TODAY’S PRESENTERS

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QUESTIONS?

Please type your questions in the Q&A section of toolbar and we will do our best to answer.

- In full-screen mode, use the Q&A button on the bottom right-hand side of your screen.
- In half-screen mode, use the Q&A panel on the bottom right-hand side of your screen.
IS THERE REALLY A NEW STATE OF PERFORMANCE MANAGEMENT?
Evaluate the Effectiveness of Your Approach

PERFORMANCE MANAGEMENT

Delivers exceptional value?
Works well?
Needs work?
Few Say Approach Delivers Exceptional Value

PERFORMANCE MANAGEMENT

- Needs Work: 48%
- Works Well: 49%
- Exceptional: 49%
How could we build a **growth and development** focus into our goal setting process?

How could we encourage higher **quality dialogue** and more candid feedback about performance?

What is our philosophy on **differentiation**? How can we better identify our highest and lowest performers?

How should we link performance & **pay** decisions? How transparent is calibration and compensation planning?

What performance management change could have the biggest positive **impact to our business**?
Purpose Paradox: Development vs. Evaluation

BIGGEST DEBATE

People Development

Performance Evaluation

Provides coaching and support for personal development

Differentiates performance
What Should the Process Do For You?

PERFORMANCE MANAGEMENT

How do you measure up?

- Improve performance – employee & company
- Identify top talent – individuals & teams
- Help people succeed – individually & collectively
How Should Performance Management Work for You?

**MERCER POV**

1. **1. Improve Performance**
   - By simply defining high performance, shared priorities, and commitments.
   - By providing continuous, real-time feedback.

2. **2. Identify Top Talent**
   - By identifying talent that has persistently delivered high performance relative to others.

3. **3. Help People Succeed**
   - Through coaching and development.
   - Through feedback from broad range of external and internal constituents.
Evolution of Performance Management

EMERGING PRACTICES

Old

- Evaluative process with 3 or 5 point rating scale.
- Once/twice a year event.
- Feedback often routine and dated due to timing of assessments.
- Seen as primarily a manager responsibility.
- Viewed as administrative burden, disruptive to work.
- Success and effectiveness measured by whether process is completed.

Refresh

- Relevant, meaningful, real-time feedback.
- Natural part of work, integrated with business.
- Joint manager and employee accountability.
- Thoughtful, honest, engaging dialogue.
- Measure success by behavior, satisfaction & value.
Devote more resources into teaching and developing leaders and associates.
What Are Some High Performing Companies Doing Differently?

EMERGING PRACTICES

Eliminate annual ratings

Focused on:
- Accelerating individual, team, and business performance.
- Aligning individuals and teams to the quarterly business cycle.
- Timely, high-quality conversations about deliverables, results, and behaviors to help grow and develop people.

Eliminate forced distribution

Focused on:
- Eliminating traditional ratings and preset achievement targets.
- Consistent calibration through relative laddering and alignment with internal peer group, with manager discretion in compensation.
- Twice a year Conversation Day: Career --> Capabilities --> Connections --> Contributions --> Compensation.

Build better managers

Focused on:
- Data-driven model of top eight attributes of effective people managers with #1 rule: Be a good coach.
- Biannual upward feedback, tracking mgr. performance vs. norms.
- Performance reviews with ratings based on self-assessment and peer reviews of contributions, strengths, areas of improvement.
What Should Companies Be Doing Differently?

FOCUS ON MANAGER CAPABILITY

- Decision Excellence
- Strategy Alignment
- Content Knowledge
- High Stakes Conversations
- Power of Observation
WHAT ARE PREVALENT MARKET PRACTICES?
How Companies Try to Create Performance Management Value

PERFORMANCE MANAGEMENT REPORT

53 countries
1,057 organizations

Industries with highest participation

Durable Manufacturing 14%
Technology 10%
Consumer Goods 8%
Financial services 7%

Energy 7%
Healthcare provider 7%
Non-durable Manufacturing 5%
Insurance 5%
Transportation 5%

Professional Services 5%
Pharmaceutical 5%
Retail 5%
Education 4%
Telecommunications 4%
More Similarities Than Differences

DESIGN CHARACTERISTICS

Performance Expectations

- Set ind. goals: 95%
- Use competencies: 85%
- Self-assessment: 82%
- Overall perf. rating: 89%

Year-end Process

- Use 5-point rating scale: 57%
- Link perf & pay: 89%
Tailoring to Business Units or Leadership Levels is Uncommon

DESIGN CHARACTERISTICS

Consistency

- Common design: 75%
- Tailored to executives: 25%

CEO Evaluation

- Bottom line & Ops: 66%
- Leader qualities: 50%
What Elements Have the Most Impact on Overall Success?

**DRIVER ANALYSIS**

- Management Skills
- Executive Commitment
- Calibration
- Technology
What Elements Have the Most Impact on Overall Success?

DRIVER ANALYSIS

- Management Skills
- Executive Commitment
- Calibration
- Technology

Linking performance and development

- "SMART" goal setting
  - 29%

Candid dialogue

- 48%
Goal Cascade is Under Utilized

DRIVER ANALYSIS

Management Skills
- Executive Commitment
- Calibration
- Technology

Company

Business Unit

Employee

56%
51%
What Elements Have the Most Impact on Overall Success?

DRIVER ANALYSIS

- Management Skills
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What Elements Have the Most Impact on Overall Success?

**DRIVER ANALYSIS**

- **Management Skills**
- **Executive Commitment**
- **Calibration**
- **Technology**

### Highly Committed Executives

- **Provide regular coaching**: 90%
- **Discuss PM as core to business**: 75%
What Elements Have the Most Impact on Overall Success?

**DRIVER ANALYSIS**

<table>
<thead>
<tr>
<th>Management Skills</th>
<th>Executive Commitment</th>
<th>Calibration</th>
<th>Technology</th>
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</thead>
</table>
Calibration Increases Accuracy of Evaluations

**DRIVER ANALYSIS**

- Management Skills
- Executive Commitment
- Calibration
- Technology

**Who is reviewed?**

- All employees: 56%
- Leaders (or subset): 27%
Calibration Increases Accuracy of Evaluations

DRIVER ANALYSIS

Introductions and ground rules

Performance expectations

Discuss

Exceeds

Fully meets

Partially meets

Below

Summarize agreements and action items
The process is not confidential; it’s ok to explain the process to employees without sharing names, ratings, and decisions.

Attendees are accountable for arriving at performance rating decisions that reflect expectations.
What Elements Have the Most Impact on Overall Success?

DRIVER ANALYSIS

- Management Skills
- Executive Commitment
- Calibration
- Technology
Technology is Less Prevalent Than Expected

**DRIVER ANALYSIS**

<table>
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<tr>
<th>Management Skills</th>
<th>Executive Commitment</th>
<th>Calibration</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Integration</td>
<td>HRMS Only</td>
<td>HRMS + 1</td>
<td>Fully Integrated</td>
</tr>
<tr>
<td>52%</td>
<td>19%</td>
<td>15%</td>
<td>7%</td>
</tr>
</tbody>
</table>

53%
Align Philosophy With What Is Measured

OPPORTUNITIES

- Link perf & pay: 89%
- Measure people mgmt: 36%
- Reward people mgmt: 10%
Align Philosophy With What Is Measured

**OPPORTUNITIES**

- **Year-end review**: 75% measure completion of evaluation
- **Link perf & pay**: 42% measure pay for performance link
- **Link perf & succession**: 23% measure selection of top perf. for succession
- **Drive performance**: 19% measure retention bet. top & poor perf.
WHAT ARE SOME SMART SOLUTIONS THAT ADD VALUE?
Case Example of Manager Capability Building

STAGE ONE IN JOURNEY

- Improve the quality and quantity of effective conversations
- 2 day workshop
  - Mandated for all people managers
  - Skills development
  - Core models
- Engaged individuals
- Differential commitment to change
- Minimal organizational impact
## Effective Performance Communications Program

### LEARNING AGENDA

<table>
<thead>
<tr>
<th>DAY 1</th>
<th>DAY 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MORNING</strong></td>
<td></td>
</tr>
<tr>
<td>Welcome and overview</td>
<td>Review day 1</td>
</tr>
<tr>
<td>Flow (structure) for effective conversations</td>
<td>Skills and practice (clarify and putting it all together)</td>
</tr>
<tr>
<td><strong>AFTERNOON</strong></td>
<td></td>
</tr>
<tr>
<td>Skills for effective conversations (observe, listen, and explore)</td>
<td>Your real conversation</td>
</tr>
<tr>
<td>Practice</td>
<td>The learning you take away</td>
</tr>
</tbody>
</table>
Case Example of Manager Capability Building

STAGE TWO: SUSTAINABILITY

**BUSINESS NEED CHANGES**
- Develop a performance culture in all the businesses.

**BUILDING SUSTAINABLE PERFORMANCE PROGRAM**
- Business unit.
- Leader sponsorship and team events.
- Audit.
- All manager workshops.
- Sustaining activities.
- Measurement.
- Communication strategy.

**SYSTEMIC MODEL DELIVERY**
- Induction.
- All levels of leadership.
- Clinics.
Features and Benefits

BUILDING SUSTAINED PROGRAM

**Features**
- Strategically **aligned**: e.g. engagement, strategic shift, capability building.
- Easily customised; audit, leadership team events, workshops.
- **Data driven**: audits.
- **Leadership engagement**, commitment and action plan.
- All managers in a short period; e.g. 500 in 3 months; 80 one week.
- Program not a course; 18-24 month change program.
- Trained champions/change agents to **sustain momentum**.

**Benefits and Outcomes**
- Measureable progress.
- Communication strategy.
- Speed, creating critical mass and momentum.
- Leadership team insight.
- Self sustaining and adaptable.
- Business unit ownership.
## Sustained Program
### PROGRAM ARCHITECTURE

### RELIABLE IMPLEMENTATION METHODOLOGY

<table>
<thead>
<tr>
<th>Diagnosis audit and interviews baseline</th>
<th>Senior leaders</th>
<th>Alignment, planning and sponsorship</th>
<th>Leadership team planning and integration meetings</th>
<th>Embedding and sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaders</td>
<td></td>
<td>Alignment and skills practice</td>
<td>Integration into daily work</td>
<td>Follow-up measurement</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td>Alignment and awareness</td>
<td>On the job application and support</td>
<td>Transfer of capabilities e.g., champion development</td>
</tr>
</tbody>
</table>

### COMMUNICATION, MEASUREMENT, SUSTAINABILITY

### SYSTEMS AND PROCESSES: MANAGER TOOLKIT AND ON LINE SUPPORT

### COACHING SUPPORT DURING AND AFTER SKILLS PRACTICE SESSIONS
## Leader Accountability Dashboard
### MULTI-SOURCE “AUDIT” OF EFFECTIVENESS

<table>
<thead>
<tr>
<th>ALIGNMENT</th>
<th>QUALITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question</strong></td>
<td><strong>Audit 1 (Baseline)</strong></td>
</tr>
<tr>
<td><strong>Team leader clarifies what is expected of direct reports</strong></td>
<td>63.6</td>
</tr>
<tr>
<td><strong>Team leader clearly links individual priorities and business priorities</strong></td>
<td><strong>72.7</strong></td>
</tr>
<tr>
<td><strong>Team leader adjusts individual priorities when business priorities change</strong></td>
<td>54.5</td>
</tr>
<tr>
<td><strong>Team leader discusses and clarifies the action needed to reach priorities</strong></td>
<td>36.4</td>
</tr>
<tr>
<td><strong>Team leader takes into account what’s important to direct reports, their concerns and circumstances, in performance conversations</strong></td>
<td>36.4</td>
</tr>
<tr>
<td><strong>Team leader clarifies what is expected for you to deliver or exceed expectations</strong></td>
<td>27.3</td>
</tr>
</tbody>
</table>
### Coaching an under performer conversation

This matrix contains helpful suggestions on the information required, possible questions to ask and phrases to use to assist you in each step of the coaching an under performer conversation.

<table>
<thead>
<tr>
<th>Step/Flow</th>
<th>Possible questions to ask to understand their view</th>
<th>Possible phrases to use to make your view clear</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Clarify the purpose, approach, agenda and topic for the conversation.</td>
<td>Are you clear about why we are having this meeting?</td>
<td>Here is what I would like to accomplish, discuss, achieve, resolve, solve in this conversation.</td>
</tr>
<tr>
<td>2. Identify the issue and explain why it concerns you.</td>
<td>How do you see the current situation? What, who, when, how often? Tell me about your results and progress to date.</td>
<td>Here is the issue I have observed, and I am bringing this issue to your attention because it has the possibility of resulting in disciplinary action. This is important to the organisation because,...</td>
</tr>
<tr>
<td>3. Describe specifically what you have observed.</td>
<td>Can we review the relevant, observable, and mutually agreeable facts?</td>
<td>Here is what I have observed to date. Those were the performance expectations (what, how much, how well, by when) we discussed.</td>
</tr>
<tr>
<td>4. Identify the specific concerns and the impact on the team/Function, the organisation, the individual and you.</td>
<td>Were you aware of this?</td>
<td>Here is what is not working well. This is what I have done. This is why I am concerned. It disrupts the team and causes us to lose... What I have learned from our previous conversations is that Here is how I might be contributing to the issue. I may not have brought this issue to your attention in a timely manner, and we still need to address it now.</td>
</tr>
<tr>
<td>5. Ask for the individual’s view, response, concerns.</td>
<td>How do you see the issue?</td>
<td>Having listened to your views, I need to clarify the following:...</td>
</tr>
<tr>
<td></td>
<td>What is your perspective on what I have just said?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What is your understanding of the issue I have identified?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What am I missing?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What concerns or circumstances do I need to understand from your perspective?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What matters to you about this issue?</td>
<td></td>
</tr>
</tbody>
</table>
TALENT CHESS

- A one-day workshop that blends current thinking around strategic talent management practices with a simulation game that challenges participants to evaluate their own, and their organizations, talent decision-making.

- By using game pieces to keep track of employee progress, participants discover what happens when they make decisions around talent such as:
  - Who gets promoted and when does this happen in their career?
  - When is the right time for a developmental assignment?
  - Who should take on a mission-critical assignment — do we take a risk on an up-and-comer or give it the “usual suspects”?

- Realism is added to the game by the use of chance and market-condition derailers.

- Workshop learning’s are transferred to participants own teams / business, as plans are put in place for developing their talent pipelines.

HOW DO YOU ADD TALENT VALUE?

- Development options cards

- VICE PRESIDENT

- DIRECTOR A

- DIRECTOR B

- MANAGER A

- MANAGER B

- MANAGER C

- MANAGER D
Case Example
CALIBRATION

5 CNO/ Nurse Directors

Report to

20 Nurse Managers

Report to

600 Staff RNs
Case Example

CALIBRATION

Nurse Managers

Report to

Staff RNs

104

177

5

3

5

Nurse Managers

Report to

Staff RNs

136

207

10

5

5

Staff RNs

Staff RNs - Surgery

33

48

3

5

5
Create Employee Timeline
Develop Detailed Story for Each Employee

Mercer Analytics

John Smith
Employee EE001101

Feb 2009
Employee Hired

Nov 2010
Performance Review 1, Promotion, Compensation Adjustment

Nov 2011
Performance Review 2, Compensation Adjustment

Nov 2012
Performance Review 3, Lateral Movement, Compensation Adjustment

Mar 2013
Sustained High Performer

Hired
2009
2000s
2010
2011
2012
January 2013
February
March
Now

What Are Some High Performing Companies Doing Differently?

HR USING LONG DATA
What Are Some High Performing Companies Doing Differently?

**ANSWERING CRITICAL QUESTIONS**

### New Employee Segments
- Which employees received high performance ratings both this year and last year?
- Which employees have received high performance rating over the past three to five years?
- Which employees received low performance ratings more than three times in their past five reviews?

### Reward for Performance
- Over time, do we really reward our employees who consistently receive high performance ratings through: greater pay increases; bonuses; promotions; and career opportunities?
- Where are our performance outliers, e.g. employees who have received a low performance rating but an above median pay increase?

### Downgrades and Upgrades
- What are the characteristics of employees that upgraded from a medium to high performer?
- What are the characterizes of employees that downgraded from a high to a medium performer? From a medium to a low performer?
We love these employees – how are we going to keep them?

These downgrades are of concern. What organizational factors contributed to this, and what interventions are needed to retain and engage these employees?

Was there an active intervention that occurred to move these employees from a Low to Medium performer?

This big jump (from High to Low, or Low to High) is unusual in one review period. Should we check the integrity of our PM process?

Measuring Year-Over-Year Variability

ADVANCED ANALYTICS
WHAT ARE BENEFITS AND RISKS OF ELIMINATING RATINGS?
### What Are the Benefits and Drawbacks?

**ELIMINATING RATINGS**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can remove the “threat response” and promote feelings of <strong>engagement</strong> rather than anxiety and fear</td>
<td>Some people like numbers and keeping score and may be <strong>uncertain</strong> how they are being assessed</td>
</tr>
<tr>
<td>Manager feedback can be more valid and <strong>constructive</strong> (no “meeting a curve”)</td>
<td>May make it easier to avoid <strong>confrontation</strong> and shy away from giving honest feedback</td>
</tr>
<tr>
<td>Puts the focus on constructive, development-based <strong>conversations</strong></td>
<td>Concerns about <strong>scalability</strong>, may be more difficult for managers with large spans of control</td>
</tr>
<tr>
<td>High performance may become more <strong>intrinsically motivated</strong></td>
<td>Places more demand on the quality and <strong>rigor of assessment</strong> for hiring and selection</td>
</tr>
<tr>
<td>Absence of labels can <strong>diminish</strong> <strong>cognitive biases</strong> such as halo effect</td>
<td>Can inhibit internal mobility and make it more <strong>complex</strong> to allocate consequences and scarce rewards equitably</td>
</tr>
</tbody>
</table>
NEW STATE OF PERFORMANCE MANAGEMENT TAKEAWAYS?
Consider programs in the context of others.
  - Performance management, pay levels, incentives, supervision, and leadership development all reinforce one another.

Test whether programs are getting you the desired returns and understand what is holding you back.
  - Use analytics to measure progress.
  - Design or implementation issues?
  - Skill or “will” gap?

Be very clear on your performance differentiation and career development philosophy.

Optimize manager capability, executive commitment, calibration, and technology – it makes a real difference.
## New State of Performance Management

### HOW WE CAN HELP

**DIAGNOSTICS**
- Benchmark Data by Region, Industry
- Audit
- Say-Do Analysis
- Dashboards
- Advanced Analytics


**DESIGN RIGHT SOLUTION**
- One-Day Workshop
- Program Design Partner
- Design Team Toolkit
- 360 and Upward Feedback Tools
- Enabling Technology

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**BUILD CULTURE & CAPABILITY**
- Senior Leadership Alignment
- Manager Training and Development
- Talent Management Simulation
- Communication

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New State of Performance Management

Q&A

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