

Managing Performance Management at McKesson



April 19, 2010

Performance Management Overview

The Big Picture

Performance management at McKesson drives the business forward. At McKesson, we have a consistent performance process for all employees. The process enables employees to align individual objectives to business goals for their business unit. Since each business unit's goals are based on the company goals, employees are guaranteed to see how the work they do contributes directly to the success of McKesson.

The key to our continued success is the performance of our employees. McKesson employees are committed to:

- Providing the highest level of contribution
- Delivering quality products and services to both internal and external customers
- Adapting to continuously changing performance requirements
- Embracing lifelong learning to ensure that we individually have the skills necessary to meet and exceed customer demands.

McKesson Performance Management Guiding Principles

McKesson links results to pay – differentiating pay based on individual contribution / performance to the attainment of business unit and company goals. Our goals for the performance management process are to:

- Create consistency across the business for managing, measuring, and developing individual performance
- Align individual objectives with business goals
- Measure **what** individuals achieve and **how** they achieve it
- Foster employee development and coaching by encouraging open communication between supervisors and employees
- Differentiate rewards based upon performance results and competencies
- Recognize the relative contribution of individuals

Aligning Individual Results with McKesson's Strategy

One thing that differentiates McKesson from other companies is that we view performance management as an essential **business** process. All business leaders are responsible for the successful execution of performance management in his or her area.

Performance management at McKesson focuses on both what you do (objectives) and how you do it (Competencies / ICARE). The **what** and the **how** combined make up your overall performance rating. Rewards will be determined by how well you achieve your objectives and demonstrate your competencies / ICARE values. In order to be successful at McKesson, an employee must focus on both of these elements which are included in the employee performance plan.

McKesson's Performance Management Document at a Glance

There are four main components in the Performance Management document (see screen shot below). Use this document to learn specific details on Performance Planning, Tracking, Reviewing and Rewarding Performance.

The screenshot shows the McKesson Performance Management Document interface. On the left is a navigation menu with links: [Expand All Sections](#), [Collapse All Sections](#), [Performance Mgmt Overview](#), [Mission/Vision/Goals](#), [Shared Principles](#), [Business Scorecard](#), [File Attachments](#), and [Update Employee Profile](#). The main content area has a sidebar with expandable sections: **Performance Objectives**, **Competencies & ICARE**, **Strengths & Areas to Develop**, **Individual Development Plan**, **Mid-Year Comments**, and **Year-End Review**. Below these is a checkbox for mission/ethics compliance, save buttons, and review status fields. On the right, four callout boxes provide details for the first three sections, with lines pointing to their respective sections in the sidebar.

Performance Objectives

- Develop 3 – 7 SMART Objectives
- Supervisors include one SMART objective to focus on developing as a leader

Competencies and ICARE

- Set of 10 core competencies with behavioral indicators tiered by Individual contributor, Leader, and Executive
- ICARE and Diversity and Inclusion behaviors integrated into the behaviors as appropriate
- Free form field available to add functional competencies

Strengths and Areas to Develop

- Enter the Key Strengths and Areas to Develop. Consider how you rated the Competencies / ICARE;
- Identify three to five (3-5) key strengths and up to four (4) areas to develop.

IDP

- The IDP defines actions for enhancing your skill set and career development
- Write 1 – 4 SMART development objectives

☐ I have performed my work in accordance with our mission, vision, adhering to the highest ethical business practices and personal McKesson's Code of Business Conduct and Ethics and ICARE

[Save and Continue](#) [Save for Later](#) [Planning Phase Complete](#)

Mid-Year Review Conducted:
Year End Review Conducted:
Review Acknowledged:
Completed:



Performance Management Enhancement

When you and your direct reports start FY11 performance planning, you will notice a number of enhancements to the performance management process. These enhancements are aimed at simplifying the document and aligning managers' conversations regarding performance and development throughout the year. **Note that all changes are effective beginning FY11. They will not apply to your FY10 review process if it is still underway.**

McKesson's Performance Management Process

Performance management is a business tool; a systematic and ongoing process that defines performance expectations, monitors on-going performance, communicates results, and rewards accomplishments. It is NOT a once-a-year event. There are four steps in this process (see table below). Click on the links in Planning, Managing, Reviewing, and Rewarding for tips on each phase of the performance process.

1. Planning Ensure employees update the Employee Profile and complete a performance document that includes performance objectives, competencies/ICARE, and an individual development plan.	2. Managing Provide ongoing real-time feedback and coaching, and conduct the Mid-Year Review.												3. Reviewing Complete the formal Year-End review.		4. Rewarding Recognize performance contributions using cash and non-cash rewards/incentives.	
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR				
Planning	Plan for Next Year															
Managing	Ongoing Feedback & Coaching					Mid-Year Review				Ongoing Feedback & Coaching						
Reviewing	Year-End Review										Year-End Review					
	Mid-April to end of May: Reviews with Managers								February-Early March: Self-Assessments							
Rewarding			Reward													

Performance Management Planning

During performance Planning, you and your direct reports work together to create a performance plan that defines objectives and expectations for the performance year, as well as the knowledge, skills, and behaviors (competencies) needed to achieve those objectives. McKesson expects people managers to be talent champions — developing capabilities in others to grow in their careers and to create a deep bench of talent to maintain McKesson's competitive advantage in the market place.

The Planning phase includes four steps:

1. Update Employee Profile
2. Write Objectives and Expectations
3. Select Competencies/ICARE
4. Create an Individual Development Plan (IDP)

Responsibility	Supervisor	Employee
Update Employee Profile		X
Review Employee Profile	X	
Understand and discuss organization and department goals	X	X
Identify key responsibilities and projects for the employee and help develop a performance plan	X	
Provide input on or draft performance plan	X	X
Identify competencies/ICARE necessary for successful achievement of the performance plan	X	X
Engage in ongoing discussions about performance process	X	X
Communicate any changes in department priorities and/or expectations	X	
Ensure objectives are comparable to those set by supervisors of other employees in similar roles	X	



Employees update Employee Profile

Having an exempt (salaried) employee update his or her Employee Profile should be the first step in the Planning phase. Employees will complete and update their Employee Profile at least one time each year or when their roles and responsibilities have changed. They will update their most recent key accomplishments, work experience, education, licenses, languages, technical skills and career interests and aspirations. The career interests and aspirations from the Employee Profile will be accessible to you and the employee in their Performance Document in the Individual Development Plan (IDP) section.

Helping Your Employees Write Individual Objectives

Ideally, in planning performance, we will cascade our vision, mission, and scorecard goals to each department's business plan, workgroup plans and then to each employee's individual performance plan.

You and your direct reports define SMART objectives during performance planning. SMART objectives follow these guidelines:

S Specific	What is to be done by when
M Measurable	Use criteria such as costs, quality, quantities, cycle time, project implementation, revenues, etc.
A Achievable	Recognize the employee's demonstrated ability
R Relevant	Ensure alignment to Company goals and solid impact on results
T Time-bound	Include a timetable for completion

These SMART objectives may be based on job responsibilities from a job description, or responsibilities that contribute to achieving Team, Departmental, or Business Unit specific goals which may not be on a job description.



Managers: Adding to your own SMART objective for Developing Talent

As we begin to think organizationally about nurturing and developing talent, all managers must include a SMART objective in their own FY11 Performance Management documents about how you plan to develop you own employees or how you will develop yourself as a people manager. For example: developing your team communications, improving your teams Employee Opinion Score (EOS) results, supporting the onboarding process for new hires, etc.

Your employees' performance objectives and expectations may include activities like: participating in a special task force, piloting a new process or system, planning a conference, or developing streamlined procedures. Other types of objectives include:

- Strategic objectives linked to the departmental business plans.
- Objectives focused on continuous improvement.
- Small team objectives established for a project.
- A quality or sales measure under your direct control.
- Objectives for a project that will impact results in future years.

Objective examples:

- Attain or exceed the corporate goal for customer survey respondents OR attain a four percent increase from baseline if below the corporate goal by year's end.

- Develop, post, and maintain a work checklist for converting clients' hardware and software by the end of September
- Use SAP training, knowledge, and information to define a methodology for forecasting potential service revenue by December 31.

Remember, as business circumstances change, objectives may be modified, added to, or deleted as necessary during the performance year.
Select Competencies/ICARE

Competencies / ICARE are the skills, knowledge, and abilities needed to be successful at McKesson. The objectives and expectations are “**what**” you do, and the competencies / ICARE are **how** you perform your work. Some departments or supervisors may include and rate all competencies / ICARE behaviors while others may select a subset of as few as five core competencies / ICARE to use for their entire department or for all team members in a similar job function. You may also assign additional job specific or functional competencies / ICARE for your employees' jobs or roles.



Enhanced Competencies / ICARE

The McKesson core competencies have been updated to reflect the changes in the business drivers and what it takes to be successful at McKesson. The McKesson core competencies include three new competencies: Innovative Mindset, Building Collaboration and Customer Orientation. While past performance documents have required a separate section for ICARE, the new McKesson core competencies include ICARE behaviors as well as Diversity & Inclusion behaviors. Additionally, this section only requires ratings (no comments).

What Has Changed in the Competencies?

Previous (Exempt) Core Competencies (for exempt employees)	FY11 Core Competencies/ICARE
Strategic Thinking	Innovative Mindset
	Customer Orientation
Leadership	Leadership
Assertiveness & Influence	Influences Others
Mature Confidence & Integrity	Mature Confidence
Sensitivity	Builds Collaboration
Results Orientation & Energy	Drives Execution
Decisiveness & Judgment	Decisiveness and Judgment
Building Organizational Talent	Talent Champion
Openness & Candor	Openness and Candor

Select from the following competencies and skills:

Exempt (Salaried) – Competencies/ICARE

Innovative Mindset
 Customer Orientation
 Leadership
 Influences Others
 Mature Confidence
 Builds Collaboration

Non-Exempt (Hourly) - Skills

Adaptability
 Communication Skills
 Problem Solving / Decision Making
 Initiative
 Innovation
 Job Knowledge

Drives Execution
Decisiveness and Judgment
Talent Champion
Openness and Candor

Reliability
Team Work
Time Management

Tips for understanding Competencies/ICARE:

- There are three tiers of competency behaviors: Individual Contributor (Professional), Leader, and Executive. Review the quick reference guide for specific behaviors for each tier.
- Select at least 5 and as many as all 10 competencies.
- A free-form field is available to add job specific or functional competencies that are not listed

Helping Employees Write an Individual Development Plan

Each of us has an ongoing need to learn and develop the skills and knowledge required to maintain our current level of proficiency change with each passing day. Creating an individual development plan involves:

- **Assessing** current skills and knowledge, including strengths and weaknesses
- **Acquiring** needed skills and knowledge
- **Applying** new skills and knowledge on the job

The Individual Development Plan (IDP) should focus on improving your direct reports performance in their current position and their career interests and development areas. You should identify the key experiences and behaviors needed to sustain successful performance in their current job, although these experiences and behaviors should also help them to grow for future roles.

Development plans are also most effective when they include a variety of activities. The IDP should also emphasize outcomes and activities. Taking a class is an activity; applying the knowledge learned in that class is an outcome. Consider these categories of activities to help record Development Objectives: Experience, Education, and Exposure.

Experience: Learning Through Doing:

- Challenging on-the-job assignments
- Job rotation programs
- Mentoring others
- Project teams/task forces
- Conducting research (as in a literature review) on a business problem and reporting findings
- Tackling a start-up or “fix it” issue in your area

Education: Learning Through Resources:

- Instructor-led courses
- eLearning programs
- Formal Education programs through McKesson’s Tuition Reimbursement Program
- Professional Associations/Certifications
- Reading business books, magazines and journals

Exposure: Learning Through Others:

- Mentors/Role models
- Feedback, coaching
- Visibility with key leaders, projects, teams
- Networking, both within the company and through one’s professional contacts
- Participation in community and civic organizations

Tips for writing effective IDPs:

- Create one to four (1–4) SMART development objectives. Development objectives require only comments (no ratings)
- Development objectives may span more than one fiscal year
- Development objectives should include any long-term development objectives identified through training and development, 360-degree feedback or other career development discussions

Performance Management Managing

You and your direct reports should track performance and have ongoing discussions about progress made toward meeting objectives and demonstrating competencies / ICARE behaviors. The Managing stage includes tracking performance, providing ongoing coaching and feedback, gathering input from others, conducting mid-year reviews and in some cases performance improvement plans.

Responsibility	Supervisor	Employee
Track Performance	X	X
Provide Coaching and Feedback	X	
Gather Input from Other Sources	X	X
Conduct Mid-Year Reviews	X	
As necessary – Performance Improvement Plans	X	

1. Track Employees' Performance

Performance management is not a one-time event. To be successful, supervisors and employees need to focus on performance throughout the year. Ongoing communication between you and your direct reports ensures continued understanding of expectations and priorities. You should keep an ongoing documentation file of behavioral observations about your employees' performance and records of key events in order to enrich feedback and communication. This file will also save you time when preparing both mid-year and year-end performance reviews.

Remember, you can keep track of performance events and feedback in the Managers comments sections in each section on the performance document.

2. Provide Coaching and Feedback

One of the key components to successful performance management is frequent and open feedback and coaching. Make sure that you schedule regular feedback sessions with your employee, even if these sessions are informal (a phone call, e-mail, or brief note on a project). Coaching and feedback should be used to:

- Provide information about effective job performance, behaviors (competencies / ICARE) and areas needing improvement
- Recognize the achievement of desired results
- Redirect performance to accomplish expected results
- Assess the implementation of an individual's performance and development plans, modifying objectives as they change

Many managers find the STAR acronym helpful for remembering the steps for giving feedback:

S	Situation	Conditions, circumstances
T	Task	Purpose, desired results
A	Action	Activities, behaviors, process
R	Result	Accomplishments, consequence of actions

STAR Example: Here's an example of using STAR for feedback for improvement:

- **Situation/Task** – Bill was meeting for the first time with a new customer who was unfamiliar with our products.
- **Actions** – Bill immediately began to suggest options for their installation. Bill shared a lot of information and did most of the talking versus listening to the customer and uncovering the customer's needs.
- **Result** – the customer felt rushed to make a decision and ended up hurrying us out of the office. We are unsure if we will get another chance to make our pitch.

During the actual coaching session with Bill, the supervisor would give feedback using the STAR technique and would also suggest alternative actions that might have resulted in a different outcome. That coaching feedback might sound something like this:

“Bill, if you had asked the customer about her needs for the new system; you could have dovetailed our product benefits with those needs, thereby increasing her receptivity to our proposal.”

Notice in the STAR examples, many different competencies can be displayed in a single performance observation. Of course, none of us wants to be rated on the basis of a single observation. By collecting multiple STARs throughout the performance year, a supervisor can greatly improve the accuracy, acceptance, and communication of performance feedback.

3. Gather Input from Other Sources

In addition to using the STAR technique as a tool for documenting performance, you should solicit feedback on your employees' performance and demonstrated competencies from a variety of sources, including the employee self-assessment, peers, project managers, and internal / external customers.

4. Conduct Mid-Year Review

Conducting a mid-year review is an important part of tracking performance. It ensures employees know where they stand and that they are receiving ongoing feedback on their work. The informal discussion at mid-year should cover:

- Current results and performance trends to date
- Progress on objectives, competencies / ICARE behaviors, IDP etc
- Action plans or improvements needed before the year-end review
- Any modifications to performance objectives to reflect changes in business conditions
- Any barriers that may be impeding success and plans to address

Supervisors and employees can enter comments in the employee's Mid-Year Review Comments and supervisor's Mid-Year Review Comments sections. Again, the most important outcome for the mid-year review is a rich, fact-filled discussion between the supervisor and employee about what has been achieved so far and where there are areas for improvement for the remainder of the year. While it is not necessary to rate objectives or provide comments on each objective and competency, you should enter comments and performance trends in the Mid-Year section.

5. Performance Improvement Plan (as necessary)

When employees fail to meet performance expectations despite feedback and coaching, the employee may be placed on a Performance Improvement Plan (PIP). The PIP is a formalized tool available for employees whose performance is not meeting expectations and needs improvement. The purpose of a PIP is to facilitate constructive discussion about the areas of deficiency in performance, provide the employee with a set of explicit goals or metrics to be met or improved, and establish a timeline for resolution. The PIP process requires a commitment to improvement from the employee, and a commitment to providing tools, resources and open communication by the manager to help the employee succeed.

Tips for using PIPs as a manager:

- Consult with your Human Resources Generalist to begin the PIP process.
- Become familiar with the Performance Improvement Plan (PIP) guidance document and how to write a Performance Improvement Plan (PIP).
- Use the online PIP tool to create and track Performance Improvement Plans (PIP) for your employees.

Performance Management Reviewing

For managers, the year-end review process includes the following: collect and compile feedback, draft preliminary comments and ratings, complete the calibration process, finalize reviews, conduct review meetings with your employees, provide final comments and signatures

Responsibility	Supervisor	Employee
Complete self-assessment		X
Collect and compile feedback	X	
Review development plan	X	X
Rate employee on objectives and competencies/ICARE	X	X
Rate employee and provide comments on overall performance	X	
Participate in calibration process to ensure consistent ratings (FY11 will include enhanced calibration process)	X	
Finalize performance review comments and ratings in the performance document	X	
Conduct the performance review	X	
Provide Comments and Signatures	X	X

1. Collect and Compile Feedback

When assessing performance, one of the most powerful resources available to you is your employees' self-assessments. You should encourage your employees to take the time to carefully complete their own self-assessment before you draft your review comments and ratings. You may also wish to collect and compile feedback from other sources as well, such as your employees' peers and/or customers. Remember to reference any notes or comments you entered during the Mid-Year Review and throughout the year. Find out more on collecting "multi-source feedback."

2. Draft Preliminary Comments and Ratings

After you have reviewed your employees Self-Assessment, you should:

- **Rate and provide comments** for each Objective, citing specific results, outcomes, and achievements.
NOTE: When using the online PM system, you can copy and paste from the employee self assessment comments and modify as appropriate.
- **Rate** each Competency / ICARE
- **Enter** the Key Strengths and Areas to Develop. Consider how you rated the Competencies / ICARE; identify three to five (3-5) key strengths and up to four (4) areas to develop.
- **Review** the Individual Development Plan (IDP). Consider progress made on the objectives and when appropriate, next steps.
- **Review** the Overall Performance by assessing **what** your employee has accomplished and **how** it has been accomplished. You should consider the relative contribution of the employee when assigning a preliminary Overall Rating.
- **Prepare** for the calibration process. This step will ensure its consistency relative to ratings of your employees' peers.

Rating Scale:

Performance is rated on a 6-point scale, with different rating descriptions for objectives, competencies/ICARE, and year-end overall performance. Use the table below to help guide you in your performance rating.



Changes in the Rating Scale

The Performance Management rating scale includes a new rating “N” for “New in Role” applicable to anyone who is new to McKesson or has recently taken on a new role during the fiscal year (Recommended for salaried (exempt) employees who have been in their roles 6 months or less – at supervisors’ discretion).

FY11 Performance Management Rating Scale

Rating	Objectives Definitions	Competencies/ICARE Definitions	Year-End Overall Definitions
1	Significantly exceeds performance requirements of the objective.	Successfully demonstrates role model key actions/behaviors on this competency that significantly exceed expectations.	Among the top performers for the year; outperformed most others; contributions significantly and consistently exceeded performance requirements.
2	Exceeds performance requirements of the objective.	Frequently demonstrates strong key actions/behaviors that exceed expectations on this competency.	Strong performer; outperformed many others in his/her contributions. Frequently exceeded all performance requirements.
3	Successfully meets performance requirements of the objective.	Effectively demonstrates fully acceptable key actions/behaviors on this competency. May occasionally exceed expectations on some key actions/behaviors.	Solid performer this year; contributions added value, successfully met, and occasionally exceeded performance requirements.
4	Inconsistent; does not meet some key performance requirements of the objective.	Inconsistently demonstrates acceptable key actions in some, but not all areas on this competency.	Inconsistent performance this year; contributions did not meet expectations in some key areas.
5	Does not meet performance requirements of the objective.	Rarely demonstrates acceptable key actions/behaviors effectively and needs substantial improvement in this competency.	Unacceptable performance this year; immediate performance improvement is required.
N	Learning curve: in new role or new to McKesson	Learning curve: in new role or new to McKesson	Learning curve: in new role or new to McKesson

Determining the Overall Rating – Relative Contribution

A key factor in McKesson's performance management process is the concept of **relative contribution**. To meet our business goals, each employee contributes to McKesson's results through meeting his or her specific objectives. When an employee's performance exceeds his or her objectives, McKesson's business results are stronger. However, when an employee does not meet his or her objectives, McKesson's business results reflect that shortfall as well.

Managers' rate employee performance based on how the employee performed against set objectives and competencies AND how the employee contributed to McKesson's success compared to his/her peers. The determination of the overall performance rating is not formulaic. When determining an overall performance rating, several factors come into play:

1. How the individual did in accomplishing his/her key performance objectives.
2. How the individual demonstrated the key competencies / ICARE values required for performance of those tasks.
3. The overall relative contribution of the individual's accomplishments to the organization.

The manager evaluates how much the employee contributed to the company's overall success for the year relative to your peers in the same grade level and similar job roles. Individuals who made the biggest relative contribution will get the highest rating and top rewards. This concept is called "Relative Contribution." "Relative Contribution" allows managers to determine who has truly performed at the highest levels for the year.

Given the caliber of McKesson's workforce, there are many employees in every job family that meets their goals, show results, and perform at a high level. But when compared to one another, it becomes evident that some of these individuals clearly outperformed their colleagues and contributed more to the company's success and they deserve the highest recognition. In order to get a top rating, you cannot just meet your goals and show results. You must do so in a way that makes a larger contribution to the company than your peers.

Here's an example that illustrates the concept of relative contribution.

Let's say that a gymnast sets a goal of mastering a routine. He works very hard for an entire year, overcomes several injuries, and masters his routine. Since he achieved his goal and overcame adversity, the coach gives him plenty of praise and rewards his accomplishment.

Later that year, the gymnast competes in the Olympics. Despite hard work and incredible strides made to improve his performance, the gymnast does not win a medal in the Olympics. In other words, while the performance was strong, when compared to other gymnasts, his performance relative to other gymnasts competing, was not at high enough a level to win a medal for that routine.

Is it fair? Absolutely! The calibration process ensures a consistent evaluation of employees in the same role, and ensures fairness and consistency in the supervisors' rating process. By involving more than the employee's direct supervisor and not assessing performance in a vacuum, the most accurate assessment of performance is made. An employee's performance is calibrated and compared with others. Even if the employee achieved the results that he/she set out to accomplish, it does not guarantee a specific rating.

Supervisors do not add up individual objective and competency / ICARE scores and average the results. In McKesson's performance philosophy, a "3" rating indicates Solid Performance where the employee's contributions added value, and where they successfully met, and occasionally exceeded performance requirements. Individuals who receive a "3" rating have achieved what their supervisor asked them to do and what was expected of someone at their professional level, and are compensated at a competitive market rate for their proficiency.

3. Complete the Calibration Process

One of the goals of McKesson's performance management system is to support accurate ratings that truly differentiate performance across the full range of the rating scale. The calibration process brings supervisors at a departmental level together to create a dialogue within management teams and to promote consistency and standardization of ratings within a functional/departmental group. Usually, these meetings compare around 100 employees who are expected to contribute to McKesson's goals at a certain level based on their objectives, responsibilities, competencies / ICARE behaviors.

To aid discussions concerning ratings and serve as a metric for determining differentiation, an expected distribution of ratings has been created. Our expected distribution is meant to aid discussions about performance differentiation and to be a guideline for where we think our employee population should be on a normal distribution curve (see Rating Scale).

Across large groups of people (universes of 100 or more employees), it is highly unlikely that everyone will be a "1," especially as we continue to set more challenging goals. We expect differences in levels of performance; it is unlikely that everyone's performance warrants the exact same rating. We expect the majority of ratings to fall in the 3 rating. For employees who meet their objectives and competency levels, they will likely be rated a "3" or higher. Relative contribution helps us to "dial up" for 1's and 2's.



Enhanced calibration process

Managers must complete the Potential vs. Performance (P2) rating as part of the Review document for exempt (salaried) employees Director level and above. Managers will be provided with additional details on this enhancement later on in the performance cycle.

McKesson's FY11 Performance Management Rating Scale and Recommended Distribution					
1 Significantly Exceeds Performance Typically 5%	2 Exceeds Performance Typically 23%	3 Meets Performance Typically 60%	4 Meets Some Performance Typically 7%	5 Does Not Meet Performance Typically 1%	N New in Role Typically 4%

4. Finalize Comments and Ratings

If necessary, following the calibration process managers can adjust the overall ratings and comments to account for “relative contribution.” Once calibrations have been finalized, you can begin the Year-End Review process.

5. Conduct the Year-end Review

At the end of the performance process, you must conduct a year-end review with each of your direct reports. If there has been open communication throughout the year, there should be no surprises, since the review is a summary of the performance year.

During the year-end review, you and your employees will:

1. Review performance on their objectives
2. Review performance on observed competencies/ICARE
3. Discuss key strengths and areas to develop
4. Discuss progress made on the Individual development plan (IDP)
5. Discuss the End of Year Overall Rating



Ethical Conduct Checkbox

The End of Year self-assessment section, the Employee section will display an Ethical Conduct statement reflecting their commitment and confirming that they have adhered to the highest ethical business practices and standards of personal integrity during their work for McKesson for the year.

Provide Comments and Signatures

You and your direct reports may add comments to the Year-End Review section of the Performance Management Worksheet. Remember, employee “signatures” do not imply agreement with the assessment, but confirms the review was received and discussed.

- If the performance plan is completed online, when you complete the review, and your employees accept or acknowledge the review, then the document is final.
- If the performance plan is completed on paper, your employees must obtain approval by your local HR representative.

Performance Management Rewarding

McKesson expects extraordinary results from extraordinary people and rewards these results through an innovative compensation program. McKesson is committed to pay more significant rewards to employees who perform at higher levels and make greater contributions.



Enhanced manager reporting and dashboard

In FY11, managers will have access to enhanced tools and reports to help them more accurately determine rewards based on performance and potential (specifically for those employees who are Director level and above including the technical equivalent). Managers will be provided with additional details on this enhancement later on in the performance cycle.

Types of Rewards

Merit Program - recognizes the consistency of your performance in fulfilling job responsibilities as well as how you achieve individual outcomes. Since this program focuses on your whole job performance, attaining a merit award results in a salary increase.

The merit program is designed to differentiate pay for performance through salary increases. Each year, supervisors receive a merit matrix as a tool to assist in determining the appropriate salary increase for eligible employees. The goal of the merit matrix is to assist supervisors in developing a pay recommendation that considers both an employee's current pay position in his/her salary grade as well as their performance. The merit matrix will specify a range of percentages to be considered in the merit increase decision.

Generally, the merit matrix will guide a supervisor to deliver salary increases as follows:

- Superior salary increases for high performance
- Competitive salary increases for expected performance
- Minimal or no salary increases for employees who do not meet performance expectations.

The merit matrix then shifts the increase up or down depending on the compa-ratio of the individual. A compa-ratio is an individual's salary position in his/her pay grade. The specific calculation is your current salary divided by the midpoint of your range.

In addition to the merit matrix, supervisors should consider the following criteria when making a performance increase decision:

- An individual's salary position in relationship to their peers
- Any breaks in service during the performance cycle.

Incentive Pay - recognizes your objective results. At certain levels within the organization, some portion of your targeted compensation is determined from the results of the division overall, your business unit, or your functional unit. Since these objectives vary from year to year, the incentive component of your compensation is provided as a lump sum bonus.

Recognition Programs - are designed to reinforce specific performance achievements. They may include cash or non-cash rewards, planned or spontaneous, formal or informal. It is a supervisor's responsibility to select the appropriate rewards and determine the award level that reflects the magnitude of the employee's performance contributions.

One of the most critical principles of managing performance is to remember that what motivates people is praise and recognition. Experts say that behavior repeats itself to the extent that it is rewarded. Supervisors have a variety of both formal and informal methods for recognizing employee contributions. Remember these five general principles for providing effective recognition:

- Match the reward to the person
- Match the reward to the performance
- Reward as close to the performance event as possible
- Emphasize the specific achievement being rewarded
- Make it fun

Informal means of recognition include:

- Simple gifts
- Note cards and letters expressing appreciation
- Public praise
- Being treated to lunch
- Certificate of thanks

In fact, a recent book entitled *1001 Ways to Reward Employees* by Bob Nelson is full of tips on how to motivate employees through recognition programs.

Performance Management Support

- Visit McKNet (<http://mcknet.mckesson.com>)
 - HR: My Work, Growth and Development
 - Employees: My Life and Career, Growth and Development
 - Managers: My Team, Growth and Development
- Contact the HRIS Service Center for technical assistance:
 - Call: 888-411-4357, option 2, option 2
 - Email: HRIS@mckesson.com
 - Hours of operation: Monday through Friday, 10:00 am – 8:00 pm ET
- Contact your Local HR Partner