Employers Try Better Ways to Measure and Reward Performance

SHRM symposium focuses on improving performance management and pay practices

By Stephen Miller, CEBS Aug 14, 2017

Businesses are adjusting their performance reviews to increase employee engagement and improve productivity, and revising pay structures to create greater incentives for high performance, said speakers at the Society for Human Resource Management's Rewarding Work: Compensation and Performance Management Symposium in Cleveland.

Software firm Adobe in San Jose, Calif., found that voluntary attrition spiked every year after its annual review process was completed and bonuses paid, said Jeremy Spake, principal at pay consultancy Cornerstone on Demand in Santa Monica, Calif.

In 2012, Adobe adopted a new system that required manager "check-ins" with their direct reports at least once a quarter, and many managers now schedule these discussions monthly. While progress on goal achievement is noted during these conversations, "the emphasis is on expectations going forward—including professional growth and development—and encouraging employees to discuss any concerns," Spake explained.

Adobe also limited the number of goals employees are asked to achieve, and now selects three big corporate aims that cascade down into three divisional and three individual goals. At the employee level, the goals may be revised from quarter to quarter as circumstances change.

Abandoning Ratings

Some leading firms are moving to a "ratingless" performance system, Spake noted. Instead of ranking employees on a numeric scale (frequently 1 through 5), these organizations require managers to provide written performance descriptions.

"Only 22 percent of organizations are considering giving up ratings, and less than that have actually done it," Spake said, citing recent surveys. "Most of these organizations are high-tech or professional services companies, and early adopters are wrestling with the implications."

The move has advantages and drawbacks, several speakers noted. For instance, employees often dislike being "reduced to a number," and no one likes being told they're below average, which is one reason why traditional performance management is a demotivator, said Edie Goldberg, president of E.L. Goldberg & Associates, a consultancy in Menlo Park, Calif.

"Employees value a feeling of autonomy and mastery over how they do their jobs," she noted. "Our creativity gets turned off when we're threatened, and most employees feel threatened by ratings. We like stability and control—to be in the driver's seat. Performance reviews and ratings put the manager in the driver's seat."

Annual goal-setting "is out of pace with the way organizations work today; there is a need to set goals collaboratively," she added.

When companies adopt a ratingless approach, however, often "we're eliminating scores but not eliminating scales," said Bill Thomas, managing principal at Centric Performance in Pittsburgh. Even without numeric ratings, written evaluations implicitly or explicitly tend to categorize employees as "needs improvement," "meets performance requirements" or "exceeds expectations."

Thomas recommended making performance conversations substantive rather than perfunctory. Like Spake, he referenced Adobe, where most managers doing "check-ins" are encouraged to discuss:

- Employees' performance against their goals and objectives.
- Resources employees need to succeed.
- What to change in the future/specific opportunities to improve.

At Microsoft, "connect sessions" focus on an employee's impact on colleagues, the team, the business and Microsoft's customers, Thomas said.

Under the former performance management process at Synaptics Inc. in San Jose, Calif., "managers felt pressured to put employees in categories and had to manipulate the system to give them the compensation they wanted," said Karen Gaydon, chief HR officer at the tech firm. However, some software engineers liked the precision of the traditional 5-point rating system that went to two decimal points, she said, and when introducing themselves would tell her, "Hi Karen, I'm a 4.26."

Gaydon, nevertheless, agreed with most managers that a numeric rating is often demoralizing for employees and detracts from having quality conversations about performance.

Under Synaptics' ratingless system, Gaydon said:

- Ongoing coaching and feedback are used to bring out the best performance.
- Managers are trained and trusted to use discretion when making pay decisions within budget restraints.
- Employees are paid competitively relative to the market and based on their performance.

Under the new approach, "transparency and fairness are critical," Gaydon said.

Conversations Improve Without Ratings

Employee ratings are "a time-consuming process that's viewed as patently unfair" said Josh Davis, research director and lead professor at the NeuroLeadership Institute in New York City. "Ratings tend to reflect the person doing the ratings more than the person receiving it," Davis told symposium attendees. "When you get rid of ratings, the quality of conversations between managers and performers improves."

As for the argument that numerical ratings provide legal cover when firing an employee, Davis noted that managers hesitate to give low ratings even when performance is a problem. "Ask your legal team if they would like you to stop documenting that everyone is a '3,'" Davis said.

However, he added, "don't remove ratings unless you're willing to do what it takes to replace them with a system that works."

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Changing Pay Practices

"At Adobe, merit raises are given once a year but bonuses are now awarded every quarter" so that the link between performance and reward is clear, Spake said.

At another tech firm, Juniper Networks in Herndon, Va., salary increases "are based primarily on the institution's budget, not employee performance," he noted. The primary way to reward performance, he said, is with bonuses that are based on a percentage of salary, with those percentages varying according to job or grade level.

"Are the headaches that [today's average] 3 percent merit pay increases cause worth the effort?," Spake asked, given the administrative burden of determining who gets what, and explaining to employees when their pay increases are so small. If merit increases are too meager to drive improved performance, "look instead to reward employees in different ways."

Some companies, he pointed out, give annual 3 percent salary raises to everyone across-the-board and then use variable pay to reward performance. Other have eliminated merit salary increases altogether but make periodic market adjustments to base pay as warranted.

Spake's skepticism of merit increases was shared by John Rubino, president of Rubino Consulting Services in Pound Ridge, N.Y. "People who embrace pay variability are your best performers. They're the ones you want to keep," he said.

Employees hone in on accomplishing goals when pay is based directly on goal achievement so that bonuses "are not just icing on the cake of automatic base pay increases," Rubino noted. Performance review sessions become more focused and less subjective.

Variable compensation can reward performance at every job level, he added. In one sample template Rubino uses, variable pay as a percent of salary might look like the following (with payouts weighted for corporate, department and team goal achievement):

- Officers—35 percent of base pay target.
- Directors—25 percent target.
- Managers—15 percent target.
- Professionals—10 percent target.
- Support staff—8 percent target.

Alternatively, Rubino said, organizations can use a single flat percentage as the target for all levels "if you want a more equalitarian structure."

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