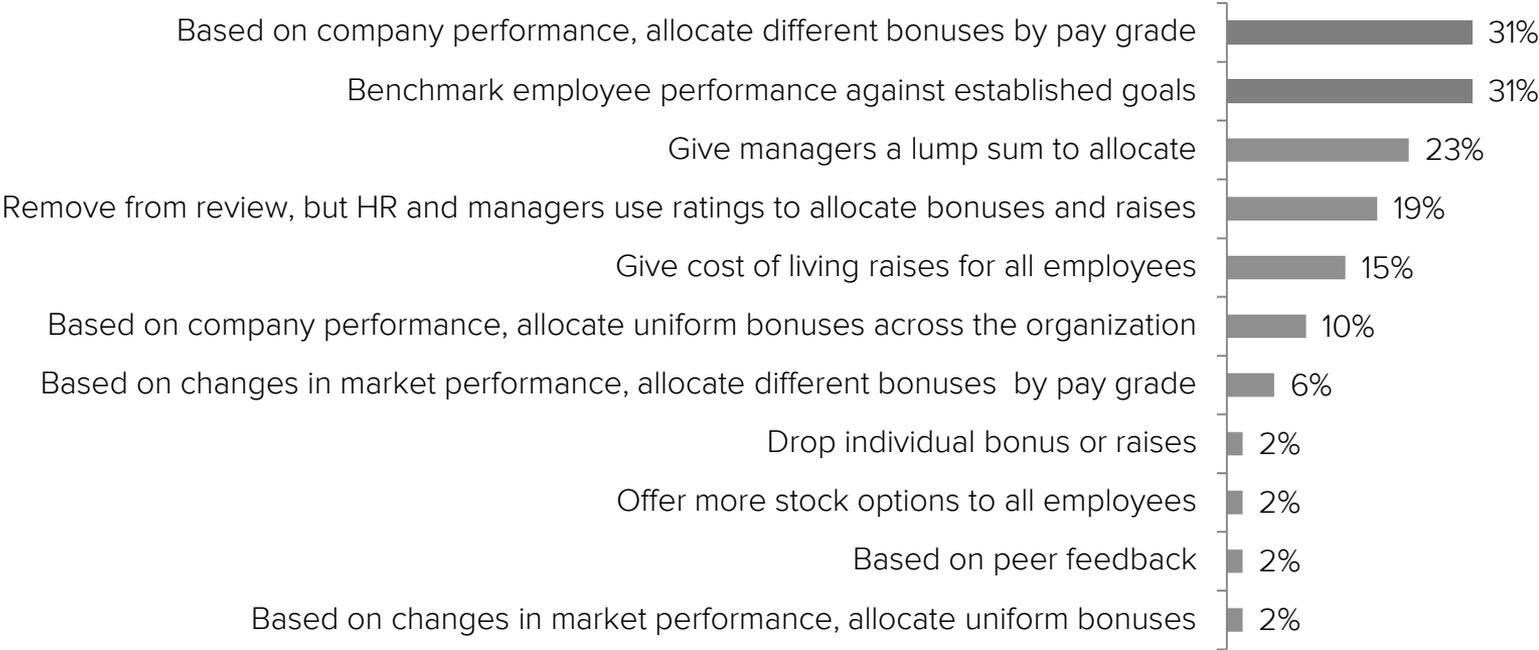
Performance Factors to consider to differentiate rewards:

- Attainment of expectations/goals
- Relationship with others (teamwork)
- Salary Range Position/Pay in Relation to peers
- Impact of work
- Criticality to business
- Potential/Aspiration for Growth

Salary
Increases

Bonus and/or
Equity Factors

Making Talent Decisions without Ratings



(HCI, 2015. "No Review, No Problem", How does your organization make decisions regarding salary increases or bonuses without ratings /rankings? Select all that apply.; n= 48)

Example #1

- Encourages managers to check-in regularly with associates to keep everyone in sync.
- Managers focus on opportunities and providing real-time ongoing feedback, not score-keeping.
- Managers do not apply a merit matrix or rigid formula. Instead managers are given the flexibility to make decisions that are right for their people.
- Rather than simply promote people, Red Hat embraces the concept of career achievement in addition to a career of advancement.



Example #2

- Abandoned their performance scores by defining “top talent” and what that means over the course of several years of individual high performance.
- Leaders conduct talent reviews together.
- Everyone gets a market adjustment within their position and salary range.
- Those deemed “Top Talent” get additional compensation on top of that.



Example #3

- Stopped basing all pay on performance reviews in 2010.
- They replaced their annual performance reviews with quarterly sessions which now focus on gaining new skills and mitigating weakness.
- These quarterly sessions have no connection to compensation.
- Pay is adjusted only based on changing local markets.



Example #4

- Dropped their ratings systems in 2012.
- Managers are encouraged to have ongoing conversations about performance as well as an annual review to determine whether employees have met their objectives.
- Compensation is handled separately.
- Standard bonuses, which are based on a percentage of an employee's salary, are paid out solely on the company's financial results.



Break the Compensation Mold: Pay for Value



Julie Gravallesse

*Vice President and Chief Human
Resources Officer*

MITRE

Additional Examples

- Managers talk with employees throughout the year about performance and career development, but do not make compensation or staffing decisions.
 - Managers write a qualitative description of annual accomplishments for each employee and share it with a workforce management team made up of senior operational leaders and HRBPs.
 - This team integrates the information with organizational data, market data, and future business strategies to decide compensation, staffing, and development. (ERE, 2016)
- Remove the annual raise and replace them with perks – like more PTO or parental leave.
 - However, you must individualize rewards so they align with employee motivations.
 - Employers need to be transparent about the process and the value of each reward. (SHRM, 2016)



Putting it all
together

What We Learned

- ✓ Acknowledge that the annual performance management process is broken.
- ✓ Know conversations are more important than forms or ratings.
- ✓ Hold both managers and employees accountable for performance management BUT make it easy.
- ✓ Separate development and compensation conversations.
- ✓ Remember there is no one-size-fits-all approach.
- ✓ Be authentic and transparent.

Thank You.
Any Questions?



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