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The Case for Objective Performance Management Processes: Pay Equity, Promotions, and Terminations (RIF)

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Introduction

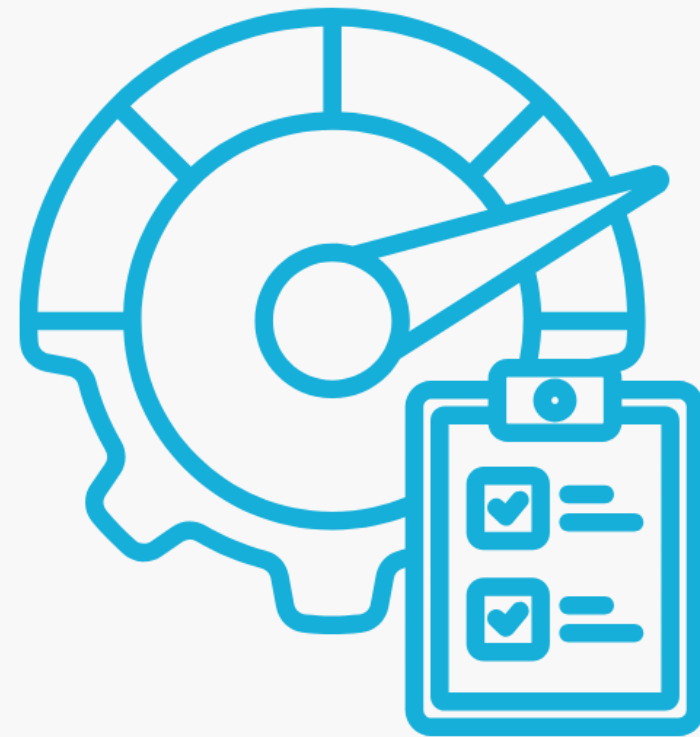
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Performance Management as a Decision Engine

- Ratings impact pay, promotion, and termination decisions
 - Often relied upon as the employer's business justification
 - Central evidence in audits, investigations, and litigation
 - Often not investigated for appropriate documentation or bias



From HR Process to Legal Risk System

- Regulators examine job-relatedness, consistency, and bias
 - Uniform forms $\neq$ uniform standards in practice
 - Subjectivity increases risk of disparate impact exposure
 - Subjectivity is derived from:
 - Inconsistent or vague performance categories not validated for performance
 - Lack of behavioral benchmarks
 - Lack of level-setting or appropriate rater training



Regulator and Practice Expectations

- Decisions must be job-related, documented appropriately, and consistent
 - Performance systems are discoverable evidence
 - Documentation should be contemporaneous
 - Documentation should be checked for consistency (a similarly written statement should lead to a similarly derived performance score)
 - Documentation should follow established benchmarks
 - Level-setting should include accountability



Why This Matters Now

- Rising emphasis on merit-basis in pay equity and promotion fairness (especially non-competitive or “shoulder tap” promotions)
 - More attention to performance-based justifications and emphasis on “merit”
 - Ratings commonly included in data requests
 - Non-competitive promotions are rarely checked for disparity but are regularly regarded as a “performance-based” promotion



Pay Equity Regulations Increase Pressure

- Salary history limits increase reliance on performance
 - Weak systems undermine compliance narratives
 - Objective designs support defensibility
 - Performance “plus” equity ensure objectivity
 - Equity is both internal equity (regression and other measures) as well as external equity (market appropriate pay, pay transparency)



'Objective' Ratings Can Still Subjective

- Numbers are assigned by humans; judgment remains
 - Metric interpretation introduces bias
 - Apparent objectivity can be a false comfort
 - Similar-to-me effect clouds objectivity by diverse observers
 - Rater-Ratee relationship/likeability scores highly correlated to performance scores
 - The “Ski-Slope”



Potential Consequences

Promotions, Pay Equity, and Terminations (RIF)



Promotions and the Glass Ceiling

- 'Potential' and 'readiness' are typically highly subjective
 - Unanchored criteria favor familiarity
 - Leads to uneven time-to-promotion patterns
 - Succession planning is often made up of many subjective ratings/decisions to justify promotions
 - Performance Management (current title performance)
 - Talent Management (next-level readiness)
 - Succession Planning (leadership potential)



Pay Equity Implications

- Ratings are often key inputs/requests by clients to explain to pay decisions
 - Subjective scores can mask unexplained gaps
 - Weak links between ratings and pay undermine defenses
 - Scores need to be checked for bias
 - 1-3 years of performance data are often a poor predictor of highly tenured/experienced careers/pay



Terminations and RIF Decisions

- Ratings often rank employees for separation
 - Inconsistencies are scrutinized post hoc
 - Documentation should be contemporaneous and specific but is often not a part of the performance process
 - Documentation is often a “snapshot” written once per year
 - Documentation is often only by the immediate supervisor and not a wider view of performance



Introducing Objectivity

Rater Training, Defining Objectivity, Program Design



Training Common Rater Biases

- Halo/horns
- Leniency/severity
- Central Tendency
- Primacy/Recency
- Similarity/Affinity
- Compare/Contrast Effect
- Stereotyping



Why Training Alone Isn't Enough

- Rater training reduces, but may not remove bias
 - Structural discretion remains the core problem
 - Design and governance > good intentions
 - Training is often a “band-aid” to the structural/program problem
- Program recommendations
 - Objectivity through
 - Transparency
 - Structure
 - Consistency



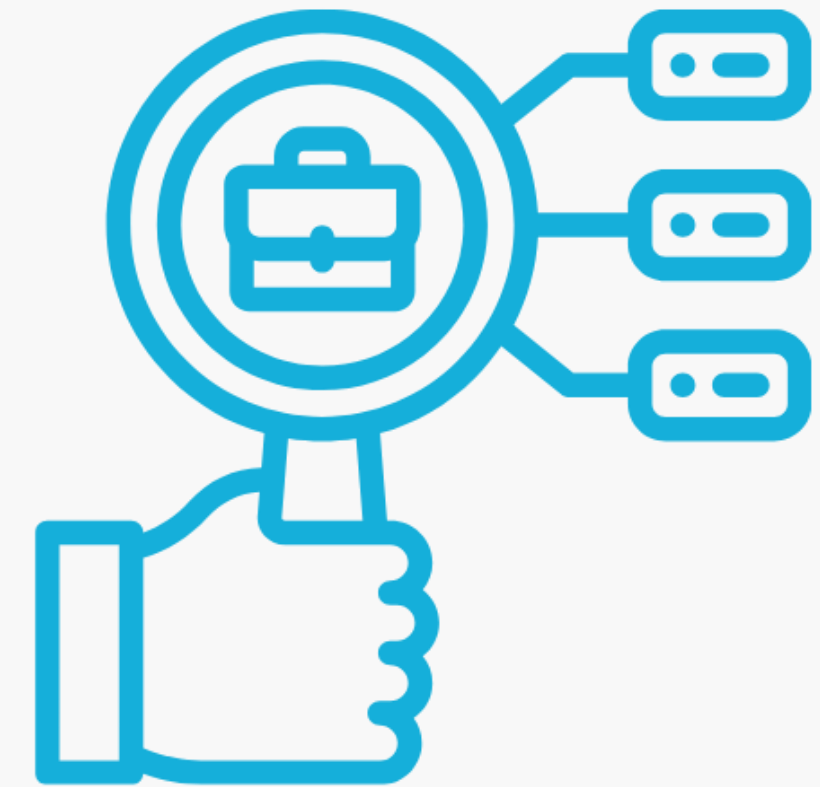
Defining 'More Objective'

- Perfect objectivity is a false goal
 - Aim for structure, consistency, transparency
 - Objective $\neq$ numeric only (forced distributions); clarity over complexity
- It all starts at the beginning (the model)
- Continues with the documentation
- Doesn't end with ratings
- Best when coupled with development, pay equity, and market analysis



Job-Related Criteria via Job Analysis

- Use job analysis to define performance dimensions
 - Focus on observable behaviors and outcomes
 - Align standards across roles and managers
- Job Analysis and Competency Modeling
 - Developing “core” competencies
 - Developing “unique” competencies
 - Goose and Gander Transparency



Behavioral Anchors and Structured Scales

- Behaviorally Anchored Rating Scales (BARS)
 - Create concrete examples for each competency and each level
 - Benchmarks
 - reduce interpretation variance
 - Improve legal defensibility and rater reliability
 - Ensure consistent language for all levels for “core” competencies
 - Be transparent during meetings with employees when discussing expectations, rating scales, benchmarks, etc.
- Performance isn't once a year, encourage monthly documentation (from multiple sources) and 1:1 meetings with EE and EM



Calibration and Governance

- Cross-manager calibration sessions (Level-Setting)
 - Identify inflation/compression and drift
 - Improve equity, trust, and explainability
 - Facilitate meetings to challenge severity, leniency, central tendency and other rater errors
 - Continue level-setting up the chain of command
- Coordinate raw ratings with market shifts and pay equity efforts
- Ensure appropriate documentation for scores and consistency



Recommendations

Analysis, Defensibility, Where to Start



Analytics With Guardrails

- Use analytics to detect disparities early
 - Beware automation of historical bias
 - Require documentation, validation, and oversight
 - Ensure use of the system year round
 - Manager performance should include taking EE performance seriously
 - 1:1 Meetings at least monthly
 - Feed-Forward approach vs. critical feedback
 - Employee engagement validation



Defensibility Checklist

- Validated performance criteria aligned to jobs and levels
- Clear transparent expectations set for performance and goals
- Trained raters on how to use the system and avoid errors
- Year-round documentation and discussions
- Documentation open to more than just the EM
- Level-setting for appropriate distribution and matching
- Documentation consistency checks and disparity checks
- Automation/AI Review



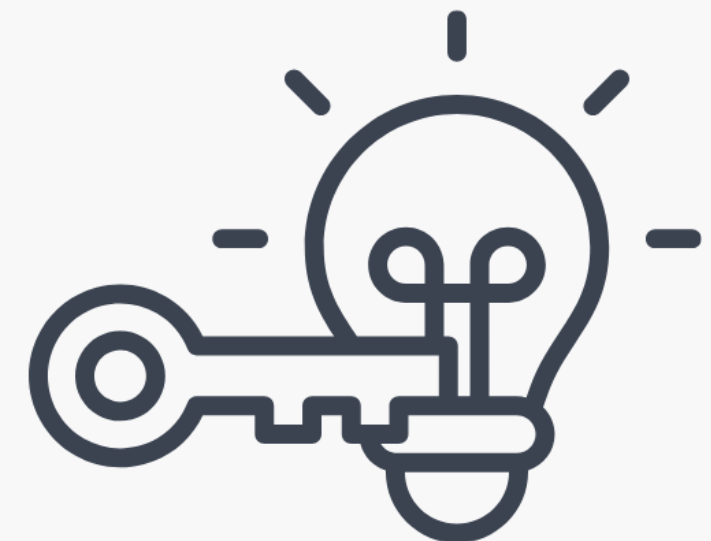
Where to Start

- Audit current ratings and decision outcomes
- Audit the process for transparency, consistency, and objectivity
- Discuss with leaders the importance of a culture based on accountability, performance, and development



Key Takeaways

- Subjectivity creates equity and legal risk
 - Structure and governance reduce bias
 - Job Analysis and competency modeling are the building blocks
 - Performance management is a system—not a form
 - Talent management is built on performance management
 - Succession planning is built on performance and talent management
 - Design decisions determine defensibility



Questions?

For more information about any of the updates covered in this presentation, please contact us!



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