

# Performance Management at AbbVie

## Building a High-Performing Culture

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### Introduction

On January 2, 2013, AbbVie was born. It was a new, old company, with a vision to be recognized as a biopharmaceutical company delivering a consistent stream of innovative medicines that solve serious health issues and have a remarkable impact on people's lives. Now entering its seventh year, AbbVie has proven to be extraordinarily successful. Back in 2013, however, there was no guarantee.

In late 2011, Abbott Laboratories, a 125-year-old healthcare leader specializing in a diverse portfolio of healthcare products, including pharmaceuticals, diagnostics, medical devices, and nutrition, decided to separate into two companies. The new company, AbbVie, would focus on research-based biopharmaceuticals.<sup>1</sup> At the time, the Pharmaceuticals division had more than 50% of its sales dependent on one drug, HUMIRA®, originally developed to treat rheumatoid arthritis. At some point, it would face losing exclusivity of its patents. In the minds of some industry analysts, there was too little in the Pharmaceuticals division's research and development pipeline to compensate for the resulting shortfall, which led to the decision to divest.<sup>2</sup>

Analyst sentiment regarding the new company was mixed. Some took a bearish view of how a predominantly single-product company would stand

<sup>1</sup> Abbott. (2012, November 28). Abbott board of directors approves separation of AbbVie and declares special dividend distribution of AbbVie stock. *PR Newswire*. Retrieved November 17, 2018, from <https://www.prnewswire.com/news-releases/abbott-board-of-directors-approves-separation-of-abbvie-and-declares-special-dividend-distribution-of-abbvie-stock-181256061.html>

<sup>2</sup> Thomson, D. (Producer). (2011, December 9). Splitting the pharma [Video]. *Financial Times*. Retrieved November 17, 2018, from <https://www.ft.com/video/5b466353-06f8-3212-a7f2-3eb4a4f0ff3a>

up in a highly complex, fast-evolving biotech space.<sup>3</sup> For AbbVie, time would be of the essence. This new company had to emerge as an agile, entrepreneurial biopharmaceutical company that could quickly demonstrate its ability to deliver on its own.

Delivery meant gaining the trust and confidence of investors, providing outstanding shareholder return, and achieving the company's vision of being a biopharmaceutical company that produces a consistent stream of innovative medicines that solve serious health issues and have a remarkable impact on people's lives. To do this, AbbVie would need to drive performance of "on market" brands while demonstrating a robust research and development pipeline. AbbVie needed to hit the ground running.

### Three Types of Challenge

From a human resources (HR) perspective, hitting the ground running meant addressing three distinct "tiers of challenge." At its most basic, HR would need to establish new policies, programs, and systems for AbbVie. In many cases, contracts governed the time frame in which legacy HR services had to transition to AbbVie. The magnitude of reinventing each and every HR system was daunting. And while urgent, this was a specific and finite set of activities that were suited to an organization whose hallmark was execution.

The second, a more complex issue for HR, was the organizational development landscape. Out of necessity, a new company is designed at the senior level. There was no luxury of consulting widely on the skills, backgrounds, and experiences needed to populate an untested organizational structure that would house more than 20,000 employees. Teams had to be decided, roles allocated, and jobs defined for a company that did not exist. Designing an organization that could hit the ground running was challenging. Setting clear expectations, achieving role clarity, and driving high performance would be critical for AbbVie to succeed. Understanding the criticality of these issues made performance management (PM) a strategic priority (Figure 3.1).

<sup>3</sup> Abbott Labs and Abbvie—5 years later. (2018, July 2). *Seeking Alpha*. Retrieved November 11, 2018, from <https://seekingalpha.com/article/4185043-abbott-labs-abbvie-5-years-later>

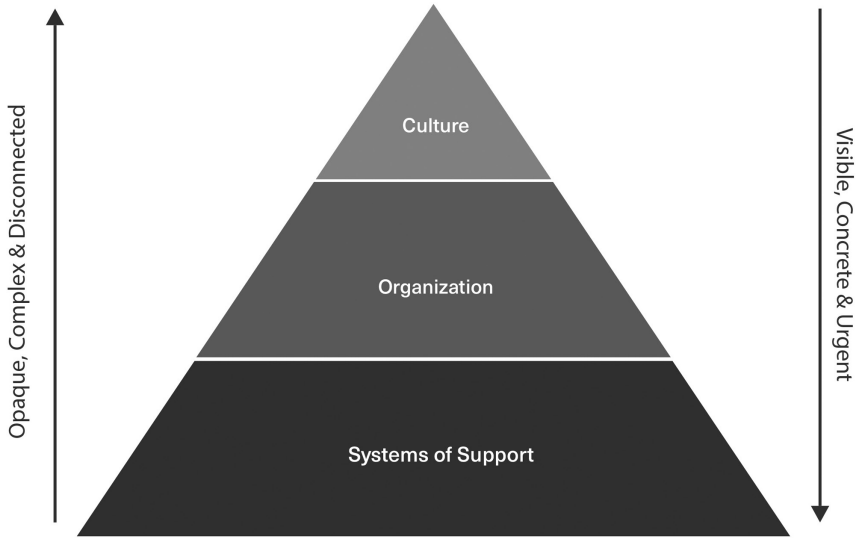


**Figure 3.1** Three tiers of challenge AbbVie was facing as a new stand-alone company.

The third, and most complex, challenge was cultural. Newly designated “AbbVie” employees would need to work differently. If AbbVie was to hit the ground running, it would need to act like a high-performing startup—collaborative, decisive, agile, courageous, and innovative. The importance of this culture was recognized from the outset, so much so that building it was one of only four strategic pillars designated at separation. While the cultural endpoint was clear, how it would be achieved was more opaque, especially amid the time-consuming requirements of setting up a new company. Adding to the ambiguity was guidance from outside experts, who cautioned that culture change could occur but would likely come slowly over many years.

### Design with Strategy in Mind

In many respects, these three significant challenges competed with one another for time, resources, and priority. It was clear that trade-offs would have to be made. But as the strategy began to emerge, it became clear that there was opportunity in the magnitude of the change AbbVie was undertaking.



**Figure 3.2** AbbVie's Ways We Work.

The strategic question became, Could HR leverage the need to redesign each and every system, including PM, to manage the organizational design challenges and accelerate development of the company's culture? In fact, the operational challenge of needing new systems and processes brought with it the opportunity to create organizational alignment and build a new culture through hardwiring new performance expectations and behaviors into every HR practice and process. This would be accomplished by rooting solutions in compelling data and robust science, consistent with AbbVie's orientation as a research company, and delivering them through precise, flawless execution. The decision was made to begin with the performance management process (PMP).

### **Culture and Leadership First**

To understand the detailed culture into which our PMP would be built, AbbVie collected data designed to answer two fundamental questions:

- What culture do we need to drive our strategy?
- How must we lead to bring this about?

To answer the first question, we embarked on wide-ranging consultation, internally and externally. Through this process, five basic tenets of culture were defined. We came to refer to these as the *Ways We Work*, and they are shown in Figure 3.2. Next, through external research and studies of high-performing companies, we determined corresponding leadership attributes for each of the Ways We Work. These leadership attributes are the specific behaviors or competencies we expect of every employee.

To answer the second question—how we must lead—we engaged the Talent Strategy Group (TGS) to interview the new executive team to gather their beliefs about how we need to lead to achieve our target high-performance

culture. Based on insights gained from these interviews, TGS surveyed the next most senior functional leaders to measure the gap between perceptions of current leadership behaviors and the leadership behaviors we would need for our high-performance culture.

The approach was methodical and structured. We challenged our thinking with questions that appeared straightforward but were extremely hard to answer. Executives were asked to review a current leadership behavior and compare it to what AbbVie needed to succeed. Example questions included, How long is it OK for an employee to be in a role and be rated as a below-average performer? If a person has high potential, how much more reward would we give the person? Do behaviors matter? Who is accountable for improving performance? How transparent must we be? and so on.

Comparing answers to the questions today versus the desired state brought valuable insights. For example, executives were asked to what extent poor behavior from high performers is tolerated today versus the extent to which it should be tolerated in the future. Seventy percent of respondents indicated that bad behaviors were permitted moderately or significantly today, whereas 90% of these same respondents said that bad behaviors should not be tolerated at all or to only a small amount in the future. This provided clear guidance about the importance of behaviors and led to system design decisions that would drive the desired future state. In the case of the PMP, the emphasis on behaviors was doubled, rewarding those consistent with the desired culture and putting in controls to minimize poor leadership. Answers to other questions revealed that executives overwhelmingly desired a shift in managerial accountability for PM activities, as shown in Figure 3.3.

The findings from our research provided a road map for designing the PMP to incorporate the following features:

- An increased focus on not only performance, but also behaviors
- Compensation and career progress significantly influenced by behaviors
- Increased accountability for managers to develop their team members
- Enhanced transparency
- Less tolerance for below-average performance in our most critical roles
- Greater differentiation (though we learned that differentiation meant different things to different people)

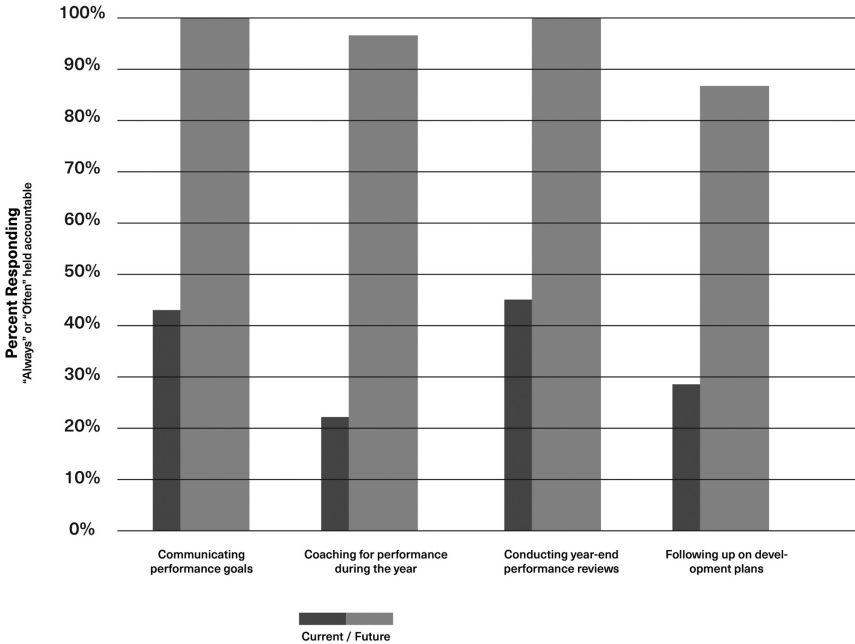


**Figure 3.3** AbbVie executives' answers to the questions, How often are those who manage others held accountable for the following activities? How often should they be held accountable?

The outcome of our work was the set of shared leadership principles that are shown in Figure 3.4, which we named our *Talent Philosophy*. Aligning on these tenets was invaluable for guiding our PMP as well as other efforts. Knowing the areas for which there was less alignment was also critical, as these would require more change management and more tempered approaches to implementation.

The Talent Philosophy encapsulated the collective beliefs about how we would drive high performance. Its five tenets provided expectations for how leaders should lead and what every employee should experience, as follows:

- **Performance:** We will push each other and ourselves to high levels of performance to better serve our patients.
- **Behaviors:** We will ensure everyone demonstrates the most important behaviors to drive AbbVie's future performance and support our culture.



**Figure 3.4** Current AbbVie Talent Philosophy.

- **Differentiation:** We will measure ourselves against higher standards and ensure that those employees who make the greatest contributions receive the greatest rewards.
- **Accountability:** We will hold our leaders accountable for developing our people in ways that drive performance and support our culture.
- **Transparency:** We will be far more open about your future within the organization—what it takes to succeed and win here.

The Talent Philosophy was relentlessly communicated across the organization. It was integrated into mainstream communications, training programs, presentations, videos, and more. No opportunity to raise awareness of the five elements of the Talent Philosophy was wasted. It became our language for hitting the ground running and designing our PMP. In its initial 2013 form, our Talent Philosophy was rightly expressed as an aspiration.

## Only Then, PMP Design

The work to define the target organization and culture, and the leadership to deliver it, ran in parallel. We were simultaneously defining the “what” (our culture) and the “how” (the design principles) that would govern all of the HR solutions we would build.

We began with designing PMP because we felt it provided the best opportunity to make real inroads into each of the three HR challenges. It not only was a necessary business process, but also provided a means to set expectations, assess fitness for a role, identify skill gaps, and more. Moreover, PMP offered the potential to impact the culture directly by driving desired behavior and indirectly by reflecting our aspirational culture and helping to simultaneously advance and build it.

There were also pragmatic reasons for starting with PMP. Many companies were questioning the value of their PMPs and opting for alternative approaches. Some felt that our process was too complex and inflexible for the dynamic environment we needed. Yet others saw our legacy PMP as undifferentiated. And from an HR perspective, it was complex to administer. The desire to address these issues contributed to prioritizing redesign of the PMP.

Armed with an unprecedented insight from our research into what was most important for senior leaders, we would design PM to reflect our Talent Philosophy and drive our desired culture. We relied on scientific evidence to design our system, particularly concerning how we would approach goal setting, feedback, and evaluation (Figure 3.5).

## Goal Setting

Performance is the first tenet of our Talent Philosophy; thus, our PMP needed to drive high-performance standards. Research had clearly shown that effective goal setting yields higher performance (Locke & Latham, 2002), leading to our decision to anchor our approach in goal setting. Consistent with goal-setting research, we targeted three to five specific goals per employee that would provide direction in alignment with the business strategy. This straightforward and focused approach replaced a much more complex process of multiple goals and subgoals, each individually weighted. A further enhancement, consistent with our desired culture, was to balance specific goals, which ensured accountability, with agility. We achieved this by moving from

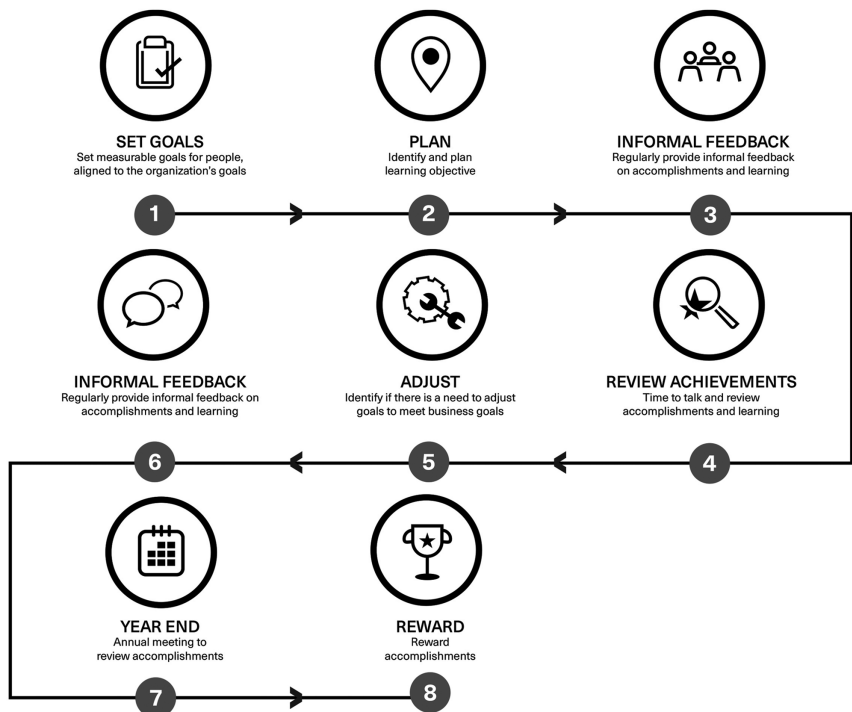


Figure 3.5 AbbVie's annual performance management process.

fixed annual goals to agile goals that could be reviewed and changed dynamically to align with changes occurring in the business.

Reflecting our cultural principle of All for One, we adopted cascading goals and shared them, often co-creating them with cross-functional partners. HR developed tools to enable efficient execution of this process, including facilitating goal-setting sessions.

Finally, in alignment with our Talent Philosophy and cultural aspirations, the process of setting challenging, agile goals needed to take place within a supportive, developmental ecosystem. To accomplish this, we included an annual learning objective as part of goal setting. Knowing that meaningful stretch goals drive results (Locke & Latham, 2002), we encouraged employees to set a learning objective in each performance cycle. This entailed identifying one important skill to develop that would help them achieve their goals and provide a developmental opportunity to improve performance. As our guidance was to set only three to five goals, reserving one purely for personal

development sent an important signal. Development was no longer one of many goals; it was one of a few. Despite being voluntary, 85% of employees by 2018 set a learning objective in addition to their business goals, which represents a steadily growing trend.

## Feedback

To drive high-performance, agility, and innovation, *Time-to-Talk* discussions replaced formal, documented midyear reviews. Based on research showing that feedback on progress boosts performance (Amabile & Kramer, 2011), we created an expectation for leaders to have a minimum of two feedback conversations with their employees during the second and third quarters. Simple, optional templates support leaders in creating more dialogue about progress, enabling feedback on behavior, and delivering focused, relevant feedback. The requirement for *Time-to-Talk* conversations also supported our design criteria of ensuring leaders were developing their team members and promoting *Clear-and-Courageous* discussions.

## Evaluation

Unlike some companies, AbbVie did not move away from year-end evaluation and formal reviews. Our principle of transparency drove design decisions to clarify, for all employees, where they stand and how they perform. This resulted in us retaining more traditional PMP steps rather than adopting new and emerging trends that eliminated evaluation features such as ratings and formal reviews. Our decision was bolstered by research showing that traditional PMPs were associated with employee reports of more feedback compared to newer approaches (Wiles, 2018). Given the importance of feedback for driving and hardwiring new behaviors to create our culture, we decided to retain formal evaluation as part of our PMP.

As mentioned, Behavior is an equal partner with Performance in our Talent Philosophy. During the year, *Time-to-Talk* promotes feedback on key behaviors, while the year-end evaluation assesses behaviors against the expectations reflected in the Ways We Work. We believed our culture could be accelerated if these feedback loops functioned well, so we built mechanisms into our process to enable this. Leaders evaluate their team members on each

of the five Ways We Work, using an automated tool that requires them to provide specific feedback on each cultural marker. This helps ensure that clear behavioral feedback is provided to direct development efforts.

The year-end evaluation also serves two other purposes. First, a 5-point rating scale, while not innovative, supports *Differentiation* compared to the legacy approach. We also believe that *Transparency* is encouraged best by including a robust rating calibration step in the year-end process. Managers are accountable for discussing annual evaluations with employees following calibration, which covers both technical delivery and behaviors. Calibration also supports our All-for-One cultural goal, which drives consultation and alignment. Additionally, it is supported by research that shows transparent processes yield less bias (Schaerer, Kern, Berger, Medvec, & Swaab, 2018), which aligns with our diversity and inclusion values that are part of our Talent Philosophy.

Finally, our Talent Philosophy makes leaders accountable for developing their employees, which needs to occur individually and in aggregate. Year-end evaluation enables us to measure individual performance as well as aggregate performance across each culture factor. The enterprise can thus systematically diagnose and improve culture gaps by focusing on dimensions or groups of employees that are measurably lower than others. This is important as the tenets of our culture are interrelated. Hence, high scores in one area but not in others will fail to deliver the performance the business needs. The availability of hard data and aggregate quantitative analyses is especially useful to support change in scientific and research-based companies. It not only allows us to measure HR process metrics but also drives accountability in making enterprise changes to further accelerate cultural change and high performance.

We recognize that our focus on evaluation is in contrast with some critics of formal year-end evaluation processes, but we have found our process works well within our culture. A key reason cited to eliminate evaluation is that it is disliked by employees and drives disengagement. Evaluation done poorly, like anything else done poorly, can lead to negative outcomes. But done well and fairly, year-end evaluation does not necessarily alienate employees and has not disengaged AbbVie's employees. In 2018, engagement was 84%, an increase of 3% (from 81%) compared to the prior 2016 survey. Our employee engagement exceeds the benchmarks of best-in-class companies<sup>4</sup> by 14 points, which supports the notion that fair evaluation and high engagement do not need to be mutually exclusive.

<sup>4</sup> CultureIQ's U.S. Best Companies Benchmark; proprietary data.

In our case, we found that traditional PM design elements best enable us to tie individual performance to our business strategy, culture, and philosophy of leadership. Changes to the PMP both reflected and reinforced our culture. However, the fact that we had to create a robust new culture very quickly presented challenges in motivating sufficient behavior change quickly enough to achieve our goals.

### **Drive Performance Through Behaviors**

We have already discussed the importance of candid feedback in accelerating behavior change, which requires accurate evaluation. As noted, managers assess employees on the five Ways We Work, scoring each on a 5-point scale. At times, there have been questions about rating accuracy and some data that showed common rating tendencies that undermine accuracy. For example, some early ratings showed extremely high leadership scores that seemed unrealistic and lacked differentiation. One analysis showed 18% of employees received the same score across all five Ways We Work.<sup>5</sup> Leniency and central tendency biases have also challenged our pursuit of accurate, fair evaluation.

We recognize that no PMP is foolproof, and irrespective of how well the system is designed, it is also important to invest in the development of strong leader capabilities. It is well known that as leadership capabilities increase, formal PMPs become less critical. Likewise, ample research has shown that employees report receiving inadequate feedback and development irrespective of their PM cycle length, type of ratings used, technology, and other factors (Hamori, Koyuncu, Cao, & Graf, 2015). To help AbbVie employees build new, culturally aligned skills, we thus decided to complement our PMP by training and enabling our leaders to be the conduit of high performance.

Holding leaders accountable for developing their people through setting goals and feedback is challenging. It is the human condition. Some leaders get it right, but many need education and awareness building, especially on giving feedback. To increase accountability and transparency consistent with our goals, we invested substantially in communicating about the PMP and what the employees should expect from it. We informed employees when PMP steps were taking place and set the expectation that they should be receiving feedback from their managers. In our first 12 months as a company,

<sup>5</sup> 2018 AbbVie internal data.

AbbVie trained over 3,000 leaders in the process and our aspirations for it. Beyond specific PM training, another suite of programs, Leadership Essentials, is in place to provide managers with the fundamentals of good, day-to-day people leadership.

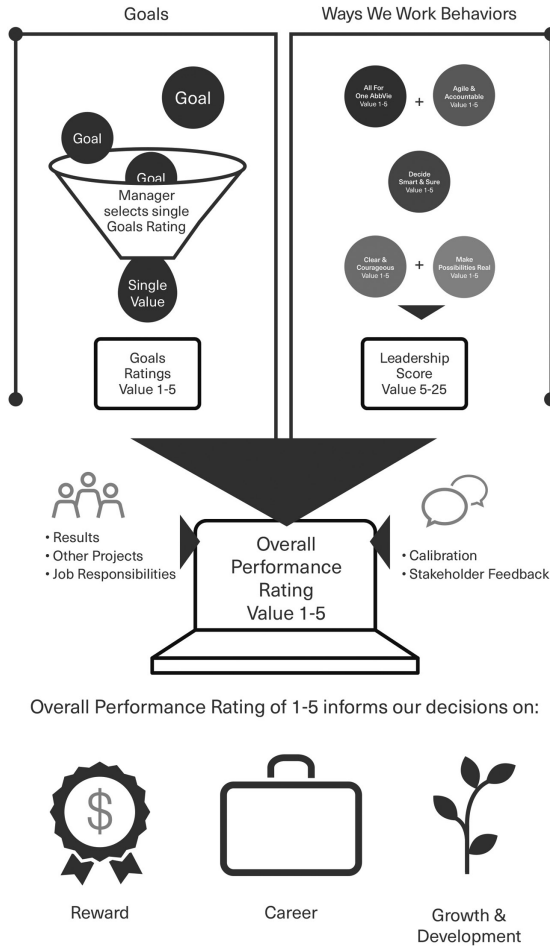
To allow employees to respond to feedback and build the culture, we did not rely solely on leaders as the vehicle for feedback and development. We supplemented their critical role by providing employees with broad-based access to skill development especially suited to meeting their needs. For the past few years, we have been holding a live, week-long, global event focused on employee development, called LDP: Learn. Develop. Perform. It started as 1 week annually dedicated to personal development, including live webinars cohosted with external experts and internal senior leaders, global events like a 24-hour nonstop radio show, AbbVie TEDx talks, and more.

The expert content delivered live drew in thousands of employees, generating tremendous response and touching a wide cross section of employees in just 1 week: 55% of managers, 53% of directors, and 49% of vice presidents. This was very encouraging given that the program was voluntary. Three business days after LDP, we surveyed those who participated. Fifty percent of respondents had spent more than 1 hour on development since LDP, with 75% reporting that they focused on development of their direct reports.

Comments from the survey convinced us that the investment in LDP should continue. Comments like, “I feel like AbbVie cares about me and doesn’t see me as expendable,” and “This is the missing link AbbVie’s been waiting for.” Today, LDP has its own identity synonymous with development at AbbVie. It is no longer just a week full of practical development solutions and inspiration for personal growth. It is a personal growth journey offered to every employee on an ongoing basis.

## **Hardwiring Through Integration**

The PMP outputs became direct inputs into other HR processes, fulfilling our ambition to create a PMP process with “strategic,” “aligned,” and “systemic” outcomes. Figure 3.6 shows how the overall performance rating is informed by the goals rating (on a 1–5 scale) and the leadership score (on a 5–25 scale, based on 1–5 scores for each leadership attribute). The overall rating reflects each employee’s performance in the role and any other work



- Allows leaders to exercise Judgment; there is no formula to determine the Overall Performance Rating
- Creates a reference point for planning merit increases, the individual component of the AbbVie Incentive Plan (AIP) and Long-Term Incentive (LT) plan awards
- Helps leaders further differentiate rewards between employees, including those with the same Overall Performance Rating, by also considering an employee's Goals rating and Leadership score

**Figure 3.6** An example of manager support materials.

(e.g., projects, assignments), as informed by stakeholder feedback and the formal calibration process.

An important integration exists between PMP and the compensation system. It is our belief, consistent with our Differentiation tenet, that those that make the greatest contribution should receive disproportionately greater rewards. However, our experience has shown that differentiation was not consistently understood, which required us to be patient around this aspect. We guided leaders and HR through the activation of differentiation, using more “carrot” than “stick.” Our culture is high in collaboration and community. Moving too fast would have risked counterproductive outcomes, prompting us to adopt an approach that nudged leaders to make the right choices. In the face of pushback, we returned to our two anchors—the Talent Philosophy and Culture—but allowed individual managers to make final decisions.

The carrot approach gave us time to align everyone around what differentiation meant and develop greater levels of it. We accomplished this by reviewing assessments with leaders. We also shared data and metrics to trigger conversations that would promote accuracy. We also leveraged our systems to flag assessments with potential inconsistencies. For example, achieving goals and effective behaviors coupled with a lower year-end assessment raises a flag. Leaders rating all employees similarly also triggers a potential issue. These data, and more like it, are used to identify potential rating issues. We do not tell leaders how to assess and in fact emphasize that they are expected to exercise their professional judgment. At the same time, our system flags potential issues for further evaluation.

The calibration process also facilitates higher accuracy. This is supported by research that shows joint evaluations are more accurate (Bohnet, Van Geen, & Bazerman, 2015; Willemsen, & Keren, 2004). Comparing the performance of different employees generates discussions that yield deeper insights and typically greater evaluation accuracy and fairness.

Differentiation is not focused on “catching” lower performers. We have always been clear that lower performers should be managed toward higher results. In a culture that strives to be *Clear and Courageous*, this requires first providing clear feedback about improvement needs. We believe our leaders have become better at delivering difficult feedback, as evidenced by the decreasing number of multiyear poor performers—that is, individuals who are designated a poor performer year over year—we are seeing. This number has consistently fallen. In some cases, employees have turned the corner,

while in other cases, employees have left voluntarily, finding roles for which they are better suited outside AbbVie. In 2018, less than 1% of employees had our lowest performance rating, and the proportion of highest performers increased 3% over the prior year.

Differentiation must also lead to positive, differentiated outcomes for our highest performers. For example, the best performers at AbbVie consistently get access to desirable career opportunities. Differentiated compensation is also a goal; hence, PMP and compensation were prioritized for horizontal integration. Yet, in spite of strong alignment and good intentions around rewarding top performers well, differentiation proved challenging initially in practice.

We have made progress here due to our willingness to allow multiple cycles to achieve compensation differentiation slowly over time. Recent data showed demonstrably higher differentiation of rewards for high versus lower performers. We attribute this to our patience, consistency in messaging and expectations, and holding managers accountable, which we believe eventually embedded new mindsets for differentiated rewards.

### **Raise the Bar: Giving High Performance an Identity**

Another factor that helped create a fit-for-purpose PMP that worked within AbbVie's context was to create its own identity. The PMP was renamed *Raise the Bar*, signaling our ultimate goal. It is not about evaluation per se, but evaluation in the service of ongoing performance improvement, supported by clear feedback and intentional growth. We ask every employee to Raise the Bar.

We do not ask leaders for formal midyear reviews but instead remind them it is Time-to-Talk. We emphasize the importance of feedback through dialogue and highlight the importance of addressing issues early to set team members up for success.

We pride ourselves on creating robust support systems that differentiate our approach. Our PMP is facilitated by an amazing toolbox: guides, apps, checklists, webinars, and courses.

While we put a formal structure in place, this is a small part of a larger system in which we put the complexity at the back end—toward differentiation, horizontal alignment, and analytics. The manager-facing system is relatively user friendly and supported by branded collateral that makes it easy to adhere to the process.

An implementation challenge we faced at times was change fatigue, resulting from the widespread change the organization was undertaking in relation to many systems—inside and outside HR. It was easy to underestimate the impact of such profound change on people’s capacity to absorb it. At one point, we were ready to change the system for all employees, with materials, processes, and systems ready to launch. We asked the executive team for input, and while fully endorsing the principle, they requested we wait until the following year to protect employees and the business from too much simultaneous change.

## Looking Ahead

In our first 5 years, we grew our employee base from 25,000 to approximately 30,000 and revenues from \$18.8 billion to \$28.2 billion.<sup>6</sup> AbbVie is a high-performing organization; the key question is, How much of this success, at least in part, was enabled by Raise the Bar? We believe the answer is a great deal, based on extensive data we have collected over time. Examples include the following:

- Our employees’ focus is aligned with the business, with 89% of employees reporting that their work aligns with AbbVie’s goals and objectives.
- We know managers set specific goals for their employees; 82% of employees confirmed this.
- Time-to-Talk and year-end performance conversations are working, with 81% of employees confirming that their manager is providing feedback.
- We have made both behaviors and performance count; 78% of employees agreed that their manager deals with both behavior and performance issues.
- The development support employees receive is impactful, with 77% of employees confirming that their manager’s coaching and development has a positive impact.<sup>7</sup>

<sup>6</sup> Data from 2013 and 2017 AbbVie Annual 10-K Reports, respectively. AbbVie. (n.d.). Annual report & proxy. Retrieved November 11, 2018, from <https://investors.abbvie.com/annual-report-proxy>

<sup>7</sup> 2018 AbbVie Employee Survey data. The percentages in this paragraph refer to percentage of employees answering “Agree” or “Strongly agree.”

Our experience has shown that the outcomes you get are a consequence of what you hardwire in. Consistency is key. Our Talent Philosophy has been a constant. Our PMP implementation has been purposeful and consistent over time in the teachings, expectations, and desired outcomes we have driven. We believe this consistency yields better outcomes than continual tinkering to capture new trends. While we have identified opportunities to improve our PMP, we have not changed our approach or theory of effective performance fundamentally.

Although we have made progress in driving effective goals, feedback, and development, the most important question is, Are these behaviors resulting in outcomes the business needs? Here we also have evidence of success:

- Performance-focused development is delivering successors at an accelerated rate, increasing from 1:1.4 in 2014 to 1:3.5 in 2018.
- In 2018, retention of our best performers and leaders was 97%, exceeding industry benchmarks.<sup>8</sup>
- Our culture index is at 78%, a 4% increase in 2018 compared to the prior survey in 2016 and an 18% increase since its inception in 2013. We consider one specific question of that index as the acid test of our overall effort on culture: “Is the culture I experience at AbbVie consistent with the culture that the company wants to create?” And 76% of employees believe it is.<sup>9</sup>

These results suggest that we have strategically leveraged PMP to jump-start and embed critical cultural change. What is more, these results have been recognized externally. AbbVie has been named to more than 40 Great Place to Work<sup>®</sup> and Top Employer lists. In 2017, we were the only biopharmaceutical company on the World’s Best Workplaces list. We are recognized on “Best of” lists related to diversity, leadership, and engagement, as well as for corporate responsibility and business performance.

While we are proud of what AbbVie has achieved, we cannot become complacent, and consistency does not mean becoming stagnant. Our processes evolve together with our culture. We revisit our founding principles to check their continued relevance and ability to deliver sufficient outcomes for the

<sup>8</sup> Mercer | Comptryx; Life Sciences Edition, Metric: % Top Performer Terminated, September 2018 update, proprietary data.

<sup>9</sup> 2013, 2016, and 2018 AbbVie Employee Survey data. The percentages in this paragraph refer to percentage of employees answering “Agree” or “Strongly agree.”

investment made. We continue to look for opportunities to improve efficiency and drive more impact, consistent with our fundamental principles. In 2017, we did a check on the Talent Philosophy, whose original phrasing was aspirational: “We will . . .” Taking stock of our culture today, it is no longer aspiration but reality. We have adjusted our Talent Philosophy to reflect what we do instead of what we should be doing. We also put stronger wording around leadership accountability, expectations for high performance, and building strong behaviors.

As an organization, AbbVie has systematically addressed the concerns first expressed by analysts when we became a company in 2013:

- We have evolved from being the immunology leader to driving into new therapeutic areas, such as oncology, virology, and neuroscience.
- We have delivered consistent top-line and bottom-line growth.
- We have built a strong track record with our shareholders.<sup>10</sup>

Our approach to culture has been instrumental to this success, and speed of implementation was enabled by aligning development to a PMP that pulled the right levers. By focusing on the five elements of the Talent Philosophy, squarely rooted in cultural imperatives, we integrated the performance, development, and administrative aspects of the PMS, along with aligning related systems vertically and horizontally. We created confidence among employees that performing at and beyond expectations, along with demonstrating the Ways We Work behaviors, yields differentiated rewards.

In some respects, we are arriving at a steady state we feel good about. However, we consistently reflect on how we could have driven change more quickly or efficiently, looking for lessons we can apply to future efforts. We are also involved in continual monitoring, evaluating, and improving our processes, especially concerning leader and staff PM behaviors. An example of one area we continue to work on is transparency. In spite of the fact that the Talent Philosophy demands honest conversations with employees about their performance and career, such transparency can be threatening to managers due to concerns about damaging relationships with employees. Well-intended leaders sometimes also see candor as undermining our equally strong emphasis on collaboration. This presents a cultural conundrum for

<sup>10</sup> AbbVie Inc. (2018). Our Growth Story—Our Company | AbbVie. . Retrieved December 21, 2018, from <https://www.abbvie.com/our-company/our-growth-story.html>

some that we are getting better at managing but continue to have to reduce conflict.

Our future efforts with PMP will continue to focus on leader upskilling and enablement, specifically on efficiently leveraging the process and focusing on leadership behaviors. Without capable leaders, any good system can be rendered useless. We thus focus on managing the constants at steady state (i.e., the ratings, the process, the tools, and the technology) but enhancing the quality and effectiveness of utilization (i.e., manager effectiveness, unbiased assessment, performance-enhancing feedback, etc.).

In summary, we leveraged a largely traditional approach to PMP to achieve nontraditional outcomes. We accomplished this by rooting our system in scientifically proven principles and a transparent philosophy, aligning it to our business strategy, and embedding cultural features into our process. To ensure successful design and implementation, we encourage focusing on these steps:

- Define the guiding talent principles up front with active participation and agreement from top leadership. Then, remain true to the principles.
- Design the system to hardwire those principles into your people processes and practices.
- Execute flawlessly. Stay the course. Be aware of, but do not get swayed by, the latest trends or other companies' "best practices." Your PMP must be designed to fit your culture, maturity, and needs.

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