

WorldatWork
**2018 TOTAL
REWARDS**
Conference & Exhibition

FirstEnergy

Pay for Performance in a rating-less environment

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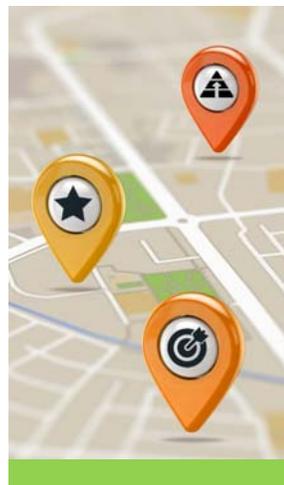
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Agenda

- Shift from Performance Management to Career Management
- Differentiating without Performance Ratings
- Performance, Investment and Rewards Calibration Process
- Investments and Rewards Process
- Key Takeaways

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Why are we on this journey?

- Changing workforce demographics
 - Want control and ownership of their careers
 - Desire coaching and feedback more often
 - Want to feel connected and aligned to the bigger picture
 - Desire technology
- Dissatisfaction with old Performance Management Process
 - Ratings not necessarily reflective of performance
 - Ratings did not drive meaningful differentiation
- Ability to attract, retain, and motivate a high performing workforce

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 my Career**map**

Imagine an environment where ...

- We enable employees to do their best every day
- We motivate the **performance** of our employees
- We are a **diverse organization** where teamwork, innovation and inclusion are the table stakes
- We hold ourselves and others accountable for results **and** behaviors
- We **differentiate performance** and have focused, candid conversations in all career areas – talent, development, compensation, etc.

...so that we can **enhance our competitive results**

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 my Career**map**

Where the journey has taken us



Redesigned process to allow for more employee ownership and ongoing coaching and feedback



Revised Values & Behaviors to show the how is just as important as the what



New technology to support career management



Redesigned how to allocate **Investments and Rewards** to support career management

Past vs. new process

Past Process (pre-2016)

- Performance discussions with employees at mid-year and year-end
- Rating provided at mid-year and year-end
- Merit process in Q1 utilizing year-end performance ratings
- Other rewards available but limited utilization by leaders (Example: discretionary awards, recognition, etc.)
- Performance inputs focused only on recent performance

New Process (2016 and future)

- No Formal Performance Evaluations
- No rating at mid-year and year-end
- My Career Map provides documented priorities, development plans, and check-in conversations
- Rewards Check-In process in Q1 utilizing PIRC outcome
- Other rewards available and utilized by leaders (Example discretionary awards, recognition, etc.)
- Performance Inputs focused on recent and sustained performance, behaviors, impact, knowledge, future potential/contribution, and demonstrated growth



Redesigned how to allocate Investments and Rewards to support career management

- Performance, Investment and Rewards Calibration Process
 - Tool to help leaders differentiate performance
- Broadened additional Investments and Rewards beyond merit
- Investment and Rewards Roadmap



Reward
past
performance

Invest
in the
future

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 my Career**map**

Why is differentiation important?

Risks of not differentiating investments and rewards:

- Losing high performing/high potential employees
- Compromising company performance by retaining low performing and complacent employees
- Underutilizing \$1.7 billion investment in employees

"High performers are attracted to companies that are committed to pay for performance, whereas low performers will self-select out of these organizations."

– Society for Human Resource Management *article*, Ken Abosch - Aon Hewitt

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 my Career**map**

Performance, Investment and Rewards Calibration (PIRC) Process

Prepare

Review employee performance based on:

- Recent performance
- Sustained performance
- Demonstrated FE Behaviors and Core Values
- Critical knowledge
- Potential/future contribution
- Degree of impact
- Demonstrated growth in knowledge, skills and behaviors

Calibrate

Calibrate performance across business units to ensure fair and consistent process

Allocate

Determine which investment and reward options to use

- Invest in and reward employees based on performance and employee preferences aligned with FirstEnergy's pay-for-performance philosophy

Performance input definitions

- **Recent performance:** Achievements of past 12 months
- **Sustained performance:** Achievements of past 36 months
- **Critical knowledge:** Subject matter expertise in areas essential to FirstEnergy
- **Degree of impact:** Level of effect the employee has on the business unit
- **Potential contribution:** Future ability to grow, influence and impact FirstEnergy
- **FE Behaviors and Core Values:** Our core values and behaviors
- **Demonstrated growth in knowledge or skills:** Level of continuous improvement

Employee	Recent Performance	Sustained Performance	Critical Knowledge	Degree of Impact	Potential Contribution	FE Behaviors and Core Values	Demonstrated Growth in Knowledge or Skills
1	High	High	High	High	High	High	High
2	High	High	High	High	High	High	High
3	High	High	High	High	High	High	High
4	High	High	High	High	High	High	High
5	High	High	High	High	High	High	High
6	High	High	High	High	High	High	High
7	High	High	High	High	High	High	High
8	High	High	High	High	High	High	High
9	High	High	High	High	High	High	High
10	High	High	High	High	High	High	High

Performance input worksheet example

Performance / Anderson, Charles D - Transmission VM

Reports Tree: Anderson, Charles D Employees: Show Direct Reports

Employee Name	Recent Performance	Sustained Performance	Demonstrated FE Behaviors and Core Values	Demonstrated growth in knowledge, skills and behaviors	Critical Knowledge	Degree of Impact	Potential/Future Contribution	Performance Level Overview
Fisher, Jacob A	5	5	6	5	4	5	5	35
Freedman, Roger F	4	4	5	4	5	4	4	30
Muir, Jr, Ronald L	4	5	5	4	4	4	3	29
Smith, Rebecca L	4	4	5	3	2	3	2	23

Important to coach leaders that the total score is "just a number"

Leaders differentiate employees without a rating through performance calibration sessions

- Promotes fairness by providing multiple perspectives on an employee's performance
- Holds leaders accountable to each other for the evaluation of employee performance
- Drives a more consistent interpretation of what constitutes strong individual performance within the organization
- Helps differentiate talent and determine employee investments and rewards based on our pay-for-performance philosophy
- Ensures organizational compliance related to compensation decisions

Calibration of employees example

- Calibration Session

- Review business unit's investment continuum
- Engage in open, honest dialogue about placement of employees
- Make changes to inputs based upon discussion

Calibrate / Manager A / Organizational Unit A

Reports Tree: Anderson, Charles D | Employees: Show Direct Reports | Cycle: 2017 Q4 PIRC - 2018...

Employee Name	Title	Org Level 3	Job Grouping	9 Block as of 10-12-2017	Performance Level Overview	PIRC Session Note
Employee A	Supv, Transmission VM	Vegetation Manag.	Supervisor	5	35	
Employee B	Supv, Transmission VM	Vegetation Manag.	Supervisor	4	30	
Employee C	Supv, Transmission VM	Vegetation Manag.	Supervisor	5	29	
Employee D	Admin Tech II	Vegetation Manag.	Administrative		23	

Investment and Reward Differentiation

Calibration All | Calibration Leader | Calibration Exempt | Calibration Non-Exempt

Calibration continuums for Leader, Exempt and Non-Exempt employee groups are easily visible when exported into excel

After calibration:

Determine investment and reward mix



Investment and reward roadmap example

- With the Investment and Reward Roadmap, leaders can differentiate investments and rewards throughout the year

Investment and Reward Differentiation	Employees	SAP ID	Investments and Rewards											Notes							
			9 block as of 10/10/2016	Reward Check In Increase	Discretionary Award	Monetary Recognition (such as gift or gift card)	Non-Monetary Recognition (such as verbal, written letters, lunch)	Additional Time Off	Volunteer Opportunities (not requiring p (0)	Promotion	Discretionary Base Pay Increase	Opportunity for "Acting" Role / Leading Project	Work Conditions (work from home / window seat / flexible schedules)		External Training (such as Seminars and Conferences)	Mentor Relationship	Development (such as internal training, rotational assignment, Knowledge Transfer)	Exposure (such as presentations, leadership function job shadowing)	Other (Travel/Conference/ etc.)		
	Employee D	00000	2	0%																	
	Employee C	00000	5	0%																	
	Employee E	00000	7	0%																	
	Employee B	00000	4	0%																	
	Employee H	00000	5	0%																	
	Employee F	00000	5	0%																	
	Employee A	00000	4	0%																	
	Employee G	00000	2	0%																	

- Roadmap utilization continues to be a work in progress and presents an opportunity for continued improvement

2018 Pay-for-Performance outcomes

- Top 20% of employees on the investment continuums received on average 1.8 times the increase of the Middle 70%
- High potential (7-8-9) exempt employees on average received a 2.2% higher increase than other employees versus 1% from last year
- Pay-for-performance increases are consistent across performance levels and job levels
- 7% of employees did not receive an increase compared to 8% from 2017



2018 Pay-for-Performance summary

- Be proactive in ensuring leaders do not receive disproportionate amount of allocations
 - We reviewed job groups to ensure differentiation across performance levels and allocations were applied consistently

Average Increase Allocated by Performance Level and Job Group			
Performance Level	Employee Job Group		
	Leader	Exempt	Non-Exempt
Top 10%	5.4%	5.3%	5.4%
Next 10%	4.5%	4.3%	4.6%
Middle 70%	2.8%	2.6%	2.6%
Bottom 10%	1.3%	1.0%	1.1%

What has worked well?



- ✓ Differentiating pay based on performance
- ✓ Improved performance discussions
- ✓ Feedback from focus groups and surveys helped determine what was working well and identified opportunities for improvement
- ✓ Beneficial changes have been made to the process
- ✓ Training was provided to employees and leaders

Opportunities for improvement

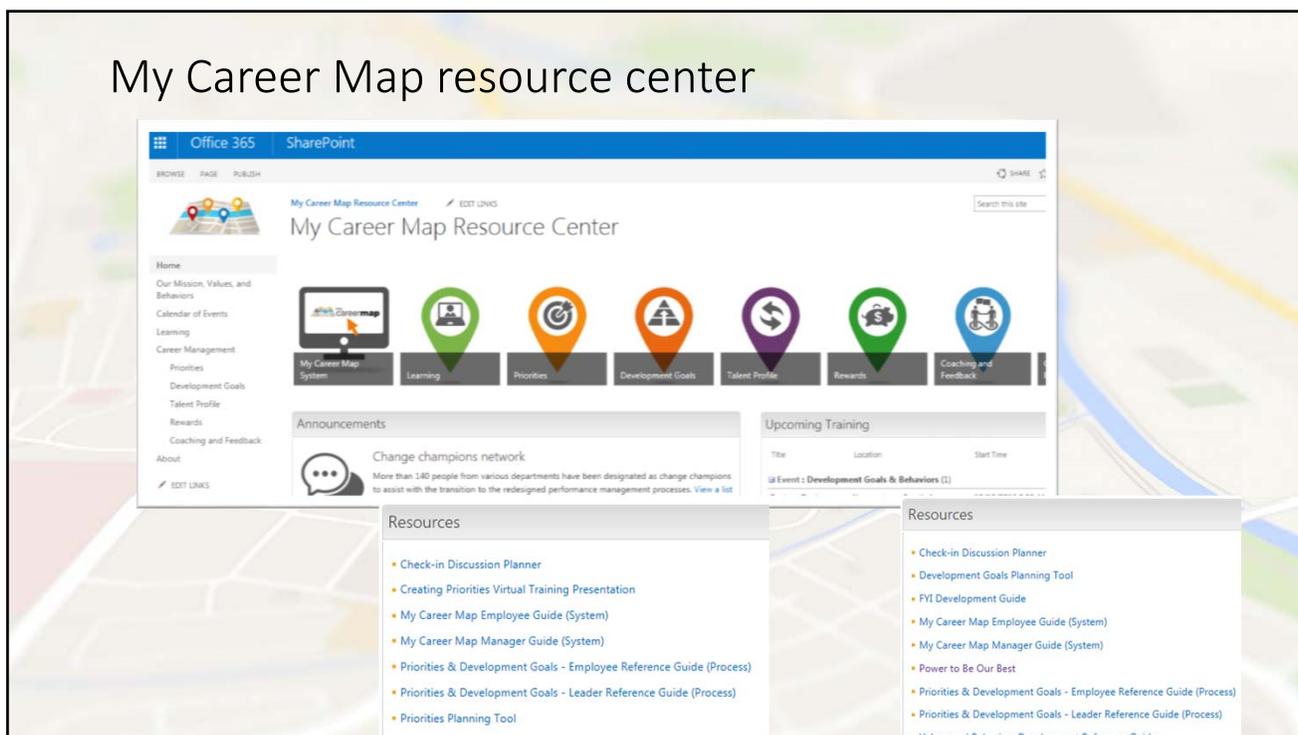
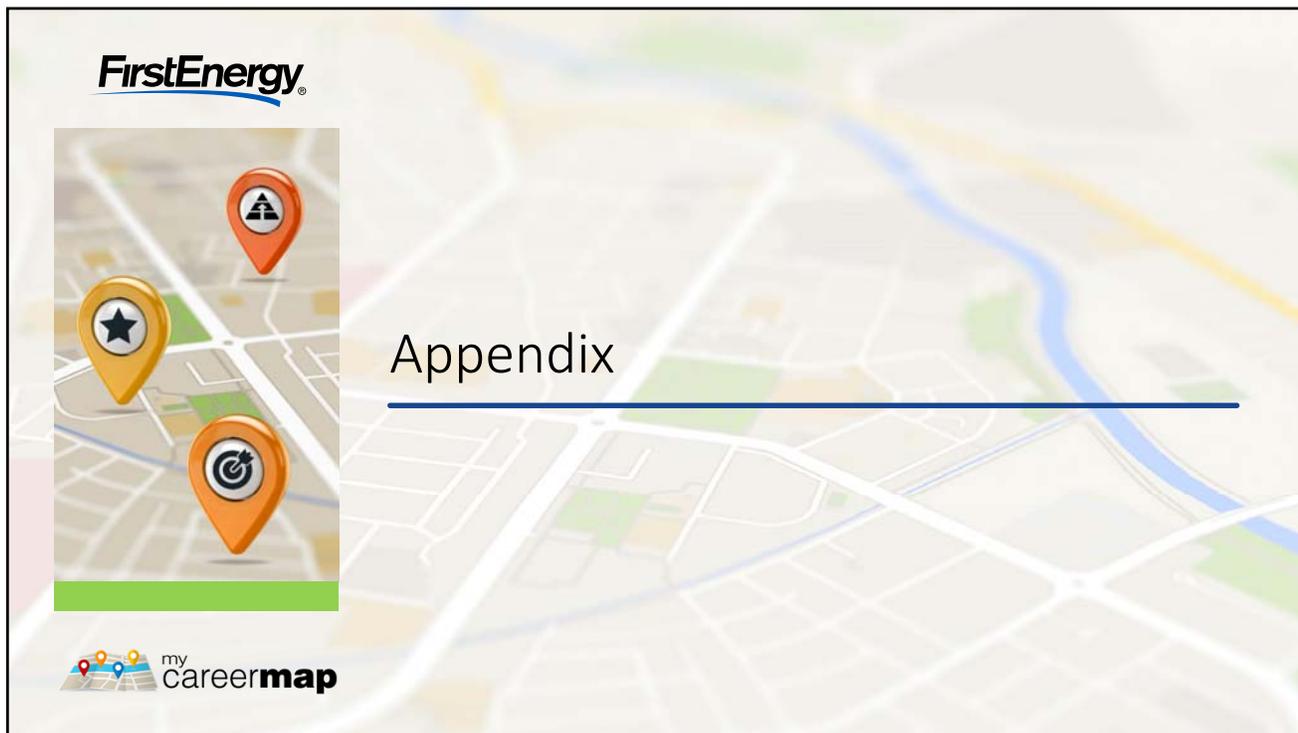


- Leverage additional investments and rewards (e.g., Investment and Rewards Roadmap)
- Determine the appropriate balance for transparency in your organization
 - Process, continuum placement, “score”
- Training and Education
 - Continued education to help shift the culture

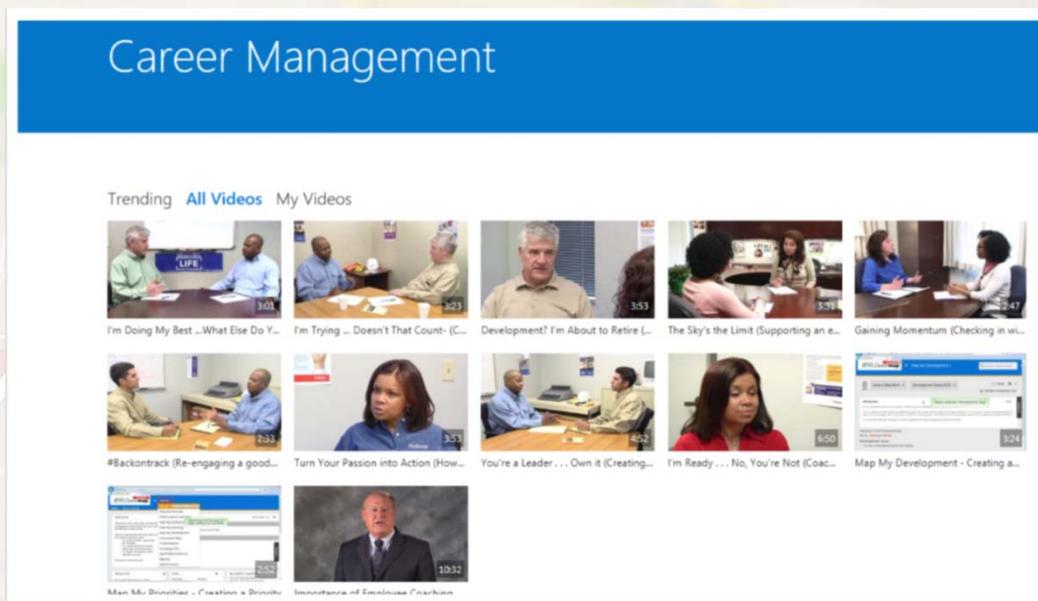
Key takeaways – summary



- Clarify the culture change that’s needed
 - Define how it fits with talent management practices
- This is the right process for our highly engineering and process-focused culture
- Gathering feedback from leaders and employees at the end of each process was valuable and helped us understand the changes we needed to make
- Be proactive on deciding how transparent to be with employees



My Career Map video channel



Our Core Values – What Matters To Us

Safety • Customers • Diversity & Inclusion
 Innovation • Performance • Social Responsibility • Teamwork

Behaviors – How I Contribute To Our Success

Courage • Integrity • Openness • Ownership • Trust