

A WorldatWork Survey Brief



THE STATE OF PERFORMANCE MANAGEMENT

Survey of WorldatWork Members • August 2004
Conducted by WorldatWork, Sibson and Synegy

About WorldatWork and WorldatWork Membership Surveys



*The Professional Association for
Compensation, Benefits and Total Rewards*

WorldatWork is the world's leading not-for-profit professional association dedicated to knowledge leadership in compensation, benefits and total rewards. Founded in 1955, WorldatWork focuses on disciplines associated with attracting, retaining and motivating employees. In addition to providing professional affiliation, WorldatWork offers highly acclaimed certification (CCP®, CBP™ and GRP®) and education programs, the monthly *workspan*® magazine, online information resources, surveys, publications, conferences, research and networking opportunities.

WorldatWork regularly surveys its membership of compensation, benefits and total rewards practitioners regarding current issues and topics, best practices and common professional practices. The majority of WorldatWork members are at the manager responsibility level or higher, have more than 10 years of experience in the human resources profession, and work in the corporate headquarters of a company based in North America with more than 1,000 employees. The association routinely receives a voluntary response rate from members in the 15 percent to 20 percent range, a response rate that generally ensures the respondents are representative of the WorldatWork membership as a whole.

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Synegy, Inc. provides software and services for creating performance-driven organizations. Synegy solutions enable companies to better execute their strategies by 'operationalizing' how they define performance, reward success, and deliver results. Synegy's award-winning Enterprise Incentive Management (EIM) solutions have been proven by independent study to pay for themselves in eight to nine months. Synegy's software was recently picked as the top-ranked EIM product in HR.com's 2003 Buyer's Guide to EIM.

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The State of Performance Management

Survey Brief – August 2004

Survey of WorldatWork members by WorldatWork, Sibson and Synygy

Introduction and Methodology

This report summarizes the results of a June 2004 survey of WorldatWork members, conducted jointly by WorldatWork, Sibson and Synygy. Surveys were sent electronically to 5,110 WorldatWork members, and 414 responses were received, a response rate of eight percent. The demographic profile of the survey's respondents is similar to that of the WorldatWork membership as a whole. The typical WorldatWork member works at the managerial level or higher in the headquarters of a large company in North America. Ninety-five percent of the *Fortune* 1000 companies employ a member of WorldatWork.

Executive Summary

Practicing effective performance management remains one of the most difficult challenges facing organizations today. Whether the process is overly burdensome and time consuming, or perhaps not adequately aligned with the strategic objectives of the company, performance management is quite simply very hard to do well.

In fact, close to 60 percent of the organizations participating in this study would give their own performance management system a "C" or worse grade in terms of effectiveness. One reason is that organizations still view performance management as an HR process primarily used to make rewards decisions, as opposed to a business critical process for driving improved business results. These same organizations also acknowledge that ineffective performance management can be a drain on employee morale and affect a company's ability to achieve its strategic objectives.

One clear opportunity for improving performance management effectiveness is to increase employee understanding on of the strategic objectives and value drivers of the business. In this way, employees can establish goals and metrics that are more clearly connected to the needs of the organization.

In summary, the survey findings point out a number of formidable barriers to better performance management. But they also point out solutions and the benefits of better performance management, including better feedback to employees, better understanding of expectations, and improved performance.

Detailed Survey Results

Section 1: Common Goals and Challenges of Performance Management Systems

When asked to identify the three top goals of their organizations' performance management system, the majority of respondents selected "distribution of rewards based on individual performance" (72 percent) and "improved individual accountability" (65 percent). "Talent development" finished the top-three list with 43 percent.

Figure 1: "What are the top three goals of your organization's performance management system?" (n=414, multiple response)

Distribution of rewards based on individual performance	72%
Improved individual accountability	65%
Talent development	43%
Improved financial results	31%
Improved predictability of individual results and performance	27%
Improved predictability of organization results and performance	20%
Improved transparency and visibility into performance	16%
Improved resource allocation of people and budgets	10%
Compliance with government regulation	5%
Other	7%

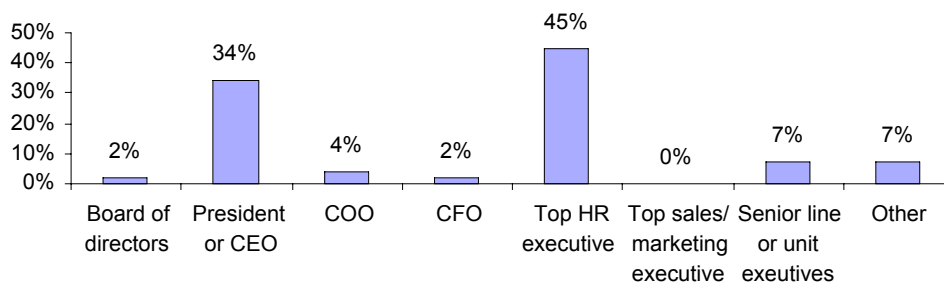
Forty-four percent of the survey respondents reported their organization's performance management goals (as indicated in the previous question) are from their own views and perspectives, not either written or unwritten from board or management. A third indicated their performance management goals have been set by board or management.

Figure 2: "These goals are..." (n=408)

Not from board/management, but based on your own views and perspectives	44%
Written goals of the system, by board or senior management	33%
From board/senior management, but are not written	23%
Total	100%

According to 45 percent of survey respondents, the top HR executive is the primary champion of performance management in their organization, followed closely by the president or CEO (34 percent).

Figure 3: "Who is the top champion of performance management in your organization?" (n=413)



Respondents are split on the three greatest challenges currently facing their organizations' performance management system. No more than 30 percent of respondents selected the same challenge as one of their top three. Twenty-five percent to 30 percent of respondents agreed on the following top challenges: "viewed as an 'HR process' instead of business-critical," "poor linkages between individual or unit performance and organizational performance," "lack of performance-driven culture," "too many time-consuming processes required to manage performance" and "lack of buy-in by line-managers and employees."

Figure 4: "What are the three greatest challenges currently facing your organization's performance management system?" (n=413, multiple response)

Viewed as an "HR process" instead of business-critical	30%
Poor linkages between individual or unit performance and organizational performance	29%
Lack of performance-driven culture	28%
Too many time-consuming processes required to manage performance	26%
Lack of buy-in by line-managers and employees	25%
Lack of executive ownership at top of organization	21%
Limited resources to manage the program	20%
Programs and systems are unequally applied/not integrated or aligned	20%
Lack of strategic commitment from organization	15%
Pay is not linked to performance	15%
Resistance to performance management in general	12%
Resistance to change to improve system	12%
Other	10%
No challenges currently	7%

When asked which consequences they were most concerned with if the above challenges were not resolved, more than half of respondents chose "decreasing employee morale" (55 percent) and "inability to achieve strategic objectives" (54 percent). "Decreasing employee productivity" rounds out the top-three list with 40 percent. Only eight percent are concerned that not addressing problems in their performance management system will lead to increasing costs.

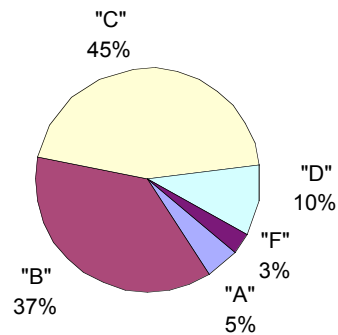
Figure 5: "If these challenges are not resolved, which of the following consequences are you most concerned about?" (n=376, multiple response)

Decreasing employee morale	55%
Inability to achieve strategic objectives	54%
Decreasing employee productivity	40%
Increasing employee turnover	28%
Negative impact on financial performance	27%
Decreasing customer satisfaction or loss of customers	14%
Increasing costs due to support of constrained plans and inflexible systems	8%
Other	9%

Section 2: Perceptions of Performance Management Systems

When asked to grade their organizations' performance management system, nearly half of survey respondents (45 percent) gave their performance management system a "C," followed by thirty-seven percent who gave it a "B."

Figure 6: "Overall, what letter grade would you give your organization's performance management system?" (n=413)



According to respondents, non-management employees are more likely to view performance management as an "HR process" versus top management, who view it as both "business critical" and an "HR process."

Figure 7: Respondent perception of views of top management and employees regarding performance management

	Perceived View of Top Management	Perceived View of Employees
Strongly viewed as business-critical	20%	4%
Mostly viewed as business-critical	14%	10%
Viewed as combination of both business-critical and HR process	43%	38%
Mostly viewed as an HR process	19%	39%
Strongly viewed as an HR process	4%	9%
Total	100%	100%
N=	413	413

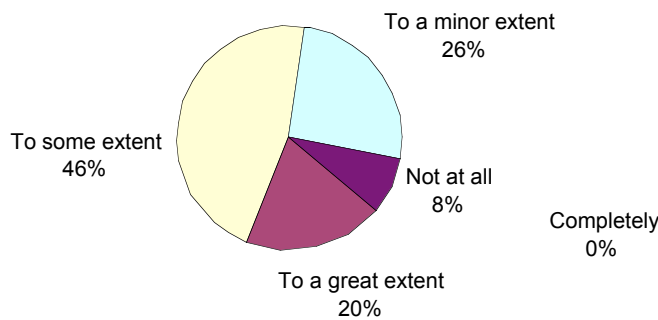
The majority of respondents believe individual performance reviews add value by providing clear feedback on employee performance (75 percent) and performance expectations (62 percent), and by providing a basis for personal growth (61 percent).

Figure 8: “Overall, what value do individual performance reviews add to your organization?” (n=409, multiple response)

Clear feedback on employee performance	75%
Clear performance expectations	62%
Basis for personal growth	61%
Incentive for improved performance	37%
Clear explanation of compensation decisions	29%
Increased employee productivity	20%
Other	7%

When asked to what extent their organizations’ competency models enable management to make good talent deployment and development decisions, nearly half of survey respondents selected “to some extent.” Another quarter selected “to a minor extent,” and nobody in the survey (zero percent) said “completely.”

Figure 9: “To what extent do your organization’s competency models enable management to make good talent deployment and development decisions?” (n=327)



Section 3: Alignment and Understanding of Business Goals and Priorities

Survey respondents believe employee groups are notably different in the extent to which they are aligned around a common set of critical business priorities. According to respondents, the group most strongly aligned around a common set of critical business priorities is senior management, with 84 percent selecting either “to a great extent” (48 percent) or “completely” (36 percent). The largest percentage of middle management is “to some extent” (44 percent) or to a “great extent” (40 percent) aligned around a common set of business critical priorities. This level decreases even further with non-management employees. The majority of non-management employees are “to some extent” (46 percent) or “to a minor extent” (28 percent) aligned around a common set of business critical priorities.

Figure 10: “Please indicate to what extent the following employee groups are aligned around a common set of critical business priorities:”

	Senior Management	Middle Management	Non-management Employees
Completely	36%	9%	2%
To a great extent	48%	40%	16%
To some extent	15%	44%	46%
To a minor extent	1%	7%	28%
Not at all	0%	0%	8%
Total	100%	100%	100%
N=	410	408	410

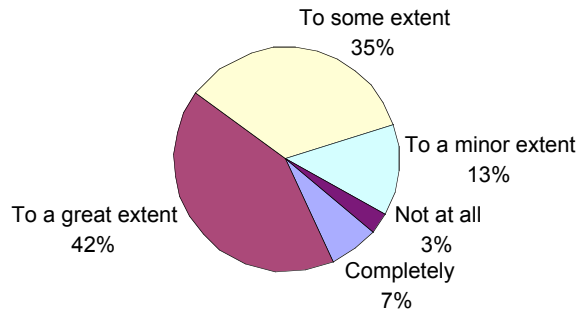
The same trend can be seen in the extent to which there is a common understanding of the operational value drivers of strategic objectives. The group with the most understanding is senior management, with 81 percent understanding the operational value drivers “to a great extent” (42 percent) or “completely” (39 percent). Senior management is followed by middle management, with 81 percent understanding the operational value drivers “to some extent” (44 percent) or “to a great extent” (37 percent). The group with the least understanding is non-management employees. Seventy-five percent of non-management employees understand the operational value drivers “to some extent” (44 percent) or “to a minor extent” (31 percent).

Figure 11: “Among the following employee groups, please indicate to what extent there is a common understanding of the operational value drivers of your organization’s strategic objectives:”

	Senior Management	Middle Management	Non-management Employees
Completely	39%	9%	2%
To a great extent	42%	37%	11%
To some extent	17%	44%	44%
To a minor extent	1%	9%	31%
Not at all	1%	1%	12%
Total	100%	100%	100%
N=	407	405	406

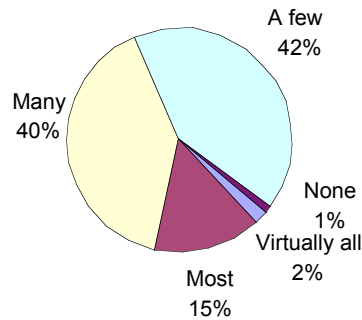
When asked to what extent widespread knowledge of organizational performance goals drive the level of cross-functional collaboration required to positively impact the business, the largest percentage of respondents (42 percent) selected “to a great extent,” followed by “to some extent” (35 percent). Only 3 percent said, “not at all.”

Figure 12: “To what extent do you believe widespread knowledge of organizational performance goals drive the level of cross-functional collaboration required to positively impact the business?” (n=411)



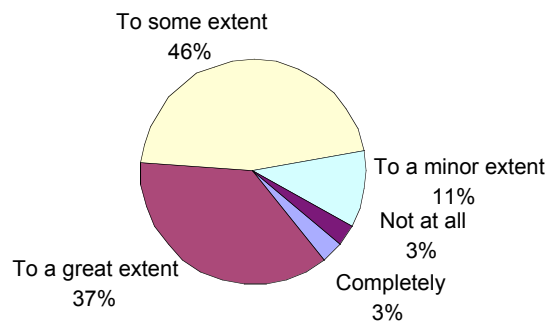
When asked to indicate how many non-management employees thoroughly understand their organization’s overall performance goals, survey respondents were split fairly evenly between “a few” and “many” employees. Only one percent said that no employees thoroughly understand the organization’s overall performance goals.

Figure 13: “Which of the following best describes how many non-management employees thoroughly understand the organization’s overall performance goals?” (n=411)



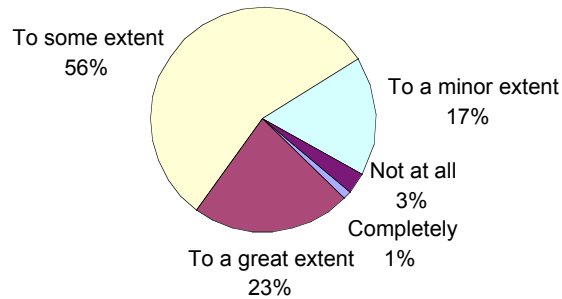
The largest percentage of survey respondents indicated team goals are aligned with corporate goals to “some extent” (46 percent) or to “a great extent” (37 percent). Only three percent said, “not at all.”

Figure 14: “In general terms across your entire organization, to what extent are team goals aligned with corporate goals?” (n=413)



More than half of survey respondents believe individual goals are aligned with organizational goals “to some extent.” Another quarter indicated they are aligned “to a great extent.”

Figure 15: “In general terms across your entire organization, to what extent would you say individual goals are aligned with organizational goals?” (n=413)



Nearly three-quarters of respondents indicated their organization links individual rewards to performance on specific performance goals (74 percent) and performance on primary job accountabilities (72 percent).

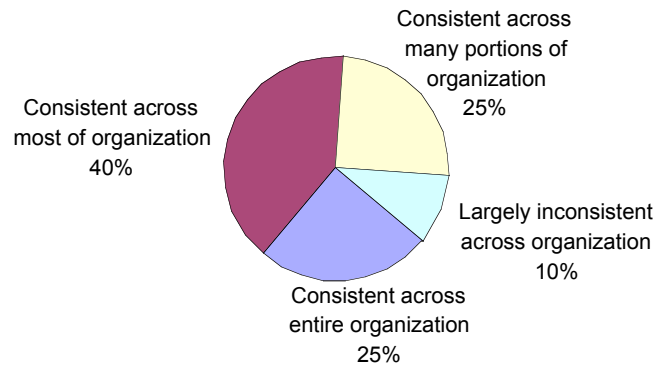
Figure 16: “What elements of individual performance are linked to individual rewards?” (n=408, multiple response)

Performance on specific performance goals	74%
Performance on primary job accountabilities	72%
Demonstration of competencies	46%
Other	4%

Section 4: Performance Management Administration and Methods

When asked to describe the administration of their organizations’ performance management system, the largest percentage of respondents (40 percent) selected “consistent across most of organization.” The remaining responses were split between “consistent across many portions of organization” and “consistent across entire organization” with 25 percent each, and “largely inconsistent across organization” with 10 percent.

Figure 17: “Which of the following best describes the administration of your organization’s performance management system?” (n=414)



When asked what methods are used to differentiate individual performance assessments across employees, nearly half of survey respondents indicated individual assessments are not compared to others (47 percent). Forty-two percent use manager assessment review meetings.

Figure 18: “What methods does your company use to differentiate individual performance assessments across employees?” (n=408, multiple response)

Individual assessments are not compared to others	47%
Manager assessment review meetings	42%
Forced ranking distribution	21%
Forced ranking	10%
Other	11%

The majority of respondents indicated their organization ties various rewards to performance. Ninety percent or more of organizations tie merit increases and promotions and/or improved career opportunities to performance. The majority of organizations also link bonuses based on individual performance, bonuses based on company profitability, commissions, spot bonus, non-cash awards and equity awards. The only rewards that are not usually linked to performance are profit sharing and benefits such as vacation or time off.

Figure 19: “Please indicate whether or not your organization ties the following rewards to performance:”

	N	Yes	No
Merit increases	404	95%	5%
Promotions and/or improved career opportunities	367	90%	10%
Bonus based on individual performance	335	82%	18%
Bonus based on company profitability	334	78%	22%
Commissions	242	76%	24%
Spot bonus	266	74%	26%
Non-cash awards (trips, merchandise, etc.)	228	64%	36%
Equity awards	209	58%	42%
Profit sharing	174	36%	64%
Benefits such as vacation or time off	255	12%	88%

According to survey respondents, enterprise-wide written communications and corporate intranet are the most common methods used to increase employee understanding of the overall performance goals.

Figure 20: “Which of the following methods are used in your organization to increase employee understanding of the overall performance goals?” (n=413, multiple response)

Enterprise-wide written communications	61%
Corporate intranet	54%
Goal setting processes	44%
Cascading meetings	42%
Enterprise-wide meetings	33%
Employee working sessions	18%
Other	8%
None	7%

Conclusions

The state of any performance management system must be assessed in the context of its purpose. The companies that participated in this study indicated a variety of goals for their system, along with a variety of challenges and opportunities. In general, most companies indicated low satisfaction with their current system, and shared the view that improving performance management can significantly and positively affect morale, strategy execution, and overall productivity of the workforce. How to do this is probably as varied as the challenges themselves, but many organizations would agree that the solution involves positioning performance management as a critical business process, championed by senior leadership, with an emphasis on better execution of the process.

Watch for additional analysis of these data...

WorldatWork, Synogy, and Sibson are in the process of performing a more detailed analysis of these survey results with the intent of identifying key trends, best practices, pitfalls and points of interest, among other survey factors such as industry, participant roles/responsibilities, and organizational size. Once complete, this value-added analysis will be included in a comprehensive summary report that will be made available to all participants.

Respondent Demographics

Organization Size

Fewer than 100 employees	10%
100 to 499	13%
500 to 999	8%
1,000 to 2,499	16%
2,500 to 4,999	11%
5,000 to 9,999	14%
10,000 to 19,999	8%
20,000 and over	20%

Industry

Manufacturing	20%
Finance & Insurance	16%
Professional, Scientific & Technical Services	12%
Health Care & Social Assistance	8%
Utilities	7%
Other Services (except Public Administration)	5%
Information (includes Publishing – Electronic & Print, IT, etc.)	4%
Public Administration	4%
Retail Trade	3%
Educational Services	2%
Transportation & Warehousing	2%
Accommodation & Food Services	1%
Agriculture	1%
Arts, Entertainment & Recreation	1%
Construction	1%
Real Estate, Rental & Leasing	1%
Wholesale Trade	1%
Administrative Support, Waste & Remediation Services	0%
Management of Companies & Enterprises	0%
Mining	0%
Other	11%