Surrender Is Not a Strategy

Win the War for Talent through Performance Management that Delivers on Its Promise

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These are real quotes from real people. Do they sound familiar? Let’s face it—performance management is in a sad state today in many organizations. Managers think of it as an administrative burden, it disengages employees and HR is on the receiving end of all the complaints.

The war for talent has been waged for decades now, and performance management is the new front. In Aon Hewitt’s 2014 Trends in Global Employee Engagement report, “managing performance” is the second highest driver of engagement. Employees are sending a clear message—it’s time employers get performance management right.

Recognizing this—and in light of the extreme, and justified, frustration with the over-engineered, low value-add processes and tools in most organizations—new radical trends, fads and “strategies” have emerged to fix performance management, essentially by “blowing it up.” There are different variations on this theme, but essentially two flavors. One is Wishful Thinking, and the other is Surrender.

**Wishful Thinking.** Get rid of employee ratings, but still pay for performance and focus more on the employee-manager conversation. Wouldn’t that be nice? Here’s the issue—paying for performance requires differentiation. Discarding ratings simply moves differentiation underground, using an informal and undocumented basis for rating employees. The result is less transparency and trust, making employee-manager discussions even more difficult than they already are.

**The Wishful Thinking “strategy” in action.** In a recent national HR conference, the CHRO for a Fortune 500 company spoke about how her organization recently decided to get rid of ratings. The crowd of HR professionals loved it—there were nodding heads and wide smiles. After the presentation, during a private Q&A session, the speaker was asked how the implementation was going. She responded that it was actually not going as well as expected. Although she still felt that getting rid of ratings was a good idea, she wasn’t sure it was realistic because the company still has to differentiate for compensation (they have a pay-for-performance philosophy) and talent review purposes. It was just moving the rating to a different process. Differentiation (captured in some sort of rating), she found, is simply an unavoidable part of managing talent and doing business in a performance-focused world.
Surrender. Stop all differentiation, spread rewards evenly like butter and just let employees focus on doing their best. This school of thought says it’s just too difficult to differentiate employees, and merit increase budgets are too small to matter, so why bother? The only thing that this “strategy” gets right is the recognition that differentiation and paying for performance go hand in hand, so its solution is to simply get rid of both.

The Surrender “strategy” in action. A global manufacturer of medical devices removed all employee ratings in performance management several years ago because it felt they got in the way of having meaningful employee-manager conversations. The company also began to give all employees the same merit increase. How did it work out? The head of Compensation and Benefits recently stated: “It’s okay. It did help a bit to refocus managers’ attention on the conversation rather than the number, but the conversations are still challenging. And we struggle to communicate why individual performance even matters. It has also created a new issue in being clear who our top performers are. I think we gave up too quickly…we’ll probably bring employee ratings and greater pay differentiation back.”

Any “strategy” that undermines the connection between performance and rewards will lose the war for talent. Pay for performance matters. Behavioral science tells us clearly that:

- Strong performers are attracted to organizations that recognize their contributions.
- Strong performers will leave organizations that do not reward performance.
- Weak performers will “select” themselves out of organizations that emphasize high performance in rewards.
- Weak performers are more likely to stay with an employer when differentiation and pay-for-performance relationships are weak.

One CEO whose organization recently eliminated ratings actually said: “I’m not sure how it’s going to work out, as we still need to pay for performance. But we had to do something instead of staying the course, so we got rid of ratings.” This CEO should have considered the following strategic talent questions first:

- How will we still pay for performance, as the Board demands, if we don’t have ratings?
- Will we be able to attract and retain strong performers in this new system?
- Might this new system create legal risk due to the absence of ratings as a paper trail?
- Could eliminating ratings cause a drop in employee engagement as pay equity disappears? (There is overwhelming evidence that employees accept pay inequality; it’s the lack of pay equity—differentiating pay based on differing levels of performance—that causes negative employee reactions.)
- Where will the valid performance data come from to support talent analytics and Big Data in the analysis of the link between employee performance and critical business metrics such as customer satisfaction?
- Will our organizational performance suffer as a result of the above?
Bottom line—surrender is not a strategy. Abandoning differentiation is not “innovative” either. If you want to pay for performance, you have to differentiate performance. Here’s how to fix performance management to drive high performance and win the war for talent, without wishful thinking or surrendering.

1. Clarify the purpose

We’re amazed at how many organizations don’t have an explicit talent philosophy—for top companies, a clear philosophy is the blueprint for managing talent. What is your talent philosophy? Is it to pay for star performance? Attract and retain innovators? Focus on the “mighty middle”? You need to define your talent philosophy based on your business direction and needs, and only then (re)design HR processes so they are built to achieve your goals.

At the end of the day, what are you trying to achieve with your performance management process? Many companies do not spend much time, if any, discussing their objectives. If they are asked, we often see a laundry list of objectives, including:

- Aligning individual goals to business objectives
- Differentiating rewards
- Assessing employees
- Improving company and individual performance
- Identifying employee development goals
- Providing data for sound talent decisions—promotions, retention, terminations, key talent pools
- Developing employees
- Limiting legal risk and exposure
- Enforcing behavioral competencies
- Engaging employees
- Identifying employee development goals
- Providing data for sound talent decisions—promotions, retention, terminations, key talent pools

All these objectives seem reasonable for performance management, yet given so many objectives, is it a surprise when a single process fails to succeed at all of them? Or that, in order to achieve as many of these objectives as possible, performance management processes get over-engineered? You need to prioritize—what are you really trying to achieve with performance management? What would be a nice secondary outcome? Once you identify these top two or three objectives, you can start your design.

2. Make the tough choices

There will be tough decisions that stem from your talent philosophy—follow through so it’s not just words. For example, if you want a culture that pays for performance, stronger differentiation in ratings and the consequences of those ratings are required. If downsizing is necessary this year, forced ranking and fewer ratings may be the way to go. Different business strategies and talent philosophies will lead you to different performance management designs. Either way, make the decision and stick with it. Don’t let the loudest complaints (often coming from lower- and middle-performing employees) dictate your process. In all decisions, always keep your objectives in mind.

Let’s talk about the most common talent philosophy—pay for performance. Nearly every organization espouses the desire to pay for performance. But how many actually do? The necessary commitment to manager skill-building, and the willingness to assess executive and manager effectiveness in executing pay for performance, vary greatly and lead to mixed results. Aon Hewitt’s 2014 Salary Increase Survey reveals that 60% of organizations provide some amount of merit increase to every level of employee
performance—including the poorest performers. Only one-quarter of employers are creating strong
differentiation in how they allocate pay. In other words, the tough choices aren’t made.

And what about the latest idea of getting rid of the performance-compensation link altogether (read:
“surrender”)? First, we’re not sure how many Boards of Directors would actually approve this. Second, we
believe it’s a just a way to run from making the tough decisions. Reality simply doesn’t support this
approach. Research shows that there is a much larger difference than leaders realize in the degree of
economic value produced by high versus low performers. Logic therefore dictates that organizations
allocate rewards in a way that reflects the dramatic difference in value. Doing so would improve the
attraction and retention of top performers. The business case for recognizing and rewarding performance
in a strongly differentiated way could not be more clear-cut.

“Although it is likely that star performers have existed throughout history, their presence is
particularly noticeable across the industries, organizations and teams that make up the 21st
century workplace. These star performers are the few individuals who account for the
disproportionate amount of output in relationship to their peers.”

Aguinis and O’Boyle, Personnel Psychology, 2014

3. Keep it simple

Resist the urge for complexity. In all decisions, keep the end users—your employees and managers—
in mind. Here are some things to consider in simplifying the complicated mess we’ve made of
performance management:

- **Stop cramming too many goals into an employee’s individual plan.** The science here is sound,
yet we know that many organizations continue to suggest 8 to 12 goals (or more!) as part of the goal-
setting process. While this temptation is understandable—including a goal is a way to make it matter
to an employee’s wallet—we need to be selective. Fewer goals are better as it focuses attention.
Assigning more goals diffuses the attention given to each. It’s simply how humans are wired.

- **Shorten appraisal forms so they’re not the size of a novel.** Here’s a quick test to see if your
performance management process is too complicated: Is it more than three pages long? Does it take
a manager more than 30 minutes to complete for each of her direct reports (outside of the actual
thinking and analyzing of the individual’s performance)? Goal-setting and appraisal forms should not
be tomes, though they often are because there are too many goals and too many complicated rating
scales. We also include a multitude of competencies instead of focusing on the key ones that really
make a difference for each job, and then we throw in a dash of values and other items. Add that all
up, and your employees will see performance management as a chore and just another piece of
organizational bureaucracy.

- **Don’t force a “bell curve” distribution on small groups.** Let’s be real. Not all employees perform
at the same level—there is clearly a performance curve in every organization. But we misapply it by
forcing it on each unit, no matter the size. Distribution curves are meant for large groups—not a team
of four people! And yes, there are valid performance differences for even groups of high performers.
Distributions are valid; it’s how you apply them that makes all the difference.
4. Make it a conversation

At the end of the day, as we all know, the conversations that employees have with their managers are what matter most. Managers are an organization’s conduit to employees. This means we have to genuinely prioritize the human element and the need for continuous feedback, coaching and honest conversations—it’s the essence and foundation of performance management. It may not seem glamorous or be easily tracked, but it is necessary to achieve results. Make the conversation the core of performance management.

Even after all these years talking about performance management, and all the new and exciting ways for technology to support the process, managers still have to actually manage their people. This includes providing real feedback and coaching. Don’t let your managers forget this is a core part of their job. In a perfect example of irony, relatively few organizations mandate that all managers have a goal related to people management, yet most organizations complain that their managers aren’t held accountable for performance management (surprise!). If you want managers to manage, you need to mandate it and create a culture around it. Don’t let managers think their only job is to get product out the door. Don’t let them hide behind technology to “coach” employees. And certainly don’t let them think they can discharge their responsibility with a once- or twice-a-year formal discussion or by filling out a form with check marks. Think of that employee quoted at the beginning of this paper—she didn’t know her manager liked her work until their formal (forced?) mid-year discussion! A high-performing employee had no idea where she stood, or whether she was appreciated. That manager is lucky the employee didn’t leave the organization.

Getting managers to provide continuous feedback and coaching isn’t easy—it’s why we try to regulate performance management with formal discussions; why we buy the best-looking technology—attempting to make up for our managers not actually managing their employees’ performance. But there’s no way around it—we have to get back to basics and bring the personal touch back to performance management.

Here’s one example of how Aon Hewitt supports performance management execution through cutting-edge manager support. To help managers build their confidence and effectiveness in conducting challenging performance discussions, we’ve designed and deployed an on-demand process for managers to practice and prepare for these challenging discussions in a safe environment. This allows managers to literally call our performance management coaches, select one of six different common role-play options that managers may face during performance discussions, and have a completely remote practice, feedback and coaching session as they prepare for employee conversations. One company where we’ve deployed this received a spot in the Training Magazine Top 10 Hall of Fame. This is an example of innovating with intention—to improve execution through increasing manager capabilities.
A Final Thought

Up to this point we’ve focused on performance management from the perspective of the organization, managers and top performers. That doesn't mean that the employees in the “mighty middle” don’t matter. They do. But it’s often the positive intention of trying to make these employees feel good that leads organizations to adopt “fad strategies” rather than doing the hard work of analyzing their current performance management process and ensuring it actually delivers what it should. There are ways to keep your solid employees feeling engaged and successful without compromising on the principles outlined in this paper:

- **Rating scale.** Where is the mode on your rating scale? For example, if you have four categories, is the mode 2 or 3? Many organizations have the mode at 2—meaning most people are one up from the bottom and several away from the top. That's not a good message to send to the majority of your employees. While a typical employee’s placement on the rating scale may not matter to the organization as a whole, it matters to employees. Ensure you send the right message to the majority of your people through simple things like where you place the mode of the rating scale.

- **Rating labels.** Many companies label the most common rating as “meets expectations” or “adequate performance.” Who would be motivated by that? Consider using language that is more personal, like “strong performance.” Or “solid.” Or “valued.” While labels may not matter to the manager who is rating employee performance, words do matter to the employee.

- **Pay.** Because we know that most companies still attempt to spread pay evenly, and give some increase to even the lowest performers, less money is left to go to the solid performers. They're getting below-budget increases of 1.5%—how are they supposed to feel good about that? If companies were to really differentiate pay, giving no increases to weak and below-average performers, more would be available for the solid middle. The feeling that almost everyone has to get something is actually hurting your strong performer core (let alone your star performers).

Ensuring the majority of your people feel appreciated and successful by applying some of these approaches will help you focus on the bigger issue—your top performers. Instead of investing so much effort and thinking into the majority of workers (which is really what the “getting rid of ratings” fad is all about), spend more time focusing on your top performers, because they're the ones who bring exponentially greater economic value to the business.

Performance management that actually works and delivers on its promise can help you win the war for talent. But Wishful Thinking and Surrender are losing strategies. So is jumping into a new fad without thoughtfully connecting it to your talent strategy. Managing, differentiating and rewarding for performance is still the winning formula. But it has to be executed well. Rethink your performance management process from top to bottom—stop complicating things and start simplifying. Performance management needs clarity of purpose, the courage to follow through, the elegance and user-friendliness of simplicity, and the basics of engaged managers. It can be done.
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