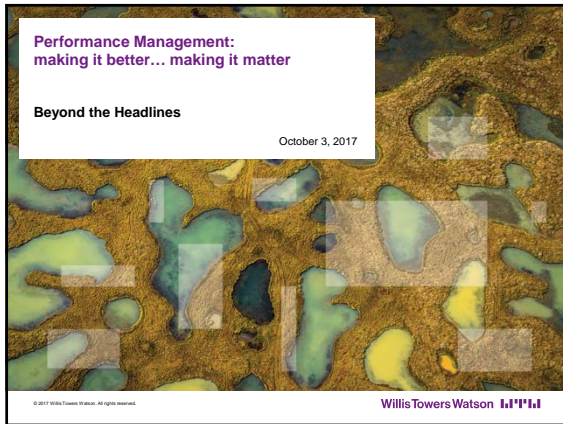



Performance Management:
making it better... making it matter

Beyond the Headlines

October 3, 2017



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Performance management mindset...



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Organizations expect making drastic changes to performance management will improve employee performance

Employee engagement will improve...	There will be more differentiation
Quality of performance conversations will improve	Managers will have more time
Managers will be more empowered to make the talent and rewards decisions	It will drive a performance culture

Companies are often looking for a silver bullet to solve performance-related challenges.

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Beyond the headlines

Harvard Business Review – “Kill your performance ratings”

Bloomberg – “Microsoft kills its hated stack ranking”

Deloitte – “Reinventing performance management”

Accenture – “Getting rid of annual reviews and rankings”

SHRM – “Is it time to put performance reviews on a PIP”

What's really happening?

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Eliminating performance ratings ... not happening so much

	Already taken action	Planning to take action	Considering taking action	Neither planning nor considering taking action
Focus on increasing frequency and improving quality of performance conversations/dialogue between manager and employee	33%	23%	24%	19%
Using performance management to evaluate/measure future potential	28%	20%	25%	27%
Implementing new enabling technology (e.g., to support crowdsourcing or enable mobile platforms)	15%	16%	21%	48%
Eliminating performance ratings/scores entirely	8%	3%	15%	74%
Eliminating performance ratings/scores for performance management but keeping for compensation purposes	5%	4%	14%	77%

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The current state remains quite “traditional”

Design parameter	Predominant practice
Top 3 objectives?	<ol style="list-style-type: none"> 1. Align individual performance objectives with strategic business priorities 2. Drive high performance across the workforce 3. Provide a mechanism for differentiating rewards
Differentiated approach based on employee population?	No
Performance / review cycle?	Once a year
Outcome?	Single rating
# performance ratings?	5
Performance assessment?	Both absolute and relative
Manager guidance?	Recommended distribution guidelines provided (both ratings and merit increases)

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The current state of performance management

Employees continue to say that performance management – as they experience it – is not very helpful

The extent to which you agree with the following statement:	Employee View
People are held accountable for their performance at my organization	56%
The people who evaluate me have clear visibility of my performance on the job	56%
My performance was accurately evaluated in my most recent performance review	52%
My organization does a good job explaining our performance management process	50%
My performance reviews have helped me improve my performance	48%
High-performing employees in my organization are rewarded for their performance	46%
There is a clear link between my job performance and my pay	45%

Source: Willis Towers Watson 2016 Global Talent Management & Rewards and Global Workforce Studies

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The current state of performance management

Middle rating is demotivating



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The current state of performance management

Employers are not enthusiastic about their performance management process

The performance management process at your organization is effective at:	Employer View
Aligning individual performance objectives with strategic business priorities	76%
Identifying high, average and low performers	74%
Reinforcing key organization-wide values and desired behaviors	73%
Providing a mechanism for differentiating rewards	70%
Driving high performance across the workforce	67%
Identifying development needs and plans	64%
Providing a mechanism for determining talent program eligibility	60%
Encouraging employees to set stretch goals	60%
Creating a positive employee experience	51%

Just 47% of employers indicate that their performance management process is effective at clarifying accountability for specific roles

Source: Willis Towers Watson 2016 Global Talent Management & Rewards and Global Workforce Studies

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Employers' views on managers' effectiveness at performance management are not very favorable

Managers are effective in the following aspects of performance management:

Differentiating performance between high and low performers	53%
Fairly reflecting overall performance in the employee's final performance rating	50%
Working with employees to set appropriate performance goals for individual performance	49%
Fairly reflecting performance in pay decisions	49%
Identifying development opportunities	39%
Giving employees regular coaching and feedback on their performance	35%
Conducting career development discussion	30%
Driving the right degree of risk taking to enable innovation	22%



Source: 2016 Willis Towers Watson Talent Management & Rewards Survey / Global Workforce Study

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Responsibility-respect mismatch

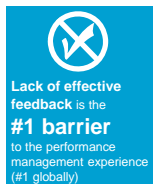
Managers lack the respect and tools to be effective



The **manager role** is highly respected in my organization

45%
global

Yet so much is expected of them, and having the necessary skills is the number one facilitator of performance management



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The key role of managers

Over 75% of managers spend less than six hours per employee per year on PM

Inadequate time spent in their role as people manager

Managers are spending **5.5 hours per employee/year** on managing performance

The Math:

This equates to **0.2%** of the hours a typical fulltime employee works in a year.



In the typical year, how much time per employee do you spend on performance management, including any time spent on the ratings calibrations process?

	% of managers
2 hours or less per employee	27%
3 or 4 hours per employee	26%
5 or 6 hours per employee	22%
7 or 8 hours per employee	10%
9 or 10 hours per employee	5%
More than 10 hours per employee	10%

What falls through the cracks?

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Today's challenges around performance management

Limited meaningful differentiation of high performers and limited budget to go around

Little value to vast majority (70% of "meets" in the middle) who are told "to keep doing what they're doing"

Subjective assessment can reflect unintended biases

Delayed "look-back" and over-reliance on historical performance

Insufficient integration; opportunity for greater connection to other talent and reward processes and functions

Time consuming one-time effort with uncertain ROI

Missed opportunities for ongoing feedback and development input

Managers with unclear roles, under-developed capability, competing priorities and working with "loose" performance metrics

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Today's challenges around performance management
Different generations with different expectations

The presence of four generations in the current workforce, each with different priorities/characteristics, suggests a need for segmented approaches to performance management

Generational Cohort	Reported Differences	PM Implications
Matures <ul style="list-style-type: none">Born between 1928 & 19455% of U.S. workforce	Dutiful Self-sacrificing Value contributing to greater good	Need clear line-of-sight with organizational goals; thrive with opportunity to work hard; recognize for life-long service
Boomers <ul style="list-style-type: none">Born between 1946 & 196438% of U.S. workforce	Maintain less work-life balance Retire later Loyal at the expense of family	Create clear connections between contribution and reward; promote readily; offer competitive LTI; use individual metrics
Xers <ul style="list-style-type: none">Born between 1965 & 197932% of U.S. workforce	Change careers frequently More loyal to leaders than companies Value flexibility and long-term options	Emphasize PM as career development tool; need ready access to manager; value collaboration over competition
Ys / Millennials <ul style="list-style-type: none">Born 1980 or later25% of U.S. workforce	Change careers frequently Seek immediate gratification Demonstrate loyalty if pursuing goals	Need continual recognition; enable personalized goal setting; utilize spot bonuses and tailored assignments over LTIs

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Rethinking Performance Management:
A leap or a step?



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Start with identifying the primary issues

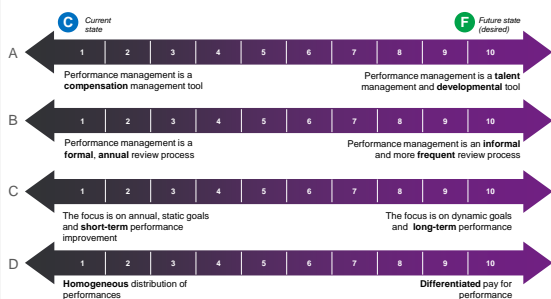
Determine the desired future state (and the burning platform for change)



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Performance management continuum



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Desired state

Taking into account business performance and the implications for the culture

Performance Focus:

- Individual vs. Network Contribution
- Input (competencies) vs. Output (metrics)
- Past (results) vs. Future (potential)

Performance Mindset:

- Growth Mindset (innovation, idea generation)
- Variance Management Mindset (execution, results)
- Differentiation Mindset (risk taking, competition)

Performance Management "Trade Offs":

- Ratingless vs. Forced Distribution
- Rewards Delivery vs. Development
- Objective Setting vs. Skills Development

How do we define type of performance that best reflects the organizational needs?

What is the performance mindset we need to drive and sustain performance?

How will performance management enable and reinforce the mindset?

Do we need to take a segmented approach to managing performance and delivering total rewards?

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To enhance performance management,
There are two key considerations

Increase Business Impact

Drive alignment and drive results

Align performance management with organization performance and culture required to deliver business results



Performance
Management
Design



Increase Efficiency & Effectiveness

Make it better and make it matter

Improve the employee experience
Streamline the organization's investment in the process



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Determine the right approach

Know how risk tolerant the organization is to change

Stepping into the Future	Taking the Leap
Less prescriptive goal setting	Dynamic goal setting
Increasing frequency of conversations and touch points	Employee empowered and manager enabled forward-looking performance discussions
Using relative ratings considering past performance with clear distinctions	Ratingless or ratings inclusive of past- and future-looking elements
Leveraging additional feedback providers	Crowd-sourced performance management, enabled by technology
Eliminating distribution guidelines (i.e., bell curve)	No distribution guidelines, forced distributions or calibration sessions
Inclusion of shared/team goals and re-weighting of goals	Segmenting critical / pivotal roles (i.e., power curve theory)

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The power law distribution

Trend: Leveraging the power curve

Key principle: Performance is not a bell curve

- Organizations struggle with motivating the "middle" and are driving performance embracing recognition of a small group whom is responsible for most of a company's output/total business value
- Elite performers ("hyper high performers") do more than a lion's share
- Broad swath of people who are "good performers"
- Smaller number of people who are "low performers"



Challenge:

- Critical to provide differentiated talent programs to the "hyper high performer" superstars
- How to build more/encourage more "hyper high performers" without alienating those that are not yet there!

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Increasing efficiency and effectiveness



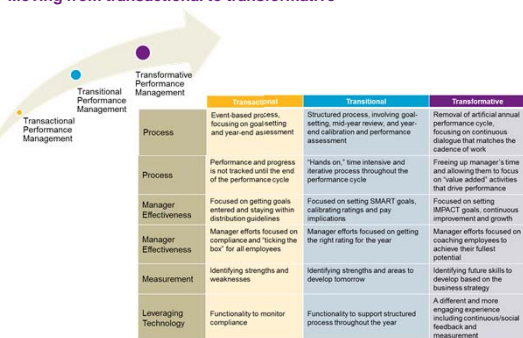
Baby Steps

Radical Changes

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Moving from transactional to transformative



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Performance management: making it better...making it matter

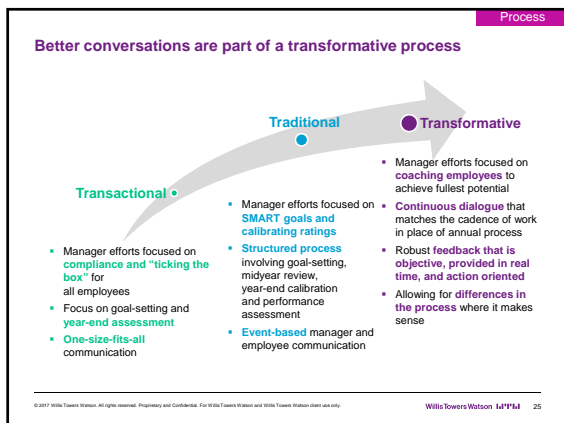
Best practice: A well-established, clear performance management process

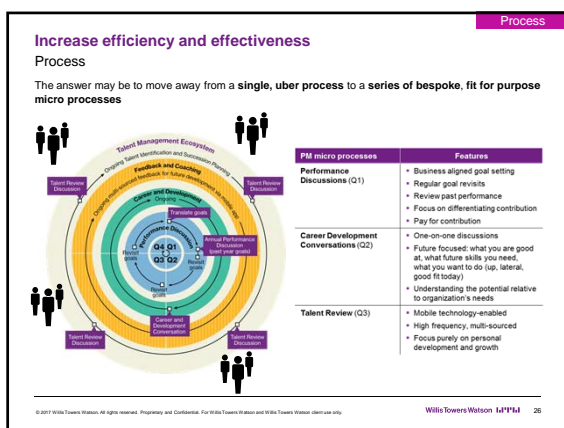
- Top performing organizations establish a clearly-laid out PM cycle, including the key elements of goal setting, mid-year review, formal year-end review and ongoing feedback and coaching
- Emerging Practices: **More frequent touchpoints with manager** (51% of organizations hold 1x/year performance reviews; 41% hold 2x/year performance reviews; 82% utilize mid-year reviews (of which, 64% use a formal process))

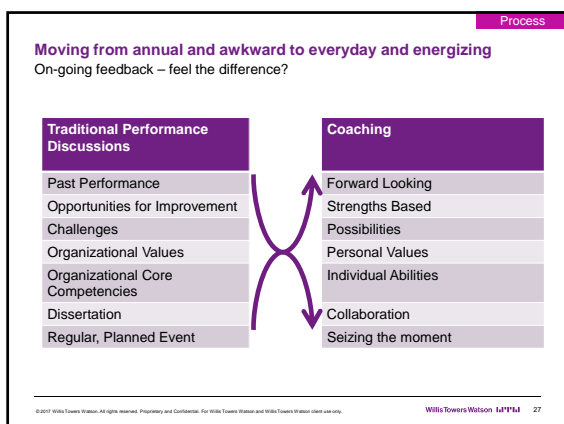


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Measurement and Reward

While you hear a lot about “ratingless”, it is not right for everyone

Historically, ratings, distribution guidelines and calibration were “tools” to aid managers struggling with differentiating performance and pay

- Challenges that organizations with ratingless programs face:
 - Heavy reliance on managers' willingness to engage in the tough conversations
 - Demotivation of solid performers who are accustomed to differential pay based on individual performance
 - Requires managers highly skilled in setting SMART objectives, communicating, providing feedback and developing talent
 - Poor managers may generate large inconsistencies in assessing employee performance
 - Heavy reliance on effective and sustained change leadership

Are your managers ready to take on “ratingless” performance management?

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Measurement and Reward

Performance rating prevalence

? 1. What is the outcome of performance management at your organization?
2. How many levels does your organization have in its rating scale?

Rating Scale Type	Percentage
Single performance rating	~55%
Single performance score based on, e.g., % of goals achieved	~12%
Performance scores for each goal based on the % of goal achieved	~10%
Five-point scale	61%
Four-point scale	15%
Three-point scale	15%
Other	9%

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Measurement and Reward

De-stigmatizing ratings

5 Level Rating Scale	3 Level Rating Scale
Exemplary/ Outstanding	
Commendable	
Meaningful Contributor	
Approaching Competent/ Developing	
Unsatisfactory	

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Measurement and Reward

Pay for performance – making it better...making it matter

Linking with other programs

Best practice: Differentiating across various reward elements
Organizations significantly advance alignment across systems by specifying how various reward elements vary by performance, where relevant

Reward Elements	Unsatisfactory	Approaching Competent	Meaningful Contributor	Commendable	Exemplary
Merit Increase	0 x average merit (e.g., 0%)	1/3 - 1/2 x average merit (e.g., 1% - 1.5%)	Average merit (e.g., 3%)	1 1/2 - 2 x average merit (e.g., 4.5% - 6%)	>2.5x average merit (e.g., 8%)
Short-term Incentive Award (or GIP)	No incentive	No incentive to 1/3 target incentive	Target incentive	1 1/2 x target incentive	2x target incentive
Training Opportunities	Minimal training: focus on performance	Remedial training: competency development	Normal training	High-performer training opportunities	High-performer training opportunities
Development Opportunities	Immediate performance improvement plan	Close monitoring and coaching	Eligible for developmental assignments	Targeted for developmental assignments	Identified as high-potentials and targeted for special assignments
Promotions	Not eligible for promotion	Not eligible for promotion; but may be eligible for lateral move	Eligible for promotional consideration	Targeted for promotional consideration	Targeted for promotional consideration
Percent of Population	5% - 10%		60% - 70%		20% - 30%

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Best Practice

Pay for performance - linking with other programs

Differentiating Talent Management Programs

Best practice: Differentiating talent management and reward programs

- Organizations are investing more resources on the following differentiated talent groups than in other groups for certain programs
- Emerging practice is to ensure that beyond differentiating resources for talent groups, that resources are targeted to help all employees understand their overall contribution to the enterprise (past performance, future capabilities, career alignment)

? To what extent does the outcome from your performance management process strongly influence:

	All North America Companies	Top Performing Companies
Base pay increases	69%	80%
Short-term incentive awards	56%	67%
High potential decisions	56%	70%
Promotion decisions	54%	71%
Workforce / succession planning decisions	41%	59%
Eligibility for development opportunities	38%	57%
Learning & development design decisions	16%	44%


Source: 2015 Towers Watson Global Talent Management and Rewards Study - Global Results

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Measurement and Reward

Pay for performance – making it better...making it matter

Segmentation/linking with other programs example



Program	Talent Segments				
	Executives	Managers	Sales	Critical Talent	HiPos
Merit	✓	✓	✓	✓	✓
STI	✓	✓		✓	✓
Sales Incentives	✓		✓		
LTI	✓	✓	✓		✓
Corp/Local Recognition	✓	✓	✓	✓	✓
Stock Options	✓	✓			✓
Development Programs	✓	✓	✓	✓	✓
Spot Bonuses	✓	✓	✓	✓	✓
Other Total Rewards (i.e. Additional PTO)			✓	✓	✓

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Measurement and Reward

Pay for performance – making it better...making it matter

Hello Mark, welcome to your Performance-based flexible rewards!

Your Basic Package is:

- Reward Element
- Basic pay
- Fixed cash allowances
- Children's education benefits
- Annual leave days
- Other leave days
- Retirement
- Life and disability insurance
- Unemployment insurance
- Basic medical insurance
- Health assessment
- Mobile phone
- Workplace flexibility

Note: point calibration is illustrative

Mark, you have been recognised as a high performer, thank you for your hard work!

Your Performance Points Balance is: 23,000 points. Select from your Performance Rewards Shop...

Reward Element	Cost (Points)	Select
Cash bonus	10 points per dollar	<input checked="" type="radio"/>
Additional annual leave	1,000 points per day	<input checked="" type="radio"/>
Sabbatical	20,000 points per month	<input type="radio"/>
Retirement contribution	6 points per dollar	<input type="radio"/>
Child care vouchers	6 points per dollar	<input type="radio"/>
Emergency eldercare	6 points per dollar	<input type="radio"/>
Gym membership	1,000 points per month	<input type="radio"/>
Additional medical insurance	8 points per dollar	<input type="radio"/>
Children's education account contribution	8 points per dollar	<input type="radio"/>
Company car	50 points per day	<input type="radio"/>
Training courses	20 points per dollar	<input checked="" type="radio"/>
Career management programs	100-200 points	<input type="radio"/>
Enhanced maternity/paternity	500 points per day	<input type="radio"/>
Tuition reimbursements	8 points per dollar	<input type="radio"/>

Points based on previous performance period and increase in score with higher performance

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Performance management redesign: how far, how fast?

Pathway to a new performance management approach

- Define your business-based burning platform
- Articulate your performance definition and desired culture
- Ensure leadership commitment and sponsorship
- Build manager capability
- Define the performance measures you are going to reward
- Involve the right people in decisions/change
- Articulate and communicate your pay-for-performance strategy
- Be prepared to invest for the long haul

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“The secret of change is to focus all of your energy, not on fighting the old, but on building the new!”

- Socrates

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Thank You!!!!

Willis Towers Watson

Speaker

Depth and breadth of expertise within total rewards with extensive experience in the healthcare, corporate and consulting industries.

Advisor on topics such as employee engagement, generational characteristics and influences, performance management, work life initiatives, HR strategy and optimization, and compensation.



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- Over the years, we have developed a strong expertise in Performance Management and Talent Management Programs.

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