

2010 Study on the State of Performance Management

A report by
WorldatWork and
Sibson Consulting
October 2010



research



About WorldatWork®

The Total Rewards Association

WorldatWork (www.worldatwork.org) is a not-for-profit organization providing education, conferences and research focused on global human resources issues including compensation, benefits, work-life and integrated total rewards to attract, motivate and retain a talented workforce. Founded in 1955, WorldatWork has nearly 30,000 members in more than 100 countries. Its affiliate organization, WorldatWork Society of Certified Professionals®, is the certifying body for the prestigious Certified Compensation Professional® (CCP®), Certified Benefits Professional® (CBP), Global Remuneration Professional (GRP®), Work-Life Certified Professional™ (WLCP®), Certified Sales Compensation Professional™ (CSCP™), and Certified Executive Compensation Professional™ (CECP™). WorldatWork has offices in Scottsdale, Arizona, and Washington, D.C.

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About Sibson Consulting

Sibson Consulting www.sibson.com, a Division of Segal, provides strategic HR solutions related to the planning, implementation and operation of total rewards, compensation, retirement and health benefit programs. Sibson's services encompass talent management, benefits, organization design, sales effectiveness, change management and HR technology.



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Results of the 2010 Study on The State of Performance Management

There has been much written lately concerning the value that performance management brings to an organization; some headlines have even gone so far as to state, “Down with employee reviews; they don’t add value.” Going beyond the headline though, the story consistently emphasizes the importance of setting expectations, measuring results and providing constructive developmental feedback.

To gather information about the current state of performance-management effectiveness and outcomes, WorldatWork and Sibson Consulting collected feedback from a sample of WorldatWork members through participation in a confidential online survey. In May and June 2010, 750 individuals, primarily senior-level human resources (HR) professionals, responded.* This report presents the results of the WorldatWork/Sibson 2010 *Study on The State of Performance Management*, which indicate mixed reviews concerning the state of performance management. While organizations still consider performance management as a means to achieve business objectives and differentiate high performers from low performers, there seem to be many challenges that impede an organization’s ability to achieve effective performance management.

* The demographic profile of the respondents is similar to that of the WorldatWork membership. The organizations represented in the study range in size from fewer than 100 employees to more than 100,000 employees, with the largest percentage (43 percent) in the 1,000-9,999 range.

GOALS AND CHALLENGES

Almost all of the survey respondents (91 percent) indicated that their organization has a formal performance-management program. The study found that the top goal of performance management, which was selected by two-thirds of the respondents, is differentiated distribution of rewards based on individual performance. As illustrated by the first set of bars in Graph 1, other important goals are greater individual accountability and talent development.

“The top goal of performance management...is differentiated distribution of rewards based on individual performance.”

According to more than half of the respondents, the top challenge faced by organizations is managers’ inability to have difficult performance discussions. The second and third greatest challenges are performance



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management is viewed as an “HR process” rather than a business-critical process and poor goal setting. See the second set of bars in Graph 1.

Graph 1: Top Three Goals and Challenges, by Percentage of Respondents Selecting Each Option*



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INDIVIDUAL PERFORMANCE GOALS OR CRITERIA

Half of the organizations include the achievement of goals and objectives as at least one of the criteria for performance evaluation. As shown in Graph 2, the goals are most often based on primary job accountabilities (76 percent of respondents). Smaller percentages of organizations base individual goals on performance against quantitative metrics, demonstration of competencies or acquisition of new skills.

According to respondents' perceptions, alignment between individual goals and organizational goals is strongest at the senior-management level. The perceived linkage decreases significantly at the middle-manager level and is lowest for employees who are not managers. See Graph 3 for the supporting data.

At the majority of organizations (61 percent), individuals have input in setting their goals. In contrast, goals "cascade down" to individuals from the top at 28 percent of organizations in the study.

RATINGS AND METHODS USED TO ENCOURAGE DIFFERENTIATION

More than half of respondents reported that their organizations use a five-point scale for rating employee performance. This result was consistent regardless of organization size or industry.

The 2010 *Study on The State of Performance Management* found that the most common method used to encourage differentiation of individual performance ratings — the number one goal of performance management, as noted above — is an audit of ratings by HR. Two other methods, a specified ratings distribution and/or calibration of ratings among managers, are each used by about one-third of organizations in the study. See Graph 4 on page 3. Among 46 percent of organizations in the study, managers and department/division leaders receive reports describing their distribution of performance ratings and comparing the distribution to the organization's overall distribution.

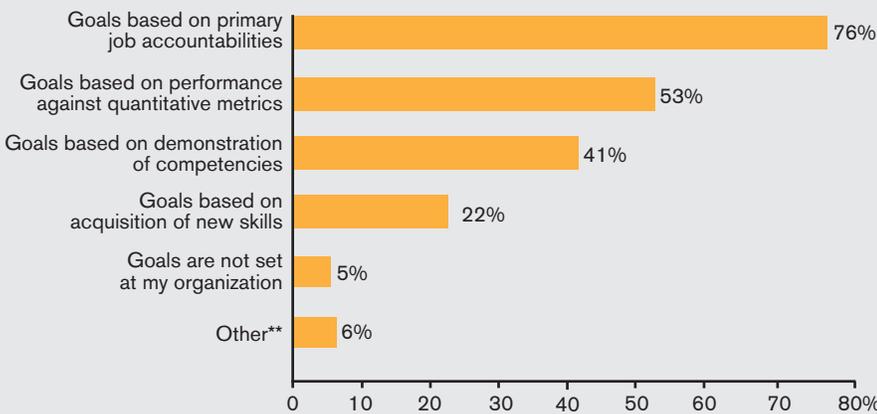
Graph 4 also shows that 35 percent of organizations do not have a targeted method for differentiating assessments. Organizations with fewer than 5,000 employees were more likely than larger organizations to be in this category.

In the majority of organizations (81 percent), managers or line leaders are responsible for approving individual ratings. HR approves individual ratings in 37 percent of reporting organizations.

MANAGERS' ROLE IN PERFORMANCE MANAGEMENT

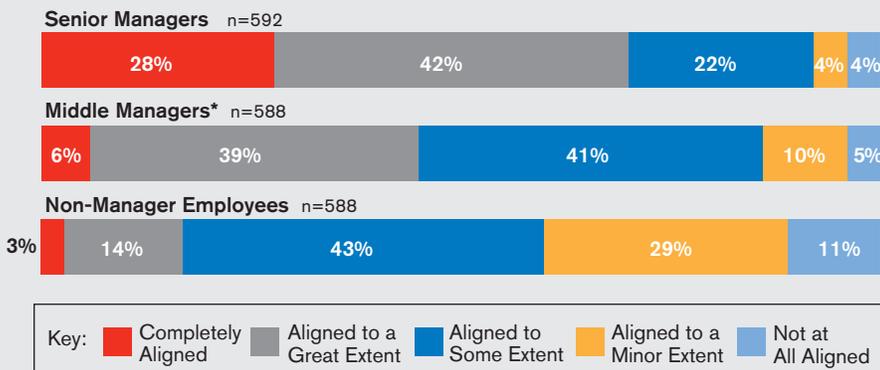
As already noted, the highest rated challenge to effective performance management cited by nearly half of respondents is that managers lack the courage to have difficult performance discussions with employees. More than half

Graph 2: Types of Goals Set for Individuals to Evaluate Performance and Link to Individual Rewards, by Percentage of Respondents*



n=598
* Total exceeds 100% because respondents could select multiple types of goals.
** Other includes a combination of all the above as well as goals based on corporate objectives and project-based goals.

Graph 3: Perceived Relative Alignment of Goals Among Senior Managers, Middle Managers and Non-Managers



* Total exceeds 100% due to rounding.

(56 percent) of organizations invest in manager and employee training in order to make performance management more effective. A similar percentage of respondents (55 percent) reported that managers complete their assessments on time. However, far fewer organizations (28 percent) felt their managers focus on having effective performance conversations, rather than just completing forms.

The study found no consensus on the thoroughness of managers' assessments. Although 36 percent of respondents agreed that managers complete thorough assessments, 33 percent disagreed and 31 percent neither agreed nor disagreed.

More respondents disagreed (46 percent) than agreed (22 percent) with the statement, "The performance-management program consumes too much time for the value it provides."

RELATIONSHIP OF REWARDS TO PERFORMANCE MANAGEMENT

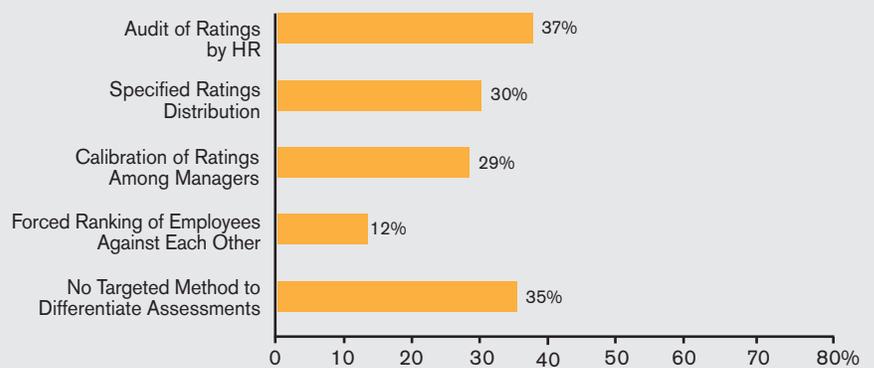
The study found that performance management is much more likely to be linked to merit increases than to either short-term or long-term incentives. Graph 5 provides details.

Performance management appears to provide opportunity for differentiation among low and high performers. Low performers receive significantly lower/no pay increases at 65 percent of organizations. High performers receive significantly differentiated pay from average performers at 42 percent of organizations.

However, the distribution of ratings generally does not change when

"The study found that performance management is much more likely to be linked to merit increases than to either short-term or long-term incentives."

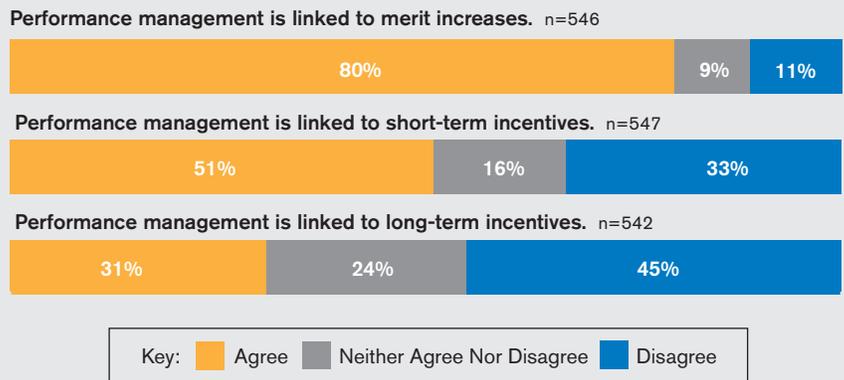
Graph 4: Methods Used to Encourage Differentiation of Individual Performance Ratings*



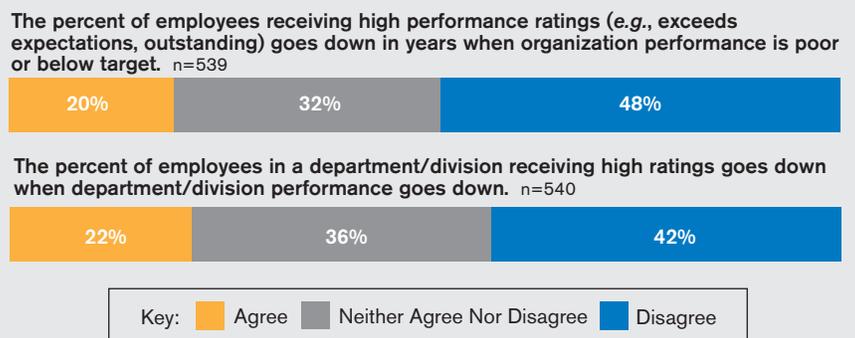
n=605

* Total exceeds 100% because respondents could select multiple methods.

Graph 5: Agreement or Disagreement that Performance Management Is Linked to Rewards



Graph 6: Agreement or Disagreement that Percentage of Employees Receiving High Performance Ratings Changes when Organization and Department/Division Performance Fails to Meet Expectations



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organizational performance changes, which decreases the linkage between individual and corporate results. Only 20 percent of organizations report that the percentage of employees with the highest rating goes down when organizational performance is poor. This suggests that managers, in a good number of organizations, give as many high performance ratings as they can, regardless of organizational performance. See Graph 6.

THE PROCESS

The study found that performance management is a two-way process. At almost three-quarters of organizations in the study (72 percent), employees complete self-assessments.

Respondents reported that performance management is tied to the annual budget and goal-setting process, but is also a year-round process. See Graph 7. The most frequent timing (reported by 37 percent of respondents) is within two to three months of the end of the fiscal year. No respondents said their organizations conduct performance assessments based on employees' anniversary dates.

More than half of respondents (64 percent) said that the tools and forms their organizations use for performance management are simple and easily accessible by end users throughout the organization. Nearly three-quarters of organizations (74 percent) use a process that is either entirely online (34 percent) or a combination of online and paper (40 percent). Not surprisingly, organizations with more employees are more likely to have an entirely online process, and organizations with fewer employees are more likely to have an entirely paper process.

BIGGEST CHAMPIONS OF PERFORMANCE MANAGEMENT

The study found the biggest champion of performance management

at most organizations (73 percent) is the top HR executive. At nearly one-third of organizations, the president/CEO is the biggest champion of performance management. See Graph 8.

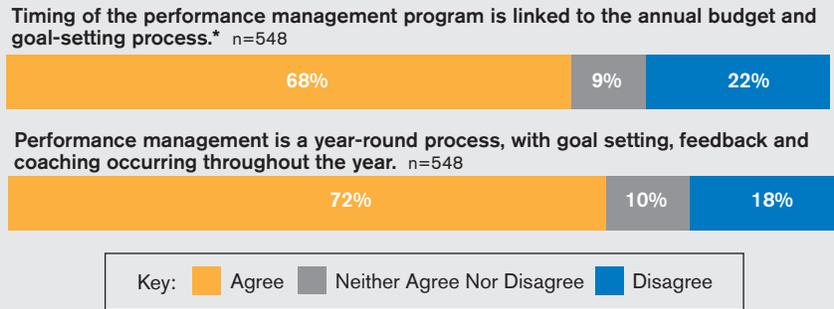
The study found strong leadership support for performance management. Most respondents agreed with the following statements:

➤ Senior management in the organization publicly supports performance management (74 percent).

- Senior management in the organization privately supports performance management (56 percent).
- Senior management requires completed assessments for all employees (65 percent).

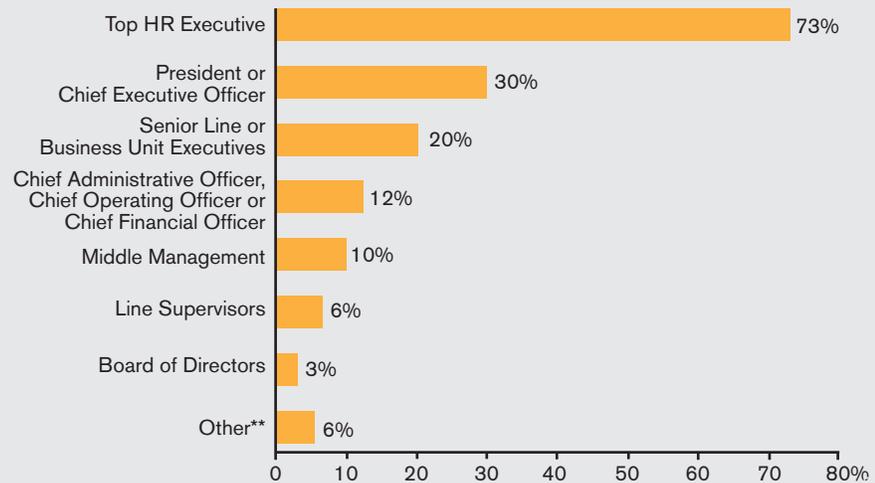
However, only 40 percent of respondents agreed with the following statement: Leaders model performance management through evaluation and coaching of the direct reports. Moreover, 30 percent of respondents disagreed with that statement.

Graph 7: Agreement or Disagreement with Statements on the Timing of Performance Management



* Total does not equal 100% due to rounding.

Graph 8: Biggest Champions of Performance Management, by Percentage of Respondents*



n=563

* Total exceeds 100% because respondents could select more than one response.

** This includes other HR, such as Directors of HR, Compensation, Training and Development, as well as respondents who were not sure.

Only 12 percent of respondents indicated that their organizations' top management view performance management strongly as business-critical, although an additional 20 percent reported that performance management is mostly viewed by leadership as business-critical. An equal percentage felt that top management view performance management as mostly an administrative process.

KEY OUTCOMES

One key outcome of successful performance management is its ability to support strategic objectives. As illustrated by the top bar in Graph 9, 47 percent of respondents indicated that a performance-management system has helped the organization achieve its strategic goals.

Performance versus competitors is also a key outcome of performance management. Sixty percent of study participants indicated company performance as better than average versus competitors, and 40 percent indicated performance was about average.

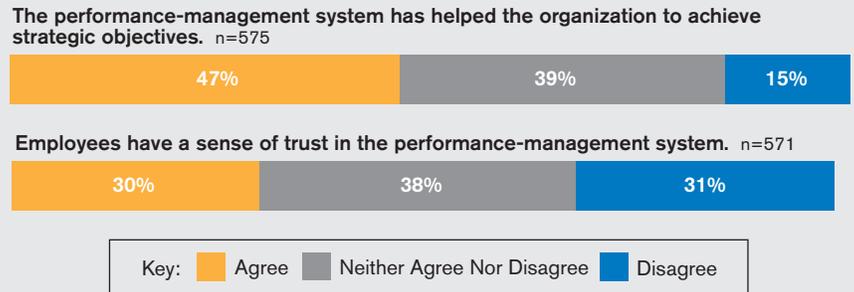
Employee trust in the process is another essential outcome of a strong performance-management system. However, only 30 percent of the study respondents reported their employees trust the performance-management system. See the second bar in Graph 9.

PERCEIVED EFFECTIVENESS OF PERFORMANCE-MANAGEMENT SYSTEMS

More than half of the respondents (58 percent) gave their organization's performance-management system a grade of "C" or below. Only 43 percent view their organization's performance-management system as effective (with an overall grade of "A" or "B"), with very few selecting an "A" grade (extremely effective). See Graph 10.

One of the important findings of the WorldatWork/Sibson 2010 *Study on*

Graph 9: Relative Success of Two Key Performance-Management Outcomes*



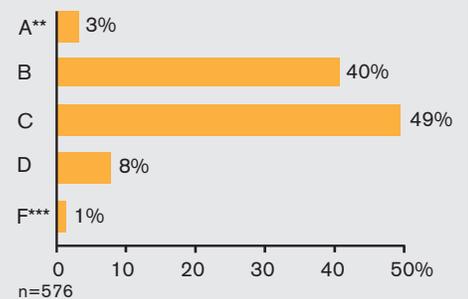
* Both bars do not equal 100% due to rounding.

The State of Performance Management is that the perceived effectiveness of performance management is influenced by support from senior management. As shown in Graph 11, respondents who gave better grades to their organizations' performance-management systems were most likely to agree that senior management publicly supports performance management.

RELATIONSHIP BETWEEN SENIOR MANAGEMENT SUPPORT FOR PERFORMANCE MANAGEMENT AND ORGANIZATIONAL PERFORMANCE AT PUBLICLY TRADED COMPANIES

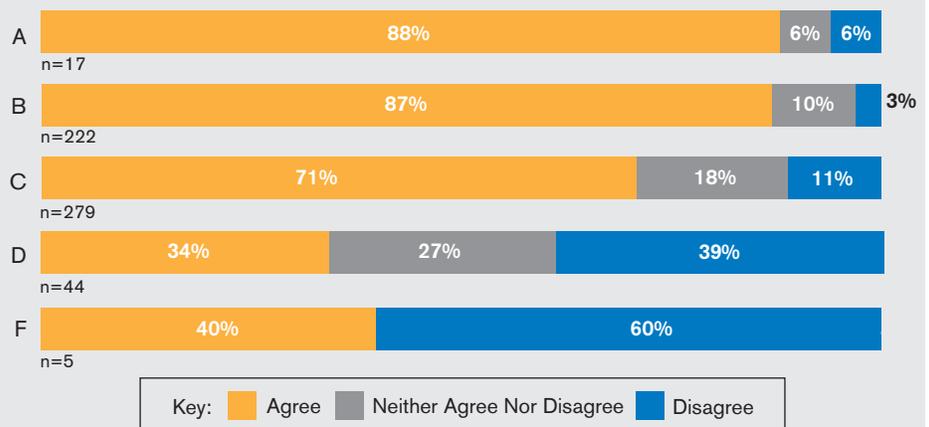
Sibson divided the publicly traded companies in the study into quartiles

Graph 10: Rating of Organization's Performance-Management System by Letter Grade*



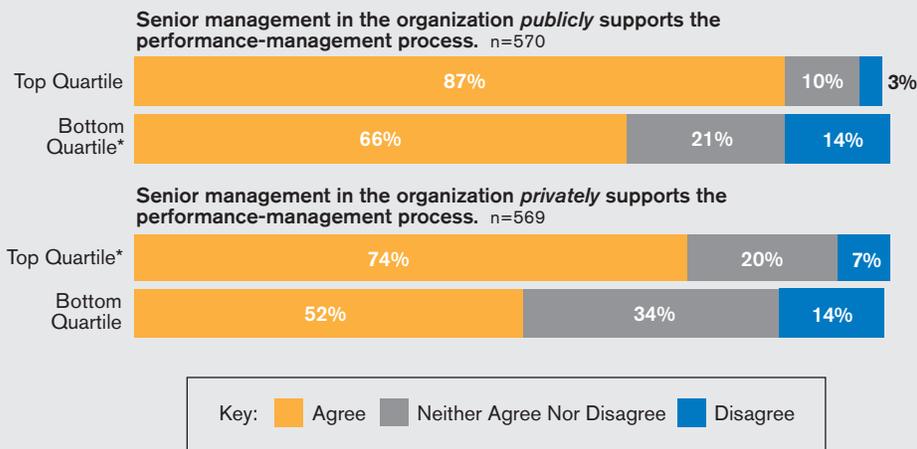
* The total exceeds 100% due to rounding.
** A represents "extremely effective at achieving desired results."
*** F represents "not at all effective at achieving desired results."

Graph 11: Rating of Organization's Performance-Management System by Letter Grade and Agreement or Disagreement that Senior Management Publicly Supports the Performance-Management Process



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Graph 12: Respondents' Relative Agreement or Disagreement with Senior Management Public and Private Support for the Performance-Management System, by Top vs. Bottom Quartile Publicly Traded Companies



* Total exceeds 100% due to rounding.

according to their three-year total return to shareholders. That breakdown of the study data revealed that top-quartile companies were more likely to agree that their senior management both *publicly* and *privately* support the performance-management process. See Graph 12.

CONCLUSION

The results of the WorldatWork/Sibson 2010 Study on The State of Performance Management indicate that improvement in performance management is needed in many organizations and that performance management is generally stronger in higher-performing companies. In general, this has not changed since the study was conducted in 2007. While some organizations are effective in using performance management to differentiate high performers from low performers, many still struggle

to move performance management from an HR process to something that is business-critical to the organization. Particularly in a time of economic struggle, when improving business results is essential, driving performance management through leadership support and effective execution (e.g., proper goal alignment and delivery of performance messages) is critical. Leadership support remains important even during better economic times, as was the case during the 2007 study.

To improve performance management, an organization must analyze not only the design of its program, but also the key drivers of a successful system: leadership and execution. The organizations getting the most impact from performance management are those that have strong leadership support and that execute well in differentiating performance

“The organizations getting the most impact from performance management are those that have strong leadership support and that execute well in differentiating performance and giving performance messages.”

and giving performance messages. The 2010 study indicates that the groundwork is set for performance management, but the value comes when organizations look beyond the challenges, engage senior leadership and use performance management as a tool to differentiate performance and drive business results.



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To identify which areas of your organization's performance-management process are working or may need improvement, please visit the following link and complete the scorecard: <http://go.sibson.com/EPMScorecard2010/>

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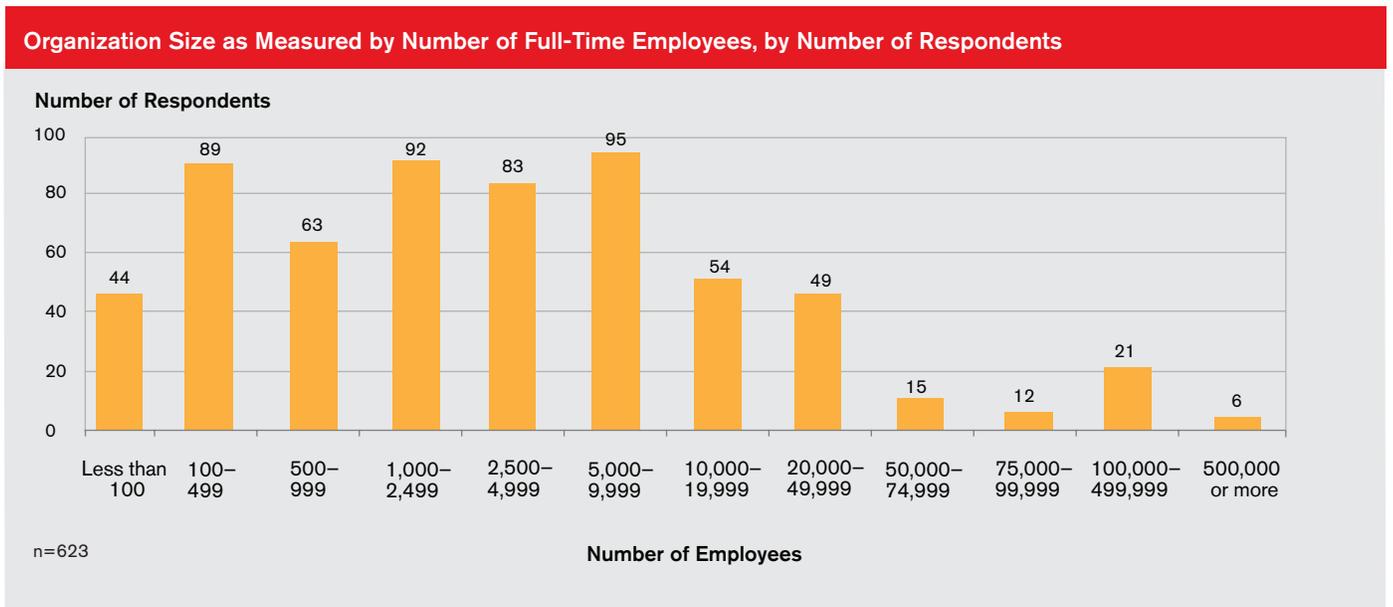
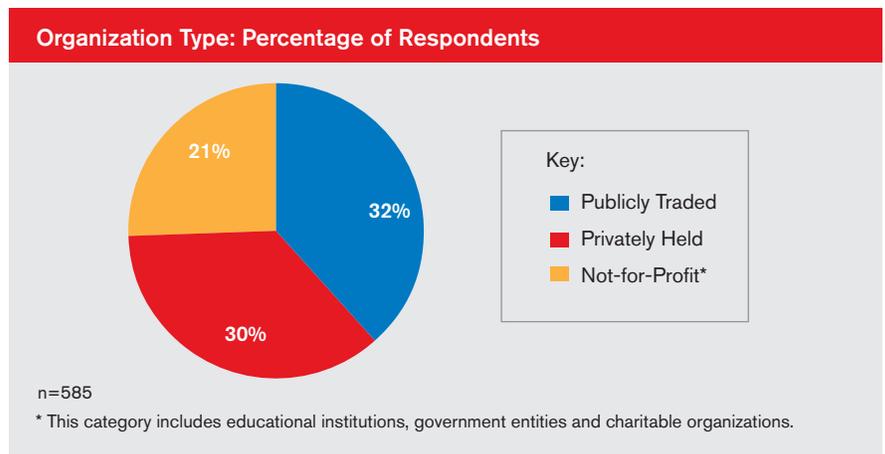
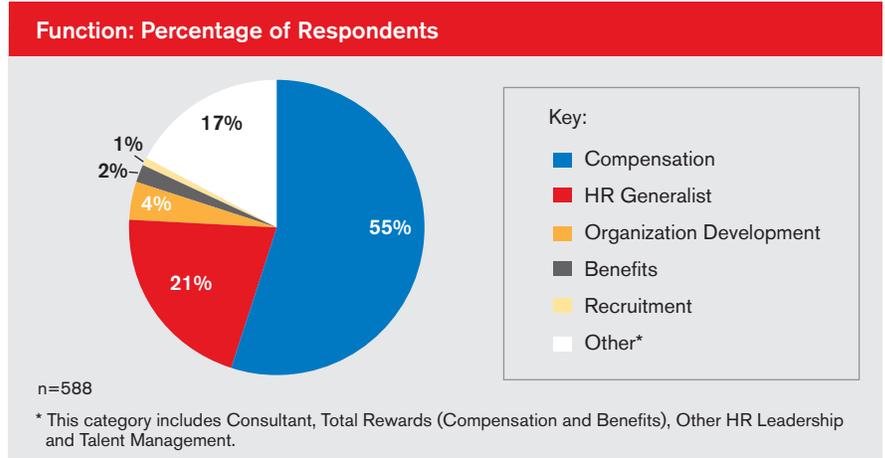
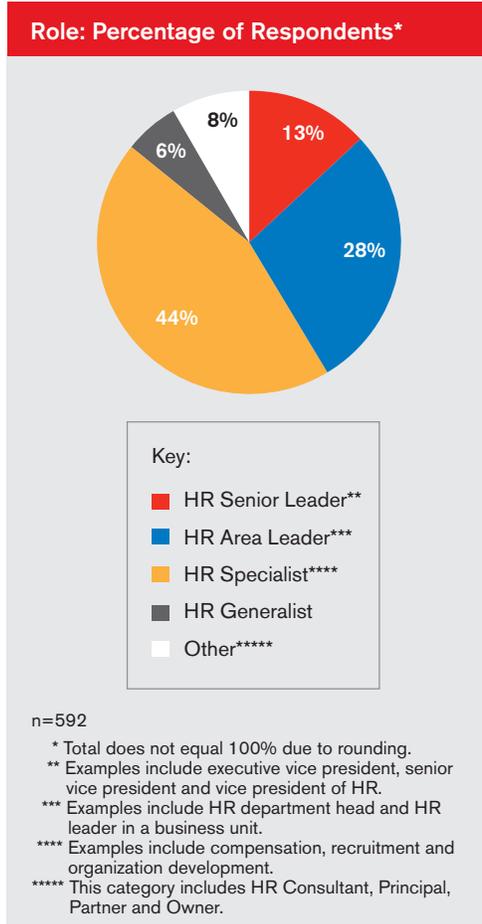
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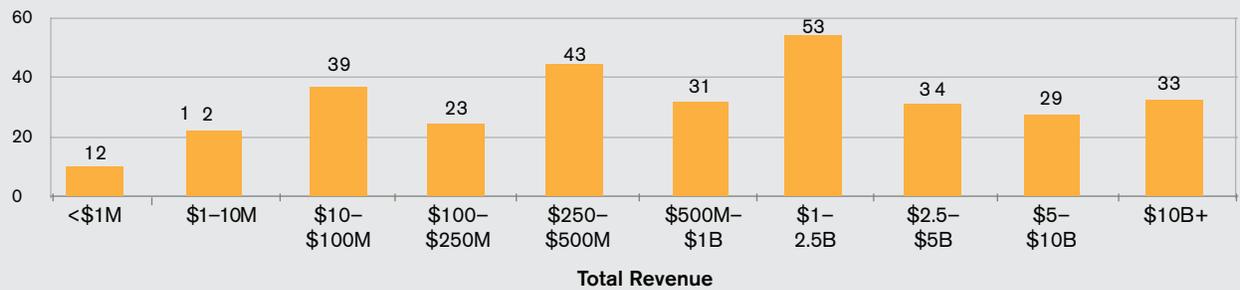
Information About the Respondents to the WorldatWork/Sibson 2010 Study on The State of Performance Management and Their Organizations

The graphs below and on the next pages provide a breakdown of the survey respondents by their role and function, as well as information about their organizations by type, size, revenue and industry.



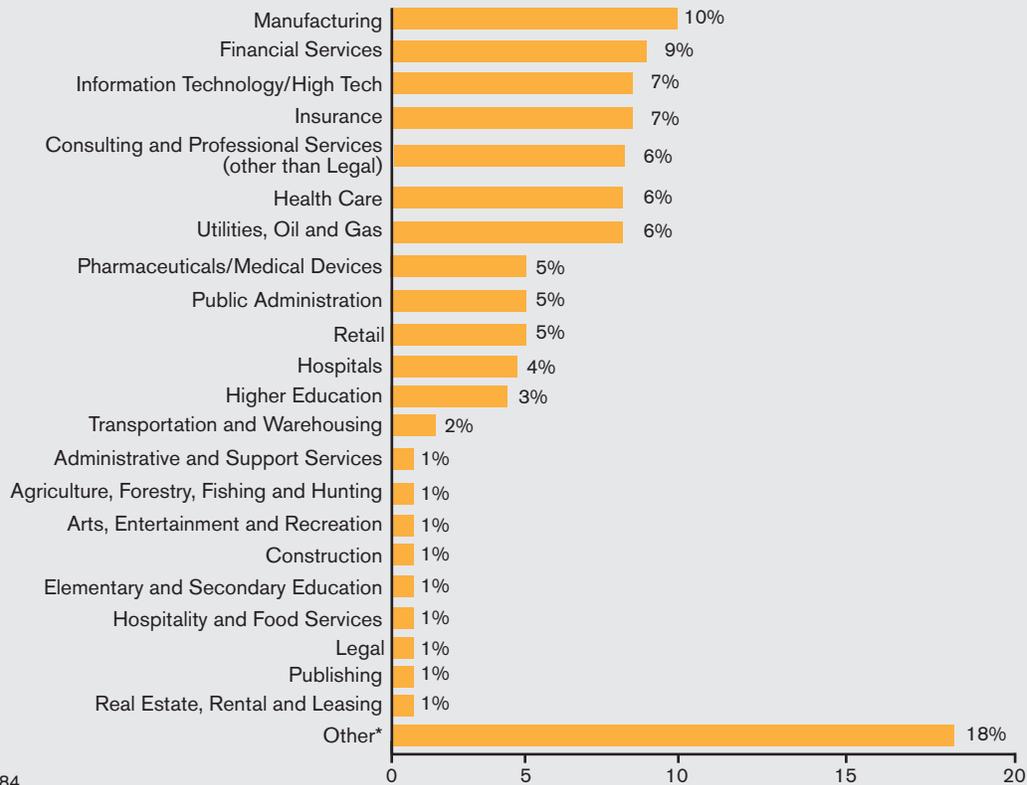
Organization Revenue as of the End of 2009

Number of Respondents



n=310

Industry: Percentage of Respondents



n=584

* Other includes various industries including Research and Development, Federal and Local Government and Telecommunications.

This is a supplement to the report of results from the WorldatWork/Sibson 2010 Study on The State of Performance Management.