Plan | Talk | Thrive: Shifting Focus from Ratings to Contribution

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PPL At A Glance
As a FORTUNE 500 company and one of the largest utility companies in the United States, we are committed to providing essential energy in extraordinary ways, and we deliver.

- $7.4 billion in annual revenue
- More than 10 million utility customers in the U.S. and U.K.
- More than 12,000 employees
- About 8,000 megawatts of regulated generation capacity in the U.S.
- Approximately 218,000 miles of electric lines
- 192 billion kilowatt-hours of electricity delivered
The business case for change

Our business was evolving:
- Decreasing load growth
- Changes in the leadership team reporting to CEO (CFO, CHRO)
- Strategic Workforce planning and changing resource needs

We identified trends in the industry:
- Cases of companies changing Performance Management
- Coaching and the evolution of the role of manager
- Focus on engagement

Growing concern that our current Performance Management process:
- Was cumbersome and time-consuming
- Was overly focused on past performance and doesn't focus on development enough
- Was compliance-driven and mostly dedicated to determining and communicating a rating
- Did not result in meaningful differentiation in terms of performance ratings or merit pay increases

The current state was at a standstill and the need for change was evident

There was growing consensus on the need for change

We had growing evidence that employees and managers desired a process to support them in:
- Having more frequent, future-focused, development and career-oriented discussions
- Having minimal, if any, focus on rating past performance, but more focus on the contribution, value and impact an employee makes for PPL
- Simplifying the process and having to complete less documentation
- Understanding how performance is tied to pay – or not
- Having conversations that create a more positive experience, and are motivating and engaging

And we knew that any change to the process must deliver a return to the business by:
- Getting the most from our people especially as PPL operates as a leaner and flatter organization
- Generating a high performing and engaged workforce
- Enabling a culture of accountability and collaboration and a culture in which employees and managers can bring their “whole and best self” to work everyday
- Delivering on our employment brand so PPL continues to attract, engage and retain the best talent

Growing consensus led to our epiphany moment and there was no going back
Stakeholders had defined expectations for the new process

Desire for a process that supports employees in:
- Having more frequent / "real time" and informal conversations about their development and growth with the company
- Having more ownership of their performance and career and placing less focus on their rating
- Understanding how performance is tied to pay – or not
- Having conversations that create a more positive experience

Desire for a process that supports managers in:
- Being more skilled in having more frequent, future-focused, development-oriented discussions with employees
- Requiring less documentation
- Minimal, if any, focus on rating past performance
- Motivating and engaging employees through performance conversations

Desire for a process that supports PPL as a company in:
- Getting the most from our people especially as PPL operates as a leaner and flatter organization
- Having a higher performing and more engaged workforce
- Having a more inclusive, learning & development-oriented culture
- Contributing to an improved employment brand that enables PPL in attracting, engaging and retaining talent

With all the stakeholders on board, excitement started to build

External trends consistent in the desire for change

- Many organizations are revamping long-standing approaches, with a focus on simplification and emphasis on employee development, employee experience and on differentiating highest performers
- Companies are instituting processes that are less formal, require less rigid documentation and encourage more frequent conversations that are part of on-going dialogue between managers and employees

Organizations are looking for performance management to be future-focused, coaching-centric and holistic

The Myth
Performance management shouldn’t be cumbersome … and that means less time spent on the process

The Fact
The typical global manager devotes time to performance management equal to 0.2% of the hours a typical full-time employee works in a year.

The Goal
Benchmark is 7 - 8 hours per employee per year that a manager spends on managing performance to achieve the full benefit of any performance management process … but that is through meaningful performance dialogue, not exhaustive documentation

A focus on neuroscience has brought performance management into the spotlight

Brain research shows that when people make their own connections, discoveries and insights, they are more engaged and motivated to excel.

Partnering for insights means a different role for manager and employee.

The manager’s role is to assisting self-discovery, encouraging self-generated solutions, nurturing performance and reinforcing success.

The employee’s role is to be open to new learnings and a full partner in the discovery process.

Leaning into the science and analytics is addressing historic frustrations with performance management.

There is a compelling case being made for ratingless.

From...
- Competitive assessment
- Annual event
- Top down
- Individual contribution
- Significant paperwork
- Fixed mindset
- Overwhelming threat

To...
- Coaching and development
- Frequent conversations
- Shared responsibility
- Enterprise contributions
- Minimal paperwork
- Growth mindset
- Manageable threat

Understanding whether you can take the leap requires a hard look at where you are on the continuum of being a performance-based culture.
Despite the spotlight, the current state of performance management remains quite traditional

- Most are focusing on having more and better performance management conversations
- Few employers have gone or are considering going ratingless

Is your organization planning to make any of the following changes to your performance management process?

<table>
<thead>
<tr>
<th>Already taken action</th>
<th>Planning to take action</th>
<th>Considering taking action</th>
<th>Neither planning nor considering taking action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on increasing frequency and improving quality of performance conversations/dialogue between manager and employee</td>
<td>34%</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>Using performance management to evaluate/measure future potential</td>
<td>23%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Implementing new enabling technology (e.g., to support crowdsourcing or enable mobile platforms)</td>
<td>17%</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Eliminating performance ratings/scores entirely</td>
<td>5%</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>

PPL, after internal sensing and external research, took a leap of courage

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Common myths or concerns about going ratingless

<table>
<thead>
<tr>
<th>Myth / Concern</th>
<th>Reality Check</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay for performance can no longer exist</td>
<td>Pay for performance remains a key aspect of most reward philosophies</td>
</tr>
<tr>
<td>Performance is not assessed, labels and categories cannot exist, relative performance no longer matters</td>
<td>While a holistic rating is not applied, organizations must continue to clearly define and measure what “good” looks like in order to coach towards it. Compensation categories may be a feature of the pay for performance design</td>
</tr>
<tr>
<td>Performance is not documented and pay for performance is purely discretionary</td>
<td>“Ratingless” puts more reliance on managers to qualitatively document results. In an environment where employees expect more pay transparency and the legislative environment focuses on equity – good governance of individual differentiation makes sense for the business and the employee experience alike</td>
</tr>
<tr>
<td>The frequency of rewards should match the pace of performance conversations</td>
<td>The goal is to “decouple” the conversation, so this may not be the case. That said, the concept of a “continuous” bonus pool and better use of spot awards may be appropriate for some segments and environments</td>
</tr>
<tr>
<td>Pay for performance takes less manager training</td>
<td>Manager capability if communicating the “why” of rewards is more important than ever</td>
</tr>
</tbody>
</table>

PPL took a leading edge approach to adopt ratingless with an awareness and a plan to mitigate pitfalls
PPL and Willis Towers Watson partnered on design and delivery of the change

**Project Structure & Roles**

**PPL Team**
- Provide organizational context, history and expected latitude for change
- Gauge the pulse and culture of the organization
- Collect internal research and perspective
- Manage stakeholder engagement
- Deliver communications and training
- Implement and sustain the effort

**Willis Towers Watson Team**
- Provide external research, perspective and best practices related to performance management, pay linkage, learning, communications and change management
- Facilitate the design and implementation planning of the change
- Conduct survey research and focus groups
- Provide project management support

**Performance Management transformation is a significant undertaking requiring appropriate governance and partnerships**

Collecting voice of the customer was a turning point in the design process

Focus Groups and a Survey were deployed across PPL EU and PPL Corporate Services to better understand what was working well and what could be improved in the current process

A total of 75 individuals took part in one of 12 two-hour focus groups with a mix of employees and managers from each PPL EU Super Region, PPL EU in the GO and PPL Corporate Services

A survey was distributed to all non-bargaining unit employees in PPL EU and PPL Corporate Services with a total of 351 respondents

It was important to listen to employees and meet them where they are to successfully navigate the change
The direction for change was crystalized with this employee and manager input

Current State

Ideal State

Guiding principles for designing Plan | Talk | Thrive

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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>The new performance management process will drive performance excellence across PPL</td>
</tr>
<tr>
<td>2</td>
<td>The process will provide a return on investment to the company by further engaging employees</td>
</tr>
<tr>
<td>3</td>
<td>The process will have greater focus on employee development and career progression</td>
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<tr>
<td>4</td>
<td>The process will create an engaging and valuable experience for both manager and employee</td>
</tr>
<tr>
<td>5</td>
<td>The process will be simplified and provide greater flexibility for our employees and managers</td>
</tr>
<tr>
<td>6</td>
<td>Employees and managers will trust the process – it will be seen as a process of integrity</td>
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<tr>
<td>7</td>
<td>The process will change in tone from being a process of control and governance to a process that promotes development, accountability, collaboration and inclusion</td>
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<tr>
<td>8</td>
<td>The process may change over time to reflect changing needs of the organization, further insights from voice of the customer, and employee and manager readiness</td>
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Having guiding principles articulated and agreed upon by all helps anchor the design of your new process
The redesigned process with a new look and feel was born

**plan | talk | thrive**
Partnering for OUR SUCCESS

The new process was focused on broader topics than just the what and the how

**Four ‘Talks’ annually to address:**

- **Goal Setting & Alignment**
- **Current & Overall Results**
- **Highlighting Impact**
- **Ideas for Further Contribution**
- **Importance of each Value**
- **Observations of Values & Behaviors**
- **Growth or Change Needed**
- **Drives & Motivators**
- **Strengths & Development Areas**
- **Interests & Aspirations**
- **Potential Career Paths (if applicable)**
- **Steps to Get There & Support Needed**
- **Level of Connection, Engagement & Fulfillment**
- **Feeling Safe, Valued & Accepted**
- **Risks & Needs Identified**
- **Gratitude & Encouragement**

This is how we operationalized “taking a holistic view”
The technology system was rebranded, reorganized and simplified

The change was managed through a rigorous process

Thoughtfully Organized
Our phased approach means we take care to consider all angles of change, then build our plan, and then check back regularly to make sure it’s working. If it’s not, we improve it.

Focused on Outcomes
We never lose sight of two basic, incredibly important goals — ready, engaged employees and the business results you need for the future.

Based on Solid Fundamentals
The best laid plans require careful attention to the basics, and adaptability to the reality of an always changing business climate.

Six Levers at the Core
Grounded in our research, the change levers are proven to build momentum toward real, meaningful change adoption. They’re fundamental, and missing one weakens the entire model.
Performance management change road map for year one

Manager and employee training was provided to help shift the paradigm on the meaning of performance management.

Session Objectives & Agenda

- By the end of this session you will be able to:
  - Describe the components of each Talk
  - Demonstrate the skills needed to conduct each Talk
  - Identify what to discuss at the first talk with each direct report

- Manager or Trainer
- The Trainer

Performance feedback: falls into 3 categories

- Prada: A positive experience, constructive, and foundation for future development
- Learning: A positive experience, constructive, and opportunity for learning
- Damage: A negative experience, constructive, and opportunity for learning

WorldatWork 2018 TOTAL REWARDS Conference & Exhibition
Additional resources were provided to equip managers and employees in the new process.

Compensation changes

- Our new outlook on performance management allowed us a unique opportunity to take a fresh look at our compensation management approaches and make changes taking effect in 2018.
- What's changing?
  - Defined approach for base salary increases that is simpler and market driven
  - New approach for identifying top performers
  - Defined guidelines for differentiating incentive awards
- What's not changing?
  - Top performers will continue to receive meaningfully higher incentive compensation
  - PPL will continue to ensure our compensation levels are competitive by benchmarking against our industry and talent competitors
  - Incentive plans will be funded in the same manner
We’ve sustained three components of total compensation

**Base Salary**
To reward based on market rate of the position relative to required experience, skills and accountabilities.

**Annual Cash Incentives**
The “at risk” component intended to align the employee’s pay with performance (PPL, Business Line and their own) and motivate and reward corporate performance over the short term.

**Long-Term Incentives (if eligible)**
An additional “at risk” component for senior-level positions with the ability to impact PPL’s strategy and long-term business performance, to align shareowner interests while rewarding longer-term performance and encouraging retention.

Managers aggregate a series of inputs to determine an employee's performance

**Your Own Observations**

**Employee’s Goal Completion and Other Achievements**

**Plan | Talk | Thrive Discussions**

**Feedback Provided by Others**

Performance will be assessed in an objective and relative manner:
1. Managers evaluate each employee based on holistic definition of contribution
2. Managers assess that employee’s contribution relative to the full team
3. Managers come together in calibration to assess each employee relative to others in similar roles
The path forward

PPL is committed to maintaining a process that:

- Is simple, transparent, and understandable
- Is flexible in its design – we will continue to iterate as needed
- Complies with regulatory requirements
- Aligns to the voice and needs of our customer

In conclusion, we learned the value of HR listening and evolving

The moral of the story – our HR programs need to change at the same pace as our business

Lessons Learned

- Identifying stakeholders and understanding their perspectives from the very beginning pays off
- The value of an external thought and design partner was crucial to momentum and success
- It’s easy to underestimate the scale and complexity of this type of change – this was about shifting culture
- Listening to employees and managers paved the way for early adopters
- Setting the expectation of “test and iterate” upfront gave all the breathing room to try new things
- A collective HR effort made all the difference
Questions