The Foundation for Success: Effectively Aligning Performance Management with Total Rewards

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The Foundation For Success: Effectively Aligning Performance Management Systems With Total Rewards

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It All Begins With Successful Performance Management!

Performance Management Needs To Be At The Core Of Everything That We Do As An Organization!
The Goal of Performance Management

The ultimate goal of a performance management system is improved organizational performance.

Performance management works to achieve consensus, cultivate continuous improvement, support relationships, and ensure that the entire organization is focused on achieving the desired results.

The Rationale for Successful Performance Management

- Foster cultural change, *link total rewards to performance*, identify training needs, empower managers, and motivate the work force.

- Improve profit, performance, customer service, efficiency, competence and quality.
**What Is Successful Performance Management?**

- Performance management is a *managerial* process that consists of planning, managing, improving, appraising, and rewarding performance.

- It is a dynamic process that *cascades* throughout the various levels of the organization, utilizing observation, feedback, development and many other tools and approaches to maximize organizational performance.

**What Is Unsuccessful Performance Management?**

- Organizational performance philosophy not ‘determined and articulated’

- Performance criteria established in a vacuum --- no cascading and alignment

- Primary concentration on the evaluation form

- No consistency in management ‘thought and application’ throughout the organization

- Middle managers not a ‘quality group’
Successful Performance Management: A Continuous Process...

- **Plan** – defines what is important to the organization, and what needs to be done.

- **Act** – refers to the day-to-day activities and ongoing developmental steps taken to accomplish the plan.

- **Monitor** – refers to the responsibility of leaders and managers to track, coach and develop.

- **Review** – formal assessment and feedback.

Effective Performance Management in Successful Organizations

- There is NOT one definitive performance management program that can be applied to all organizations.

- Must be aligned with a company’s specific business objectives, and tailored to the culture and management style of the organization.
However, there are *three* universal strategies and approaches that all successful organizations follow...

**FIRST...**

- Consistency of management thought and application throughout the organization.
- Excellence is defined in all jobs, and managers are properly trained to evaluate performance fairly and consistently.
- Managers continually coach and mentor all employees to reach their full potential.

**FIRST (continued)...**

- Managers always recognize and acknowledge employee accomplishments.
- They make the hard decisions when employees do not achieve their objectives.
- All managers work together and agree on the definition of excellence throughout the organization.
- In this environment, an effective talent management program is supported because a 'culture of performance' is embedded within all company operations.
However, there are *three* universal strategies and approaches that all successful organizations follow...

**SECOND**...

- Every manager is held strictly responsible for his/her managerial performance.
- If excellence is not properly recognized, and if the hard decisions are not made, the manager's rewards are adversely affected.
- If poor performance continues (after the necessary counseling and training), the manager is removed from his/her position.

**THIRD**...

- The evaluation form is as simple and straight-forward as possible, while still capturing the essence of performance.
- The form has a very limited number of “check off” boxes, and more room for flexible, narrative performance descriptions.
- Evaluation levels are kept to a minimum, no more than three or four gradations of performance.
- As a result, managers make definitive performance decisions without the use of “fudge factors”.
- The performance rating definitions reflect a positive and objective tone, so managers are encouraged to use all levels.
However, there are three universal strategies and approaches that all successful organizations follow...

**AS A RESULT...**

- How well an organization accomplishes the first two points, determines the third.
- There is a strong correlation between the quality of managers and the structure of the evaluation form: high managerial quality means more flexibility and narratives, and less performance level distinctions.
- This results in giving effective managers the freedom to manage...actually “allowing” them to manage!

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**Cascading Performance Management**

- Corporate criteria are always *quantitative*: measures how the organization defines financial/operational success (2 or 3 criteria).

- Also, develop ‘Qualitative’ Corporate Goals (QCG’s): organizational-wide business & operational objectives for the upcoming performance period.

- QCG’s are used to cascade Departmental and Individual/Team Goals.

  **Departmental and Individual/Team Goals** should be both *quantitative and qualitative*:

- Criteria must be valid, discernible and measurable and, if applicable, with milestone dates.
  --- No more than four to six criteria per category.
  --- Narrative rating scale can be used to assess qualitative criteria.
Successfully Aligning Performance Management and Total Rewards

Can this be accomplished by using a Base Salary “Merit” Increase Program as the primary reward vehicle?

What Are The Alternatives?

Broad-Based Variable Compensation And Other Alternative Reward Plans, When Combined, Make Up A Comprehensive Total Reward Program

But Are You Ready For Broad-Based Variable Compensation?

THE SUCCESS CRITERIA...
The Total Reward Program

Critical Success Factors

- Organizational culture and values must support a performance/reward framework: instilling a ‘sales mentality’
- Total reward policies and programs must be aligned with the organization’s strategic objectives
- Senior management must allow the reward programs to work
- Should have ‘rewards by example’ at the top of the organization
- Must be internally equitable and externally competitive
- Total reward program must deliver what is promised on time and fairly

The Total Reward Program

Critical Success Factors

- Plan design should guard against ‘windfall’ payments
- Performance criteria must be discernible, valid and understandable
- Rewards must be aligned with performance criteria achievement
- Reward opportunities must be perceived as ‘valuable enough’ to motivate performance.
- Timing of reward allocation should be as close as possible to the qualifying event
- If designed and implemented properly, rewards to employees will yield ‘slices from an expanding pie’
The Total Reward Program
Critical Success Factors

- Middle managers will make or break the total reward program.
- Should involve managers in total reward design and, especially, performance criteria identification
- Must build trust and get buy-in from managers and employees through effective training and communication
- A well-designed and executed total reward program can improve the organization's bottom line
- Measurable benefits can include improved: morale, productivity, quality, customer service, on-time performance, work methods, etc., etc., etc.

Pitfalls to Avoid When Completing a Performance Evaluation

- Recency Effect – basing the evaluation on work performed most recently, rather than over the entire length of the performance period
- Central Tendency – arbitrarily evaluating most of the employee’s performance near the middle of the performance rating scale
- Halo Effect – basing the evaluation on only one prominent, positive characteristic of the employee
- Devil Effect – basing the evaluation on only one prominent, negative characteristic of the employee
- Leniency – grouping the evaluations towards the positive side without having objective, observable data to base it on
Pitfalls to Avoid When Completing a Performance Evaluation

- **Backwards Evaluation** – determining the overall evaluation rating first (to correspond to a desired compensation amount), and then superficially completing the rest of the evaluation form.

- **Lack of Verification** – failing to take the necessary time to observe the employee's performance and provide ongoing, informal coaching and feedback throughout the performance period.

Pitfalls to Avoid When Completing a Performance Evaluation

- **Failure to Seek Input** – giving a one-sided evaluation by failing to seek **self-assessment** input from the employee, as well as from other managers in the organization.

- **Untimely Evaluation** – performing the evaluations beyond the organization's stated timeframe.

- **Failure to Invest Enough Time** – not allowing enough time to conduct a thorough employee evaluation.

- **Failure to Complete an Action Plan** – not providing a developmental plan to encourage the employee to correct performance deficiencies when needed.
The Role of Human Resources: Aligning Performance Management With Total Rewards

- Partner with senior executives in formulating the organization’s overall human resources and total rewards strategy.
- Assist operation managers in performing their people management responsibilities.
- Provide operation managers with all of the necessary people management tools, including an aligned performance management and total reward program.
- Serve as internal consultants to operation managers in all matters relating to attracting, retaining and motivating a quality work force.

And Finally....
Our Performance Management Mantra

THE “STEP” APPROACH...

Simplicity
Transparency
Excellence
Personalization
Your opinion matters!

Please take a moment now to complete the evaluation.

Thank You!