

# Performance Management Trends

## OVERVIEW

Performance management processes yield a variety of challenges for organizations from accurate assessment and linkage to business objectives to stakeholders' buy-in and engagement in the process. The following study was conducted to uncover local trends in performance management processes and systems. The results suggest that regardless of industry and organizational size, several performance management trends seem to have emerged in the local workplace arena:

- Using individual annual evaluations and goal setting are the general norms for many organizations. While multi-rater feedback (360 feedback) is not very popular even at larger organizations, self-evaluations are fairly common.
- Employees are generally not consulted on the performance management process design, despite best practices suggesting that they should have opportunities to provide input.
- At many organizations, senior managers and executives are involved in setting performance requirements.
- Attitude and professionalism is one of the top three most common criteria assessed during evaluations while quality of work and productivity were the top two most common criteria.
- Goal setting is the most prevalent evaluation method.
- Forty-four percent of organizations report that managers and supervisors are not trained in performance management.

## PERFORMANCE MANAGEMENT ACTIVITIES

Several activities form the basis of performance management programs including evaluations, developmental planning, goal setting, and feedback. The most common types of performance management activities are individual annual evaluations, goal setting, supervisor-evaluations, self-evaluations, on-going performance feedback, and developmental planning. Larger organizations (over 500 employees) tend to use developmental planning to a greater degree than smaller organizations which tend to use on-going performance feedback with more frequency. Across all organizational sizes, individual annual evaluations, goal setting, self-evaluations, and supervisor evaluations seem to be used frequently.

Exhibit 1: Performance Management Activities

Performance Management Activities – All Organizations	
	Percent
Individual annual evaluation	93%
Goal setting	74%
Supervisor-evaluation	65%
Self-evaluation	56%
On-going performance feedback	43%
Developmental planning	42%
Coaching	22%
Bi-annual evaluation	15%
360 feedback/assessment	14%
Quarterly evaluation	11%
Peer evaluation	8%
Team-evaluation	8%

Exhibit 2: Performance Management Activities – by Organization Size

Performance Management Activities – by Organization Size			
	Percent (1-200 employees)	Percent (201-500 employees)	Percent (500+ employees)
Individual annual evaluation	96%	83%	83%
Goal setting	70%	67%	92%
Supervisor-evaluation	69%	33%	67%
Self-evaluation	56%	50%	58%
On-going performance feedback	50%	17%	25%
Developmental planning	41%	17%	58%
Coaching	24%	17%	17%
Bi-annual evaluation	15%	17%	17%

360 feedback/assessment	15%	0%	17%
Quarterly evaluation	11%	0%	17%
Peer evaluation	11%	0%	0%
Team-evaluation	9%	0%	8%

In addition, service organizations are more likely to use coaching and on-going performance feedback than manufacturing organizations that used developmental planning to a greater degree.

## PERFORMANCE REQUIREMENTS & METHODOLOGIES

Who sets performance requirements for employees? Organizations across all industries and sizes say that these requirements are developed by three groups: senior managers, supervisors, and/or supervisors and employees. Few allow input from staff representatives.

Exhibit 3: Setting Performance Requirements

Setting Performance Requirements	
	Percent
Mutual (supervisor and employee)	58%
Supervisors	53%
Senior managers	47%
Each employee sets their own requirements	4%
Staff representatives/committees	0%

Common groups that are consulted on the performance management process include HR representatives, managers, supervisors, senior managers or executives. Those organizations in the services industry were more likely to consult with a cross-section of employees versus those in the manufacturing industry. Virtually all organizations reported that they do not consult with any employees who desire to take part in the process. Despite this trend, research suggests that staff representatives should have input into the process to promote a stronger buy-in to the process.

Exhibit 4: Groups Consulted on Performance Management Process

Groups Consulted on Performance Management Process	
	Percent
Human resource representatives	75%
Senior managers or executives	68%
Managers and supervisors	65%
Staff representatives from a cross-section of departments	13%

All employees who desire to take part in the process	0%
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The most common types of performance criteria that are assessed during one’s individual evaluation include quality of work, productivity, attitude/professionalism, and teamwork. Manufacturing organizations cited more emphasis on productivity, quality of work, and attitude/professionalism (in order of frequency of usage), whereas services organizations were more likely to emphasize quality of work, attitude/ professionalism, and teamwork (in order of frequency of usage). Customer service and learning/skill development targets were less common.

Exhibit 5: Methodology: Components of Assessment

Methodology: Components of Assessment	
	Percent
Performance quality	87%
Productivity	76%
Competencies	73%
Results	64%
Behaviors	63%

Exhibit 6: Performance Criteria Assessed in Evaluation

Performance Criteria Assessed in Evaluation	
	Percent
Quality of work	93%
Productivity	86%
Attitude & professionalism	85%
Teamwork	81%
Annual goals	69%
Customer service	67%
Learning/skill development targets	58%

Organizations also report that their performance evaluations assess the following components: performance quality, productivity, competencies, results and behaviors. Manufacturing organizations tend to emphasize productivity while service organizations tend to emphasize quality. Larger organizations focus more on results.

The method by which performance is assessed did not vary significantly between industries and size of organization. Goal setting and behaviorally based rating scales are the most popular methods of assessment. Forced ranking is the least common assessment method.

Exhibit 7: How Performance is Assessed

How Performance is Assessed	
	Percent
Goal setting	46%
Behaviorally based rating scales	38%
Graphic rating scales	23%
Forced ranking	14%
No evaluation used	6%

## OBJECTIVES OF PERFORMANCE MANAGEMENT PROCESSES

Every organization has unique objectives for their performance management system. Northeast Ohio organizations generally report that the objectives of their performance management system are to identify employee developmental needs, achieve business objectives, and document performance. Organizations report that the performance management process is least commonly used for discipline, making promotional decisions, and achieving financial targets. Using the system for making pay decisions was only used by 55% of organizations.

Interestingly, employees on average tend to view performance management negatively because the process is commonly seen as unfair and subjective decision-making tool for disciplinary procedures, pay and promotional decisions. This survey suggests the opposite is true – that performance management processes are in place to mainly identify employee developmental needs. Organizations should work towards better communication of these objectives to their respective employees to combat these negative beliefs.

Exhibit 8: Key Objectives of Performance Management Process

Key Objectives of Performance Management Process	
	Percent
Identifying developmental needs/developing skills	78%
Achieving business objectives	75%
Documenting performance in employee records	73%
Targeting performance problems	64%
Improved productivity	62%
Improved quality	60%
Making pay decisions	56%
Clarify organizational expectations	45%
Improved customer service	45%
Achieving financial targets	44%

Making promotional decisions	37%
Discipline	21%

Smaller organizations (those with fewer than 200 employees) report that their top three performance management objectives are achieving business objectives, identifying developmental needs, and documenting performance in employee records. Larger organizations (those with more than 500 employees) report that documenting performance in employee records, targeted performance problems, and improved quality are their top three performance management objectives. There were no major differences between the performance management objectives of manufacturing and services organizations.

## CONCLUSION

Performance management is a crucial area of HR that impacts not only employees, but also the bottom line. While objectives and methods may vary, common trends have emerged regarding the structure of the process, stakeholders involved, objectives, and performance criteria. Despite these trends, there are certain best practices for any performance management process. A well-established performance management process should:

- Support and ensure the development of employees and target any performance gaps
- Effectively document employee performance
- Link organization's strategy and goals to individual performance
- Encourage active participation by senior level team
- Reflect organizational culture
- Provide managerial training in relevant aspects of performance management such as coaching, feedback, and goal-setting
- Ensure managerial accountability for managing performance
- Incorporate on-going feedback or coaching with a formal evaluation
- Tie performance to rewards such as pay and promotions.
- Use a methodology that ensures performance is differentiated
- Solicit employee, managerial, and senior-management input into the process for buy-in purposes
- Focus on key performance measures that are critical to the organization's success

For more information on how to implement a sound and effective performance management process or for your performance management training needs (i.e. coaching, goal-setting, feedback, etc.), please contact ERC at 440/684-9700.

<u>Participation</u>	
73 organizations	
<u>Size</u>	
1-200 employees	75%
201-500 employees	8%
500+ employees	17%
<u>Industry</u>	
Manufacturing	49%
Services	36%
Other	15%

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