



The Pay for Performance Conundrum

Who am I?

- ▶ HR Consultant with 25+ Years Experience, most spent leading HR teams inside organizations
- ▶ Diverse group of clients including large, small, publicly traded, privately held, municipal, for profit and non-profit organizations of all sizes
- ▶ I learn from every client and each engagement and share best practices with everyone



The Pay For Performance Conundrum

Pay for Performance (P4P) is alluring in theory - Rewarding top performers with higher merit increases and bonuses and motivating everyone to excel and drive organizational results.

Is it working?

A Willis Towers Watson survey says not:

- 20% of large and mid-sized employers found merit pay to be effective at driving individual performance
- 32% say their merit pay program is effective at even differentiating pay based on individual performance
- 71% use local market wage increases to determine their “merit” budget

My clients say their budgets are only enough to keep pace with market

The Pay For Performance Conundrum

Why Not?

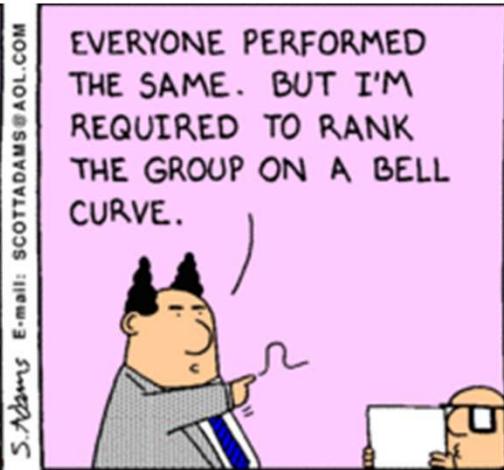
- Most organizations' budgeted salary increases average between 3-4%
This just keeps up with market; very little left for merit
- Calibration among front line leaders who are tasked with assessing performance is inherently difficult
- Forced distribution of performance rating scales prevents true evaluation
- Individual performance is dependent upon the system or environment in which an employee operates
- Competing for ratings and incremental increases kills collaboration and information sharing

“Performance Management” in a P4P System

Does this sound familiar?

1. Pay increase budgets are set by the organization - 3-4%?
2. Performance Appraisals are administered by front line leaders
3. Most ratings come in around 3 or 4 on a 5-point scale; very few 1's or 5's (many limit the number of 5's)
4. Ratings are assigned and correspond to pay increase percentages
5. Forced ranking occurs to ensure budgets are met
6. Managers meet with employees to deliver results...maybe?
7. Managers believe they've done their job regarding managing employee performance; Mgrs and Employees see it as a waste of time
8. Increases range from 2-4%, with most falling around 3%

What if we skipped steps 2-7?



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From Ineffective to Destructive

Dr. W. Edwards Deming, the “Father of Quality” says:

“The merit rating nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, [and] nourishes rivalry and politics. It leaves people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling inferior, some even depressed, unfit for work for weeks after receipt of rating, unable to comprehend why they are inferior.

It is unfair, as it ascribes to the people in a group differences that may be caused totally by the system that they work in.”

From Ineffective to Destructive



What's the alternative?

- Use relevant market data and budget considerations to determine increases to base pay...skip steps 2-7!

What to do with all the time you saved?

- Build and manage a true Performance Management and Employee Development system **owned by Employees**
- Give additional pay increases as employees grow their jobs in ways that actually deliver results to the bottom line

Building a Market Based Pay System

- Involve Senior Leadership and Frontline Leaders from the beginning
- Establish the market you will compare yourself to and source credible compensation data
- Determine how internal equity will be factored into your system
- Match your positions to survey benchmarks based on job descriptions, not titles
- Build Pay Families and Ranges that fit your organization and tie to market
- Assess impact and build a transition plan
- Communicate the process and results transparently to all employees
- Review and update the Pay Structure annually or bi-annually

Process Steps - Performance Management

- Involve Senior Leadership and Frontline Leaders from the beginning (form a team)
- Determine the most impactful topics that leaders should be discussing with team members
 - Clarity of Role and Expectations
 - Feedback on what's going well/opportunities to improve
 - Alignment with Core Values
 - Priorities for upcoming period
 - Growth and Development goals of the team member
 - Actions items and timelines for both sides
- Build a simple template to capture these elements
- Establish ownership/timing/frequency of discussion - not at pay increase time
- Educate leaders and team members on process; train, provide examples
- Support leaders with Performance Management training to create growth and development opportunities and address underperformance

Who's Doing It?





Overview

- Colorado Title 32-1 Special District Hospital (publicly funded) with an elected Board of Directors and an appointed CEO
- Approximately 500 employees, full time, part time and PRN (as needed)
- 150 unique job titles
- HR serves on the Executive team; reports to the CEO
- High cost of living
- Low employee turnover
- Approximately 15% of employees are “maxed out” in their ranges



Current State at Beginning of Project - Fall 2017

- Pay grade system adopted in 2005 with open ranges set very wide (65%)
- All positions in one pay family
- Set definition of market and used valid survey market data each year to determine increase to the pay structure
- Used a traditional performance appraisal/rating system to determine employee pay increases
- Physicians handled separately, outside the scope of this project



Problems with Current System

- Pay increase budget was just enough to keep pace with market
- Managers manipulated performance ratings to keep wages competitive for all
- Performance appraisal process seen as a waste of time from both sides
- Meaningful discussions about performance and development were not happening; primary focus was allocation of pay increase dollars
- Lowest score on Employee Survey was “opportunities for growth and development”



Process Overview - Pay System

- Created a Steering Committee to guide the process; Exec Team and Dept Heads
- Met regularly; reviewed progress to date; sought feedback; answered questions
- Divided the 150 job titles into four Pay Families,
 - Administrative
 - Clinical
 - Professional/Technical
 - Management
- Each Pay Family will move as a group with market



Process Overview - Pay System

- Worked transparently with dept heads throughout the process to validate job matches and address concerns
- Addressed pay anomalies and corrected pay inequities as they were identified - important to level set at the start
- Reviewed all other financial rewards (bonus plans, pay for skills, certification pay, etc...) to ensure alignment to this new philosophy
- **Did not** make changes to the budgeting process - budget still based on a combination of anticipated market shift and financial performance



Process Overview - Performance Mgmt System

- Introduced the Growth & Development Plan (GDP) as replacement for the Performance Appraisal (PA) form
- These are **employee driven** 1:1 discussions between the manager and the employee
- Simple format focused on driving meaningful discussion about strengths, opportunities, priorities and professional development
- Goal is meaningful discussion, driven by the employee, encompassing performance feedback and development
- From this, the employee's job may evolve, creating more value to the organization and therefore achieving a higher market value (ie, benchmarks are updated to reflect larger scope which drives higher pay for the employee)

Growth & Development Plan

Employee Name:		Date:	
Job Title:		Supervisor:	
Core Values (list):			
1. Major Job Accountabilities (top 3-5)			
•			
2. What's Going Well		2. Opportunities to Improve	
•		•	
3. Job Related Actions and Status from Previous GDP Period			
•			
4. Job Related Action Items with Timelines for Upcoming GDP Period			
•			
5. Development Actions and Status from Previous GDP Period			
•			
6. Development Actions for Upcoming GDP Period			
•			



Process Overview - Communication

- Communication from CEO to all employees outlining the intent of the change, timing and anticipated results; included FAQs
- Followed up with “Town Hall” meetings on all shifts to allow for face to face discussion
- Provided multiple training sessions for Managers and for Employees on new pay system and new Growth & Development Plans
- Each Manager held department meetings to allow for more discussion and questions
- Made some changes based on questions/feedback
- **Communicated this process was not perfect and would evolve over time**



ASPEN VALLEY
HOSPITAL

Successes to Date

- Communication was thorough and most changes were well received
- Created greater transparency and equity in pay
- Easier to administer for Supervisors/Managers
- HR time spent more on coaching, less on administration
- Budget neutral; little change to pay increases for most employees
- Increased discussions on performance and development - 80% completed their GDPs in the first cycle
- Job levels with criteria created in several areas for career progression
- Increased requests for Performance Improvement Plans - Managers actually managing performance rather than relying on pay system “carrot or stick”



What Would They Do Differently?

- Ensure job descriptions were current and accurate before beginning
- Test HRIS systems for flexibility in performance management module
- Gather and review all pay related programs and practices and fully consider impact at the beginning
- Set project scope and stick with it; scope “creeped” into other areas such as revising PIPs, org structure changes, job title clean up, etc...

Resources

- ▶ Leadership Principles from the Father of Quality, Dr W. Edwards Deming
- ▶ Get Rid of the Performance Review! How Companies Can stop Intimidating, Start Managing - and Focus on What Really Matters, Samuel A. Culbert
- ▶ Abolishing Performance Appraisals. Why They BackFire and What to do Instead, Tom Coens and Mary Jenkins



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