Aon Hewitt
Talent, Rewards & Performance

Reimagining Performance Management
Surrender Is *Still* Not a Strategy

An Aon Advisory Brief

May 2016

Performance management continues to be a hot topic, entering the world of mass media and getting the attention of the C-suite. Yet for all the headlines, few things in talent management have been as misunderstood or executed with less forethought. Our 2014 white paper, “Surrender Is Not a Strategy,” explored the knee-jerk reactions some organizations have had when struggling with performance management. Since then, the waters have only become murkier as more firms seem to be getting rid of ratings and “blowing things up.”

Not so fast.

First, we do need to face it—performance management continues to be in a sad state. Managers think of it as an administrative burden and continue to hide from uncomfortable conversations with employees. Leaders worry about the apparent disconnect between performance distribution and collaboration, and struggle to promote the process itself as valuable and motivating. And of course HR is on the receiving end of all the complaints and wonders if it’s even worth the hassle.

It shouldn’t come as a surprise, then, that some organizations have declared performance reviews and ratings as simply not worth the effort. The rest are left with many questions.

We’re often asked:

- “What are other companies doing?”
- “Are the headlines accurate?”
- “How do we get managers to coach employees?”
- “Can we eliminate ratings and still pay for performance?”
- “What do Millennials really want?”

46%

of employees think the way companies assess performance is effective

—Aon’s *2016 Workforce Mindset™ Study*

62%

of financial services firms want to change their performance management approach.

—Aon’s *McLagan 2015 Performance Management Practices Study*

For HR practitioners in the real world, it doesn't help that media outlets are blaring that performance management is dead, or that supposed "thought leaders" cite obscure research that flies in the face of common sense and practical application.

> "Microsoft Kills Its Hated Stack Ranking"
>
> —*November 2013, Bloomberg Businessweek*

> "In Big Move, Accenture Will Get Rid of Annual Performance Reviews and Rankings"
>
> —*July 2015, The Washington Post*

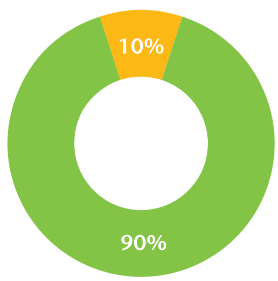
> "How Millennials Forced GE to Scrap Performance Reviews"
>
> —*September 2015, National Journal*

> "Goldman Sachs Overhauls Performance Management Reviews"
>
> —*May 2016, CNNMoney*

It's time to pull back the curtain on what's happening, what employees really want, and how to win the war for talent through performance management that actually works.

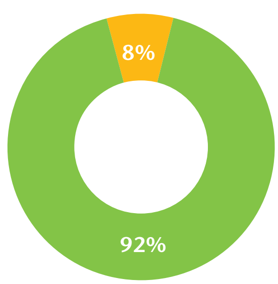
Pulling Back the Curtain: A Seismic Change or Minor Tremor?

Let's first address the specific hot-button issue of discarding performance ratings, and what many perceive as a "seismic change" in the performance management landscape. It's simply not the case. Only a small number of organizations have actually given up ratings, or even plan to. Our *McLagan 2015 Performance Management Practices Study* reveals that nearly all financial services organizations use a traditional performance rating scale. And even in the technology sector, the industry most on the "cutting edge," things aren't much different. Our *Radford Global Technology Trends Report* shows that the percentage of companies that do not use performance ratings is just 10%. Of those that currently use ratings, only 8% are considering whether or not to drop the practice. Hardly a "seismic change."



Do you currently use performance ratings:

	%
Yes	90%
No	10%



If you use ratings, are you considering getting rid of them?

	%
Not getting rid of ratings	92%
Considering getting rid of ratings	8%

What are Organizations Really Doing?

What about organizations that have actually gotten rid of ratings? First, be careful when reading headlines. They can sometimes overstate the case or even fail to capture what has actually changed. Organizations that claim to have “blown up” performance management fall into these categories:

Surrender

Stop all differentiation, spread rewards evenly like butter, and just encourage employees to do their best. This was one of the first types of “blowing up performance management”—and the least common. As we noted in “Surrender Is Not a Strategy,” this one is a non-starter. How many boards will publicly say they’re throwing out pay for performance? How many leaders will say they don’t want a “meritocracy”? The only thing this “strategy” gets right is the recognition that differentiation and pay for performance go hand in hand, so its solution is to get rid of both.

Wishful Thinking

Get rid of ratings, still pay for performance, and focus on the employee-manager conversation. Because most organizations won’t admit to getting rid of pay for performance (or simply can’t), this became a popular category. We can have our cake and eat it too—no ratings, yet still paying for performance. But here’s the issue: To differentiate pay outcomes, we need to differentiate performance.

We cautioned that discarding ratings would simply move differentiation underground. And that’s what happened. One global insurance organization that went down this path recently asked us, “How do we deal with the ‘shadow ratings’ we created to differentiate pay?” They secretly kept their ratings, and are now suffering from a lack of trust between managers and employees. Lack of transparency disengages all employees, and is especially toxic to Millennials.

Targeted Tailoring

Drastic change in all people programs and policies to drive a unique culture and employee value proposition. This is an interesting category because these organizations are very few in number and are truly innovative. A prominent technology company in this category did actually get rid of ratings and traditional performance management. They (correctly) also drastically changed the way they manage the entire employment lifecycle. They publicly proclaim, “We only hire and retain A players,” and back it up with “Adequate performance gets you a generous severance package.”

Be careful about borrowing their performance management practices. Ask yourself—“Do we also pay at the literal top of the market, as they do?” Beware the allure of the silver bullet.

Promoters

Laudable and practical improvements marketed as “revolutionary” change. Organizations in this category get most of the headlines—because that’s their goal. Their influence, therefore, outweighs their limited number. They seem to be on the cutting edge of innovation and everyone wants to jump on the bandwagon. The problem? The headlines don’t reflect reality.

One prominent company in the headlines supposedly blew up performance management and ratings. They did not – though we don’t blame anyone for thinking they did. Rather, they implemented improvements that matched their particular struggles. They moved from a rigid ranking of performance to an assessment of employees’ “degree of impact.” They moved from a strict linkage of pay outcomes to giving managers broader discretion and ranges. They made practical improvements that worked for them. But performance management was certainly not “blown up.”

Our prediction: current and prospective employees will become disengaged when they realize the hoopla doesn’t match reality. Proud announcements that your company is “getting rid of ratings” is neither a very innovative step nor in most cases an effective way to manage your workforce.

Getting real: What do employees really want?

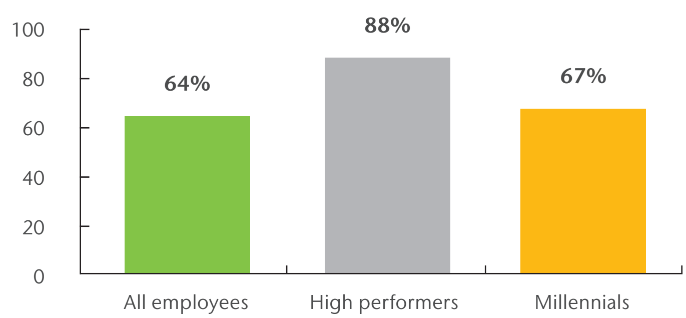
Compounding the question of whether to get rid of ratings is the employees' view. We assume that since they're dissatisfied with performance management, we should blow it up. We also jump to the conclusion that since Millennials are "collaborative," ratings would demotivate them.

Not so.

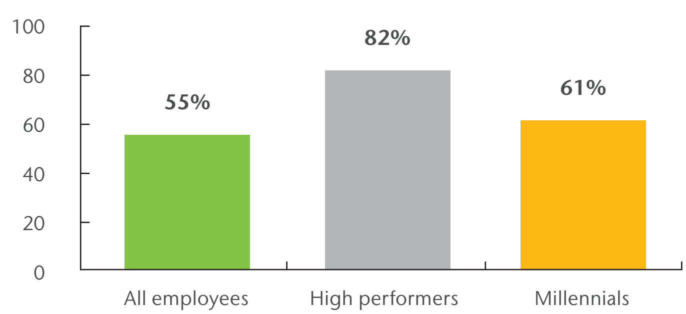
Our Workforce Mindset™ Study reveals that employees, especially high performers, want to know how they're doing in relation to expectations of their roles, their managers' expectations, and their personal development. This is particularly true of the younger generation of employees. For all the collaboration that characterizes Millennials, our data show that they are more interested in how they "score" relative to their peers than in feedback about absolute performance relative to some standard or goal.

If attracting and retaining high performers and Millennials is key to your talent strategy, it's worth noting:

Companies should review performance, and it should involve a rating.



I want to know how I'm doing relative to my peers.



Our point of view: Don't fall into the trap of false choices

Underlying the push to get rid of ratings is a set of false choices. Consider the assumptions behind these choices and whether there's actually a better option.

One of the earliest incorrect assumptions put forward was that ratings get in the way of effective manager and employee conversations. We question whether choosing to eliminate ratings will lead to more frequent conversations. If managers were relieved of hours spent on performance management, should we assume they would spend those hours coaching employees? And why assume that assessing employees and coaching them are mutually exclusive? In fact, coaching relies on assessment. How does one provide feedback without assessing performance?

False Choices

Bad Performance Management	OR	No Performance Ratings
Quantification	OR	Humanization
Ratings	OR	Conversations

Another false choice is quantification vs. humanization. These are not mutually exclusive, either. We constantly make evaluative judgments about the performance, skills, and attributes of those we work with and who work for us. We make judgments about whether a fellow employee "doesn't have it," "has it," or "knocks it out of the park" every day. Is that dehumanizing?

The most common false choice we encounter is that we either can get rid of ratings or be stuck with bad performance management. Pause and ask, "Are these my only choices? What about actually fixing performance management to ensure it drives our business and talent strategy?"

Challenging convention is always healthy, and the energy around changing performance management will likely lead us all in a good direction. But misleading headlines and false choices will only get in the way. Organizations approaching these decisions thoughtfully will achieve improved outcomes.

Here's what we know works

The real issue is not whether to eliminate performance ratings. It's making performance management effective. Here's how:

Clarify the purpose.

What are you really trying to achieve? Drop the laundry list and prioritize based on your business direction and its talent implications—then be sure sure to consider the trade-offs inherent in design. You'll have to make choices; different objectives should lead to practical differences in your process.

Align to your talent philosophy and culture.

The way you manage performance needs to reflect your unique culture, working environment, and talent needs. What works for one organization won't necessarily work for another.

Simplify and streamline.

There's no faster way to disengage your employees than by adding HR "administrivia." Ensure performance management is a business—driving process rather than an HR chore by resisting the urge to add complexity.

Differentiate and make the tough choices.

If you want to pay for performance, you need to differentiate. Call it "ratings," "assessment," "outlier identification"—whatever you want, as long as you know who your top, strong, and low performers are. Be transparent and then follow through so your strategy, design, and pay actions are in sync.

Develop...and make it an ongoing conversation.

Prioritize the human element and the need for continuous managerial feedback and coaching with a regular cadence of interactions. A once-a-year review with your employees won't cut it. Hold your managers accountable—it can be done.

Execute with intention.

The "best" design will fall flat if not well-executed. Ensure that:

- Leaders act as role models
- Employees understand the purpose
- Managers have the skills and tools they need
- Your talent lifecycle practices are aligned and work in concert
- Technology is an enabler rather than a burden

We're here to empower results

We start every client engagement with the following principle in mind: It's about you and your talent. What is unique about your company? How do you view your people? What are you trying to accomplish?

Aon will help you get there.

Getting performance management right requires a holistic approach—today more than ever. Siloed thinking leads to suboptimal design and unintended consequences. Our consulting brings expertise in talent process design, compensation, HR technology, and change management. We combine all of this together seamlessly, providing end-to-end design and implementation support.

Process Design.

We partner with our clients to design a performance management process that drives results through:

- Clear individual expectations and accountability
- Capability built through effective feedback and learning
- Understanding of individual performance
- Increasing commitment levels based on appropriate rewards and recognition

We ensure the right balance between leveraging data and leading practices, while customizing and innovating solutions to meet our client's unique needs.

Education.

Our proprietary education helps managers set goals, assess achievement, and provide feedback more effectively. The interactive training will help your managers feel more comfortable with the overall performance management process, increase their confidence, and allow them to be more accountable for making and delivering performance decisions. Our training can be customized for your unique process and can be delivered face-to-face, live via webcast, or recorded and available online for self-learning.

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