

Emerging Trends in Performance Management: Diagnose, Discern and Develop

Atlanta Area Compensation Association
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Emerging Trends

Traditional

Annual Event
Inconsistent
Compliance
Silo-ed
Emphasis on Appraisal

Emerging

Ongoing
Automated
People-centric
Unified Talent Management
Emphasis on Development

Companies Eliminating Ratings and/or Reviews

Some Firms Reported To Use Cutting Edge Practices



What We Know

- Only 22% of organizations are considering giving up ratings – less than that have actually done it
- Most of these organizations are high-tech or professional services companies
- Early adopters are wrestling with the implications on compensation
- Since most organizations are rolling this out over time, employee engagement / satisfaction numbers are evolving as well

Ask Yourself

Is Performance Management a Process or is it Content?

Process

is a series of actions and steps to achieve an end purpose.

- Annual
- Compliance-Centric
- Single View (Manager)

Content

is both information and communication

- Measures
- Goals - Numbers
- Objectives – Statements
- Ratings

Performance Review Process – A Misalignment

Performance Appraisal Process – A Misalignment

People

- Annual
- Compliance-Centric
- Looking at the past (Rear-view Mirror)
- Manager view input
- Based on Job Description
- Ratings based on others
- Based on singular effort

Organizations

- Quarterly review
- Looking at the past and providing guidance for future (windshield)
- Multi-level input
- Based on Leadership Strategy
- Based on company effort

Diagnose

- Are the stated objectives of the appraisal program being met?
- Are employees and managers satisfied with the equity, utility, accuracy, etc., of the program?
- Do the benefits of the program outweigh the costs?
- Has there been an improvement in employee, unit, or organizational performance?

Case Study: Adobe

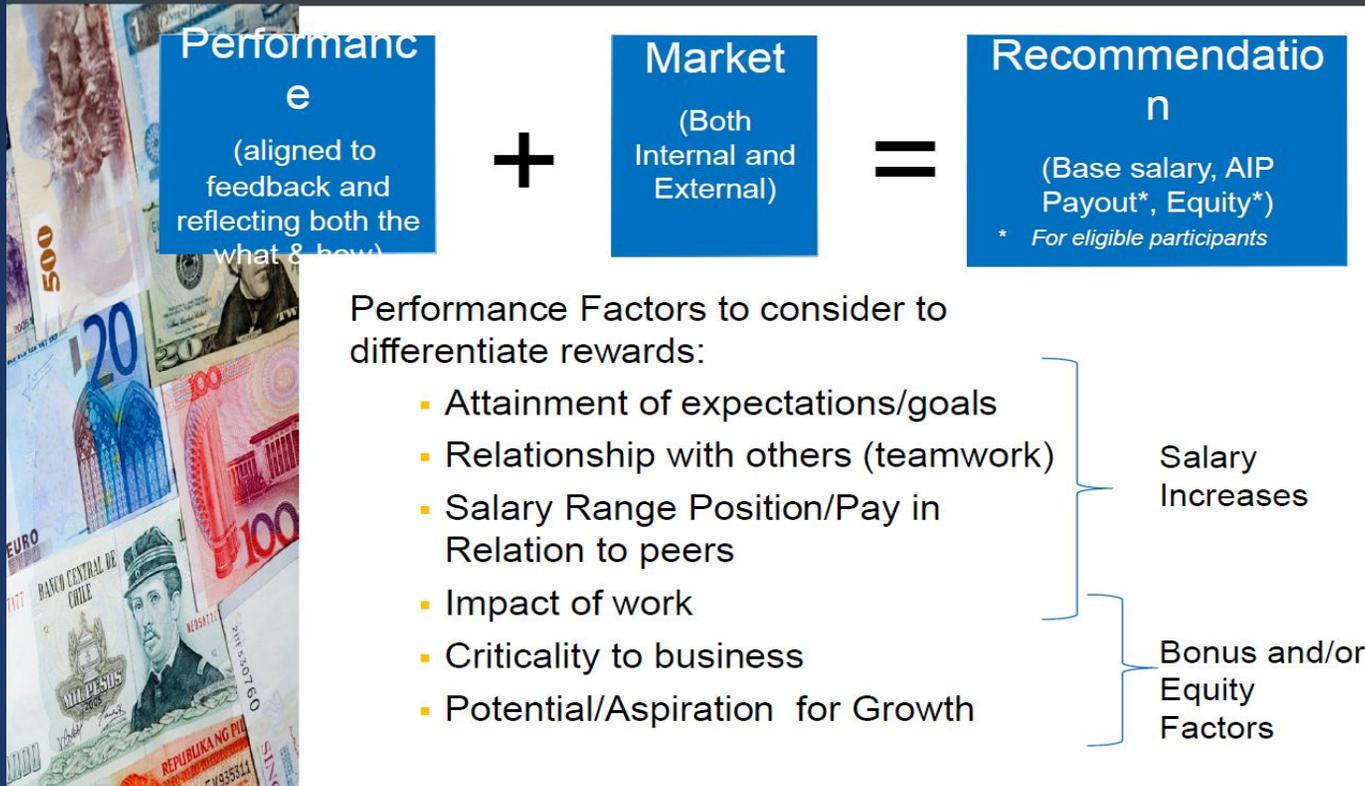
Before (Summer of 2012)

- Annual Review
- 3 points
 - Review accomplishments
 - Review contributions
 - Get feedback
- 80,000 manager hours (40 FTEs)
- Voluntary attrition spike after every review cycle
- Misaligned to their new business model

After (Fall 2012)

- 'Check in' process, at least once a quarter
- 3 points
 - Expectations
 - Feedback
 - Growth and Development
- Connection to the company goals
- Savings of 100,000 managers hours (80,000 plus another 20,000)

Factors to consider in making reward decisions



Discern

- Has the attitude or the behavior of employees and/or managers changed as desired?
- Are there signs of different treatment in the results of performance appraisal processes?
- Has there been an improvement in the efficiency or the effectiveness of related human resources programs?

Case Study: Juniper Networks

Before (Fall of 2011)

- Annual Review
- No feedback
- Forced ranking
- Bottom 5% automatically "Needs Improvement"
- Look backward only
- "Appraisal"

After (Fall 2011)

- 95% have their twice-annual Conversation Day discussion
- 90% believe Juniper and their manager create a fair and ethical workplace
- 88% report conversations were "helpful" to "very helpful"
- 87% colleagues willing to give the extra discretionary effort
- 79% believe they can do their best work at Juniper

Juniper Networks

Integrated Thinking

	Talent Scenarios	Contributions & Connections	Career & Capabilities	Pay Movement	Pay Compa-Ratio	Bonus Compa-Ratio	Equity	Conversation Day "Tone"
J Player	High Potential	<ul style="list-style-type: none"> Delivering results that exceed goals Differentiated practice of values & connections 	Stretch & Promote	Faster	120 %	175 %	Consider Job Criticality for future business objectives and current unvested equity value relative to peers	<ul style="list-style-type: none"> Very strong support career, evidence with reward and challenge
	Promotable		Prepare & Promote		100 %	120 %		
	Well Placed	<ul style="list-style-type: none"> Delivering results consistent with goals Consistently practices values & connections 	Grow in Role	Moderate	110 %	125 %		<ul style="list-style-type: none"> Relatively solid contribution, plan for longer-term success, competitively compensated
	New to Role	<ul style="list-style-type: none"> Results maybe relatively less than goals 	Support & Grow		90 %	80 %		
	Performing with Concern	<ul style="list-style-type: none"> Striving to practice values & connections 	Address Concerns or New Role	Slower	100 %	85 %		<ul style="list-style-type: none"> Engage as part of the team, focused action for improvement
Non J Player	Extenuating Circumstances	<ul style="list-style-type: none"> Struggles to turn efforts into results on goals May not be fully practicing our values or creating energy-generating connections 	Address Concerns or New Role	Limited		25% 0%	Would not receive an annual equity	<ul style="list-style-type: none"> Candid, collaborative action for success
	Not Scaling							<ul style="list-style-type: none"> Candid, engaging discussion "where stands" with action and appropriate documentation
	Under-performing Challenged							

JUNIPER NETWORKS

Develop

- Manage like a coach
- Let the employee take the lead
- Focus on strengths
- Look ahead

Case Study: Microsoft

Before (2013)

- Stack ranking moved people to compete with each other not collaborate
- Reputation of slow response and lack of innovation
- Everyone knew that only 2 people would get a good review

After (2013)

- Moved from Reviews to "Connect"
- Future view in discussions
- "No curve, No rating"

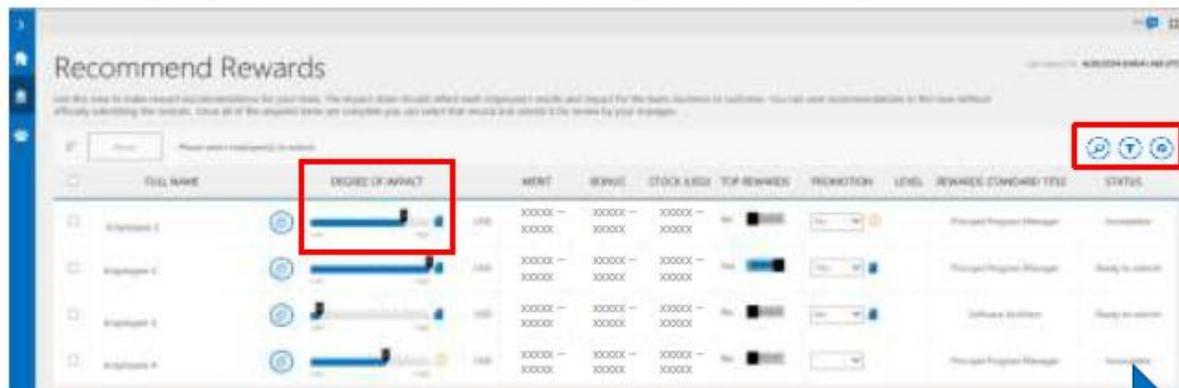
Recommending Rewards

Breaking old habits and building new muscles



The New Approach

- Drive managers to focus on impact rather than ratings in people discussions and progressive, new tools
- Simplify the process with earlier launch than prior system
- Strong expectation of differentiating rewards for great impact



EMPLOYEE NAME	DEGREE OF IMPACT	MERIT	BONUS	STOCK/RSU	TOP REWARDS	PROMOTION	LEVEL	REWARD STANDARD TITLE	STATUS
Employee 1		XXXXX XXXXX	XXXXX XXXXX	XXXXX XXXXX	No	None	10	Manager Program Manager	Available
Employee 2		XXXXX XXXXX	XXXXX XXXXX	XXXXX XXXXX	No	None	10	Manager Program Manager	Ready to award
Employee 3		XXXXX XXXXX	XXXXX XXXXX	XXXXX XXXXX	No	None	10	Software Engineer	Ready to award
Employee 4		XXXXX XXXXX	XXXXX XXXXX	XXXXX XXXXX	No	None	10	Manager Program Manager	Available

Actionable fields, simple and intuitive, customizable

Common Characteristics in the Field

- Companies no longer stack rank employees
- Merit / Promotions usually determined by a separate process
- Forward-thinking and development focus rather than “what did you do last year”
- Some types of ‘ratings’ are still used but no overall rating that is plotted on a curve or ranked
 - Met / Unmet
 - Proficiency ratings for development

Compensation Considerations

Merit Increases Do Not Reward Merit

Merit Increases

- Merit increases are based primarily on the institution's budget, not employee performance
- When merit is frozen, typically frozen across-the-board
- Market-based merit budgets are developed, differentiation based on budgetary constraints coupled with performance – often resulting in forced rankings

Potential Solutions:

- Eliminate merit increases
- Provide sector-based merit increases, i.e., 3% across the entire institution based on achievement of institution' goals

Variable Pay is Merit Pay

Variable Pay

- Variable pay is the primary tool used to differentiate pay for performance
- Often targets are set based on job/grade level and sector-driven
- Performance ratings typically drive differentiation in variable payouts

Potential Solutions:

- Develop compensation ratings based on employee compa-ratio and achievement of goals
- Compensation ratings drive payouts
- Allow for payouts at manager discretion annually or quarterly
- Payouts based on regular check-ins to review goal attainment and are aligned based on quarterly objectives, goals and deliverables

Merit Allocation Example

The typical approach to paying for performance:

	Average Performer	Top Performer	Difference
Annual Salary	\$50,000	\$50,000	—
% Increase	3.0%	4.5%	1.5%
Annual increase	\$1,500	\$2,250	\$750
Increase per pay period	\$58	\$87	\$29
After-tax pay period increase	~\$43	~\$65	\$22

Is \$22 a paycheck enough to recognize superior performance?

Summary

- There is a misalignment between how we lead people and lead the organization
- Performance Reviews reflect a 'yesteryear' view of business today
- Performance Management is shifting to be forward looking; strong emphasis on Learning & Development
- There is a trend to adjust, but still in its infancy
- Compensation must reflect these adjustments for it to be effective

Questions?

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Thank You