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A Guide to Pay and Reward

A fairer way of handling pay and reward in your organisation

GUIDE

The impending challenge with pay and reward

Employee ratings are a challenging and stressful time for everyone involved. For managers who need to evaluate the performance of every team member they have, for HR workers who need to review and analyse the finding of the ratings, and for the employees, who worry what the outcome will be, and if they will be rated fairly.

This is even more stressful now than ever before! Right now inflation is at its highest since the early 80s, meaning companies are having to tighten their spending, but employees are wanting more money to combat their rising living expenses.

Along with this, the great resignation remains an ongoing issue for many organisations, with a great deal of employees remaining on the brink of leaving jobs to seek out an employer who can meet more of their needs.

In general people just expect more from their employer than ever before, it's no longer the employer who holds the power, who can set the rules no questions asked.

This all adds up to a high amount of pressure for organisation leads to ensure they are getting ratings, pay, and reward right. With a limited pot for bonuses and wage increases, and many employees weighing their options on whether now is the time for a career move, how organisations move forward with their pay and reward decisions could have a huge impact long term.

Many of the ways organisations currently rate their employees are flawed, leading to incorrect and unfair results, and running the risk of top talent getting over looked, and ultimately leaving to go somewhere they are better appreciated.

But what can organisations do to combat all this? How can they find their true top performers, how can they fairly handle pay and reward in today's turbulent times?

In an attempt to shed some light on these matters, we have decided to dedicate this guide to doing pay and reward right.

Debunking performance management myths

Bulls hate the colour red, swallowed gum stays in your body for seven years, lightning never strikes the same place twice. These are just a few examples of myths that have been said so often that people have come to view them as fact.

The world of performance management is full of myths. Here at Advanced Clear Review we sometimes refer to them as “corporate rituals”, things organisations do because they’ve always done them before, based around some flawed centralised assumptions. Here we’ll take a look at some of the most common performance management myths.

1. Performance Ratings are a useful tool for measuring performance

Probably the most common myth we come across in the performance management world is the idea that performance ratings are a useful tool for measuring performance. We have this conversation with HR professionals almost daily.
For years, many companies have invested a lot of time and energy into programmes which feature performance ratings, based around the belief that managers can assign a rating to employees in a fair way.

The issue with this approach is that humans are intrinsically biased, and, it turns out, when asked to rate other people their ratings are actually much more about themselves than they are about the people they are rating.

Studies have shown that as much as 61% of a performance rating is actually about the rater, not the ratee. Different raters rate in very different ways, so what to one person will appear to be great performance could well appear to another as average performance.

This phenomenon, the idiosyncratic rater effect, is one of the key reasons why many performance management approaches are felt by employees to be unfair (spoiler alert...it's because they are!), and why many companies fail to achieve their actual aim of measuring performance.

2. I should plot my employees on a bell curve

It will come as no surprise that most organisations are driven towards providing a return on investment for their shareholders. The main objective for the majority of businesses is to make money. As a result the question of profitability seeps into all aspects of an organisation, including how they evaluate employee performance.

Ultimately, shareholders want organisations to plot out employee performance so they can be sure they are getting maximum return on their investment. Their money goes into paying employee's salaries, so they want proof that the employees they are rewarding with pay increases and bonuses are performing to a high standard. This is often the main reason performance evaluations are carried out.

But what if the organisation implemented a more people first approach, thinking about the employee's wants and needs rather than the shareholders? In general employees want to perform well, they want to take pride in their role, and work toward career progression. They want their evaluation process to be fair, transparent, and equitable, ensuring they are rewarded for the work they are putting in.

The question is, how can organisations do both of these things? How can you keep stakeholders and employees happy by fairly rating and rewarding staff without going over budget?

We have shown that performance measurement is not objective, and most often not fair. We also know performance is not relative, it doesn't follow a normal distribution. For too long organisations have been trying to plot employee performance on a bell curve, but performance cannot be plotted like this, it's unfair and inaccurate.

On a bell curve you need to mark a certain amount of people as the bottom performers, even when in reality these people are probably not performing distinguishably worse than those labelled as average performers.

It isn't productive to split employees into top, high, average, below average and poor performers using a bell curve approach. Instead we recommend that organisations focus their efforts on accurately identifying the top 20% of performers. These are the people you really want to keep a hold of, and who should be incentivised to stay.

By plotting on a power law curve, you can show shareholders which employees are receiving the highest incentives due to their position in the top 20% of performers, then scrap rating for the rest of employees.

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3. Tracking employees improves performance

An article by work place psychologist Ian MacRae points out the damage surveillance can have on employees' performance. Whilst organisations might think the best way to improve performance is by showing staff they are being closely watched, Ian explains

> "When surveillance is excessive it can lead to employee stress, distrust of employers and lead to suspicion within teams and within the company.... Intrusive and pervasive surveillance can be bad for motivation and consequently, performance."

We can see the same issue arising when we look at rating staff. Simply identifying a person as a good, average, or bad performer, or giving them a number on a scale without reference to performance management criteria and workplace objectives, does not help to improve a person's performance. If a manager is sitting in front of an employee once or twice a year and stating **'You are a 3 out of 5 on our performance scale'** this isn't doing anything to improve or drive performance. You are simply showing the staff member their performance is being watched and hoping this will make them perform better.

This doesn't work. You have not given that employee anything useful or tangible to work on, and simply knowing they are being watched will not enable them to perform better. A more useful conversation would be **'You are performing well, but there is room for improvement, lets discuss some of the ways we can support you with this.'**

4. You can't go wrong using a 9 box grid

We're not going to tell you to throw away the 9 box grid all together (in fact, we'll be releasing a couple of templates to enable you to build them using Advanced Clear Review data soon) - they can be a useful tool when used correctly, but all too often we see people using them inefficiently. Asking managers to use a 9 box grid to plot their employees, and using this to try assess performance companywide, is unlikely to wield any useful information, for two key reasons:

1) **They rely on a manager's ability to rate performance, which we've already explained is an issue**

2) **They rely on a manager's set of assumptions about an employee's potential**

The 9 box grid should be used to plot the trajectory of an employee's performance and potential in the organisation, and should involve the employee's input to do so, looking closely into their level of ambition, ability and whether they see anopportunity to move forward within the organisation.

When used well a 9 box grid can be a useful performance management tool to help drive internal mobility, the principal of mapping people this way is good, just as long as it's handled well and the criteria used are valid and reliable predictors of performance and potential.

Moreover, performance is relative, trying to compare someone in payroll to someone in sales is meaningless, as they perform differently, but not necessarily better or worse than each other.

5. I need to know the performance levels of all my employees

This relates in part back to the bell curve theory. The idea that you need to know the performance level of every member of staff and how that related to the performance level of each other member of staff. But why?

Is there really much to gain by delineating minor differences in performance between one employee and another? This is an overly complicated process and doesn't give your organisation anything useful.

Moreover, performance is relative, trying to compare someone in payroll to someone in sales is meaningless, as they perform differently, but not necessarily better or worse than each other.

Instead, organisations need to know who their top performers and high potential employees are, so they can take steps to nurture and retain them, and ensure managers are spotting the underperforming employees during reviews so steps can be taken to improve their performance or discipline them as needed.

So whilst some tried and tested words of wisdom have stood the test of time for good reason, we'd warn you against following rule of thumb simply because it's widely practiced. Ask yourself what your organisation is trying to achieve from this, and whether what you are doing is benefiting your employees or not.

Performance evaluation in the new world of work

Traditionally, organisations have taken a top-down approach to performance management, with HR and leaders publishing a set of objectives which are then cascaded down throughout the organisation to the rest of the workers, as the majority of white collar workers were based in the office with their manager, who could steer and watch over them as they completed their objectives.

Because of this close proximity way of working, an employee’s manager would have been somewhat qualified to give them a performance evaluation based on what they had observed of them in the office.

However, we believe managers are now less equipped to carry out these evaluations in a typical modern workplace, in which many people are working either from home, or from different offices to their managers; at least some of the time. In the new world of work, the manager employee relationship should be less about surveillance and more about a point of contact for support. It is no longer feasible for managers to watch over day to day activity happening in their team, instead, they must give their employees the tools they need and trust them to complete the work themselves.

For this to work, performance management needs to start from the bottom-up. Meaning employees need to be involved with setting their own goals, and responsible for keeping track of progress. They need to be receiving feedback from the people they are working with day-to-day, and recording this for their manager to review.

Using a performance management tool like Advanced Clear Review, one-to-one check-in conversations can be scheduled monthly, short term goals can be set and tracked by managers and HR, and feedback can be given between co-workers and reviewed by managers.

By using these tools, employees are empowered to take ownership of their own performance and development, whilst still receiving any support they need, so managers and HR are able to see progress and make fully informed evaluations of the employee’s performance.

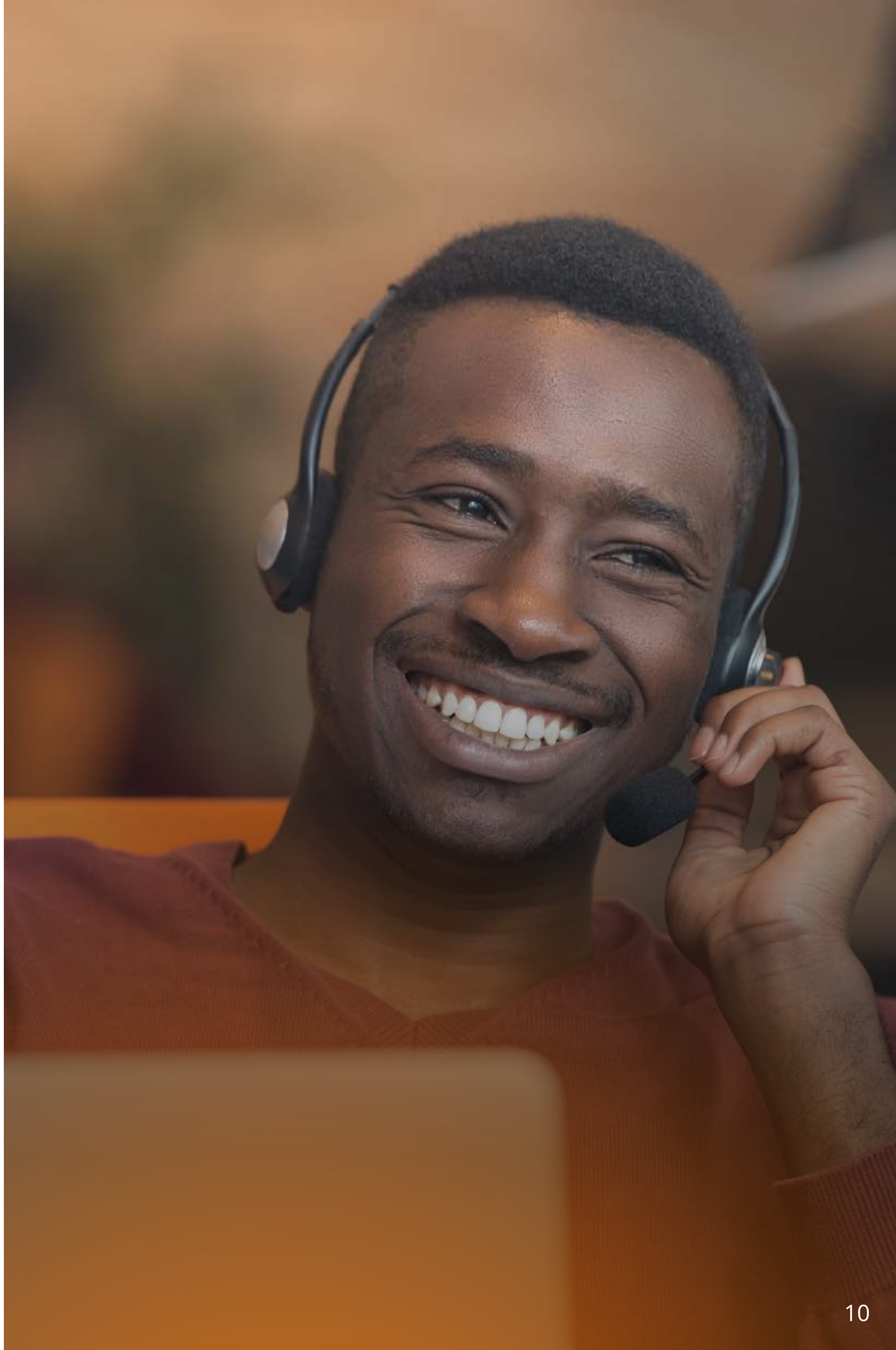
Making pay a reward decisions with continuous performance management

One of the biggest questions we get asked regularly by our customer is: **'Now I've ditched the annual appraisal, how do I make performance related pay decisions?'**

The ultimate goal is to generate objective set data that can really help you identify on a practical and impartial level how people in your organisation are performing, so you can use the resources you have to incentivise top performers to stay at your organisation.

We know it's important to get our data right and identify those top performers, and this is where our continuous model comes in. By using continuous performance management throughout the year, data will be stored to show how well employees have performed against goals, the feedback they have received from a range of different people throughout the organisation, and notes from their check-in meetings where they will have discussed development over the last year.

This data can be used to give an impartial overview of that employee's performance and development over the last 12 months. Using that data, managers can answer questions designed to objectively determine their performance and potential, without the manager's personal thoughts and feelings about the employee swaying the outcome.



Assessing potential, not just performance

Why is identifying potential important?

We know it's important to identify the top performing employees within your organisation, so that you can best support, develop and incentivize them to stay. But it's also important to identify those with high potential, so that you can focus on getting them to top performer level.

Sometimes those with high potential may slip under the radar, as they aren't yet excelling as much as others in the company. It could be that they are in a role that doesn't push their potential, or that they are newer to their role and need just a little extra support to push them to the next level.

Whatever the reason, you want to ensure your high potential employees don't sit stagnant and forgotten about, and end up leaving to go somewhere that will utilise them better.

How do you figure out who has high potential?

By using a good continuous performance management system within your organisation, you can use information gathered throughout the year to spot high potential.

Managers need to have regular performance conversations with their team members, tracking progress against short term goals, asking questions about how well they are doing, and assessing where their employee's want to progress to in the future.

They can then record the outcomes of these meetings quickly and easily, using a performance management platform like Advanced Clear Review. This information is stored and can be viewed by the manager and HR staff, allowing them to carry out performance snapshots whenever needed.

These snapshots are done by asking a series of questions that can be tailored to identify those with high potential. HR will be able to assess the results of these questions and flag up any high potential employees to managers and leaders.

What next?

Once you have identified a high potential employee it's important not to sit on that information for a long time without taking action, as mentioned these people are high risk for moving to another organisation that will use their skills better.

So ensure managers take action as soon as possible, sitting down and working on a development plan that reflects that person's strengths and potential.

This could be getting them a mentor who currently does a role they aspire to, so they will be ready to progress as soon as they are ready / a role becomes available. Or it could be giving them training, either in house or externally, to fill in any gaps that might be preventing them from reaching their full potential.

You shouldn't promote anybody until they are ready, even if they show a lot of promise, but ensure that as soon as a high potential employee is ready to progress that they do so as soon as possible, not to do so would be a waste of talent!

Conclusion

Getting performance evaluations, pay, and reward right is important for an organisation in order to support, develop and incentivise staff correctly. By using a continuous performance management platform like Advanced Clear Review, organisations can ensure they are getting a full and fair picture of employee performance, in order to accurately and without bias identify top talent, pick up on underperformers and nurture potential all year round.

Book a demo with our team today to learn about Advanced Clear Review, and start saying yes to great continuous performance management.

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We would love to hear from you

If you would like to find out more about how our people management solutions can help you support a fairer way of handling pay and reward in your organisation, please book a demo or get in touch with us today.

Book a demo

+44(0) 330 343 4000

www.oneadvanced.com

hello@oneadvanced.com