



# Managing Performance at McKesson



April 18, 2005

**McKESSON**  
*Empowering Healthcare*

# Managing Performance at McKesson

## The Big Picture

Performance management at McKesson drives the business forward. At McKesson, we have a consistent performance process for all exempt 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; and
- 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 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

## McKesson People Philosophy

The power and performance of McKesson comes from the commitment of our people. Our expectations for our people are high. We hold ourselves accountable for performance commitments to the company, to our fellow employees and to our customers. To meet these standards, we will create an environment which enables our people to exceed company and personal aspirations. We will provide a productive workplace with constructive feedback, appropriate resources, current technologies and best-practice processes. Training and development, opportunities for personal growth and improvement will be fostered. We will support our people with career building, recognition and rewards that drive outstanding performance and value creation.

In return, we expect our people to embrace the McKesson **ICARE** values: **I**ntegrity, **C**ustomer-First, **A**ccountability, **R**espect, and **E**xcellence. These values will guide us in everything we do and help us deliver world-class performance. Through the practice of these commitments, McKesson will attract, develop and retain the talent necessary to deliver the highest shareholder returns in our industry. McKesson employees will be proud of the company for which they work, and McKesson will be respected as the place in Healthcare to work and develop a career. ~ **John Hammergren, Chairman and CEO**



## 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, not an HR process. Each business leader is responsible for the successful execution of

performance management in his or her area. They must align their area's goals with the larger business strategies, lead their supervisors in differentiating performance, and reward and address performance. Our future depends on our ability to execute on business strategies.

## Elements of Performance



Performance management at McKesson focuses on both **what** you do (objectives) and **how** you do it (competencies and ICARE Shared Principles).

The **what** and the **how** combined make up your overall performance rating. Your rewards will be determined by how well you achieve your objectives and demonstrate your competencies and the ICARE values. In order to be successful at McKesson, an employee must focus on both of these elements. Each element is included in the employee performance plan and review.

## McKesson's Performance Document At-A-Glance

Each employee will maintain a performance document. Exempt employees who have access to My McKessonHR online will use ePerformance. This is a technology tool that supports performance management at McKesson. Employees who do not have access to My McKessonHR will maintain a paper performance document that can be downloaded from the Performance Management Website (<http://mcknet.mckesson.com/PM/>). Contact your local HR representative for more information or support.

The performance document will be maintained throughout the year as the performance cycle progresses:

- For example, when planning performance, the document serves as the employee's performance plan.
- During managing performance, the document serves as a tracking mechanism for supervisors and employees to track progress.
- During the review phase, it serves as the end of year performance review to be conducted by the supervisor.



## Sample of the ePerformance Management Document

**Performance Document**

Employee Name: \_\_\_\_\_ Job Title: \_\_\_\_\_

Employee ID: \_\_\_\_\_ Document ID: \_\_\_\_\_

Grade: \_\_\_\_\_ Document Type: Performance

Author: \_\_\_\_\_ Update Type: Exempt

Begin Date: 04/01/2006 Due Date: 03/31/2006

End Date: 03/31/2006 Document Status: Acknowledged

### Vision / Mission / Scorecard Goals:

- This section defines McKesson's Vision and Mission.
- Definitions of the 4 Business Scorecard goals are listed. Refer to these as you write your performance objectives to ensure alignment

### Performance Objectives

- Develop 3 - 7 SMART objectives, with a maximum of 10. Each can align with a Scorecard goal in a pull-down menu.
- If you are a supervisor, you must include at least one objective that focuses on how you will develop and grow as a leader and supervisor or improve the performance of your work group (developing people, improving communication, improving teamwork, etc.).
- At the year-end review, employees and supervisors rate and comment on each objective.

### Competencies

- A set of 9 McKesson core competencies (McKesson Success Profile) with behavioral indicators tiered by: Individual Contributor (Professional), Leader, and Executive can be selected. These competencies are aligned with the Talent Review Process.
- Select at least 5 or all 9 competencies.
- A free-form field is available to add job specific or functional competencies that are not listed
- At the end of the year, employees and supervisors rate and comment on each competency (supervisor comments required for 1, 2, 4, 5 ratings).

### ICARE

- ICARE is McKesson's shared principles.
- Supervisors rate the principles as a whole (not individual principles).
- At the end of the year, employees and supervisors rate and comment on this section (supervisor comments required for 1, 2, 4, 5 ratings).

### Individual Development Plan

- The development plan defines actions for enhancing your expertise and career development.
- Supervisors and employees should write 1 - 4 SMART development objectives.
- Development objectives may span more than one fiscal year.
- Development objectives are not rated, but should help employees to succeed in their objectives for the year.

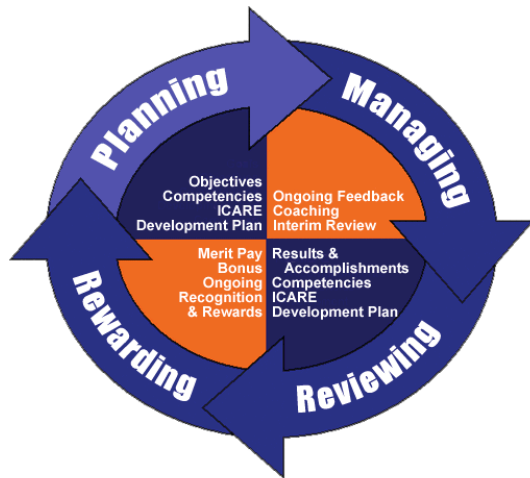
[Expand All Sections](#) [Collapse All Sections](#) [Print Document](#) [PM](#)

[Expand Employee Sections](#) [Expand Manager Sections](#)

- ▶ Vision / Mission / Goals
- ▶ Employee Performance Objectives
- ▶ Manager Performance Objectives
- ▶ Employee Competencies
- ▶ Manager Competencies
- ▶ Employee ICARE
- ▶ Manager ICARE
- ▶ Employee Individual Development Plan
- ▶ Manager Individual Development Plan
- ▶ Employee Mid-Year Comments
- ▶ Manager Mid-Year Comments
- ▶ Employee Year-End Review
- ▶ Manager Year-End Review

## The 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 should not be a once-a-year event. There are four steps in this process:



1. **Planning Performance:** Create a performance document that includes: performance objectives, competencies, ICARE, and an individual development plan.
2. **Managing Performance:** Observe and document performance and behaviors. Provide real-time feedback and coaching, and conduct the mid-year review.
3. **Reviewing Performance:** Complete the formal year-end review.
4. **Rewarding Performance:** Recognize accomplishments using cash and non-cash rewards/incentives.

### Performance Management Key Dates

- **April / June**—Performance Planning
- **September / November**—Mid-Year Reviews (Recommended)
- **March**—Employees Complete Self Assessments (Recommended)
- **April / early May**—Conduct and Complete Reviews

## Planning Performance

In the planning performance step, the employee and supervisor work together to create a performance plan that defines objectives for the performance year and the knowledge, skills, and behaviors needed to achieve them. They also define a development plan that will help the employee meet his or her objectives and continue to learn and grow towards their career goals.

### Roles in Performance Planning

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

## Aligning Individual Results

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

To begin planning, supervisors and employees should discuss the vision, mission, company and business unit's strategies and goals as well as the department's business plan. Individual performance objectives should be created to support the workgroup, departmental, business unit, and ultimately, company objectives.

## McKesson's Vision Statement

To bring together clinical knowledge, process expertise, technology, and the resources of a Fortune 16 company to fundamentally change the cost and quality of healthcare.

## McKesson's Mission Statement

Advancing the Health of the Healthcare System  
by Advancing the Success of Our Partners

## Scorecard Goals

Each business unit sets annual goals that cascade from the McKesson Business Scorecard categories including:

1. **Customer Success:** to have the most satisfied customers in the industry.
2. **Employee Success:** to provide an environment that attracts and retains outstanding talent.
3. **Operational Success:** to create an environment that fosters quality, innovation and efficiency in all that we do.
4. **Financial Success:** to achieve the best financial performance in the industry.

## Individual Objectives: Measuring the "What" of Performance

### Planning Action: Individual Objectives

Supervisors and employees define 3 – 7 SMART objectives during performance planning. An employee should not have more than 10 objectives.

These 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.

If you are a supervisor, you must include at least one objective that focuses on how you will develop and grow as a leader and supervisor, or improve the performance of your work group (developing people, improving communication, improving teamwork, etc.).

These are entered into the "Objectives" section of the employee's performance document. You may align the objective with a scorecard category via a pull-down menu.

Individual objectives 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.

To be most effective, objectives should be **SMART**:

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

When writing performance objectives use the following formula to help you determine if they are **SMART**:

**SMART**  
Action Verb + End Result + Measurement + Time-Bound

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 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.

As business circumstances change, your objectives may be modified, added to or deleted as necessary.

## Measuring the "How" of Performance: Competencies

Competencies are the skills, knowledge, and abilities needed to reach defined objectives. Competencies are combined with performance objectives to determine an overall rating. The objectives are **what** you do, and the competencies are **how** you perform your work.

### Planning Action: Competencies

In general, employees should be rated on at **least** five of the nine McKesson core competencies listed here:

- Strategic thinking
- Results orientation & energy
- Leadership
- Assertiveness & influence
- Decisiveness & judgment
- Openness & candor
- Mature confidence & integrity
- Sensitivity
- Building organizational talent

Some departments or supervisors may include and rate all core competencies. Others may select a sub-set of as few as five core competencies to use for their entire department or for all team members in a similar job function. Supervisors may also assign job specific or functional competencies critical for the job or role. In total, you should include no more than 9 competencies in your performance document.

Supervisors or employees can select competencies for the performance document from the pull-down menu under the "Competencies" section. There is also a free-form field in which competencies specific to a job or functional area may be entered.

There are three tiers of competencies: Professional (individual contributor), Leader, and Executive. The following links will connect you to tools you can use:

- For help in selecting competencies: [Competencies](#)
- For help in developing skills and behaviors for your competencies:



(OPAL is an intranet-based system that provides advice on business situations and assists employees with the development of their competencies.)

### Measuring the “How” of Performance: ICARE Shared Principles

The five ICARE Shared Principles are: Integrity, Customer-First, Accountability, Respect and Excellence. The Shared Principles enable our high-performance culture and motivate us to succeed in achieving our mission. ICARE is the foundation of McKesson’s culture and directs how we execute to accomplish our mission, strategies, and goals. Great companies, like McKesson, place equal emphasis on meeting our goals and the methods we use to meet them.

#### Planning Action: ICARE

The ICARE principles are required and are automatically included in every performance document in the “ICARE” section.

### Individual Development Planning

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.

A development plan should focus primarily on an employee’s current position. He or she should identify the behaviors needed to sustain

successful performance in the current job. These behaviors may also help an employee prepare for a future job.

The development plan should also emphasize outcomes **and** activities. Taking a class is an activity; applying the knowledge and skills learned in that class to meet objectives is an outcome.

Development plans are most effective when they include a variety of activities. Consider these categories of activities to help record Development Objectives.

EXPERIENCE Learning Through Doing	EDUCATION Learning Through Resources	EXPOSURE Learning Through Others
<ul style="list-style-type: none"> <li>▪ Challenging on-the-job assignments</li> <li>▪ Job rotation programs</li> <li>▪ Mentoring others</li> <li>▪ Project teams/task forces</li> <li>▪ Conducting research (as in a literature review) on a business problem and reporting findings</li> <li>▪ Tackling a start-up or “fix it” issue in your area</li> </ul>	<ul style="list-style-type: none"> <li>▪ Instructor-led courses</li> <li>▪ eLearning programs</li> <li>▪ Formal Education programs through McKesson’s Tuition Reimbursement Program</li> <li>▪ Professional Associations/Certifications</li> <li>▪ Reading business books, magazines and journals</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mentors/Role models</li> <li>▪ Feedback, coaching</li> <li>▪ Visibility with key leaders, projects, teams</li> <li>▪ Networking, both within the company and through one’s professional contacts</li> <li>▪ Participation in community and civic organizations</li> </ul>



### Planning Action: Individual Development Plan

All performance documents have an "Individual Development Plan" section.

Employees should set 1 to 4 development objectives for the year. Some development objectives may span more than one fiscal year.

The development plan should include any long-term development objectives identified through training and development, 360-degree feedback or other career development discussions.

## Managing Performance

**Performance management is not a one-time event. To be successful, supervisors and employees need to focus on performance throughout the year.** After initial performance planning but prior to the year-end review, supervisors and employees need to track performance and have ongoing discussions about progress made toward meeting objectives and demonstrating behaviors.

### Roles in Performance Managing

Responsibility	Supervisor	Employee
Tracking Performance	➡	➡
Coaching and Feedback	➡	
Gather input from other sources	➡	➡
Conduct Mid-Year Reviews	➡	

### Managing Action: Tracking Performance

Throughout the performance year, both supervisor and employee should keep a record of key events that demonstrate the achievement of business goals and McKesson competencies. Supervisors should also keep an ongoing documentation file of behavioral observations about their employees' performance to enrich feedback and communication. This file will also save a supervisor time when preparing both the mid-year review and year-end performance review.

Employees and supervisors should also keep track of performance events and feedback using the comments sections in each performance area on the performance document.

### Coaching and Feedback

One of the key components to successful performance management is frequent and open feedback and coaching. Ongoing communication between supervisor and employee ensures continued understanding of expectations and priorities.

Coaching and feedback should be used to:

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

The supervisor's role as a coach is to help guide employees toward expected results. Positive feedback about a job well done is as important as constructive coaching.

Performance coaching is often informal: a phone call, e-mail, or a brief note on a project. Coaching helps guide employees toward expected performance objectives, and can be provided in a working session where employee and supervisor work together to solve problems or analyze a project.

### Giving feedback using STAR

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

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, your supervisor can greatly improve the accuracy, acceptance, and communication of performance feedback.

### Other Sources of Performance Input

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

Feedback can be solicited using the form available from the Performance Management Website (<http://mcknet.mckesson.com/PM/>).

If you are asked to provide feedback on an employee by the supervisor, you will play an important role. Your feedback helps provide the supervisor a well-rounded view of the employee's performance. Supervisors will keep feedback sources confidential by summarizing feedback from all sources. They will not include comments that identify the source of any feedback.

### 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 messages about their progress. Some business units require mid-year reviews, while some leave it as optional. Mid-year reviews are considered an internal best practice at McKesson.

### Managing Action: Mid-Year Review

The informal discussion at mid-year should cover:

- Current results achieved on performance objectives;
- Observed behaviors for competencies;
- Action plans or improvements needed before the year-end review;
- Modifications to performance objectives; and
- Barriers that may be impeding success

Supervisors and employees can enter comments in the Employee's Mid-Year Review Comments and Supervisor's Mid-Year Review Comments sections.

The most important outcome for the mid-year review is a rich, fact-filled discussion between the supervisor and employee about what's been achieved so far, how it's been achieved, and what needs to improve for the remainder of the year. It is not necessary to rate objectives or provide comments on each objective and competency for the mid-year.

## Reviewing Performance

Performance conversations should occur throughout the year so that employees always know how they are doing and how they can improve. Mid-Year and Year-End Reviews are internal best practices at McKesson.

The mid-year review is one key way you can keep the performance conversation going during the year. It helps ensure that employees won't be surprised by performance feedback at year-end. And, it gives the supervisor a head-start in preparing for the year-end review.

Supervisors are required to conduct a Year-End Review with their employees. They will provide comments and ratings for performance objectives, competencies, ICARE Values and an overall rating for the fiscal year.

### Year-End Review: Putting it all together *Roles in Performance Reviewing*

	Supervisor	Employee
Responsibility		
Complete self-assessment		➡
Collect and compile feedback	➡	
Review development plan	➡	➡
Rate employee on objectives, competencies, ICARE (overall)	➡	➡
Rate employee on overall performance	➡	
Participate in calibration process to ensure consistent ratings	➡	
Finalize performance review comments and ratings in the performance document	➡	
Conduct the performance review	➡	

### Self-Assessment

When assessing performance, one of the most powerful resources available to the supervisor is the employee's self-assessment. Employees complete a self-assessment at the end of the year.

### Reviewing Action: Self-Assessment

Employees can record their self-assessment including comments and ratings for objectives, competencies, and ICARE, in their performance document. Provide examples to support your ratings and comments and illustrate **what** you achieved and **how** you did it.

### Reviewing the Development Plan

Before supervisors determine preliminary ratings, they and their employees should review development plans. Together, they should consider the progress made over the last year toward the development goals.

## Determining Performance Ratings

### Rating Scale

Performance is rated on a 5-point scale at McKesson with different rating descriptions for objectives, competencies/ICARE, and year-end overall performance:

Rating	OBJECTIVES DEFINITIONS	COMPETENCIES / ICARE DEFINITIONS	YEAR-END OVERALL DEFINITIONS
<b>1</b>	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. <i>Typically 5% of the population</i>
<b>2</b>	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. <i>Typically 23% of the population</i>
<b>3</b>	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. <i>Typically 60% of the population</i>
<b>4</b>	Inconsistent; does not meet some key performance requirements of the objective.	Inconsistently demonstrates acceptable key actions/behavior in some, but not all areas on this competency.	Inconsistent performance this year; contributions did not meet expectations in some key areas. <ul style="list-style-type: none"> <li>▪ Learning curve/In a new role, or</li> <li>▪ Needs improvement</li> </ul> <i>Typically 11% of the population</i>
<b>5</b>	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. <i>Typically 1% of the population</i>



### Reviewing Action: Pre-calibration Performance Rating

After an employee has completed a Self-Assessment in his or her performance document, supervisors should enter a preliminary rating and comments for:

- **Each objective**—first, supervisors will evaluate each performance objective citing specific results, outcomes, and achievements. The supervisor will assign a rating that reflects how well the employee met performance expectations for each objective. This is completed in the “Objectives” section of the performance document.
- **Each competency and overall ICARE**—next, supervisors evaluate competencies and ICARE Shared Principles. For the ICARE shared principles section, the supervisor will enter a summary score for the five principles rather than rate each item individually. These are entered in the “Competencies” and “ICARE” sections of the performance document.
- **Overall performance**—After the performance objectives and competencies have been rated, supervisors assess the overall performance rating, based on **what** has been accomplished and **how** it has been accomplished by using the performance rating scale in the performance document in the “Overall Performance” section.

Comments are encouraged and **required** for 1, 2, 4, and 5 ratings.

Supervisors should consider the relative contribution of the employee when rating.

The supervisor will take this preliminary rating to the calibration process, which will ensure its consistency relative to ratings of the employee’s peers.

### 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.

Supervisors 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 required for performance of those tasks and ICARE Shared Principles.
3. The overall relative contribution of the individual's accomplishments to the organization.

Your supervisor will evaluate how much you 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 bigger 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 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.

### 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, and ICARE Shared Principles.

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.

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.

Some groups will have formal calibration meetings to discuss consistency of ratings, while other groups may have another process in place to ensure consistency and standardization of ratings.

#### **Reviewing Action: Final Post-calibration Performance Rating and Comments**

If necessary, supervisors should adjust the overall rating and comments after the calibration process. At this point, the supervisor can complete the performance document and allow his/her comments to be seen by the employee. A review discussion should be conducted with the employee at this time.

#### **Conducting the Year-end Review**

At the end of the performance year, a year-end review must be conducted. If there has been open communication throughout the year, there should be no surprises, since the review is a summary of the performance year.

#### **Reviewing Action: Year-end Review Discussion Checklist**

During the year-end review, the supervisor and employee will review:

- ☐ Performance on the objectives;
- ☐ Performance on observed competencies and ICARE Shared Principles;
- ☐ The overall rating; and
- ☐ The progress made on the development plan.

Many developmental activities occur over periods longer than one year. In this event, next steps should be discussed for the coming year. The review of the development plan should focus on the Three Es:

- ☐ employee's internal and external work **Experience**;
- ☐ the employee's **Education** and training; and
- ☐ the employee's **Exposure** to important leaders and/or projects within the organization.

This discussion may result in additional development objectives for the employee for the next fiscal year.

#### **Online ePerformance Tool or Offline Template**

Exempt employees that have access to McKNet and MyMcKessonHR will be required to use the online ePerformance tool. Access MyMcKessonHR at: <https://myhr.mckesson.com>

Exempt employees that do not have access to McKNet or MyMcKessonHR will use the Offline Template. The offline template contains the same sections as the online tool. Contact your supervisor or local HR representative for the offline template. After the Year-End Review has been conducted, the supervisor will be required to enter ONLY the Year-End Overall rating in the ePerformance system. The offline template is located at <http://mcknet.mckesson.com/PM/>.

## Comments and Signatures

Comments may be added to the year-end review section of the Performance Management Worksheet by either employees or supervisors:

- If the performance plan is completed online, when the supervisor completes the review, and the employee accepts or acknowledges the review, then the document is final.
- If the performance plan is completed on paper, you must obtain approval by your local HR representative.

The employee's signature does not imply agreement with the assessment, but confirms the review was received and discussed.

## Compliance

It is a McKesson best practice and a Sarbanes Oxley requirement that all Supervisors / Managers must complete a performance plan and review for their direct reports each fiscal year.

## Appeal

Employees can appeal a performance rating with their supervisor within 30 days of his or her review. If the employee and the supervisor cannot resolve the appeal, the employee can request that the next level of management or Human Resources review the appeal.

## Performance Improvement Plan (PIP)

During the performance review process, the employee will receive feedback on areas where improvement is needed. However, if the employee is not meeting overall performance expectations, the supervisor will explain and discuss a specific action plan for improvement, with documented timetables.

## Rewarding Performance

McKesson expects extraordinary results from extraordinary people and rewards these results through an innovative compensation program. We reward employees who create value for the company. Individual performance of all employees at McKesson directly impacts our

ability to meet our mission, vision, and business goals. McKesson is committed to pay more significant rewards to employees who perform at higher levels and make greater contributions.

Our performance management process ensures high rewards for high performance. As part of our performance culture, McKesson aggressively rewards strong performance and assertively addresses lower performance. High performance is recognized through superior rewards. Expected performance is recognized through competitive rewards.

Our reward programs include a combination of short term and long-term compensation. These include some combination of recognition programs, merit pay, and where appropriate in the market, incentive pay and equity in the form of stock options. There are also non-cash rewards and recognition.

## Types of Rewards

**The 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.

**Incentive pay** recognizes your objective results. For certain levels within the organization, some portion of your targeted compensation is deemed at risk based on the results of the division overall, your business unit, or your functional unit. Since these objectives vary from year to year, the at-risk component of your compensation is provided as a lump sum bonus.

**Recognition programs** are designed to reinforce specific performance achievements. They may be cash or non-cash, 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.



## The Merit Program

The merit program is designed to differentiate pay for performance through salary increases. Each year, a merit matrix is provided as a tool to assist supervisors in determining the appropriate salary increase for their 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.

An important point to remember is that just as you have a personal budget, the company has limits in the overall salary expense each year. The merit pool is a tool to ensure that the company continues to pay competitively in the market place, spends what it can afford, while recognizing and rewarding employee's efforts.

## The Power of Recognition

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.

Finally, check out the Supervisor Motivational Toolkit in My McKessonHR for more details on how to recognize team members.