Ticking all the boxes?

A study of Performance Management practices in the UK
Executive summary

An overwhelming majority of our respondents (96%) believe that Performance Management is important for their organisation yet only 64% reported having either an effective or very effective approach. In fact, not even a third of this group reported that their approach has caused a marked improvement in employee performance, despite this being a key driver for almost 80% of respondents.

Our December 2013 survey gathered data on a wide range of topics relating to Performance Management from over 100 UK based organisations representing a wide range of industries.

So what lies behind this headline? Our report reveals more about how Performance Management is actually used in organisations today.

We see a striking degree of similarity in the features of Performance Management processes across organisations despite a reported wide range of drivers for having it in the first place. Furthermore, we see very little tailoring of the process to meet the diverse needs of different employee populations. Although Performance Management is widely used to identify high potentials, for example, it is not used to manage their performance any differently than the rest of the employee population. Has ‘best practice’ meant a uniformity of practice which, despite the bullish rhetoric, has made Performance Management just another box to be ticked? Is there an opportunity to revisit the process and tailor it for different segments to better meet their individual needs?

When it comes to setting goals, only 11% of our respondents conduct any kind of calibration either before or after the goal setting process. It strikes us that this is a huge missed opportunity to ensure consistency from the very outset. Moreover, investing a little time at the start of the cycle could potentially reap huge benefits later on in the year when those challenging discussions around parity of objectives come up.
When it comes to assessing performance, the vast majority take a balanced view in evaluating performance against specific objectives and competencies (the ‘what’ and the ‘how’), however there is much less consistency when it comes to calibrating these evaluations – even less communicating them. In fact only 34% of respondents stated that they were open about the calibration process. Our employee research tells us that the clarity and perceived fairness of Performance Management has a significant impact on employees’ levels of engagement. This strikes us as a further opportunity for organisations to make a relatively small change that will have a big impact.

Despite the perceived importance of Performance Management to an organisation, very few are investing significantly in ensuring their managers are well-equipped to deliver it. In fact, only 17% of our respondents said that their organisations provide comprehensive in-person training with the majority opting for a self-directed approach. For something this important, that impacts each and every employee and drives organisational performance – the key driver for doing it in the first place according to our respondents – is it not worth investing a little more?

So what is the prize? Why should you be concerned?

Let us think about the financials: over 90% of the organisations we surveyed said that Performance Management has a direct influence on determining base pay and incentives or was the primary influencer. 93% of organisations differentiate on base pay and bonus at the individual level and spend, on average, 9% of their base pay bill on this each year – 9% being the typical value of the base pay review pot (3%) and bonus pot (6%) combined. Therefore the typical UK organisation will have 9% of their annual base pay bill directly influenced by this one process. In our experience, the typical people cost of a business constitutes some 50% to 70% of the total cost base of an organisation. This seems like a lot of money hanging on one process. One process that seeks to focus people’s attention on doing the right thing for business success.

Let us think about engagement and retention: Towers Watson research for many years has pointed to career development and skills growth as key drivers of engagement and retention – for key talent groups and professional knowledge workers in particular. Performance Management is the vehicle for improving this aspect of the employee experience which is closely correlated to sustained engagement which then aligns to improved business performance.

In our report we focus on three main areas of opportunity for improvement: segmentation, goal setting assessment, and manager effectiveness. We hope you find our findings interesting; we would be delighted to talk to you further.
Is the ‘one size fits all’ model fit for purpose?

We asked respondents to identify the key driver for Performance Management in their organisation and the results were not surprising. Driving organisational performance is at the top of the list but the secondary drivers revealed a range of priorities (see Figure 01) covering development, motivation and identification of high potentials.

What strikes us most is the degree of potential misalignment between the stated purpose for Performance Management and how that plays out in reality. Take these examples:

1. Goals and objectives form the third biggest driver of sustainable engagement and 43% of our respondents named engaging employees in business goals as a top priority for Performance Management. Creating clear alignment is the second most important purpose – this is done through ensuring goals are relevant and up to date. Despite this they only met with employees to discuss goals once or twice a year – less frequently than those who had not selected this as a priority.

2. Segmentation is key to maximising the effectiveness of your Performance Management programme and so we would expect to see different approaches to Performance Management for different parts of the employee population. Over 80% of respondents claimed that their Performance Management programmes had an impact or at least an influence on the selection of high potentials but none of them operated a different approach to Performance Management for these individuals. So what happens to high potentials after they are identified? How are organisations monitoring the return on their investment? Is a full-blown, objectives-led Performance Management approach appropriate and worthwhile for all employee groups?

Of those who reported ‘very effective’ Performance Management systems they tended to meet:

- regularly to discuss goals
- regularly to discuss performance
- more than twice a year to discuss personal development

Regularly means ‘on-going’ or weekly
Only 12% of our respondents used objectives alone to assess employees’ performance, with the majority of respondents using a balance of competencies and objectives. Although the structuring of objectives is fairly uniform across organisations, the ways in which they are set are much less clear cut.

Those with a tighter approach (see Figure 02) provide clear guidelines to managers or dictate goals centrally, and this group had much more confidence in the effectiveness of their systems (73%) as opposed to the 33% who, for the most part, left managers to their own devices.

It is also worth pointing out, though, that despite most organisations setting clear guidelines on the goal setting process, only 11% conduct calibration before or after the goal setting process. So what does this tell us? Whilst there is a clear focus on achieving the end results, there is much less focus on ensuring that the results to be achieved have been determined and agreed in a consistent and moderated fashion. We took a look at our 2012 Talent & Reward Survey to see if this was reflected in the views of employees and it turns out almost half do not believe that their manager effectively works with employees to set appropriate performance goals. It is key moving forward that organisations seek ways to engage their employees in the process so that they feel they are a key player rather than a bystander.

Almost all ‘very effective’ organisations operate a ‘guideline’ approach to goal setting.

We either mandate goals centrally, or provide managers with the guidelines; managers then agree goals with their direct reports.

Figure 02. Governance of goal setting

67% Tighter
33% Looser

We encourage managers to agree goals giving either some or no guidance

73% of effective/very effective organisations have a tighter approach to Performance Management.
How are employees assessed?

Figure 03. Performance rating nomenclature

Almost all organisations use either a 4 and 5 point rating scale, however the labels they attribute to each point on the scale vary widely – some even use colours to avoid the use of language altogether.”

This is not a huge surprise. The language of performance needs to reflect the language of the organisation and whilst being descriptive, should be easy for employees to relate to (see Figure 03).

Nearly two-thirds of respondents indicated that they take a balanced approach to evaluating performance by providing guidance on how to evaluate ‘in the round’. Around a third of respondents adopt a more mechanical approach with a formula to determine the overall rating (see Figure 04).
Whilst the majority (over 55%) either do not have a rating curve or do not use the one that exists in their organisation, the sometimes controversial rating curve is still used by many organisations today. Over 35% of our respondents said that they use a formal rating curve as a guide for the distribution of performance ratings. Far fewer (10%) actually use the rating curve to force the required distribution of ratings, and under 10% conduct relative ranking of their employees from best to worst.

Of greatest concern, however, is that 64% of those organisations who do use a rating curve keep it hidden. The obvious questions here is what impact does this have on employee engagement in the whole process? How can managers own the process if the rationale for the increased rigour of the curve is not openly shared?

We also took a look at the calibration process for performance ratings and discovered that the majority of respondents carried out calibration before finalising the end of year rating. However, 35% conducted the process after determining the rating. Although this is less ideal, this dedication to ensuring the fairness of performance ratings for employees should be highlighted, both as an effective engagement tool and of vital importance for business metrics (see Figure 05).

The surprising thing here was the lack of employee involvement in the process. 42% of respondents said that managers finalised the performance rating before the end of year review with their employee. We will talk about managers in detail shortly but for now the emerging question is how can we expect employees to engage in a process where they have no say in the results?

**Figure 05. At which stages in the Performance Management process do you conduct calibration?**

- Before end of year rating: 40%
- After end of year rating: 35%
- Mid-year review: 15%
- Before objective setting: 7%
- After objective setting: 4%
Transparency of the calibration process and employee engagement

Whilst the calibration process itself is a powerful tool, it is crucial that organisations engage employees in the process in order to achieve optimal results. Our research highlighted the role Performance Management plays in several stages of the employee lifecycle. Despite this, we found that only 34% were open about both the outcomes of calibration and how they got there (see Figure 06). In our experience, a lack of clarity can be harmful to the process, with 46% of all employees unsure that their manager fairly reflects overall performance in performance ratings. Of those who reported that Performance Management had a positive impact on both employee engagement and performance, over 70% were transparent about both their methods and their outcomes.

“...we found that only 34% were open about both the outcomes of calibration and how they got there.”

Figure 06. We are open and transparent in sharing comprehensive information about the process and outcomes with all employees

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<thead>
<tr>
<th></th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Low employee engagement</td>
<td>28</td>
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<tr>
<td>High employee engagement</td>
<td>71</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
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Manager effectiveness – The role of the (under-supported) manager in delivering Performance Management

Respondents have made clear their belief in the importance of using Performance Management to align individual and organisational performance. It is also a crucial part of the employee experience and organisations are not always investing in the main vehicle for effective Performance Management – their managers. Our survey showed that only 17% of organisations provide comprehensive in-person training to managers on the Performance Management process with most opting for a self-directed approach to development.

The difficulties faced by managers form part of a familiar story. Managers today are expected to perform in a much tougher environment with little support, a limited amount of time and an increasing workload. It is no wonder that 56% of employees do not believe their manager has enough time to handle the people aspects of the job.

Our research has shown that with the support of HR, managers are the main drivers of the review process, yet 40% of organisations do not feel confident that managers are performing the role effectively (see Figure 07). This can have a damaging impact on employee perception; 58% of employees do not see a clear link between performance and pay, and organisations name managers as the largest barrier to the effectiveness of the pay review process.

Career advancement is the number 2 driver of retention for employees globally (see Figure 01). Yet only 20% of respondents named ‘Enable development discussions and improve employee capability’ as one of the top 3 drivers of Performance Management in their organisations. Of those who did make the link between Performance Management and career development, 42% only met once a year to discuss it.

It is no surprise then that only 39% feel that managers are effective at giving employees regular coaching and feedback on their performance and 41% believe that they have to leave their organisation in order to advance their careers.

Respondents report the business benefits of investing in managers are tangible and worthwhile – our findings showed that over 87% of the respondents who did invest in manager training credited an improvement in employee performance to their Performance Management systems. It is unfortunate that others will not reap this return as we also saw that only 15% of organisations planned to increase manager training in the future.

Figure 07. Which of the following were barriers to the process?

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<tr>
<td>Other</td>
</tr>
<tr>
<td>Lack of governance</td>
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<tr>
<td>Employee relations climate</td>
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<tr>
<td>Poor leadership and strategic direction on reward and differentiation</td>
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<tr>
<td>Lack of robust performance management process</td>
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<tr>
<td>Performance management system is designed for development not reward and does not support differentiation</td>
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<tr>
<td>Lack of tools to identify key talent</td>
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<tr>
<td>Organisational culture – general unwillingness to differentiate</td>
</tr>
<tr>
<td>Poor line-management skills – lack of desire to differentiate by managers</td>
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“Managers today are expected to perform in a much tougher environment with little support, a limited amount of time and an increasing workload.”
Our research and experience of working with leading organisations around the world leads us to believe that more value can be gained from Performance Management and we would recommend organisations think about these things:

1. Targeting and tailoring Performance Management to meet the unique needs of different segments of the population – do high potentials need to be treated differently to high performers, for example. Do all parts of your organisation need to be set objectives?

2. Think flexibly about competencies and how they can be more tailored to different employee groups. Use a core set of competencies and a menu that can be chosen from for different job families to increase the specificity of competencies. By being more relevant, performance discussions can be more meaningful and aid fair differentiation.

3. Be more open and communicate more about the approach to managers and employees. Do not be afraid to talk about the curve if you use one, certainly do not make processes hidden.

4. Invest in manager training to enable more effective and empathetic performance and development discussions.

5. Increase the emphasis on calibration at the goal-setting stage to the level invested at the performance rating stage in order to focus on direction of travel not just on arrival.

6. Meeting employees once or twice a year to work through the basic steps in the process is not enough to ensure continuous development. Performance Management should be part of business as usual – if it really is the business process companies say it is.

7. For employees to feel engaged by the process, they need to have an active and regular role in it – joint setting of goals and joint evaluation of performance.
About our research
We surveyed over 100 companies in the UK across a wide range of industries.
Results are shown as percentages. In some cases respondents were able to select more than one option so the total may exceed 100%.

Key definitions

• **Sustainable engagement** is a new model of engagement which ensures that employees are not only emotionally invested in the business but also have a work environment that provides the resources and energy needed for high performance.

• **Ratings** are a means of quantifying an incumbent’s performance. For instance, employers often use a rating scale of 1-5, or a scale that goes from ‘excellent’ to ‘poor’. Ratings allow employers to both measure and discuss employees’ performance in a way that is relative to others in their organisation.

• **Calibration** is the process that brings managers together in order to moderate and finalise the rating of all employees in their remit.

• **Objectives** are specific work related goals which are most frequently set by managers for employees to achieve within a defined time frame.

• **Competencies** are a group of behaviours that encompass knowledge, skills, abilities and personal characteristics that, together, determine superior performance in a particular work setting. These support the employee in understanding how to be successful within the organisation.

Sources
Towers Watson 2012-2013 Global Talent & Rewards Survey
Towers Watson 2012 Global Workforce Study
Towers Watson 2010 Manager Redefined, Tom Davenport and Stephen Harding
Towers Watson 2013 Broad-Based Incentives Pulse Survey

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