



**Department:** Human Resources  
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## Performance Management

### SCOPE

This policy applies to the employees of Cummins Inc. (“Cummins” or the “Company”) entities worldwide in which Cummins has a controlling ownership interest including subsidiaries, majority owned joint ventures, affiliated companies and distributors, unless prohibited by local law or collectively bargained agreement. If Cummins does not have a controlling ownership interest or management responsibility in the subsidiary, joint venture, affiliated company or distributor, Cummins will take reasonable steps to require the entity to have a written policy addressing the philosophies and approaches described in this policy in a legally compliant manner.

This policy applies to all employees who have access to the Cummins common technology solution, including those in EXEMPT, OFFC and TECH roles. The Company recognizes it has not yet fully implemented Performance Management as described in this policy for employees in Shop roles at all sites. In these cases, the Company expects Management to move toward universal adoption of the principles and practices in this policy:

- When existing practices are modified;
- When new performance management processes are implemented; and
- When bargaining a collective agreement

Cummins entities are expected to use the Company’s approved documents and/or technology to enable the Performance Management process. Deviations must be approved by Global Talent Management.

### PURPOSE

Consistent and effective performance management is foundational to achievement of individual and business objectives. Through the Performance Management Process:

- Employees understand how their work supports broader organizational objectives.
- Employees understand what is expected of them, how they are performing against those expectations, and how they can continue to improve their performance and contributions to advance their own career and Cummins business objectives.
- Managers provide feedback and coaching throughout the year to support employees in sustaining and improving their performance and developing their capabilities in alignment with their career goals.
- Employees and managers maintain on-going communications about performance and development progress and use the Company’s approved documents and/or technology to document progress.

### POLICY

**Definitions for the purpose of this policy:**

**Career Statement:** Employee's short and/or long-term career interests and progression toward roles of interest.

**Differentiate/Differentiation:** Within or across groups, employees perform along a continuum of effectiveness ranging from exceptional to unsatisfactory. Managers are expected to identify and categorize employees into the appropriate performance rating category.

**Individual Development Plan (“IDP”):** One or more SMART objectives defining what knowledge, skill, or ability an employee needs to develop in the present position or to prepare for new responsibilities. The plan provides a means to clearly articulate how, when, and where the employee plans to apply the knowledge, skill, or ability as an indication of progress or success.

**Performance Improvement Plan (“PIP”):** A short-term action plan with one or more objectives for the employee to improve a particular behavior or performance deficiency. The intent of the plan is to provide an opportunity to demonstrate sustained performance improvement. The plan includes the time period in which the employee is expected to demonstrate and sustain improved performance. For the purposes of this policy, this terminology will cover local terminology such as Employee Development Plan, Employee Improvement Plans, or similar terms.

**Performance Plan:** A set of SMART objectives defining the key deliverables that the employee is expected to accomplish for the year.

**Rating:** The category assigned to an employee’s overall annual performance. Overall performance includes both what was accomplished and how it was accomplished. The following are summary descriptions with examples of the key considerations for each category.

1	Exceptional. Your manager’s assessment indicates that you <u>predominantly exceed expectations</u> in both: 1) demonstration of Cummins Values, an ability to work effectively with others and within the Cummins organization and culture; and 2) the essential documented and agreed workplan objectives, priorities and metrics. Your manager considered feedback from others regarding your results and the manner in which they were delivered.
2	Successful. Your manager’s assessment indicates that you <u>met and at times may exceed expectations</u> in both: 1) demonstration of Cummins Values, an ability to work effectively with others and within the Cummins organization and culture; and 2) the essential documented and agreed workplan objectives, priorities and metrics. Your manager considered feedback from others regarding your results and the manner in which they were delivered.

3	<p>Unsatisfactory. Your manager’s assessment indicates that you <u>did not or only partially achieved expectations</u> in one or both areas: 1) demonstration of Cummins Values, ability to work effectively with others or within the Cummins organization and culture; or 2) the essential documented and agreed workplan objectives, priorities and metrics. Your manager considered feedback from others regarding your results and the manner in which they were delivered.</p>
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**SMART:** An acronym that describes key characteristics that promote quality performance and development objectives. It stands for **S**pecific, **M**easurable, **A**ction-oriented, **R**ealistic, and **T**ime-bound.

**Stakeholder:** An individual who has visibility to or is impacted by an employee’s work. Stakeholders may be co-workers, direct reports, project team members, internal customers, or external parties.

**Workplan:** The document collectively referring to the performance plan and the individual development plan which each employee creates with the assistance of their manager at the start of a new performance year or a new work assignment.

**Policy** The following policy statements outline characteristics of an effective Performance Management process.

**Workplan.** All employees have a workplan for the current-year performance and development cycle. Where available, employees and managers are expected to use Cummins designated technology for documentation of the performance management process. Where the designated technology is not available, employees and managers are expected to use forms and tools approved by Global Talent Management.

- Employees have *performance* objectives that align to business goals and outline the managers’ performance expectations. The intent is for an employee to have sufficient performance objectives to ensure they understand how their work connects to and supports broader organizational objectives and what is expected of them.
- Employees have *development* objectives that align to their career goals and organizational needs and that provide them the opportunity to develop in their current role and/or develop for future opportunities. Employees are expected to have a minimum of one development objective and are encouraged to consider 2-3 specific development objectives.

**Expectations of Managers.** Managers are expected to cascade business priorities and objectives to ensure employees understand how their work connects to and impacts the broader organization. Throughout the year, managers are also expected to engage each employee in frequent and ongoing performance coaching and feedback. The intent of these discussions is to ensure:

- Managers provide constructive feedback, both strengths and improvement opportunities, targeted on sustaining and improving behaviors and performance;
- Managers engage in development conversations about the employee’s career interests and development goals;

- Employees are aware of how they are performing in relation to their performance objectives throughout the year in real time;
- Employees are aware of how they are progressing on their development objectives throughout the year in real time; and
- Employees have ample opportunity to perform satisfactorily in accordance with their managers' expectations.

**Performance Management Mid-Year Update.** Managers and employees engage in a formal coaching and feedback discussion at the midpoint of the performance year. Discussion should include performance against expectations, stakeholder feedback and employee career and development. Employee and Managers are expected to document this discussion using Cummins approved technology or forms.

**Performance Management Year-end Review.** Managers and employees engage in a year-end review discussion about overall performance results, stakeholder feedback, and employee development during the entire year. Employee and Managers are expected to document this discussion using Cummins approved technology or forms.

- **Performance Rating.** At year end, managers differentiate employees into rating categories based on observed behaviors and deliverables as well as stakeholder feedback. Ratings may be reviewed at multiple management levels for additional insights and feedback for the manager to consider. The manager is responsible for the final rating decision.
- **Employee Exemptions from Performance Ratings.** Any employee hired in the fourth quarter (October - December) of the calendar year is not rated for performance in the current-year process as there has not been sufficient time to demonstrate sustained performance. Where required, action is to be taken to address inconsistency with local laws or collectively bargained agreements.
- **Communication of rating decisions to employees.** Managers are accountable to clearly communicate the performance rating and rationale to the employee and are accountable for any follow-up action and support for the employees. Communication of ratings may not occur before final management approval and must be complete by the deadline set by the Company.
- **Separation for Two Consecutive Years of Unsatisfactory Ratings.** Employees who are categorized as a "3" performer for a second consecutive year will be separated from the organization, unless prohibited by law or collective agreement.

#### **Management Review and Approval.**

- **Performance Rating Review.** Final determination of ratings may be reviewed at multiple management levels to ensure fair and consistent application of performance standards and consideration of stakeholder feedback. These reviews and discussion may provide additional insights and feedback for the manager to consider. The manager is responsible for the final rating decision.
- **Management Review and Approval** Business Segments, Corporate Organizations and Area Business Organizations (ABOs), supported by their HR partners, are responsible for reviewing, analyzing and approving the rating recommendations within their respective business to ensure the process meets business objectives. Final rating approval requirements are defined by the [HR Governance Matrix](#).

- **Employee Transitions.** When an employee transitions to a new role and to a new manager, it is the previous manager's responsibility to assess and document the employee's performance to the end of the first assignment and the new manager's responsibility to assess and document the employee's performance in the new assignment. The employee's full-year performance should take both assignments into account.
- **Manager Transitions.** Prior to changing roles, the manager is responsible for assessing each of their employee's performance to date. It is recommended that the manager discuss the employee's performance and development progress with the replacement manager. The replacement manager has discretion over any subsequent revisions for the employee's workplan.
  - Previous Manager is Unavailable. If an employee or manager transition takes place and the previous manager is no longer at Cummins, then the next-level manager or other manager within the chain of command for that employee's role is responsible for collecting sufficient stakeholder feedback to complete the employee's performance review and/or communicate the performance to the employee's new manager.

**Performance Improvement.** Managers have an important role in providing continuous feedback, coaching, and support to enable employees to be successful and/or to help them improve performance. Managers are expected to provide clear, specific, and documented feedback on improvement needs throughout the year. In some circumstances, a formal [Performance Improvement Plan](#) supplements performance feedback, and may be initiated any time throughout the year when overall or a specific aspect of performance has declined or is in need of improvement.

- **Roles and Responsibilities in Performance Improvement.** Employees have the best chance of success when they work closely with their managers throughout the year to address performance gaps. Managers are expected to provide clear documented feedback on areas of performance that require improvement. Employees are expected to take an active role in developing and executing improvement objectives.
- **Performance Improvement Documentation.** Ideally, an employee receives clear and documented feedback as part of the regular performance management process. Throughout the year, written feedback or new performance or development objectives may be added to the employee workplan to address the required improvement needed to perform satisfactorily. In this case, the documented performance feedback will generally be sufficient to manage performance improvements and no additional performance improvement documentation is required.
- **Performance Improvement outcomes.** While Cummins attempts to assist employees in bridging performance gaps, unfortunately it does not always happen. Where the employee has previously received clear and documented feedback on performance improvement areas and has been provided an opportunity to demonstrate improvement, the manager, in consultation with HR, will determine whether to continue to address improvement areas, reassign work, reassign the employee, or terminate the employee's employment. In determining viable options, business needs will be considered such as criticality of the work and/or availability of alternative assignments.
- **Year End Rating considerations.** An employee who is rated "3" during the year-end review and rating process should have already received clear and specific feedback about

improvement needs from the manager through coaching and development conversation and documented performance management comments. Considerations for managing continued active employment for a “3” performer who has received:

- **Documented feedback.** If an employee has received documented feedback during the performance year and successfully demonstrated improvement, then subsequent action is not generally necessary. If issues covered by the prior feedback have resurfaced or if different performance issues have surfaced, an additional plan may be warranted.
- **No documented feedback.** If an employee who is rated as a “3” performer during the year-end review and rating process did not previously receive documented feedback through the Performance Management process, they must be placed on a documented Performance Improvement Plan after the performance rating has been finalized and not later than March 15.
- **Performance Improvement Plans.** When Performance Improvement Plans are necessary for an additional level of focus beyond documented performance feedback OR to comply with legislative requirements or collectively bargained agreements, the following considerations apply:
  - **Employee Participation.** An employee is expected to be an active participant. An employee’s failure or refusal to meet documented requirements and expectations may result in a determination that the employee has failed to successfully complete the process.
  - **Timing.** Documented improvement expectations may be established at any time throughout the year for any employee who is not performing in accordance with expectations and who requires focused intervention.
  - **Duration.** Sufficient time must be provided to allow the employee to make progress and demonstrate sustained improvement, generally 90 days unless extenuating circumstances warrant a lessor or longer period. Extenuating circumstances may include repeated previous documented requests for improvement, completion of specific project(s), or remote manager collaboration with local leadership.
  - **Performance Improvement Plan Documentation.** Cummins provides one *template* for global usage. Documentation should be maintained according to local laws and regulations for storing personnel files.
  - **Improvement Plan Closure.** Managers should be ready to provide necessary feedback and take appropriate action when plans close successfully, as well as when improvement is not demonstrated as required.
    - **Successful Completion of a PIP.**
      - A Performance Improvement Plan is successfully completed when the manager has determined that the employee has demonstrated and sustained improved performance as outlined in the plan. An employee who successfully completes a plan may still be rated as a “3” performer at year-end if overall performance was assessed below expectations over the course of the full year.
      - **When the Improvement Plan is not successful.** The improvement plan is unsuccessful if the employee has not demonstrated and sustained improved performance by the agreed-upon end date for the plan or if the employee fails or refuses to meet established interim requirements and expectations or performance falls in other areas not contained within the PIP. Under these circumstances, the manager,

in consultation with HR, will determine whether to conclude the plan early, reassign or demote the employee to a role with lesser responsibility, or to terminate the employee's employment.

**Performance Management Policy Compliance.** Any exemption to or deviation from this policy must be approved by Vice President, Talent and Organizational Development.