PAY FOR PERFORMANCE

Retaining and Engaging Talent
CBIA Compensation and Benefits Conference

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Overview to Session

- Common concerns and questions from our clients
- Why we hate the performance process so much
- What we can do much better
- Some technicalities
- A few ‘how tos’

Recently, a few high-profile companies announced that they no longer would be rating employee performance. However, they will still need to evaluate performance in order to make decisions about promotions and pay.
Performance

[per-fawr-muh ns]: What organizations loathe but persist on doing.

Only 14% of organizations are satisfied with their performance management programs.
An "exceeds" means something different in my department than across campus. My department only has 10% exceeds, while the one across campus had 40% last year. This harsh rating means I get a lower increase. Why?!

There's no merit budget to reward high performers, so why bother differentiate performance ratings?

Goals are ambiguous, and then are manipulated at review time to reduce or increase performance ratings.

Conflict-avoidance is rampant. Often, developmental feedback is skipped and poor performers are around for years.

My manager only talks about the past, not my future career here.

My employees get upset if they get an average rating, so I just rate everyone high.

I have never had a performance review discussion, so why should I do them for my employees?

It's a once-a-year event. When it's done the form gets stuck in a file.

Lake Wobegon Effect

Inconsistency in Ratings and Implications

No Merit Money So Why Differentiate?

Leaders Don’t Model PM

Ineffective Goal-Setting

Focused on Past

Ineffective/Non-existent Feedback

Event, not a Process

Some Common Quotes About Performance Management …
Our Clients Often Ask Us…

- Can you share the perfect form?
- What is the right number of rating levels?
- Is our rating distribution the way it should be?
- How can we make sure we hit 100% completion?
- How can we make sure our managers are giving consistent and impactful feedback?
- There’s no merit budget—should we even bother with performance management?
- What are our peers doing that we should implement?
We Tell Them…

➢ There is no out-of-the-box solution/clear recipe for success

➢ The ideal solution for one organization may be a disaster somewhere else

➢ There are fads, trends and staples in performance management, but it is about what aligns with your organization’s style

➢ Success is largely about leadership support and expectations
What is our overarching goal for performance management?

If the process is a success, what is “in it” for the organization? The employee? The manager? HR?

How will we measure the program’s success?

Some develop a performance management mission statement.
## Example Mission Statement For Performance Management

**Initiative Objective**
Support a culture of accountability at the organization

**Population**
Include leaders, managers, and full-time staff; temporary/contractor staff/seasonal employees are not covered

**Expected Outcomes**
- Identify and target critical talent for development and retention
- Execute strategy by prioritizing and aligning goals and objectives
- Improve group and individual performance
- Make fair, equitable pay decisions based on performance and desired results
- Identify top performers to develop a succession plan
- Calibrated ratings and performance messages across divisions
- Encourage a culture of ongoing, timely, forward-looking feedback

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Multiple PM programs could drive this mission—it’s about assessing trends and defining what works for your organization.
Why We Hate the Process

- Emotion-laden and can turn acrimonious
- Non-consequential and ineffective
- Onerous and time-consuming
- Excessive focus on the past versus future
- Inconsistent application across the organization
- Ratings are biased and unfair
Sources of Biases

- Selective recall
- Halo effects
- Leniency (or harshness) effects
- Attributional bias
- Perspective bias
- Impression management
What We Can Do Much Better

- Hire, develop, and promote high quality managers
- Define performance
- Gather performance data
- Provide continuous coaching
- Calibrate performances across the organization
- Train managers on the performance process and standards
- Make development a fundamental part of the program
- Ensure that the program matters
- Evaluate managers on their ability to coach and develop their staff
What We Can Do Much Better

➢ Leadership development

➢ Define performance
  - Process and outcomes
  - Past versus current versus future

➢ Produce sound measures of performance
  - Psychometric properties of scales
    - Reliability
    - Validity
    - Equivalence
  - Methods to improve measures
    - Length of scale
    - Multiple measures
    - Multiple people
    - Multiple times
Some Technicalities

Most Common Rating Scale Formats

- BARS (Behaviorally Anchored Rating Scales)
- BOS (Behavioral Observation Scale)
- BSS (Behavior Summary Scale)
- GRS (Graphic Rating Scale)
- Likert
- MS (Magnitude Scaling)
Some Technicalities
Illustrated Scale Formats

BARS
- Performance Dimension 1
- Behavior A1
- Behavior A2
- Behavior A3

BSS
- Performance Dimension 1
- Behavior E1
- Behavior E2
- Behavior E3

LIKERT
- Performance Dimension 1
- Behavior A

BOS
- Performance Dimension 1
- Behavior A

GRS
- Performance Dimension 1
- Behavior A

MS
- Performance Dimension 1
- Behavior A

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Almost Never
Rarely
Sometimes
Often
Almost Always

Inadequate
Fair
Good
Very Good
Excellent

As Low As Imaginable
Very Low
Low
Moderate
High
Very High
As High As Imaginable

Sibson Consulting
Some Technicalities
Suggested Calibration

Without calibration, managers set goals, ratings and rewards in silos. Managers tend to rate most employees either high or in the middle. As a result there is little ability to differentiate rewards for the highest performers. Perceptions of inequity are created between groups.

With calibration, peer managers and leaders review and refine proposed goals, ratings and rewards before finalizing. Norms of difficulty and differentiation are developed. Consistency of differentiation allows greater rewards for the highest performers, and perceptions of equity between groups.

Calibration to begin at a peer manager level and then roll up to cross-leader calibration at a more macro level.
Some Technicalities  
**Calibration Process**

- Cohorts of managers meet to discuss the preliminary ratings.
- Process is usually aided by a trained facilitator.
- Based on these discussions, ratings may be adjusted up or down.
- Sessions provide considerable value:
  - Increases intra-organizational consistency.
  - Conveys the use of a fair process in determining final evaluations.
  - Enhances managers’ personal responsibility for performance evaluation.
  - Gives managers greater confidence to speak openly and honestly.
  - Provides a forum to discuss the leadership pipeline and employees’ developmental needs.
  - Offers a disciplined way of looking at business results.
Some Technicalities

54% of organizations use calibration
Some Technicalities

35% of organizations say the process regularly leads to modifications in ratings.
Some How To’s
Performance Management Program Design

Often, most redesign effort goes into the details of the design when the real impact is in leadership and execution.

- Leaders as champions and role models
  - Goal setting and alignment
  - Performance norms set
  - Clearly articulated desired PM outcomes

- Flexibility to measure what matters most in different jobs
- Clear links to other processes
- Rating criteria, form, and scale
- Technology

When redesigning, choose 3 – 5 focal points to highlight as important in performance management at your organization.
Some How To’s
Key Focal Points

➤ **More leadership modeling**—when leaders walk the talk with performance management, the effect cascades

➤ **Calibration** of performance messages among peer managers

➤ **Early goal-setting**, review for alignment with department and organization goals, and frequent reviews of progress and needed revisions

➤ **Regular, forward-looking feedback**. It sometimes comes from sources other than just direct management

➤ **Focus on development**—more time spent on discussing development, training and forward-looking goals than on evaluating the past

➤ **Links to other rewards than compensation**, e.g., training opportunities

Based on observations at Sibson, clients and research conducted as part of the State of Performance Management Study with WorldatWork.
Some How To’s

Link to Performance & Development

How do you make the process economically meaningful in terms of promotions and compensation?

How do you encourage dialog throughout the year?

Coaching and Leading Staff

Linkage to Performance
**Some How To’s**

*Tie Promotions to Performance and Need*

Manage promotions and the accompanying promotional increase as a key reward for high performance.

### Entitlement Promotions
- Time-based
- No budget
- No tracking or reporting
- Few standards
- Approval process unclear
- Opportunity for favoritism

### Real Pay for Performance Promotions
- Performance-based
- Cost is budgeted
- Tracked and reported across units
- Must be a business need
- Require multi-level approval
Some How To’s
Rethink the Merit Matrix

The typical matrix below allows for “gaming” of performance ratings

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>Below</th>
<th>Partial</th>
<th>Meets</th>
<th>Exceeds</th>
<th>Far Exceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Increase Amount</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>3.5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Instead, use a floating value of X until distribution of ratings is known

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>Below</th>
<th>Partial</th>
<th>Meets</th>
<th>Exceeds</th>
<th>Far Exceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Increase Amount</td>
<td>0%</td>
<td>X – 1%</td>
<td>X</td>
<td>X + 1.5%</td>
<td>X + 3%</td>
</tr>
</tbody>
</table>

Managers quickly figure out that they cannot tweak ratings to get more money.
Some How To’s
Make Merit Matter

“Carve Outs” from merit and bonus pools enable employers to differentiate rewards for high performers.

<table>
<thead>
<tr>
<th>Merit Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 3% budgeted increases</td>
</tr>
<tr>
<td>• 0.5% carve out for high performers</td>
</tr>
<tr>
<td>• <strong>2.5% average for average performers</strong> (75% of population)</td>
</tr>
<tr>
<td>• <strong>4.5% average for high performers</strong> (25% of population)</td>
</tr>
</tbody>
</table>

These parameters are updated annually for business and market conditions.
Some How To’s
Shaping Expectations About Pay

Impact of manager communication on employee performance and intent to stay*

- Communications from the manager are **four times** as likely to positively impact employees’ belief in the fairness of pay processes than communication from the HR Compensation function.

- Manager communication drives **50%** of employees’ belief in the fairness of pay processes.

- The belief that pay processes are fair **increases employee loyalty by 25% and employee effort by 10%**.

Managers need to be willing and able to talk about rewards.

* Based on responses from more than 30,000 managers and their direct reports; analysis conducted by the Compensation Roundtable. Washington, DC.
Some How To’s
Dialogue

- Provide continuous coaching and feedback; feedback is best when:
  - Immediate and specific
  - You have something to talk about
  - Organized around professional goals
  - It involves content and a relationship
  - The organization supports a feedback culture of open, honest, and kind exchanges
  - It is a dialogue vs. a monologue
  - You believe that people are capable and want to do the best work possible
  - Staff understands that your interests lie in making them better

Lazy
Proactive
Late
Helpful
Some How To’s

Dialogue

➤ Have to make conversation a habit

• Need cues
• Need to make it easy
• Need to make it rewarding

Habits are defined as learned patterns of behavior that automatically (with little conscious deliberation) occur in response to cues from the environment. In essence, habits are well-ingrained chunks of behavior that our brain has decided should be automated. Because we are doing the same thing over and over, our brains put those sequences on automatic pilot so we can attend to more serious concerns that require undivided attention.
Questions?

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