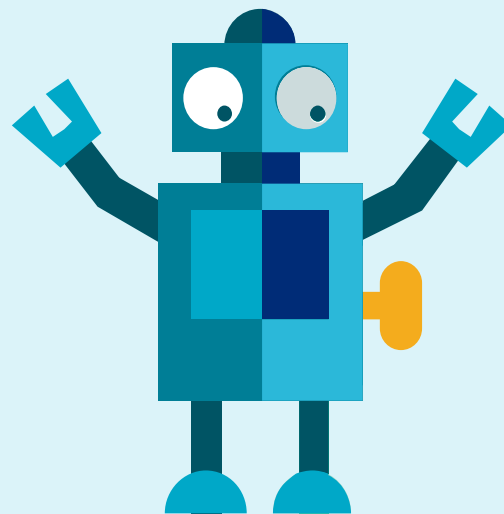


# MERCER'S 2017 COMPENSATION PLANNING AND PERFORMANCE MANAGEMENT WEBCAST

GETTING IT RIGHT:  
SALARY AND PERFORMANCE  
MANAGEMENT RE-BOOT



# TODAY'S PRESENTERS



**ALLISON  
GRIFFITHS**

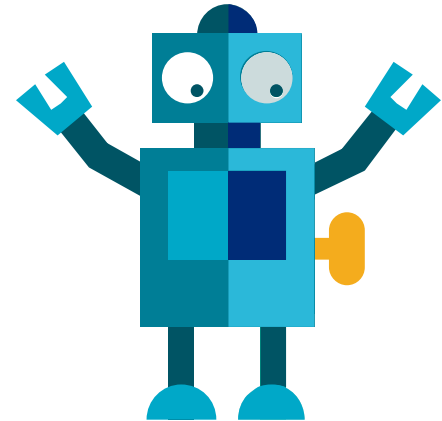


**ALEX  
BELL**

# TODAY'S DISCUSSION

1 : INSIGHTS FROM THE SURVEY

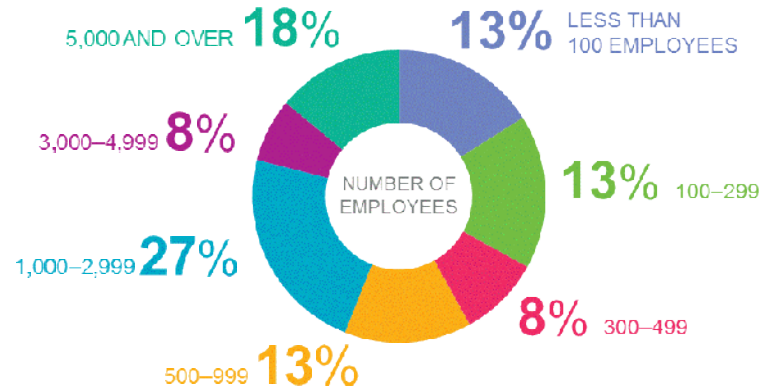
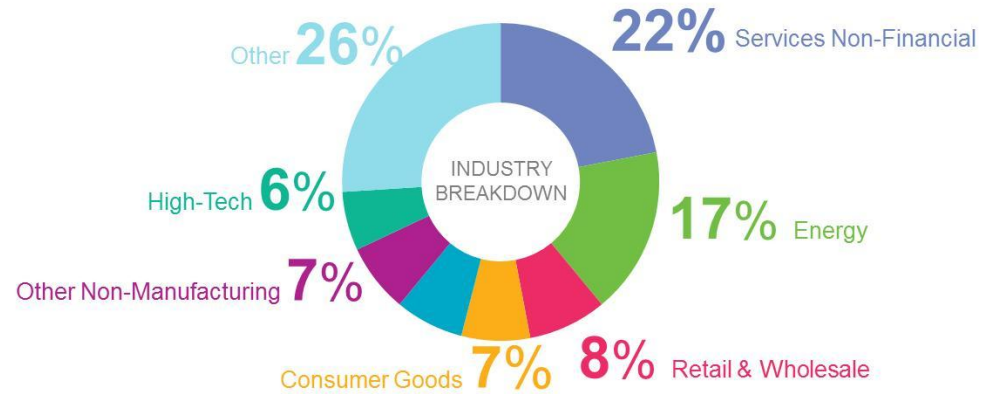
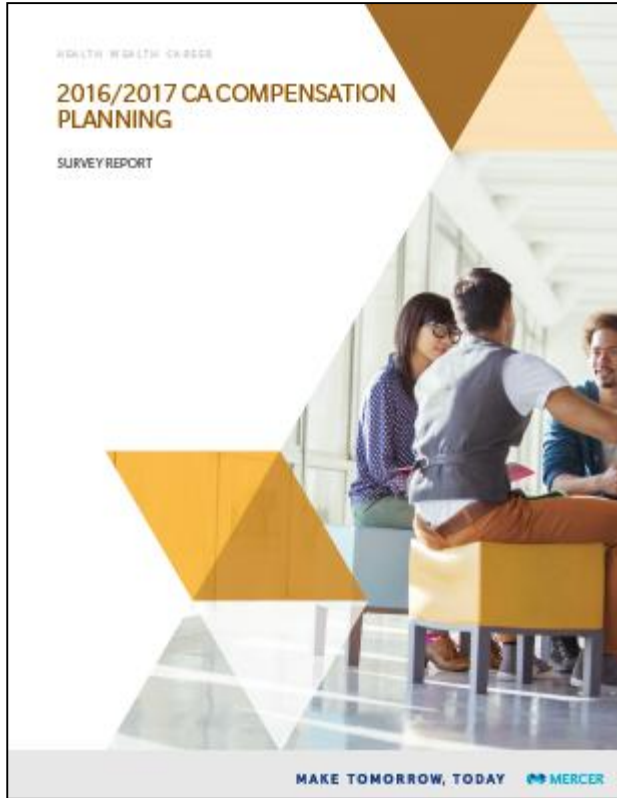
2 : HOT TOPIC: PERFORMANCE MANAGEMENT



# INSIGHTS FROM THE SURVEY



# THIS YEAR'S SURVEY

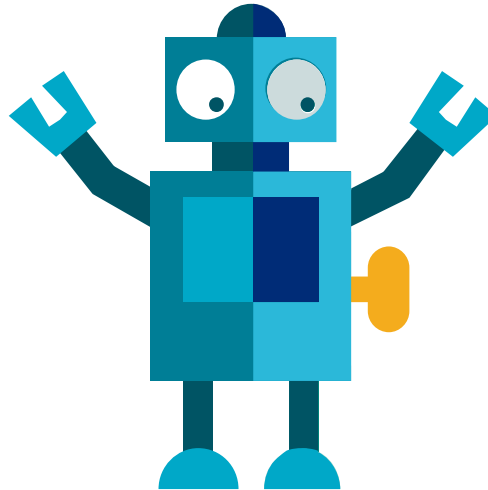


# CHALLENGES FACING ORGANIZATIONS TODAY

**ECONOMIC  
UNCERTAINTY**

**MULTI-  
GENERATIONAL  
WORKFORCE**

**COMPETITION  
FROM EMERGING  
MARKETS**

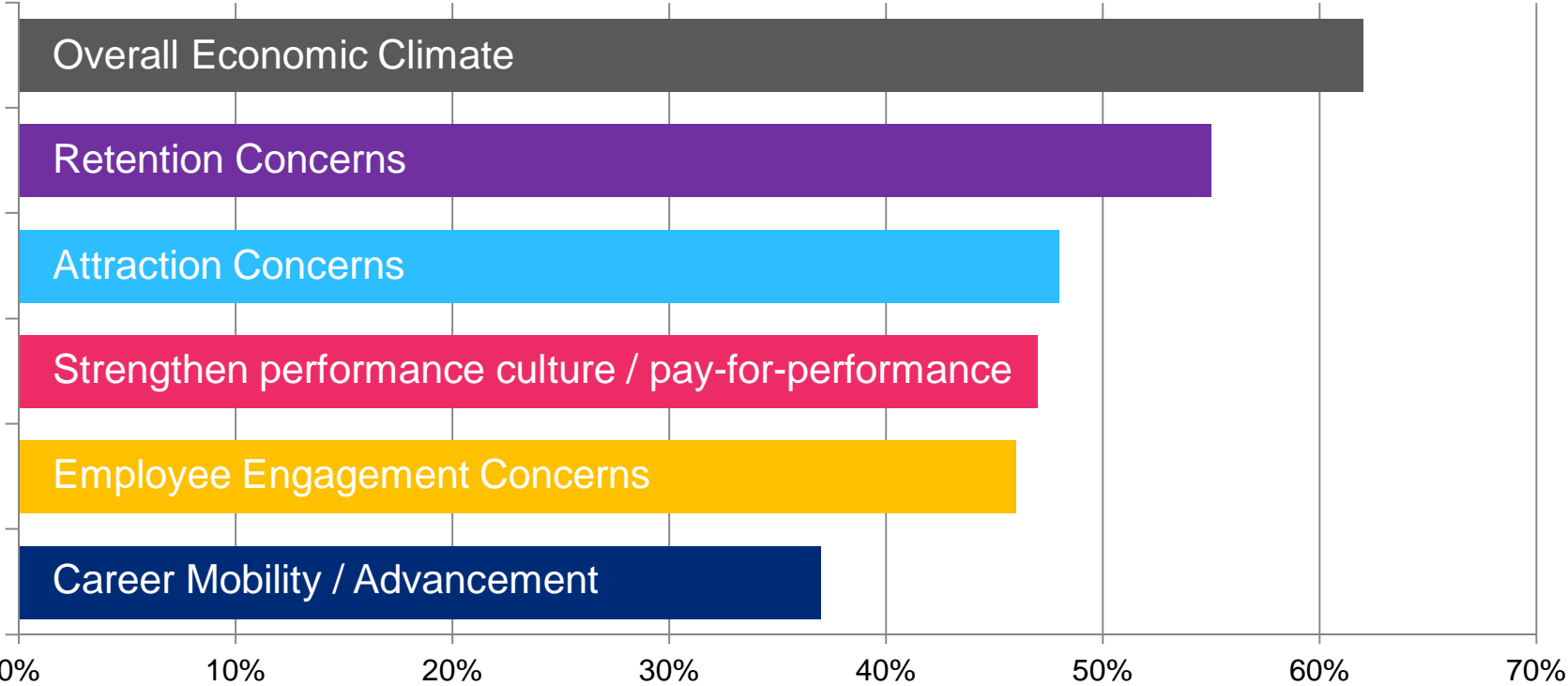


**DISRUPTIVE  
TECHNOLOGY**

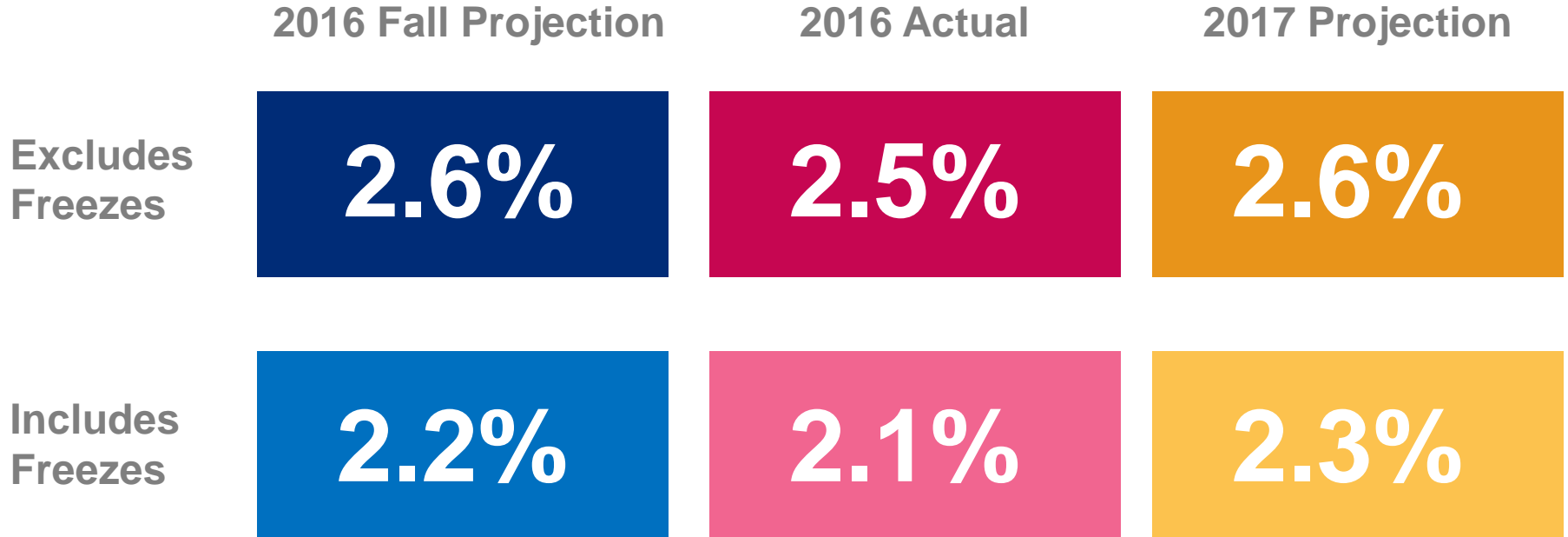
**COST REDUCTION  
INITIATIVES**

**AUTOMATION &  
MACHINE  
LEARNING**

# FACTORS INFLUENCING YOUR BUDGET IN 2017



# RESULTS FROM THIS YEAR'S SURVEY





# CHANGES IN SALARY BUDGETS

## PRIMARY REASONS FOR CHANGE

Projected 2017 **lower** than Actual 2016



56%

Response to economic uncertainty or general cost reduction initiative



17%

Business/industry performance weaker than expected



8%

Change in business strategy or competitive positioning to market



8%

Response to commodity prices

Projected 2017 **higher** than Actual 2016



38%

Account for salary freeze/delayed increase in previous years



22%

Response to economic improvement



20%

Change in business strategy or competitive positioning to market

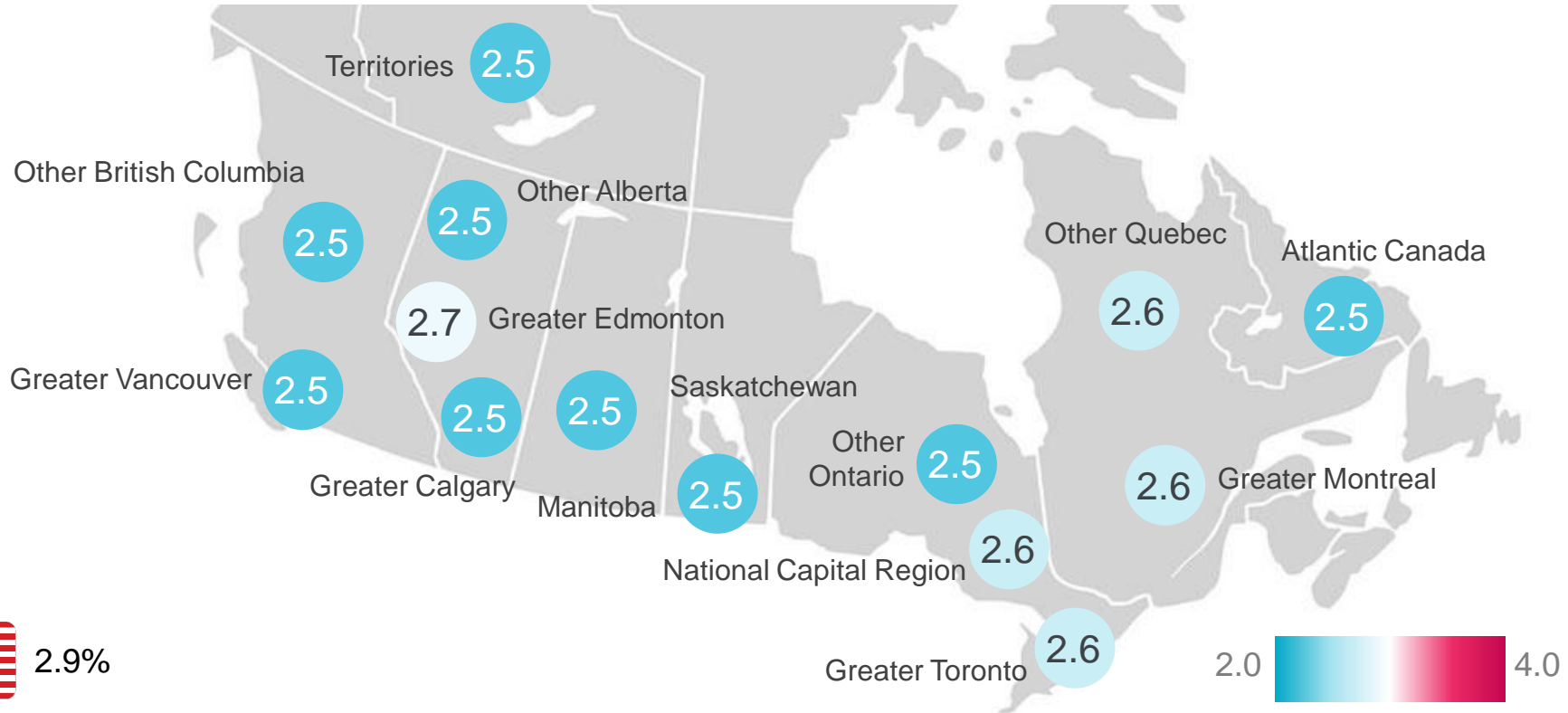


5%

Greater competition or anticipated labour shortages

# BALANCED INCREASES ACROSS THE COUNTRY

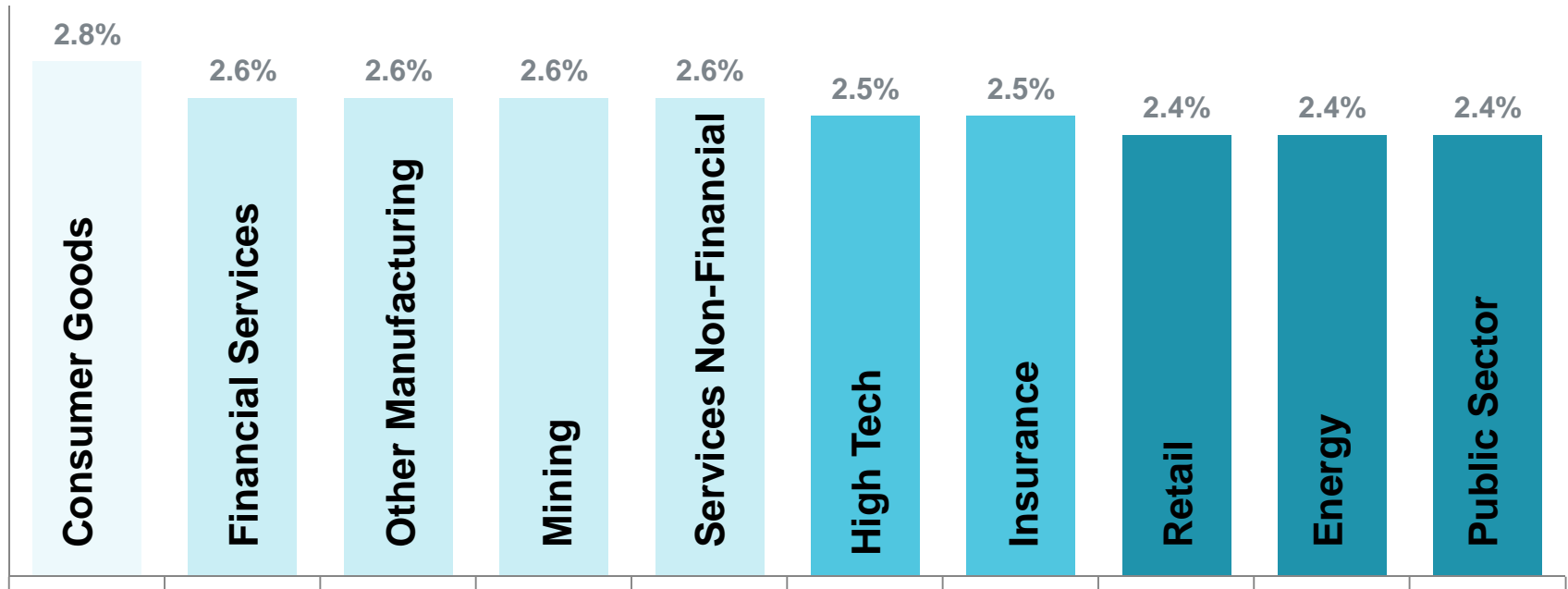
## 2017 PROJECTED SALARY INCREASES



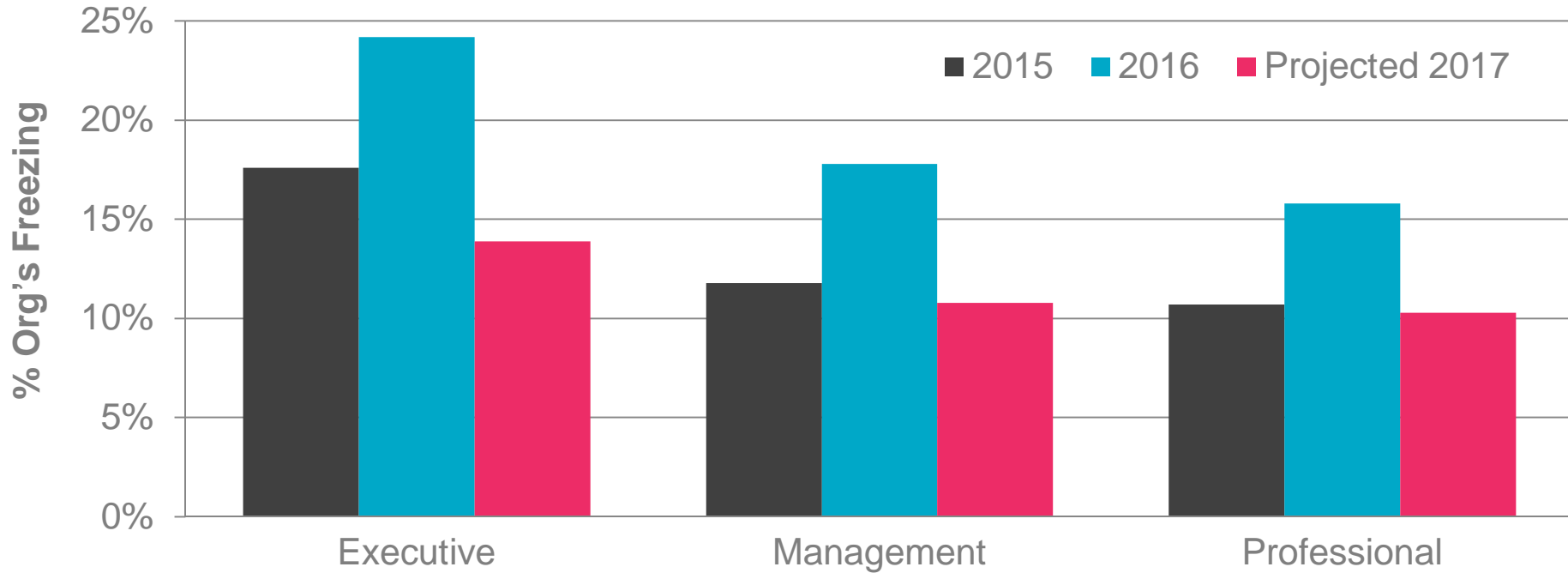
2.9%

# AND NOW BY INDUSTRY

## 2017 PROJECTED SALARY INCREASES



# SALARY FREEZES BY EMPLOYEE LEVEL



## OTHER SURVEY HIGHLIGHTS

2.1%

Projected base salary  
structure adjustment in  
2017

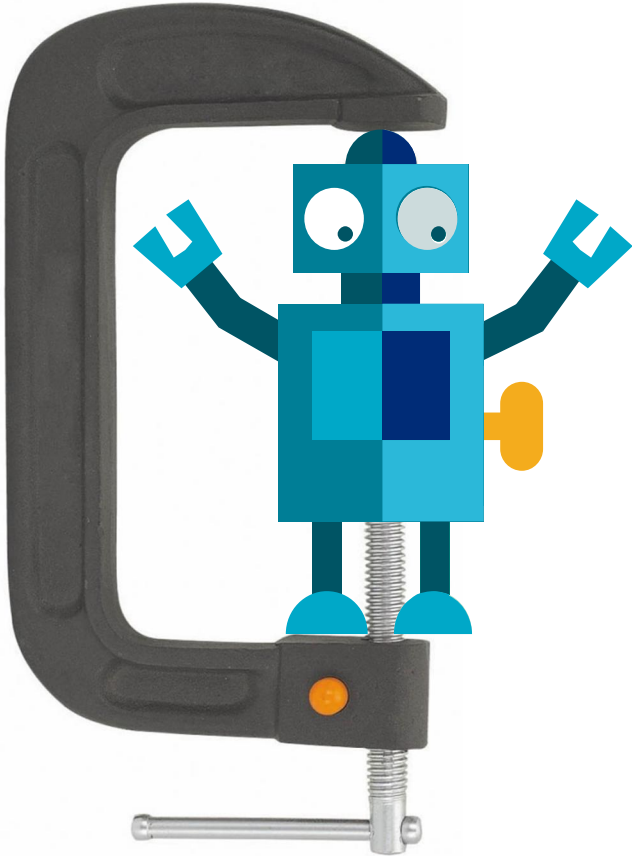
1.8x

Top employees can  
expect to receive a salary  
increase 1.8x **higher than**  
**average** performers

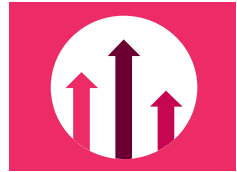
6.8%

Average **promotional**  
**increase** across all  
employee groups in 2016  
– lower than 2015

# SMALL INCREASES CAUSING PRESSURE ON OTHER HR PROGRAMS



JOB EVALUATION



PROMOTIONS



MANAGER SKILLS



PERFORMANCE  
MANAGEMENT

# STRATEGIES FOR A SMALLER BUDGET



DISTRIBUTE THE BUDGET EVENLY ACROSS ALL EMPLOYEES

Why?	Why not?
<ul style="list-style-type: none"><li>• Easy to administer</li><li>• Especially if your merit matrix is “broken”</li><li>• Encourages a team-based culture</li></ul>	<ul style="list-style-type: none"><li>• Perpetuates internal inequities</li><li>• Higher chance of turnover from top performers</li><li>• Strongly counters existing company culture</li></ul>

# STRATEGIES FOR A SMALLER BUDGET

#2

## ELIMINATE THE BASE SALARY INCREASE FOR THE MAJORITY

Why?	Why not?
<ul style="list-style-type: none"><li>• Focus on the top performers – the employees you want to retain</li><li>• Opportunity to make some salary corrections</li><li>• Strategizes budget spending</li></ul>	<ul style="list-style-type: none"><li>• Problematic for companies who are unable to identify top performers</li><li>• Works at the expense of the morale and engagement of the broader employee population</li></ul>



# STRATEGIES FOR A SMALLER BUDGET



## FOCUS ON THE BROADER EMPLOYEE VALUE PROPOSITION

Why?	Why not?
<ul style="list-style-type: none"><li>• Opportunity to focus on all the other “good stuff”</li><li>• Money alone will likely not retain employees</li><li>• Potential to increase employee engagement and morale</li></ul>	<ul style="list-style-type: none"><li>• If you haven’t thought strategically about this, it requires a lot of work!</li><li>• Pay-for-performance may be an important part of your EVP – need to have other avenues to reward performance</li></ul>

# STRATEGIES FOR A SMALLER BUDGET

#1

DISTRIBUTE THE BUDGET EVENLY ACROSS ALL EMPLOYEES

#2

ELIMINATE THE BASE SALARY INCREASE FOR THE MAJORITY

#3

FOCUS ON THE BROADER EMPLOYEE VALUE PROPOSITION

# PERFORMANCE MANAGEMENT ESTABLISHING AN EFFECTIVE APPROACH



# DISCUSSION TOPICS

- STATE OF PERFORMANCE MANAGEMENT
- HEADLINE MARKET PRACTICES
- ROOT ISSUES
- MAXIMIZING THE EFFECTIVENESS OF PERFORMANCE MANAGEMENT

# PERFORMANCE MANAGEMENT NOT A DIFFERENTIATOR FOR MOST

77%

Implemented one  
size fits all



89%

Link employee pay  
and the  
performance rating



95%

Set individual goals



86%

Evaluate behaviours  
/ competencies



57%

Use a 5-point rating  
scale



89%

Have overall  
performance ratings



# HIGH DISSATISFACTION WITH PERFORMANCE MANAGEMENT

3%

Percentage of employers that believe their performance management system delivers exceptional value

48%

Percentage of employers that believe their performance management system needs further work to be effective

90%

Percentage of Heads of HR that believe their performance management system does not yield accurate information

95%

Percentage of managers dissatisfied with their organization's performance management system

# HEADLINE MARKET PRACTICES VS. THE BOTTOM LINE

10% - 15%



## ELIMINATING PERFORMANCE RATINGS

Bottom Line - Companies that eliminated ratings still assess performance using multiple performance factors, and use these to make pay decisions

## CONTINUOUS FEEDBACK

Bottom Line - Creating a “feedback rich culture” remains a challenge for all organizations, requiring on-going sponsorship, training, tools and engagement – but technology can be an enabler

## ELIMINATING ANNUAL MERIT INCREASES

Bottom Line - Even with some companies considering eliminating annual merit increases, it is likely that pay for performance will stay, with an increases emphasis on variable pay

# POTENTIAL ROOT ISSUES

## Goal-setting

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- Unclear expectations
- Lack of defined goals/wrong goals

## Feedback

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- Not enough feedback
- Feedback intervals are too spread out

## Coaching

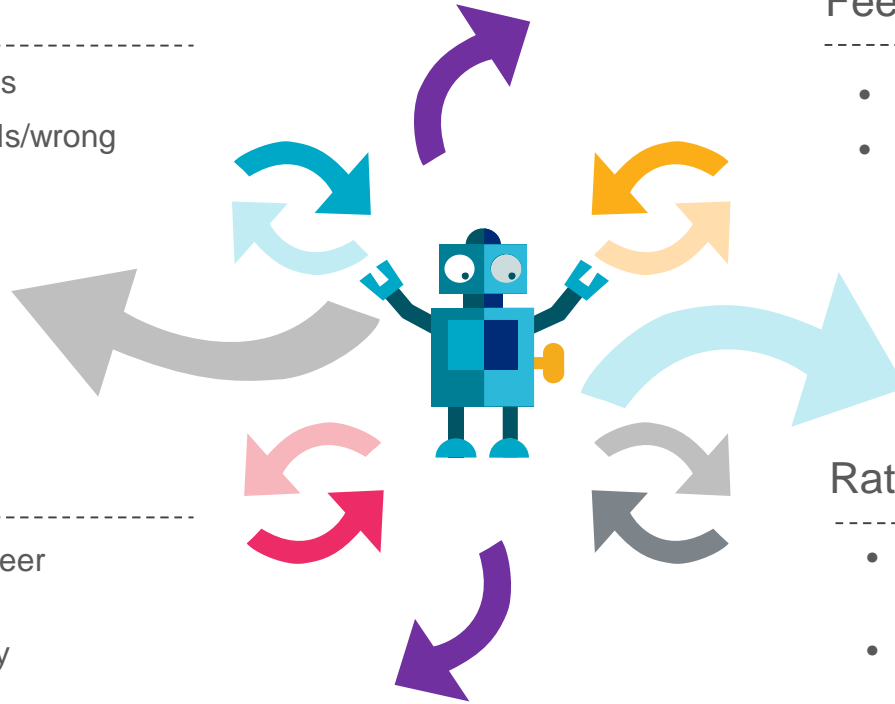
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- Lack of focus on career development
- Lack of transparency

## Rating

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- Inconsistent process year-to-year
- Not enough effort put into performance reviews





# ELIMINATING PERFORMANCE RATINGS?

## THINK TWICE

1. Employees use their assigned rating as a proxy for where they stand
2. Employees believe a rating is an effective way to drive pay decisions

## THERE IS STILL WORK WITHOUT RATINGS

Organizations without ratings still make performance-based pay decisions, relying on manager discretion, calibration committees, various performance metrics, or a combination of these assessment methods to deliver base salary and/or incentive pay.

## IT CAN WORK

In a no-rating environment, an organization with fruitful discussions about goals, performance and development can easily communicate to employees about where they stand.

# MAXIMIZING THE EFFECTIVENESS OF PERFORMANCE MANAGEMENT

#1

## FOCUS DIALOGUE

Establish the right goals first, then talk about development

#2

## REALLOCATE TIME

Reducing year-end focus in favor of ongoing engagement

#3

## KEEP SCORE

Measure the effectiveness of your performance management strategy

#4

## REWARD STRONG LEADERS

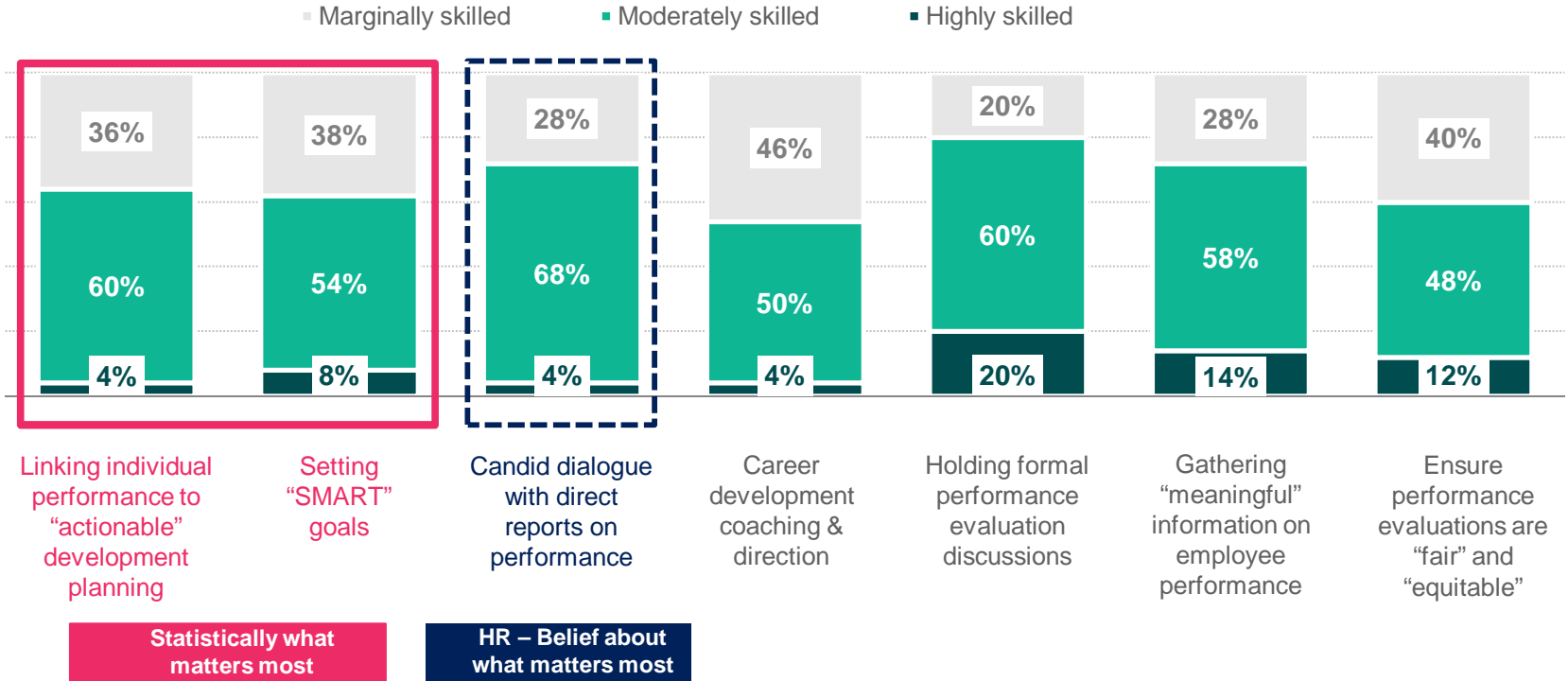
Provide higher base pay for consistently strong people managers



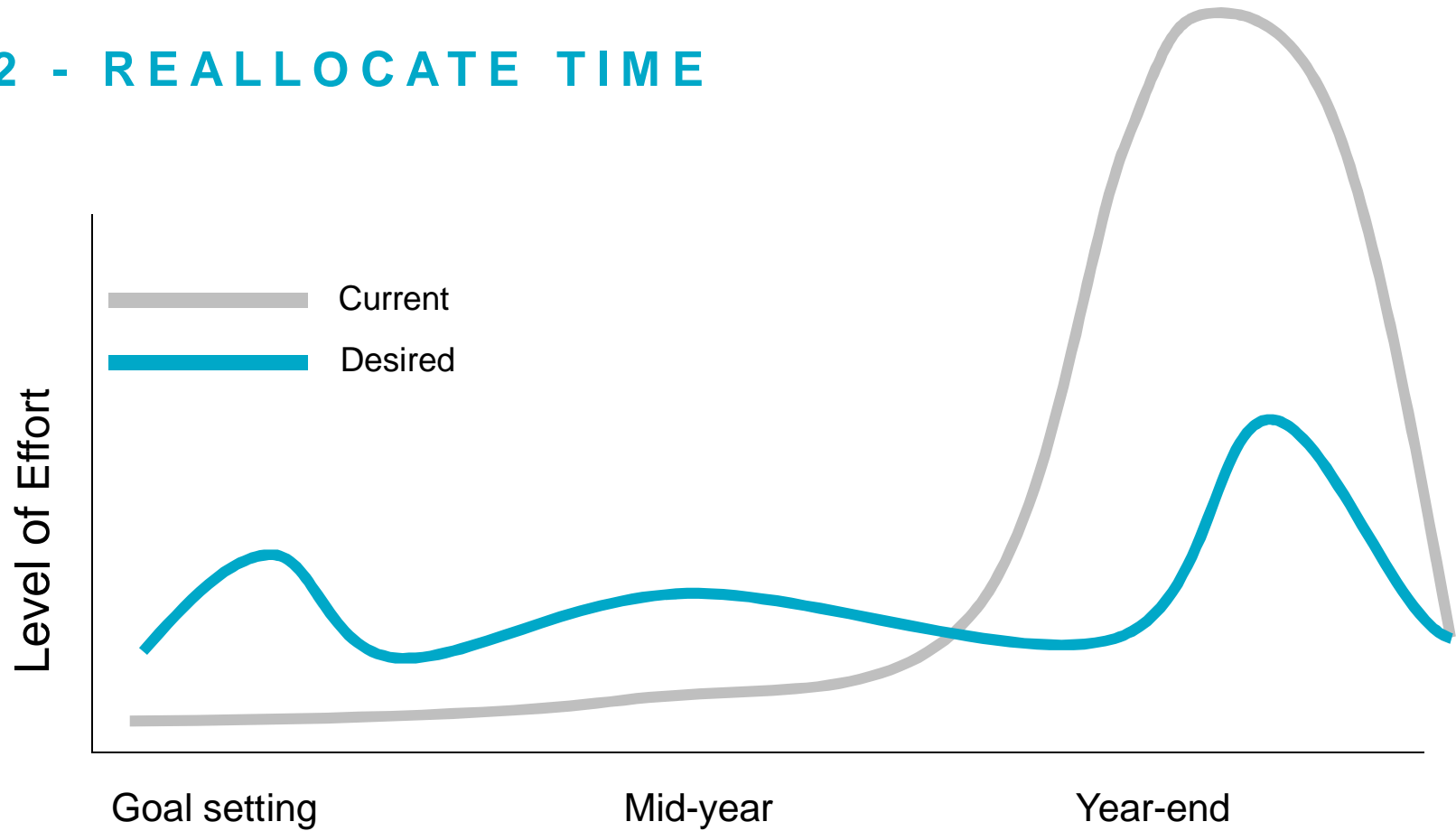
ROI

# #1 - FOCUS DIALOGUE

Establish the right goals first, then talk about development



## #2 - REALLOCATE TIME



## #3 - KEEP SCORE

Measure the effectiveness of your performance management strategy

94%

Have a year-end performance review

89%

Link performance and pay

51%

Link performance to succession planning

58%

Use performance management to motivate and retain

YET ONLY...

75%

Measure completion

42%

Measure linkage

23%

Measure selection of top performers

19%

Measure retention between top and poor performers

# #3 – DATA ANALYTICS



## New Employee Segments

Find new employee segments to understand their employee experience: Employees that received high performance ratings this year and last? High performance ratings over the last 5 years? Three low performance ratings in the last 5 years?

## Reward for Performance



Find out if you reward consistent high performers with greater pay increases, bonuses, promotions and career opportunities. Who are your outliers?



## Downgrades and Upgrades

Research the characteristics of employees that go from medium to high performers, high to medium performers, or medium to low performers. Are there consistent attributes? Does one of these things tend to happen at a certain career level?

## #4 – REWARD STRONG LEADERS

Provide higher base pay for consistently strong people managers

People managers are at the core of performance management

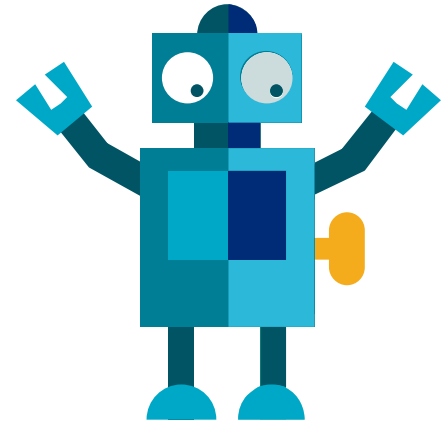
People management skills are rarely rewarded directly

People manager training may be inconsistent or non-existent

Disconnect between organization needs and actions

# KEY TAKEAWAYS

- 1 THINK CREATIVELY ABOUT HOW YOU CAN ADDRESS A SMALL BUDGET WITHIN YOUR ORGANIZATION
- 2 THINK TWICE BEFORE YOU GET RID OF RATINGS
- 3 FOCUS ON DATA ANALYTICS TO KEEP SCORE
- 4 EMPLOYEE VALUE PROPOSITION IS MORE IMPORTANT THAN EVER
- 5 REWARD PEOPLE MANAGERS





**QUESTIONS**



**MAKE**



**TOMORROW,  
TODAY**