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Performance management pulse survey results: EMEA

November 2015

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Executive summary

- Performance management has been getting a lot of press recently with headlines suggesting a trend towards revolutionising "outdated" practices

- However, survey findings suggest the debate has been pushed disproportionately towards the extremes of practice, with many reports losing sight of the true reality for the majority of organisations

- While it's clear that companies <u>are</u> making changes, all evidence points toward targeted, incremental change rather than wholesale, transformative change; most organisations report a good understanding of the areas that need to be strengthened for the overall effectiveness of performance management to improve

- The focus of change is less about overhauling fundamental design parameters (purpose, application, outcomes, etc.) and more about making changes to the delivery and results of the process (better use of technology, continuous performance conversations, manager effectiveness, etc.). It's about realising the <u>full</u> benefits of performance management as a game changer for achieving business success

- The story we're seeing is evolution, not revolution

Survey findings

Introduction

Performance management has been getting a lot of press recently with headlines suggesting the trend for change is revolution than evolution:

> *Harvard Business Review* – *"Kill your performance ratings"*
>
> *Bloomberg* – *"Microsoft kills its hated stack ranking"*
>
> *Deloitte* – *"Reinventing performance management"*
>
> *Accenture* – *"getting rid of annual reviews and rankings"*

Although there's nothing new about headline grabbing stories, the momentum that has gathered around performance management change is extraordinary

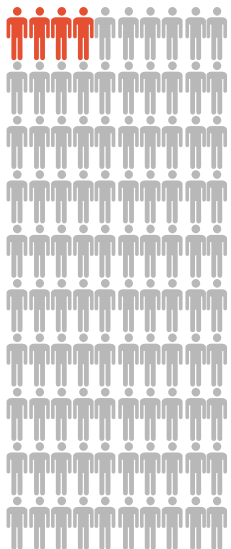So… what's all the noise about and what's really happening?

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Evolution or revolution… What's really happening?

Change is happening

70% of companies have already or intend to make changes to performance management

But what we're seeing isn't as radical as recent press might lead us to believe…
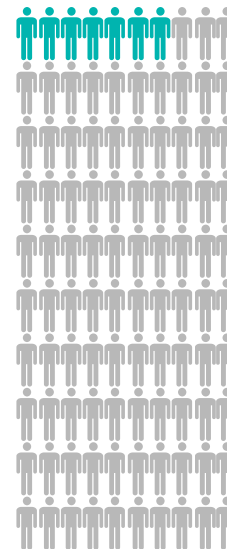
4% of companies have or are actively working on scrapping performance management altogether

71% of companies with performance ratings / scores have no intention of eliminating their use any time soon
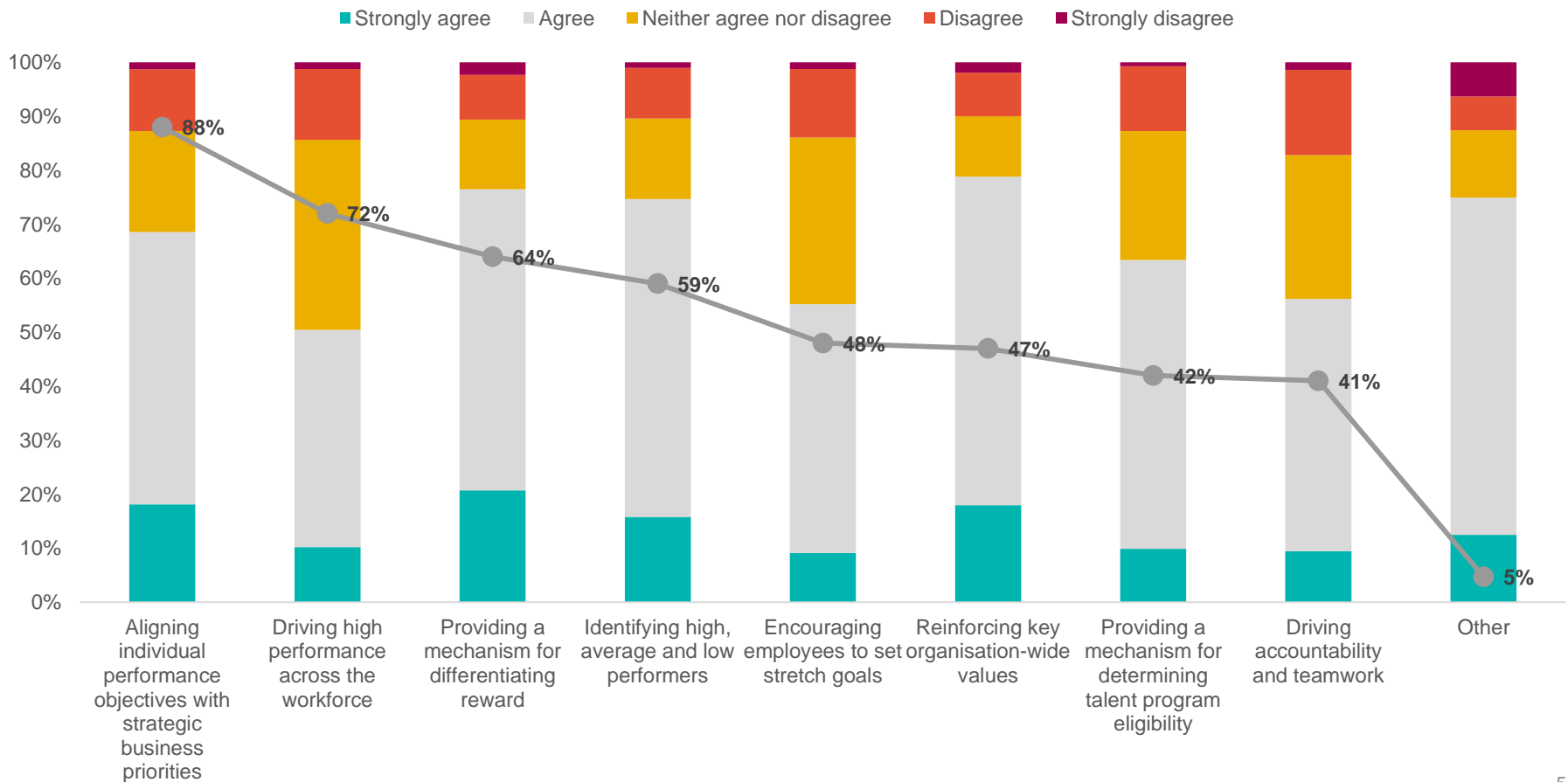
7% have taken the decision to implement a ratingless approach to performance management

Companies are on a journey to unlock the full potential of performance management…

Organisations are clear on the main objectives for performance management (line) and have a good understanding of how effectively these are met (bar)

Legend: ■ Strongly agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Strongly disagree

Line data points:
- Aligning individual performance objectives with strategic business priorities: 88%
- Driving high performance across the workforce: 72%
- Providing a mechanism for differentiating reward: 64%
- Identifying high, average and low performers: 59%
- Encouraging employees to set stretch goals: 48%
- Reinforcing key organisation-wide values: 47%
- Providing a mechanism for determining talent program eligibility: 42%
- Driving accountability and teamwork: 41%
- Other: 5%

Which is why the focus appears to be on targeted rather than wholesale change

TECHNOLOGY

47%

of companies have either or are about to make changes to implement new **technology**

FOCUS

33%

Have already or plan to change the focus of performance management to place more emphasis on **forward looking potential**

OUTCOMES

33%

of companies that use a single performance rating / score (56%) have or are actively planning to **change their rating scale** / scoring approach

Companies are also looking to:

- Spend **more time** on the **right activities** (discussions, calibration)
- Focus on improved **manager capability and effectiveness**
- Shift the emphasis of performance management from a once or twice yearly event to an **ongoing conversation**

Fundamental design parameters remain largely unchanged

Application: almost two thirds of companies (62%) operate a **one size fits all process** by not differentiating the approach for different employee populations

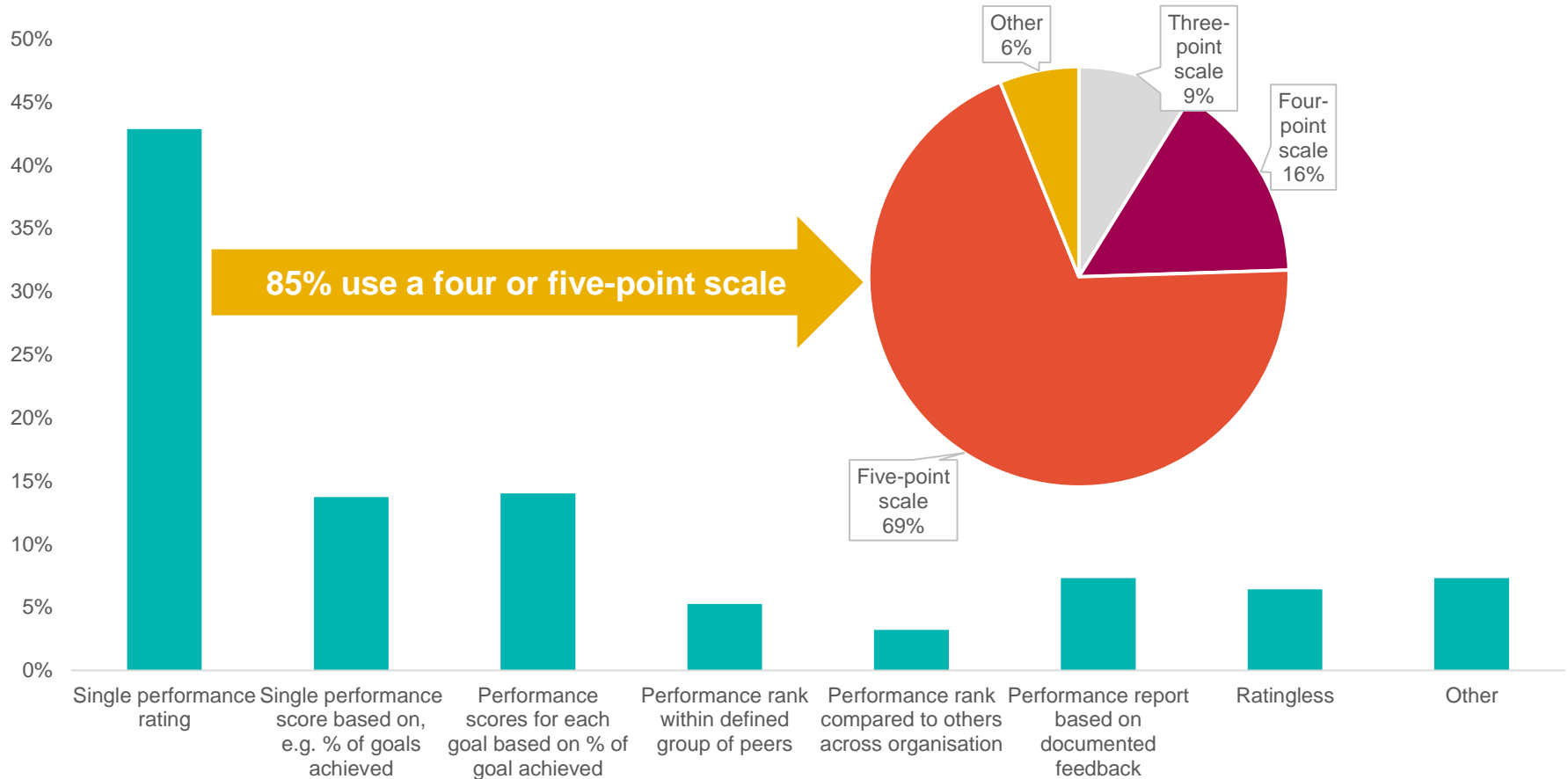| 62% "one size fits all"	38% segment for "leadership" and "everyone else"

Purpose: 88% of companies state **alignment to strategic business priorities** as the number one purpose of performance management, followed closely by **driving high performance across the workforce** (72%)

Outcomes: the outcome of performance management for 56% of companies is a **single performance rating or score**. This number increases slightly to 59% when considering only those companies that have moved to a continuous process. **Five point rating scales continue to be most prevalent** and are used by 69% of companies with ratings

Performance ratings continue to be widely used irrespective of performance cycle…

? 1. What is the outcome of performance management at your organisation?
2. How many levels does your organisation have in its rating scale?

85% use a four or five-point scale

Other 6%

Three-point scale 9%

Four-point scale 16%

Five-point scale 69%

Bar chart categories:
- Single performance rating
- Single performance score based on, e.g. % of goals achieved
- Performance scores for each goal based on % of goal achieved
- Performance rank within defined group of peers
- Performance rank compared to others across organisation
- Performance report based on documented feedback
- Ratingless
- Other

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… and influence reward and talent outcomes to varying degrees

? To what extent does the outcome from your performance management process strongly influence:

	Not at all				To a great extent
	1	**2**	**3**	**4**	**5**
Base pay increases	15%	13%	21%	**25%**	**26%**
Short-term incentive awards	22%	10%	11%	**25%**	**32%**
Promotion decisions	7%	10%	**35%**	**36%**	12%
High potential decisions	9%	14%	**25%**	**38%**	14%
Eligibility for development opportunities	8%	15%	**36%**	**35%**	6%
Workforce / succession planning decisions	11%	21%	**34%**	**30%**	4%
Learning & development design decisions	15%	19%	**33%**	**27%**	6%
Mobility decisions	**29%**	**21%**	**31%**	16%	3%
Long-term incentive awards	**42%**	**12%**	14%	21%	11%

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However, survey participants are realistic about key areas for improvement

Impact: although companies are successfully executing several of their desired performance management objectives, overall, **the process is falling short of its potential**. Just over a third (36%) of companies think the process is effective overall

Support: Although **companies realise the value** of performance management, there are concerns that managers struggle to demonstrate the **skill and will** required to deliver the benefits of the process

Time investment: Companies are concerned that **too little time is invested in performance management** and would like to shift the balance of time from from completion to ongoing performance conversations

Alignment: Alignment between the various **measures of effectiveness that companies have adopted and their expectations** for what performance management needs to be delivering could be strengthened

With overall effectiveness scoring low, companies are starting to identify the missing links

Despite clarity around objectives and the extent to which something is missing. Only overall, their performance

performance management specific objectives are achieved, **36% of companies** agree that management process is effective...

Managers

.... and this is resulting in low overall satisfaction. Only **3 in 10** (31% and 29%) of managers and employees are **"generally satisfied"** with the performance management process at their organisation

Employees

? **So what's missing** **?**

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Significant gains could be made through investing in and supporting managers

Focus areas

63% of companies suggest **manager feedback** is the key driver of change

56% of companies are concerned that **managers don't have the necessary skills** to support an effective performance management process

Provide practical **tools** to support performance conversations:

- Technology to prompt and document feedback collection
- Career pathways
- Competency frameworks

39% think that line **managers don't see the value** in the performance management process

26% of companies cite **low levels of senior manager support** as a barrier to effective performance management
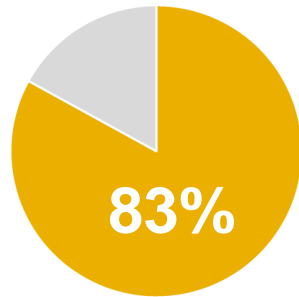
Demonstrate **value** through linkages to:

- Pay and promotion decisions
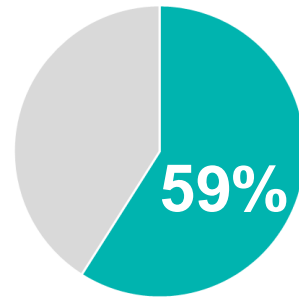- Employee engagement
- Competency frameworks
- Business performance

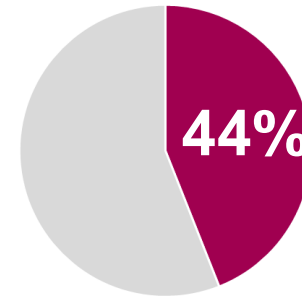# Companies could spend more time per employee on performance management
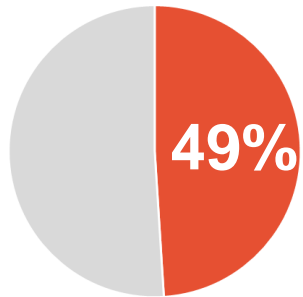
49% of companies report that **too little time** is spent on performance management

83% invest less than **six hours** per year on each employee

59% invest less than **four hours** per year on each employee

44% want **more frequent touch points** between managers and employees

Of the time that is invested in performance management, companies report that:

- Too much time is spent **filling forms in** (32%)

- **Not enough time is spent on performance conversations** with employees (72%), collecting performance feedback (69%) or goal setting (58%)

Most companies understand where time could be better spent…

? The amount of time managers at my organisation spend on each of the following activities is…

	Too little	About right	Too much
Completing forms	14%	**55%**	**32%**
Year-end performance feedback sessions	32%	**64%**	5%
Participating in calibration sessions	**45%**	**45%**	9%
Ongoing conversations	**72%**	27%	1%
Helping employees set performance goals or objectives	**58%**	41%	1%
Collecting feedback from colleagues	**69%**	29%	2%
Understanding and using technology	**52%**	40%	8%

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… and this has to include a fresh look at how effectiveness is defined and measured

To reinforce the importance of performance management, there has to be alignment between the objectives a company sets and the way effectiveness is defined and measured. As things stand some of the value is lost through a "tick box" approach to measuring effectiveness:

76% measure the **number of performance reviews** completed on time (44% managers, 32% employees)

30% don't measure anything

20% look at the **quality of goals** set and feedback provided
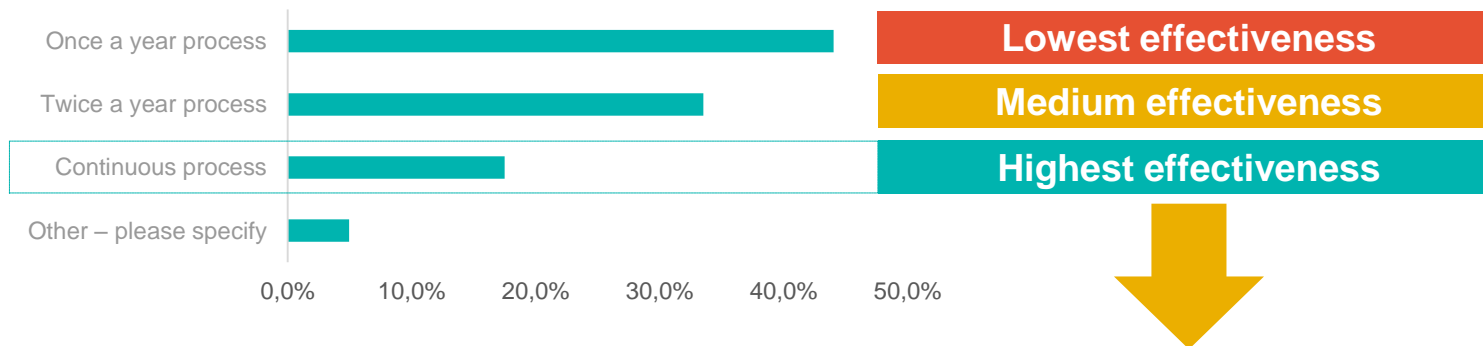
8% assess the extent to which feedback and coaching is provided **throughout the year**

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The evidence for change is compelling

The minority of companies that already demonstrate the characteristics that others aspire to are seeing tangible benefits:

Which of the following best describes performance management at your organisation?

	Effectiveness
Once a year process	**Lowest effectiveness**
Twice a year process	**Medium effectiveness**
Continuous process	**Highest effectiveness**
Other – please specify	

0,0%   10,0%   20,0%   30,0%   40,0%   50,0%

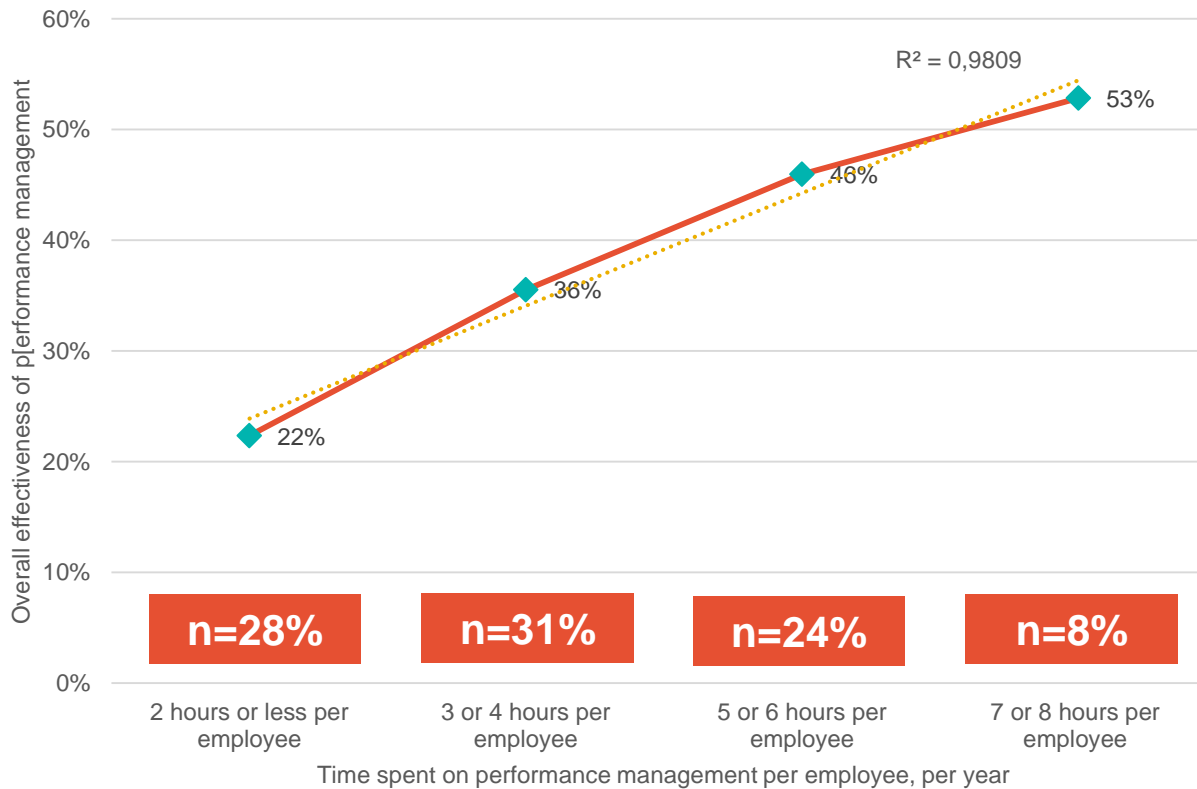**Companies are two times more likely to report performance management programme effectiveness if:**

- They use a **continuous discussion based process** rather than a static one or twice yearly review (60% vs. 32%)

- Managers spend "the right amount" of time on **desired performance management activities** (discussions, feedback, calibration, etc.) (56% vs 24% that spend "too little" time and 22% that spend "too much" time)

A small time investment can make all the difference

? In the typical year, how much time per employee in your organisation is spent on performance management?

R² = 0,9809

Overall effectiveness of p[erformance management

- 22% — 2 hours or less per employee — n=28%
- 36% — 3 or 4 hours per employee — n=31%
- 46% — 5 or 6 hours per employee — n=24%
- 53% — 7 or 8 hours per employee — n=8%

Time spent on performance management per employee, per year

- Up to 8 hours per employee, there is a **direct correlation** between the amount of time invested in performance management and overall programme effectiveness

- **Beyond this, returns appear to diminish**

- The key is investing an **appropriate amount of time in the ongoing conversations** of which employees want to see more

More importantly, people <u>want</u> change!

It's their feedback, together with a strong desire to move towards ongoing conversations, that appear to have most influence on changes that companies are implementing…

63%
suggest feedback from managers is a key factor in exploring or implementing change

55%
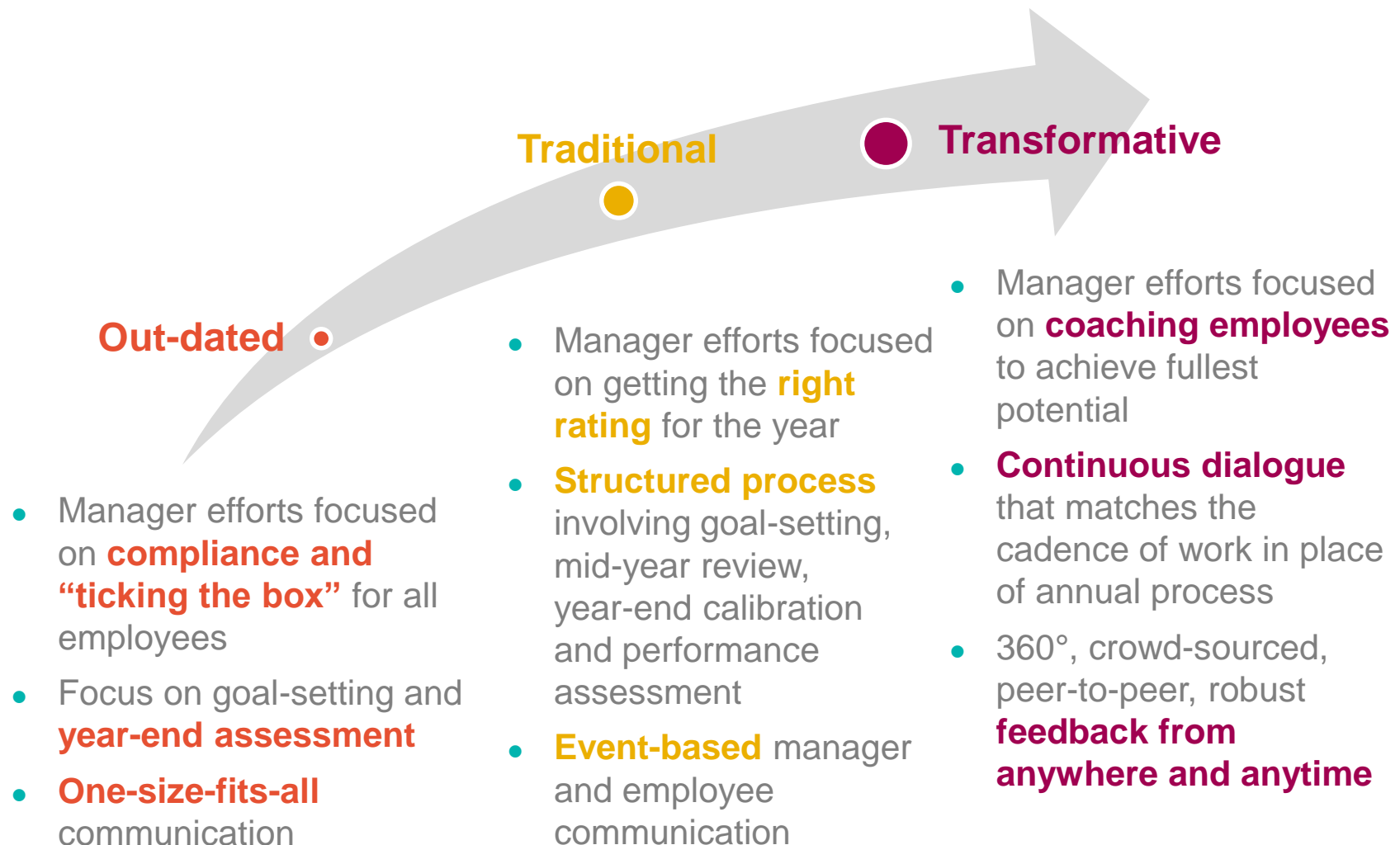report that employee feedback is a key driver for exploring or implementing change

And let's not forget that **clarity around goals and objectives** is one of five drivers of sustainable engagement globally!

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Although it's not altogether surprising that "traditional" performance management continues to be the norm…

Design parameter	Predominant practice
Top 3 objectives?	1. Align individual performance objectives with strategic business priorities 2. Drive high performance across the workforce 3. Provide a mechanism for differentiating rewards
Differentiated approach based on employee population?	No
Performance / review cycle?	Once a year
Outcome?	Single rating
# performance ratings?	5
Performance assessment	Both absolute and relative
Guidance on expected distribution?	Yes, recommended distribution guidelines provided
Top three processes influenced by outcome?	1. Base pay increases 2. Short-term incentive awards 3. High potential decisions
Time spent?	3-4 hours per employee

The questions we're hearing are around what it will take to move to a transformative approach

Out-dated

Traditional

Transformative

- Manager efforts focused on **compliance and "ticking the box"** for all employees
- Focus on goal-setting and **year-end assessment**
- **One-size-fits-all** communication

- Manager efforts focused on getting the **right rating** for the year
- **Structured process** involving goal-setting, mid-year review, year-end calibration and performance assessment
- **Event-based** manager and employee communication

- Manager efforts focused on **coaching employees** to achieve fullest potential
- **Continuous dialogue** that matches the cadence of work in place of annual process
- 360°, crowd-sourced, peer-to-peer, robust **feedback from anywhere and anytime**

So what?

Use technology better. Technology is <u>the</u> key enabler of a more efficient performance management process. Make sure it is tied to other HR processes and that the user experience enables simple feedback documentation

Give managers the education and support they need to do a good job of performance management – don't expect it to come naturally. Provide the tools to support effective performance management conversations, for example career pathways and competency frameworks

Make evidence based changes rather than changing for the sake of change or because market practice, or the press, suggests something new

Involve people in changes to performance management. Collect their feedback, act on it and make them accountable for doing something with it

Focus on the things that matter. Avoid turning performance management into a tick box exercise by measuring, and communicating, what matters and why

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