ALIGNING PERFORMANCE AND TOTAL REWARDS

THE JOURNEY - FIVE YEARS LATER

KEN FAIRCHILD
VICE PRESIDENT OF GLOBAL REWARDS
MEDTRONIC
If we are to **achieve results** never before accomplished, **we must expect** to employ **methods never before attempted**.

- Sir Francis Bacon -
EXPLODING THE MYTHS ABOUT PERFORMANCE MANAGEMENT

- Ratings ensure accurate feedback about performance
  - Ratings most often reflect “grading on a curve” vs achievement of objectives
  - Bias in the system: Manager’s favorite; Hardest to replace; Squeakiest wheel
- Ratings motivate superior performance
  - Wharton Study
  - MIT Study
  - Intrinsic vs. extrinsic motivation
PERFORMANCE MANAGEMENT SHOULD BE

- Focused on:
  - **Execution** to accelerate individual, team and business **performance**
  - **Aligning** the work of individuals and teams to the **quarterly business cycle**
  - **Timely, high-quality conversations** about **deliverables, results and behaviors** to help grow and develop our people
RESEARCH & THOUGHT LEADERSHIP

- **Internal: Data and Survey Results**
  - Targeted Global Rewards survey & deep dive
  - Voice of the Employee across the company
  - Lack of results
  - Applied logic!

- **External: Thought Leaders**
  - Samuel Culbert, Patrick Lencioni, Peter Drucker, Dan Pink, Marshall Goldsmith, and many more ...

- **External: Data-Driven Research**
  - Wharton, London School of Economics, CLC, MIT, Federal Reserve Bank, and many more ...
TOTAL REWARDS DEEP DIVE

• 5,000 employees in 10 countries
• Comparison of employee perceptions of competitiveness versus actual data
• Conjoint analysis to understand what pay components are biggest drivers of engagement, and which are biggest drivers of incremental performance
• Output is a Human Capital ROI scorecard by specified employee segment (e.g. country, job function)
FINDINGS

- **Global Rewards Survey**
  - Base salary is a reason that employees stay or leave
  - Base salary increases do not significantly motivate performance
  - Incentives motivate performance only in some employee populations, however, most employees want to be rewarded or superior results

- **Dan Pink Video posted on “TED”**
  - Summarizes and expands on a body of research that has been accumulating for more than 40 years
  - Understanding intrinsic versus extrinsic motivation
PERFORMANCE MANAGEMENT
OPERATING PRINCIPLES

- Simplicity
- Speed to Execution
- Flexibility
- Affordability
- Transparency
- Globality
WHAT’S DIFFERENT WITH PERFORMANCE ACCELERATION?

• Move to quarterly performance discussion
• Elimination of performance ratings
• Simplified global process and form
PERFORMANCE ACCELERATION PROCESS

RESULTS

Coaching for Performance

Performance Acceleration

Total Rewards
# PAY FOR PERFORMANCE INNOVATION

## 20th Century Approach vs. 21st Century Innovation

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| Salary Increase | *Salary increase differentiation* driven by annual rating that requires “grading on a curve” and yields little differentiation  
*(Top performer increase 1.25X average)* | *Total salary differentiation* salary increase reflects performance, however, *pay positioning is more important*  
*(Top performer increase 3X average)* |
| Incentives | *Complex,* Annual rating driven individual incentive modifier that yielded little reward differentiation  
*(average of $200 to top performers)* | Annual incentives tied to financial results; *Simple,* *Real-time* reward for extraordinary individual results  
*(average of $1,000 to top performers)* |
| Recognition | *Rarely done*; feedback most often occurs when something goes wrong | *Frequently done*; recognition reinforces behaviors and actions that drive superior results |
SALARY INCREASE
PAST PRACTICE

• Merit increase pool at the manager level

• Managers input salary increases for all employees based on performance rating guidelines:
  – John gets 3.5%, Sue gets 3.0%, Mike gets 2.75%, etc.

• Managers balanced their “pool”
  – Impossible to significantly differentiate because of different pay levels, reluctance to “take away” from solid performers
  – The average differential between “average” and “top” performer was 1.25X
COMPENSATION COMPONENTS
NEW PRACTICE

▪ Salary
  ▪ All employees start with a salary increase to keep pace with competitive market movement
  ▪ Adjustment pool balanced at a higher level. Managers can:
    – Adjust down for performance issues
    – Adjust up 15 – 20% of employee population each year to move top performers at or above market value

▪ Variable Compensation
  ▪ Annual Incentives = Team Performance
  ▪ Managers deliver individual rewards through a program called Recognize!, funded with “seed” money to start
PERFORMANCE ACCELERATION FEEDBACK
INITIAL ROLL OUT

• We have received comments from across the organization
• Some were uncertain; some were initially negative; majority have been positive
• As employees implement the process, the feedback is overwhelmingly positive

“...after 3 years in the US Army as a personnel specialist responsible for efficiency reports for hundreds of soldiers...this is one of the most positive changes I have seen. I think the new performance criteria is wonderful and inspiring.”
- CRDM Scientist

“I am impressed. This is very lean!”
- Spine Senior Leader

“... with Performance Acceleration, I felt like a frazzled shopper receiving a 90% off coupon at the checkout register. In past years, I spent a lot of time writing, tweaking, and rewriting my review in an attempt to justify the highest ranking possible. This was in addition to excessive wordsmithing of my reports’ reviews to justify the rankings they were getting ... This year, the whole system was, dare I say it - pleasant ... I felt good before, during, and after the process.”
- CRDM People Leader
PERFORMANCE ACCELERATION FEEDBACK – FIVE YEARS LATER

Better Rewards Differentiation and Pay Positioning (2X-5X improvement)

Lack of Transparency Employees Believe that Pay for Performance No Longer Exists

Lack of Transparency Employees Don’t Know Where they Stand

Lack of or Poor Quality Performance Reviews Many Managers Decided that No Ratings = No Review

No Ratings
NEXT STEPS

Medtronic + Covidien

- Reconsider Ratings
  - Employees need (and want) to know where they stand
  - Do not return to grading on a curve!!

- Sustain Current Total Rewards Differentiation
  - Maintain what we have achieved
  - Make it transparent
Questions?