

Medtronic's Contrarian Journey

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The Benefits and Perils of Performance Management

Over the last several years, performance management (PM) has had more than its “15 minutes” of attention. Even nontraditional human resource (HR) publications, including some of the largest media outlets in the world (e.g., *New York Times*, *Vanity Fair*, *Harvard Business Review*, *Wall Street Journal*) have published articles touting the benefits and perils of the PM system. Critics viewed PM as an archaic holdover from the Industrial Age that needed a dramatic transformation or even death if companies were to be successful (Eichenwald, 2012). The rhetoric was similar across articles, as were the statistics used to build the case for change. During the peak (or maybe the trough), Mercer's (2013) Global Performance Management Survey showed that only 3 percent of organizations said their performance management system delivered high value. The conclusions were simple: Executives, managers, and employees did not have a positive perception of their PM system.

In a 2013 *Harvard Business Review* article, Marcus Buckingham stated that we “obviously need a new system” when PM was cited as a contributor to the decline of the Microsoft organization (Buckingham, 2013). After evaluating, building, and owning PM systems at multiple organizations, Buckingham's experience has been that these systems fail most when they are perceived as not having a clear purpose or not being effectively executed. To fully harness the benefits of PM, two things need to be better addressed: (1) design approaches that holistically account for the context of the organizational environment and (2) sustained investment in building the right skills and competencies to execute with a focus on outcomes for the employee, the manager, and the organization. When organizations do not consider their business needs or context, it becomes difficult to be clear on purpose and design requirements. Simply benchmarking and adopting current trends will likely lead to a system design that is not relevant for the environment where

it will operate. In other words, what may be “best practice” for one organization could be “worst practice” for another.

Ineffective execution of the process tends to be most prevalent when managers (1) are unable to set clear expectations, (2) do not regularly communicate, (3) provide low-quality or irrelevant feedback, or (4) reward employees in a biased or nontransparent manner. Even the best designed, fully technologically enabled systems cannot fix a bad manager. At the same time, we have witnessed many instances where great managers will overcome any poorly designed system. In our view, and what we built into our approach at Medtronic, is that organizations are overindexing on designing the latest and greatest, and not enough investment is going toward managing the change, specifically building the related leadership capabilities required for success.

Performance Management Generation 2.0 (Circa 2010): A Stalled Start

In 2010, Medtronic made the decision it needed a change in its PM system. It had identified all the common challenges that we hear today from organizations looking for a restart. The desire was for greater employee and manager engagement with the process, resulting in higher quality performance and development coaching. Managers sought more time back from the formal process, wanting to redistribute that time to more frequent and informal feedback sessions. Employees wanted to be recognized for their contribution and their rewards to be differentiated from their peers based on their comparative performance. Ratings were perceived as a distraction during the feedback discussion, and management did not believe they were an accurate reflection of performance anyway. It is also important to note that at this time Medtronic's operating model was decentralized; therefore, centralized talent management processes were not prioritized.

As a result, the design for Medtronic's new system focused on three key changes: (1) moving to quarterly performance discussions, (2) simplifying the global process and form, and (3) eliminating performance ratings. Quarterly conversations were designed to get feedback closer to performance progress. The intent was to have more informal (i.e., less paperwork) and frequent conversations. Removing ratings was done to increase the employee's engagement in the process, increase the acceptance of performance and development feedback, and improve the overall performance conversation.

Initial feedback from the organization was mixed. Some were uncertain, some were initially negative, but the majority were optimistic. As employees and managers continued to implement the process, feedback continued to be positive.

Despite the preliminary encouraging reaction from the organization, those results were not sustained long term. By 2013, the key outcomes the organization wanted to improve had not materialized and, in some cases, had declined to preimplementation levels. Employees reported poor quality, or lack of, performance conversations. By removing the ratings, some managers decided that they no longer had to conduct reviews. It was clear within the first 2 years that the quarterly discussions were no longer occurring at the intended cadence, creating inconsistency in both the adoption and the quality of the process. Employees started to believe that the pay-for-performance link was broken; in some cases, they were not wrong. While HR could demonstrate that pay differentiation was happening, there was a perception that higher rewards were not always going to the higher performing employees. Also, due to the lack of reviews and ratings, employees did not always have a clear understanding of their performance. Overall, lack of transparency and consistency across the organization was a significant challenge. From the organization's perspective, not having a standardized approach that included calibrating performance made it difficult to effectively execute any talent management processes.

By the end of 2014, it was obvious the desired outcomes and intended value of the new system were not being achieved as originally planned (Figure 4.1). Instead, the outcome of this system design and implementation resulted in (1) inconsistent practice and application of goals, feedback and coaching, performance evaluation, and reward planning; (2) declined employee engagement, especially in areas with a performance and career focus; (3) lack of transparency around how employees were performing and how they were paid; and (4) no enterprise operating mechanisms to run the organization at scale.

In addition to the current system challenges, there was also a significant business transformation on the horizon that would magnify these issues if not corrected. In the end, while the intent was to improve the effectiveness and engagement of employees and managers, the design and execution lacked the supporting elements to sustain the change. While initial momentum was established against the objectives, over time Medtronic employees ultimately lost more than they gained from the change.

IMPACT AT MEDTRONIC EXPECTATIONS VS. REALITY

EXPECTATION	System Reset	REALITY
Simplified Process and Forms		Inconsistent Process
Extra Time Spent on Informal Feedback		Time Decreased on Conversations
Quality of Feedback will Increase		Conversation Quality Decreases
Increased Transparency of Pay		Lack of Pay Transparency and Differentiation

Figure 4.1 Impact at Medtronic.

Performance Management Generation 3.0 (Circa 2015): When the Business Calls

In 2014, there were two large-scale transformative initiatives occurring within Medtronic that would fundamentally change the operating model for the organization. First, we recognized that we needed to transform how we operated the organization, from a decentralized structure to a more centralized one. Historically, the business groups operated as separate entities, each creating its own unique structure and capabilities. After years of operating in this environment, many of the individual programs residing in the businesses were too specialized to scale across the organization. To truly leverage the breadth of the global enterprise and address larger industry factors, the business identified an opportunity to operate at scale as a competitive advantage we had not optimized in the past. An enterprise initiative began to leverage our global size, scale, and breadth to improve effectiveness and drive sustained productivity for customers, employees, and shareholders. This effort would ultimately require a robust transformation of Medtronic's operating model.

LEADING THROUGH CHANGE

A TALE OF TWO COMPANIES CIRCA 2015

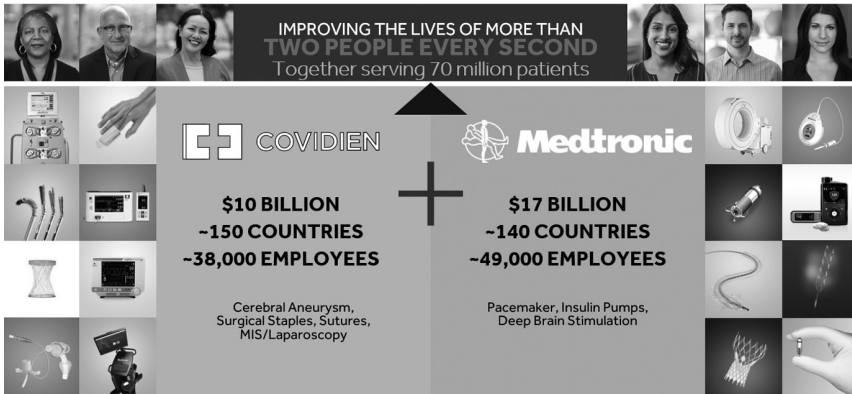


Figure 4.2 Leading through change.

Then, in June 2014, Medtronic announced it was acquiring Covidien in a \$50 billion acquisition. This second catalyst would double the size of the company from 50,000 to 90,000 employees, \$10 billion to \$30 billion in revenue, and a market cap of \$60 billion to \$120 billion (Figure 4.2). This acquisition would accelerate transformation work across the enterprise for the next several years.

Both large-scale transformation initiatives required us to rethink how we were organized, redefine the desired culture, and manage the talent across the enterprise differently. For our HR function, this meant evaluating each one of our core systems against a set of future-oriented success criteria. To be successful at meeting the future needs of the business, we would need to harmonize, standardize, and scale each of them in an integrated method. After a quick inventory, we identified multiple legacy talent management systems being utilized that would need to be reconciled. The PM system was identified as a priority given its scope and potential impact on other HR programs. And this time, the business was driving the need for the PM restart. In fact, the business was the sponsor of it.

Building a Platform, Not a Process

As a direct result of the integration and transformation, a broader opportunity was presented not only to reengineer the PM system, but also to establish

a more robust and integrated foundation with implications for other HR systems. In other words, the aperture was open to drive greater value across the HR function by creating an entire HR platform, not just a single process.

Research, including our own internal organizational health data, repeatedly demonstrated that what matters most to employees are career development, feedback, recognition, and meaningful work. It is what keeps people engaged and committed and ultimately leads to a greater willingness to expend discretionary effort and drive higher performance. Using this knowledge as our foundational belief, we set out to design a system that could serve as a base for which other core HR applications are developed and deployed. To ensure it would seamlessly scale across HR, we identified six building blocks: PM, rewards and recognition, leadership competencies, diversity and inclusion, organization and talent planning, and our career development framework (Figure 4.3).

Designing the next generation of PM at Medtronic would require a coordinated top-down and bottom-up approach. Our chief executive officer (CEO) and chief human resource officer became our executive sponsors, while the Medtronic Executive Committee, company officers, and vice presidents all undertook roles as key stakeholders. Throughout the design, build, and implementation of the new system, our Executive Committee would be actively involved in the process through quarterly reviews. At the same time, the voices of our collective 90,000 employees were providing valuable insights into what was working and what needed to be fixed from their perspective. Employee engagement surveys, acquisition integration surveys,

BUILDING BLOCKS FOR HR

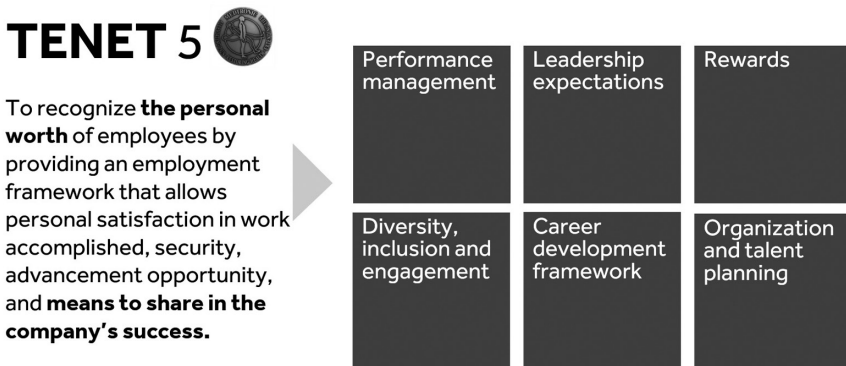


Figure 4.3 Building blocks for HR.

and HR transformation work provided plenty of data and insights to guide our thinking (Figure 4.4).

Leveraging the voice of the employees, and with input from key stakeholders, our core design principles were established. These principles would serve as a design framework, ensuring we were able to meet the critical endpoints and achieve our overall objectives.

1. Start with what works: Research demonstrates that having specific elements in a system will drive better performance outcomes. A system that maintains high effectiveness over time accounts for (a) establishing individual goals that improve focus and are meaningful; (b) providing real-time, ongoing feedback through quality conversations; (c) developing people toward their career aspirations; and (d) differentiating rewards to recognize value-added performance in a transparent way.
2. Business context and culture matters: Our system must prioritize the needs of Medtronic and consider the current and future requirements of the organizational environment.
3. Build manager capability: Success of the system is not dependent on the process itself but on how well the manager and employee are able to execute it. The design of the system must support building skills and abilities over time.

PERFORMANCE MANAGEMENT
WHY CHANGE: DESIRED OUTCOMES



Figure 4.4 Performance management.

4. Walking the talk: Expectations need to be set and modeled at all levels of the organization. The right behaviors must be demonstrated at the top, with an opportunity to teach and cascade through the organization.
5. Simplified and integrated approach: PM, career development, and rewarding employees are three interdependent areas that should be seamlessly integrated into an annual process.
6. Invest for the long-term: Building the right discipline and skill will require a longer term commitment. Both the system and the change management approach should be designed accordingly.

Over the course of 12 months, an internal design team used an iterative approach to build the new PM system. A few key decisions were made early that would define the core elements of the system. First, it was determined that we would return to a more formal annual cadence. We needed the organization to be aligned on an enterprise-wide calendar that was predictable and repeatable for all employees. Second, we would introduce the concept of dual performance goals, known as the “what” and the “how” of performance at Medtronic. Historically, the organization’s focus leaned on business performance with a bias for financial metrics (the what). However, to successfully integrate two companies and operate at scale while building a winning culture, we would also need to set expectations and hold ourselves accountable for the right behaviors (the how). The third design decision was to reintroduce ratings during the year-end performance review. To address the employees’ call for more transparency, satisfying both how they were performing and were rewarded, ratings would need to be incorporated. Ratings would also provide the line of sight the organization needed to ensure we had the right inputs for organizational planning and investment decisions. Finally, we elevated the focus on career development as a driver of engagement and sustained performance over time and tied performance, development, and rewards together in a seamless annual process for all employees globally. This was a win for employees who expected a clearer path to career development and advancement, as well as a win for the organization looking to improve the health of our talent pipelines. It also established a broader HR platform from which other programs would be developed and deployed.

Today’s annual process is set around three milestones anchored to the fiscal year operating calendar (Figure 4.5). At the start of each fiscal year, the organization establishes clear and aligned goals, both what and how. During the midyear period, managers and employees engage in a conversation primarily

PERFORMANCE AND CAREER DEVELOPMENT PROCESS

3 PRIMARY CONVERSATIONS



Figure 4.5 Performance and career development process.

focused on their career aspirations and development. Time in this conversation is also given for a goal and performance progress check-in. During year end, a formal performance review and reward-planning conversation occurs to close out the annual fiscal cycle. Ongoing informal feedback and coaching conversations are expected to occur in real time throughout the year. While we decided to be less prescriptive in how managers would operationalize this element of the system, we maintain the belief that continuous feedback, closer to the performance activity, holds some of the greatest value. This notion is addressed and reinforced throughout our manager training and development programs.

One of the most complex challenges in the design was sequencing the various elements of the year-end performance review and incorporating it into a timeline that would satisfy the various global requirements. For example, this included payroll dates to meet country-specific employment laws (Figure 4.6).

We also faced competing priorities between keeping it simple and creating the right supporting mechanisms while we built managerial competence. One example of this was our one-over review process. During this step, a people leader would meet with the manager to review the performance feedback for their direct reports. The manager may also choose to review feedback for employees two or three layers deeper. The intent of this action was three-fold. First, it was designed to inspect what we expected of our people leaders. One-over managers would review the quality and accuracy of the feedback being provided to employees. Second, it provided the one-over manager an

YEAR-END PERFORMANCE AND REWARDS PROCESS TIMELINE

1	2	3	4	5
EMPLOYEE Completes Performance and Development Summary self- evaluation	MANAGER Completes Performance and Development Summary manager evaluation	ONE-OVER MANAGER Reviews and approves Performance and Development Summary	MANAGER Completes Rewards Planning Rollup and approval of Rewards Planning	EMPLOYEE + MANAGER Performance and rewards conversation

Figure 4.6 Year-end performance and rewards.

opportunity to coach and develop the people leader in real time. By repeating the one-over review, it forced the manager to model the approach, ultimately cascading the practice and behaviors through management layers in the organization. The third benefit was as a forcing mechanism created to operationalize one of our talent management goals of getting to know our talent better. The review provided the one-over leader an opportunity to become more familiar with talent deeper in the organization, providing them a better understanding of their performance and validating career aspirations.

Enabling People Leaders Through Capability Building

If our previous experience taught us anything, it was that our PM reengineering effort needed to be less about enabling a “system” and more about enabling managers (and employees) to take ownership and drive execution. We understood that just implementing the most advanced, the most popular, or the most progressive system does not fix or make up for people leaders with underdeveloped skills. From the beginning, we committed to a robust investment in the system itself in addition to the change management, communications, and manager development underpinning that system. To strengthen this belief, we first had to acknowledge that as an organization we had not set the right expectations with managers to lead others. And we needed not only to tell them, but also to demonstrate and hold individuals accountable for what would be required of them. This commitment would require us to make a significant investment in the training and tools managers

had available to them. If we were going to ask our leaders to fundamentally operate differently, then we needed to provide the requisite resources to enable that change. This belief would shape the vision for the investments needed and how we would sustain that obligation over several years.

Our 10,500 Medtronic managers play an important role in communicating direction and aligning the organization, have a clear link to driving employee performance in their current role and recognizing peak performance that motivates future success, and are foundational to retention efforts and employees feeling they have worth and can achieve their career goals with us. We have a fundamental expectation of managers to initiate conversations with their teams and be adept at providing accurate and timely feedback and coaching and developing their people. Medtronic embraces an enterprise business strategy of world-class people management culture and process. Therefore, our HR strategy outlines a commitment to developing highly skilled, capable, and diverse leaders and fostering a culture that is performance driven and inclusive. To operationalize this strategy, we aligned and modernized our leadership development portfolio (Figure 4.7).

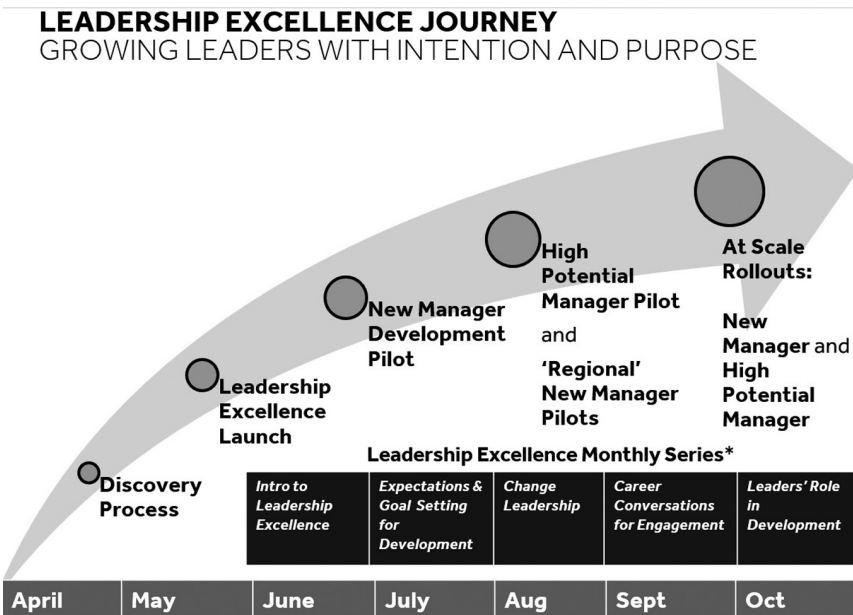


Figure 4.7 Leadership excellence journey.

In 2014, we took inventory of our existing curricula and identified approximately 200 leadership or personal development courses available to leaders looking for development. Many of these courses were very good and delivered excellent results. But, inconsistent and varied offerings were breeding inconsistent results and capabilities in our leaders—and in our teams. This was neither effective nor efficient and was misaligned with our broader operational strategy of leveraging our global scale.

This gap was also our greatest opportunity to refocus and rebuild one of HR's most valued assets. It gave us an opportunity to redesign in a more effective way, by focusing on what matters most, and become more efficient at the same time. Initially, our focus was on delivering a few core and consistent leadership development offerings, ensuring we established a solid foundation for manager skills and capabilities. As a result, we reduced our portfolio from 200 programs down to a core set of 13 programs that would launch globally to leaders over the next 2 years. Our CEO and Executive Committed challenged us to drive a commitment to equip all people leaders with a consistent approach and skill set. Therefore, we set an ambitious goal to get every manager enrolled in one of the programs, knowing this would take some time to complete. One of the new programs was targeted toward first-time managers to ensure our people leader philosophy was instilled consistently across the organization. Refreshing the leadership development portfolio was an enormous investment of both people and financial resources. However, it is a decision that we truly believed needed to happen and would pay for itself quickly.

Early Returns and Next Steps

We will complete our third full performance cycle in 2019 and early data collected from employee organizational health surveys, turnover studies, and talent management scorecards is promising. Significant advancements in our systems and processes have resulted in industry-leading programs and offerings that are building a culture of world-class people leaders. Today, our leadership development portfolio includes the award-winning program, *Enrich* for new managers. To date, *Enrich* has reached over 2,400 people managers with foundational leadership skills, as well as our on-demand development portal that is currently providing over 10,500 employees with 24/7 access to career and leadership topics. *Edge—A Path to Leadership Excellence*

is our signature program to ensure our 10,500 people leaders have foundational leadership skills for success. The Edge program strengthens what it means to be a great people leader at Medtronic by “level setting” all leaders on our expectations. It affirms that world-class people leadership is core to the Medtronic culture. Edge brings the Medtronic leadership competency model to life during a 1-day leadership simulation workshop, 4 hours of virtual facilitated learning on unconscious bias and change leadership, and 4 hours of self-paced e-learning modules over 6 months. The e-learning curriculum covers topics including effective coaching, rewarding performance, managing performance conversations, and more (Figure 4.8). We expect to train all 10,500+ people leaders globally in this foundational program by fiscal year 2021.

In parallel to upskilling our people managers, we have also invested in the ongoing development of our 90,000-employee workforce. We also launched *Career Development for All* resources and tools on our HR portal, with over 10,000 employees having already accessed the site. The on-demand learning portal is our first-stop and one-stop resource for access to our entire career development portfolio. It provides information related to the experiences, programs, and offerings to prepare and enable employees to grow and advance in their careers. Examples of topics that employees can research include (1) mastering your understanding of the Medtronic Career Development Framework, (2) identifying strengths and development opportunities, (3) developmental programs, and (4) professional resources—access



Figure 4.8 Edge development program.

to e-learning courses, business abstract series, and other professional service offerings.

Our overarching philosophy has been that getting to all people leaders early, often, and through multiple channels provides the best returns. We believe that great people leaders make a difference. Regardless of role, level, or experience, every people leader has opportunities to further develop critical skills in an array of areas, including coaching for development and managing performance.

To measure progress during the change, we established success metrics around leading and lagging indicators. Thus far, both sets of indicators are sending signals that suggest employees value the investment. Our enterprise engagement and inclusion indices are materially above our peer benchmarks at 76% and 75%, respectively. What makes these numbers even more compelling is that most organizations experience significant drops in engagement during periods of integration and transformation (Aon Hewitt, 2013). We have also impacted one of our most meaningful talent management metrics related to the health of our talent pipeline. Previously, our internal-to-external hiring ratio at director level and above was 50%/50%. Over the last 3 years, we have been able to increase our internal readiness and hire rate (relying more on internal promotion vs. external hires), shifting our ratio to 80%/20%. This is a huge win for our employees and organization and a clear sign we are more confident at developing talent internally.

More specific engagement items related to the performance and career development platform are also capturing positive trends, including (1) *I have clearly defined performance goals*, 83%; (2) *I had a meaningful career conversation with my manager*, 66%; (3) *my manager is an effective people leader*, 81%; (4) *my role and responsibilities are clearly defined*, 81%; (5) *my career goals can be achieved at Medtronic*, 70%; and (6) *the development opportunities help me improve my work performance*, 72%. Execution analytics, such as adoption and usage metrics, regularly exceed 97% across the enterprise.

Lessons Learned

Overall, the reengineering and implementation of Medtronic's performance and career development system has exceeded our expectations. From the beginning, we recognized it would be a marathon, not a sprint, to having a world-class PM system and culture. Although the investment in planning

and previous self-starts made for a smoother launch of the current system, there were several lessons learned along the way:

1. Organizational context is critical: Leverage best practices but apply only what is relevant for your unique operating environment.
2. Effectiveness first, then efficiency: Build an integrated and robust platform, not multiple random processes and programs. Ensure the appropriate investment to (a) start the competitive enabling work first; (b) meet the required level of capability for the user base to execute; and (c) start small and simple.
3. Define your business needs and customer needs: Every organization will have both business needs and customer needs that should be identified and defined. In some cases, the needs may be conflicting. Success requires balancing the trade-offs while managing the risks.
4. Prioritize: Business needs, customer needs, design elements, and focus areas will all need to be prioritized. You cannot do it all, so be willing to make the tough decisions.
5. Sustainability: Once the core elements of a process are established, ensure the sustainability of them (i.e., do not change them) to help build manager capability. This is especially true when it is an annual process, resulting in limited application opportunities.

Given the positive outcomes demonstrated thus far, we plan to stay the course with our current system and afford the organization the opportunity to advance its ability to execute. It is important that the current process continues to stabilize and settle across the organization as additional material change at this time could reset the advances that have been made. In the spirit of continuous improvement, we will continue to evaluate technology enhancements and simplification opportunities. While the current system is fully enabled through one of our HR technology platforms, the configuration is somewhat rigid and could be more closely aligned to our business processes. Opportunities to streamline content, navigation, and usability will be the focus. Specifically, we have identified some system enhancements, such as dashboards and reporting, app-based real-time feedback capabilities, goal-setting template simplification and automation, and matrix manager performance feedback as priorities that will help improve the user experience. Most

of these improvements are related to a technology system that is difficult to configure. With cloud-based solutions, which have multiple organizational clients on the same platform, this becomes an increasingly difficult challenge to reconcile.

We will also investigate ways to create more digital (i.e., mobile-friendly) and artificial intelligence (AI) enhanced solutions. As an example, one potential use of AI is through the creation of writing assistance. This enabled feature would help teach employees how to write clearer and more concise performance and development feedback. Another opportunity is using chatbots to provide on-demand answers and guidance to our most commonly asked questions.

Over the last 8 years, Medtronic initiated efforts to innovate its PM system twice. In both cases, the organization established the direction and priorities to improve outcomes for employees and the organization. While the first endeavor was not sustained, lessons were learned and applied to the design of the next-generation system. To date, the most recently implemented system is demonstrating early results that are achieving our expectations. While many variables contribute to the success of any program, our belief is that there are two primary factors that are driving our early success. First, accounting for organizational context (i.e., culture, environment) and business strategy as an input to establish your guiding principles is nonnegotiable. Second, investing time and resources to appropriately educate and develop the set of skills needed is important. It is not enough simply to design the best process or have the latest technology. Manager and employee interaction, and the quality of that interaction, is the point at which value is created. As we look toward the future, and as Medtronic continues to evolve as an organization, we anticipate the need for continued evolution and innovation in our PM system.

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