

Managing Employee Performance

May 2008

Executive Summary

In Aberdeen's June 2007 benchmark report entitled [Enhancing Operational Results with Employee Performance Management](#), the primary pressure driving employee performance management was the need to *improve overall company performance* (57%), followed closely by *employee productivity* (46%). The pressures driving organizations to pursue employee performance management in 2008 have shifted and reflect the stifling realities associated with the global shortage of labor and talent. Though workforce productivity still remains a Top Two driving force cited by 27% of more than 900 organizations surveyed in this year's study, the primary pressures revolve around insufficient talent pipelines (43%), the loss of top talent to competitors (41%), and a diverse workforce with varying needs and expectations (34%).

Best-in-Class Performance

Aberdeen used three (3) key performance criteria to distinguish Best-in-Class organizations:

- Employee satisfaction / morale
- Employee performance
- Employee retention

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics, including:

- 77% ensure managers involve employees in the goals definition process
- 70% have standardized employee performance ratings across the organization to ensure consistency with reviews
- 68% employees understand how their individual performance affects organizational goals

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Involve employees in their development and goal planning
- Reinforce annual reviews with frequently scheduled informal meetings between the employee and manager
- Involve multiple, relevant reviewers to provide more rounded feedback

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"An Employee Performance Management framework should fully support a common architecture for assessing performance and promotability consistently throughout a business. This foundation ensures that all qualified individuals are equally able to pursue rewarding careers and be considered for roles with increasing responsibility – a level playing field for all."

~ Global Staffing Leader \$10B
+ North American-based company

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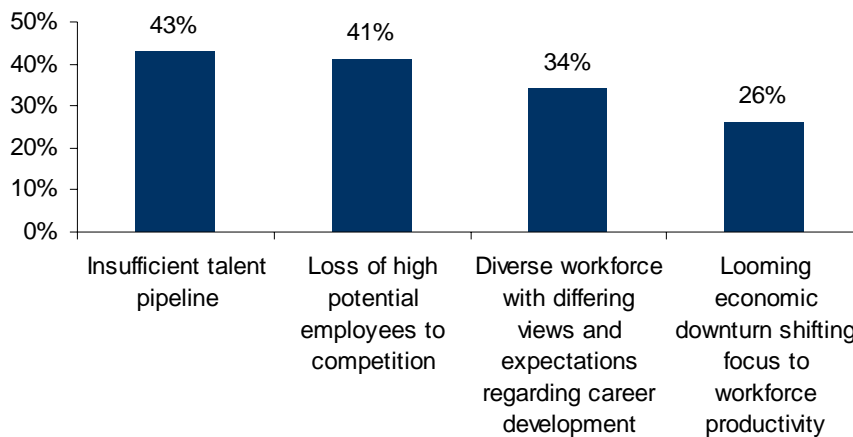
Chapter One: Benchmarking the Best-in-Class

Business Context

In Aberdeen Group's annual state of the market report "The 2008 Aberdeen Report", 31% of the 4,654 survey respondents cited the "shortage of labor/talent" as a Top Two challenge their organization will face in 2008. This talent shortage is real and is forcing organizations to focus more internally than externally -- specifically on retaining and developing the people they've already got and focusing on increasing workforce productivity.

To better understand how organizations are managing the performance of their workforce, in April and May 2008, Aberdeen conducted an in-depth analysis of employee performance management practices among more than 900 Human Resources and line of business professionals from organizations worldwide. The data from this study shows that the labor challenge referenced above is also the primary pressure driving organizations to focus resources on employee performance management (Figure 1).

Figure 1: Pressures Driving Employee Performance Management



Source: Aberdeen Group, May 2008

The global labor shortage is making it more difficult to maintain a sufficient talent pipeline, and therefore it is creating a more competitive landscape that increases the difficulty to retain top talent. This is forcing organizations to revisit ways to accommodate the varying career / development demands and expectations of a diverse workforce. Organizations need to do a better job of involving employees in their own career development decisions, performance goal-setting, and in instilling a sense that each employee is valued and plays an important role in the organization's overall success.

Fast Facts

- ✓ **78% of all organizations** have a formal process in place to manage employee performance

"The best way to improve a company's performance is to measure it through individuals while fostering the individual progression by means of objectives' accomplishment, company goals' alignment and professional career development."

~ Anselm Divi Corporate
Director Human Resources,
Almirall (Barcelona, Spain)

The Maturity Class Framework

Aberdeen used three [3] key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations pertaining to employee performance management. These criteria focused on the organization's ability to achieve year-over-year performance improvement in the following:

- Employee satisfaction / morale
- Employee performance (see sidebar for additional details)
- Employee retention

Table I details the average year-over-year performance gains (or losses) achieved by each class of organization surveyed in the aforementioned key performance indicators.

Table I: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Improved employee satisfaction / morale an average of 22.0% ▪ Increased employee performance an average of 21.1% ▪ Improved employee retention an average of 21.0%
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Improved employee satisfaction / morale an average of 1.5% ▪ Increased employee performance an average of 3.7% ▪ Improved employee retention an average of 0.3%
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Decreased employee satisfaction / morale an average of 15.6% ▪ Decreased employee performance an average of 3.2% ▪ Decreased employee retention an average of 12.6%

Source: Aberdeen Group, May 2008

Fast Facts

When calculating actual employee performance, Best-in-Class organizations take into account the following measures:

- √ Percentage of individual goals attained (72%)
- √ Ratings in job-specific performance reviews (69%)
- √ Ratings in project-specific performance reviews (48%)
- √ Efficiencies produced (40%)
- √ Performance on training or assessments (30%)

The Best-in-Class PACE Model

Best-in-Class organizations adopt a mix of strategies, capabilities, and technologies that provide visibility into and consistency with the appraisal and review process, and support the alignment of employee output with organizational objectives (Table 2).

Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> ▪ Insufficient talent pipeline ▪ Loss of high potential employees to competition 	<ul style="list-style-type: none"> ▪ Align employee goals and development activities to business priorities ▪ Create a performance culture ▪ Increase productivity of current workforce ▪ Develop leadership / managerial pipeline 	<ul style="list-style-type: none"> ▪ Standardize the employee appraisal / review process ▪ Managers involve employees in the goals definition process ▪ Link employee performance to compensation ▪ Employee performance ratings are standardized across the organization to ensure consistency with reviews ▪ Repository of all performance reviews (names, dates, scores) is maintained and updated ▪ Employees understand how their individual performance affects organizational goals 	<ul style="list-style-type: none"> ▪ Organizational charting software ▪ Off-line assessments and feedback ▪ Software tools that automate employee appraisal creation and management ▪ 360 degree feedback / multi-rater assessments ▪ Dashboard that reports manager progress in the appraisal/review process across company or by department ▪ Software tools that send email notifications to employees and managers when a step in the evaluation process is pending or incomplete ▪ Software that help managers set goals that are SMART (specific, measurable, attainable, realistic and time bound)

Source: Aberdeen Group, May 2008

Best-in-Class Strategies

While most organizations are driven to pursue employee performance management due to the same top two pressures, a few key deviations are important to point out. First, Best-in-Class organizations are 32% more likely than Laggards to be motivated by the loss of high potential workers. This, of course, implies that Best-in-Class organizations are able to identify that talent in the first place - which the majority does (as highlighted later in Table 3).

In addition, Best-in-Class are 46% more likely than Laggards to be driven to manage employee performance in order to accommodate a diverse workforce with differing views and expectations pertaining to career development. This suggests that Best-in-Class organizations are adopting programs that can address the immediacy needs of the younger generation as well as accommodate "flex" needs demanded by retirees and part-timers. Laggard organizations, on the other hand, are nearly twice as likely as Best-in-Class to pursue employee performance management due to poor employee morale or satisfaction.

To address these pressures, Best-in-Class organizations are putting in place strategies to support the alignment of their employees' individual goals and development activities to specific organizational priorities, create an

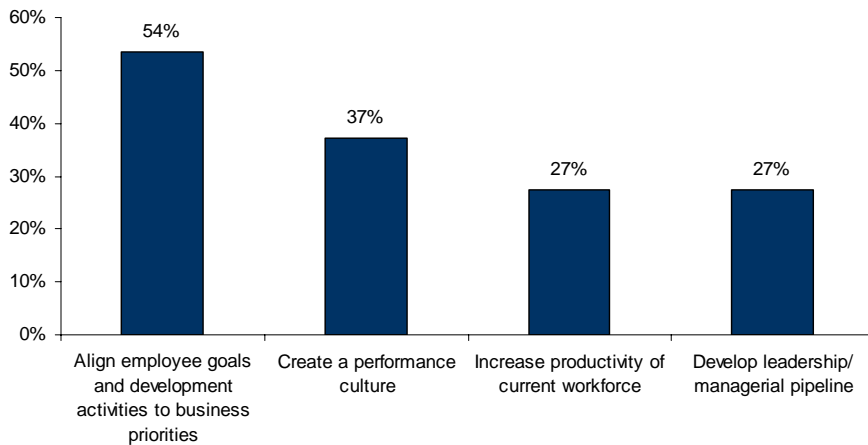
Fast Facts

How Best-in-Class organizations utilize their approach to employee performance management:

- √ 67% Standardized on a company-wide basis
- √ 22% At the divisional / business unit level, with different approaches across different divisions / units
- √ 9% At the country level, with different approaches in different countries

organizational culture focused on employee performance, as well as develop the organization's leadership pipeline.

Figure 2: Best-in-Class Strategies to Address Pressures Driving Employee Performance Management



Source: Aberdeen Group, May 2008

Critical Strategic Differentiators

Though nearly the same the percentage of Industry Average (54%) and Laggard (55%) organizations pursue the alignment of employee goals and development activities to business priorities, their abilities to achieve performance improvement in critical key performance indicators (as highlighted previously in Table I) are vastly inferior to Best-in-Class. These deviations can be explained, in part, to the emphasis placed on the following strategic actions:

- Best-in-Class are at least 40% more likely than Laggards to focus on *creating a performance culture* at their organization and *increasing the productivity of the workforce*. To achieve this culture, Best-in-Class organizations reinforce employee performance with supportive resources such as linking pay to performance, providing mentors or coaches, and establishing consistent line of communication between employees and their immediate supervisors.
- Laggard organizations are 38% to 47% more likely than Best-in-Class to focus their efforts on *establishing better goal setting processes* and *formalizing a process for managing employee performance*. What is important to highlight about these two statistics is that although a strong majority of all organizations say they have standardized a formal employee review and/or appraisal process - including 87% of Best-in-Class and 76% of Laggards - Laggard programs tend to suffer from inconsistencies and lack of accountability; which have direct impact on employee morale, performance, and retention.

Fast Facts

- ✓ **Best-in-Class organizations** are 55% more likely than all other organizations to have their managers define and communicate individual employee goals and expectations within or before the first week of the employee's start or anniversary date with the organization.

Aberdeen Insights — Strategy

It is important to highlight two key differentiators between Best-in-Class and all other organizations with regards to managing employee performance. These two elements are reinforced and expounded upon in Chapter Two of this report, but merit specific reference due to their strategic significance:

- **Best-in-Class organizations utilize a combination of formal and informal reviews to communicate, reinforce, and adjust employee performance objectives, expectations and goals.** While the percentage of organizations that conduct formal employee reviews on an annual basis remains relatively constant across Best-in-Class, Industry Average and Laggard (57% - 61%), Best-in-Class are 47% more likely than all other organizations (Industry Average and Laggard combined) to reinforce formal reviews with informal reviews at least once per quarter.
- **Best-in-Class organizations leverage organizational knowledge to impact employee performance.** While there exists no relevant deviation among Best-in-Class, Industry Average, and Laggard organizations pertaining to which employee groups receive performance reviews, Best-in-Class are 34% more likely than all other organizations to conduct peer-to-peer reviews, and 49% more likely than all others to conduct subordinate-to-supervisor reviews. This multi-rater approach to performance management enables individuals to gain additional perspective as well as reinforces that accountability for employee performance is no one person's responsibility.

In the next chapter, we will see what the top performers are doing to achieve these gains.

Chapter Two: Benchmarking Requirements for Success

Managing an employee performance strategy and integrating it with business processes and supportive technologies plays a crucial role in the ability to turn the strategy into profit.

Case Study — Northeast Georgia Health System

Company Overview: Northeast Georgia Health System (NGHS) is a not-for-profit community health system dedicated to improving the health and quality of life of the people of Northeast Georgia (United States). The Health System offers a full range of healthcare services through two hospital campuses that last year served a combined 100,000 emergency room visits and 20,000 admissions. Together, these facilities, along with two long-term care centers and a mental health and substance abuse treatment center, employ approximately 4,200 professional and staff workers and offer Northeast Georgia residents comprehensive health care close to home.

Situation: In 2003, NGHS faced several daunting changes: 1) A new CEO was appointed after the former CEO of 40 years retired – and, over the next two years nearly 80% of the original senior leadership team retired as well; 2) Demand for health services in Northeast Georgia was booming - the county NGHS serves is the 9th fastest growing in the United States. NGHS was already full (they were running at 80% - 100% capacity), and the community was growing dramatically; 3) NGHS' financial results had been declining for the previous five years; 4) Employee turnover at NGHS was running slightly over national average (20%) – this was a particular problem with younger nurses, position vacancy rate was running over national average (8 to 11%+), and staffing / recruiting costs (i.e. overtime, agency fees, etc) were significantly higher than peer hospitals..

How was NGHS going to address the culture change of new senior leadership while, at the same time, control costs, expand its facilities, and staff to the levels needed to keep up with demand – all without compromising service and quality?

Actions: One of the first actions taken by the new CEO was a cost-reduction exercise, called the “Green Dollar.” Managers and directors were split into teams that (combined) each represented about \$4M (US\$) in expenses. The goal was to have each team reduce the expense wherever possible, except that it could not reduce customer service and quality of care. The stated goal was a \$20M (US\$) reduction in annual expense.

Also, at executive level, NGHS assigned aggressive and narrowly defined metrics pertaining to finance, patient satisfaction, quality, service, strategic planning, and employee retention. These metrics were given to NGHS' board in order to hold NGHS' management accountable -- The board reviews progress against these at least quarterly.

continued

“Performance management seems like common sense. To really do it right and make it happen for a sustained period of time, you've got to have an intense organizational focus and commitment. It has to be built into your basic organizational systems. Performance management usually requires significant change in most key organizational processes.”

~ Jack Fulbright
VP, Human Resources
Northeast Georgia Health
System (United States)

Case Study — Northeast Georgia Health System

From an HR perspective, NGHS realized it had to tighten up HR policy. Prominent areas of focus centered around management training, the employee performance appraisal system, and employee compensation.

Performance Appraisal System – NGHS wanted the focus not to be on the annual one-time event (the review), but on coaching throughout the year. NGHS wanted the performance appraisal to be nothing more than formalizing what the employee and manager had been talking about all year. One step NGHS took to create efficiencies and minimize the focus on the appraisal was to shorten the form – which had evolved into a 7-page manual appraisal form – to a two-page automated form. Take, for consideration, a clinical unit manager at NGHS who typically is responsible for managing as many as 120 employees!

Learning – NGHS' focus was to create a learning environment that leveraged continual coaching as its foundation. So, NGHS put in place management training that centered more on coaching for improvement than on giving negative feedback. .

Compensation – NGHS' goal was to create a pay program that could support rewarding high performers. NGHS tightly integrated its compensation program with its appraisal process. Previous to change, the performance review tallied points which, in turn, translated to a score which then translated into a merit increase. Problems with the calculus (full point vs. half-point issues) and inconsistencies among managers when it came to assigning points brought into question the validity of the merit increase awarded. So, NGHS eliminated the points and, instead, created three evaluation scores (“needs improvement”, “meets expectations”, “exceeds expectations”) across 11 categories. Once managers complete the form electronically, it automatically feeds into an Excel database, where values are then assigned – with no points visible to managers or employees. Department managers are then sent a list of the employees ranked from high to low performers – and shows the point spread between the specific employees and their position within their respective pay ranges. The new merit increase spread ranges from 0 – 12% - so they reward the people who really deserve it.

Results:

- Based on an employee-opinion survey (middle of '07) NGHS ranked in the 77th percentile for employee satisfaction and above the 75th percentile for satisfaction with compensation program.
- The “green dollar” exercise turned into a phenomenal team building exercise. It's stated goal was to reduce annual expenses by \$20M, but they achieved actual reduction of \$23M.

continued

Case Study — Northeast Georgia Health System

- From 2004 to current YTD 2008, the operating margin has improved from 1% to 7%!
- Eliminated over 150 open positions by reevaluating the need for filling these positions and by reorganizing and realigning.
- Overtime costs have been reduced by 5% and agency costs have been reduced by over 50%.
- Vacancy rate has fallen to less than 5% (from 11%+).
- Employee turnover rate has decreased to 13.7% (from 19.8%) – this is updated and published on NGHS’ management website on a daily basis.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed organizations to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute their daily operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of appropriate tools and effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure their results to improve their business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Managers involve employees in the goals definition process		
	77%	68%	55%
	Mechanism is in place to ensure managers provide employees with clear and consistent performance feedback		
Organization	65%	57%	42%
	Well-defined process holds managers accountable for their employees' performance management		
	57%	44%	27%
Process	Employee performance ratings are standardized across the organization to ensure consistency with reviews		
	70%	60%	49%
	Employees understand how their individual performance affects organizational goals		
Organization	68%	61%	41%

	Best-in-Class	Average	Laggards
Knowledge	Employees understand how the work they do is linked to how they are paid		
	64%	56%	41%
	Competency data (regarding skills, knowledge, attribute, behaviors) for each employee has been identified		
	56%	44%	31%
Technology	Technology currently utilized for managing employee performance:		
	<ul style="list-style-type: none"> ▪ 40% Organizational charting software ▪ 40% Offline assessments and feedback ▪ 29% Software that sends email notifications to employees and managers when a step in the evaluation process is pending or incomplete ▪ 29% Dashboard that reports manager progress in the appraisal/ review process across company or by department ▪ 27% Software that help managers set goals that are SMART (specific, measurable, attainable, realistic and time bound) 	<ul style="list-style-type: none"> ▪ 31% Organizational charting software ▪ 33% Offline assessments and feedback ▪ 28% Software that sends email notifications to employees and managers when a step in the evaluation process is pending or incomplete ▪ 26% Dashboard that reports manager progress in the appraisal/ review process across company or by department ▪ 20% Software that help managers set goals that are SMART (specific, measurable, attainable, realistic and time bound) 	<ul style="list-style-type: none"> ▪ 16% Organizational charting software ▪ 31% Offline assessments and feedback ▪ 17% Software that sends email notifications to employees and managers when a step in the evaluation process is pending or incomplete ▪ 17% Dashboard that reports manager progress in the appraisal/ review process across company or by department ▪ 11% Software that help managers set goals that are SMART (specific, measurable, attainable, realistic and time bound)
Performance	Define metrics against which the employee performance management program is evaluated		
	56%	48%	35%
	Assess the performance of employee performance management program against its intended impact at least once annually		
	75%	66%	56%

Source: Aberdeen Group, May 2008

Capabilities and Enablers

Based on the findings of the competitive Framework and interviews with end users, Aberdeen's analysis of the Best-in-Class reveals that these organizations look at employee performance management (EPM) not only from the organization's perspective, but also from the employee point of view.

Process

Seventy-seven percent (77%) of Best-in-Class organizations ensure that managers involve employees in the goals definition process - and are 40% more likely to do so than Laggard organizations. By having managers involve employees in establishing job-related goals, these organizations establish common ground pertaining to performance expectations and create a greater sense of personal ownership of those goals by the employee.

To ensure that the mutually agreed-to expectations are reinforced and that employee progress against these objectives is reviewed and assessed, a large majority of Best-in-Class organizations (65%) have established mechanisms to ensure that managers provide employees with clear and consistent performance feedback. In addition, Best-in-Class are more than twice as likely as Laggards to have put in place a process that holds managers accountable for the management of their subordinates' performance. All of this helps maintain the critical line of communication between employees and their managers, builds trust between both parties, and provides a mutual sense of ownership and accountability in the process. This helps explain why Best-in-Class organizations are more than twice as likely as Laggards to be somewhat or very satisfied with their current process (Figure 3).

Figure 3: Satisfaction with Current EPM Process



Source: Aberdeen Group, May 2008

Organization

To reinforce this mutual buy-in and/or understanding of the subordinate's expectations, 70% of Best-in-Class organizations ensure that the method to which employees are rated in appraisals / reviews is standardized across the organization. This standardization is especially important at organizations where an employee may be reviewed by several individuals. In addition, it helps to level-set the hiring manager's expectation, in terms of actual employee performance, as he/she considers a new addition to his/her team from the organization's enterprise talent pool.

Best-in-Class organizations have in place direct lines of communications between managers and their employees. They also seek to provide line of sight between employees, their individual performance objectives, and the organization's goals -- which correlates directly to the top strategic action that Best-in-Class organizations are taking (as outlined previously in Figure 2).

Knowledge Management

70% of Best-in-Class organizations maintain and update a repository of all performance reviews. This single repository is critical to ensure data integrity. However, in addition to providing a central repository for employee performance data, 68% of Best-in-Class organizations also strive to provide employees with information and/or line of sight needed to understand how their individual performances affect organizational goals. As part of this, 64% of Best-in-Class organizations provide programs that enable employees to understand how the work they do is linked to how they are paid. This alignment between pay and performance helps the organization and employee place emphasis on particular tasks / goals and enables the employee to see more directly how their particular output correlates to higher organizational objectives.

However, knowledge goes beyond what an organization can capture and store in a database. Much of what an employee knows is never leveraged for the betterment of the organization and/or development of others. To this point, Best-in-Class organizations are 81% more likely than Laggards to have defined the "hard" (technical knowledge and skills) and "soft" (attributes and behaviors) skills of each employee. This aids the organization in myriad ways. For example, this helps Best-in-Class organizations assign employees coaches and/or mentors who can fill knowledge gaps for others. It also helps managers assign more accurate development plans for their employees.

Technology

Organizations with an automated system for managing employee performance have achieved greater performance gains across all key performance indicators measured in this study (see "Aberdeen Insights - Technology" below for additional details). However, the majority of all organizations surveyed, including 61% of Best-in-Class, currently utilize paper forms or electronic spreadsheets to manage employee performance.

"We manage performance of our hourly production associates by using an engineered incentive system that measures expected output and rewards associates with the opportunity to earn up to 20% above their base pay. We manage salaried performance by using a Leadership and Performance tool that was developed internally by my team. This tool sets goals at the beginning of their 12 month measurement period for leadership behaviors and for performance metrics. This has been in place for about 10 years and works very well."

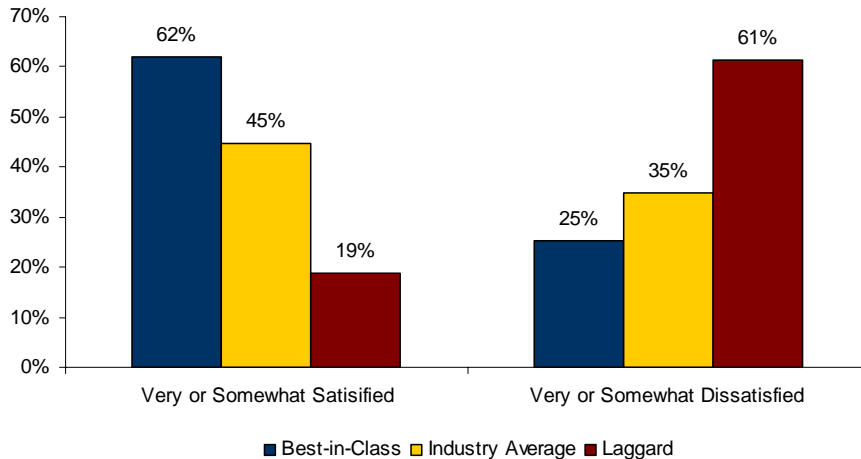
~ Derek Davis, VP Human Resources
The Dixie Group, Inc. (United States)

Fast Facts

- ✓ **29% of Best-in-Class** organizations say they are budgeted to purchase new or upgraded employee performance management software in the next 12 months.

As illustrated in Figure 4, while 62% of Best-in-Class organizations are somewhat or very satisfied with their current system to manage employee performance, the percentage of Best-in-Class that are somewhat or very dissatisfied with their system is 39% greater than those dissatisfied with their process for managing employee performance.

Figure 4: Satisfaction with Current EPM System



Source: Aberdeen Group, May 2008

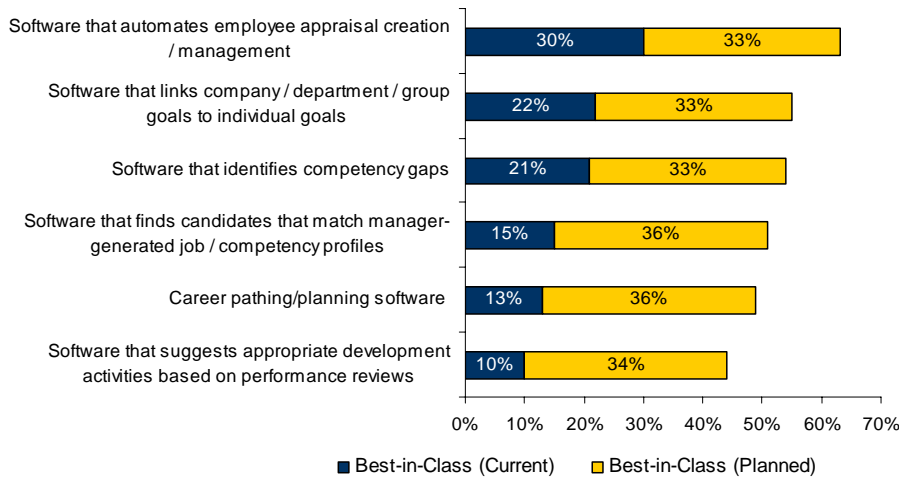
Aberdeen's research uncovered that 44% of Best-in-Class organizations expect their organization's budget for employee performance management to increase in the next fiscal year. Furthermore, 29% of Best-in-Class organizations said they are budgeted to purchase and/or upgrade new employee performance management software within the next twelve months. Additionally, 21% of Best-in-Class organizations cite they have yet to receive budget approval but have plans to purchase or upgrade employee performance management software during that same time frame.

Looking ahead, the automated tools that Best-in-Class organizations plan to use will allow these organizations to link company, department or group goals to individual goals, leverage competency data to identify gaps in terms of individual career and development planning, as well as proactively find candidates based on the competency profiles needed by the organization (Figure 5). Aberdeen's research has identified that these particular software tools will see a 110% to 340% growth in use among Best-in-Class organizations over the next year.

“When you have a (EPM) system that works well, it can make all the difference; the difference between a high performing organization, and one that squeaks by. I have always struggled to find the “best” system out there but find myself instead always evolving, looking at best practices and seeing what works in the particular organization I am working with.”

~ Kim W. Nowell
SVP, Human Resources
Direct General Corporation
(United States)

Figure 5: New or upgraded software purchases planned by Best-in-Class to enable employee performance management



Source: Aberdeen Group, May 2008

Fast Facts

Employee groups at Best-in-Class organizations that receive performance reviews:

- ✓ 84% Mid-level management
- ✓ 73% Upper-middle management (Director, AVP)
- ✓ 68% Exempt workers (salaried non-manager professionals)
- ✓ 64% Executives (VP and above)
- ✓ 58% Administrative / clerical
- ✓ 50% Hourly employees
- ✓ 12% Contractors / consultants

Performance Management

Seventy-five percent (75%) of Best-in-Class organizations assess the success of their employee performance management initiatives against its intended impact at least once annually - and 34% assess the program's performance two times per year or more; the latter statistic is nearly twice the rate of all other organizations surveyed. This is critical, given the rapid pace of change, in ensuring that the employee performance management program maintains its alignment with the organization's overall objectives.

Aberdeen Insights — Technology

Though automation of an employee performance management (EPM) process is not a prerequisite to achieve Best-in-Class results, Aberdeen's research uncovered that organizations that have automated all or part of the process are 40% more likely to be satisfied with their current EPM process and more than twice as likely to be satisfied with their current EPM system.

Further analysis of the data shows how organizations that have automated employee performance management are:

- 79% more likely to review / assess the performance of their EPM program at least once per quarter
- 73% more likely to have defined the competency data (knowledge, skills, attributes, behaviors) of their employees
- 50% more likely to have defined the metrics against which the EPM program is evaluated

continued

Aberdeen Insights — Technology

- 50% more likely to have defined a process to hold managers accountable for their employees' performance management
- 37% more likely to maintain and update a repository of all performance reviews

As a result of more rigid and organizationally-adopted support processes, as well as more defined and centralized employee performance data, organizations with an automated EPM solution have achieved greater year-over-year performance gains than those using a manual (spreadsheet or paper) process (Table 4).

Table 4: Average Year-over-Year Performance Improvement (Manual vs. Automated EPM System)

Key Performance Indicator	Manual System	Automated System
Employee Performance	7.0%	9.3%
Percentage of Goals Attained	6.8%	14.9%
Percent of eligible bonus paid	4.1%	9.6%
Employee Morale / Satisfaction	2.1%	10.4%
Employee Time-to-Productivity	2.1%	16.2%
Employee Retention	0.9%	7.7%

Source: Aberdeen Group, May 2008

Chapter Three: Required Actions

Whether a company is trying to move its performance in employee performance management from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

For All Organizations

All organizations need to maintain and update a repository of performance reviews. Currently, 30% of Best-in-Class, 35% of Industry Average, and 47% of Laggard organizations have employee performance records scattered throughout their organizations, with limited or no ability to update or leverage this data across their organizations.

In addition, all organizations should leverage the collective wisdom, knowledge and experience within their organizations. By providing "coaching" and "mentoring" opportunities for employees, organizations provide a means to motivate and develop their workforce as well as leverage, maintain and build upon critical knowledge and skills.

Once processes are in place that will support your organization's goals pertaining to employee performance management, look to automate elements of the process, specifically in areas that allow your organization to access, update, and leverage data across the organization and in other talent management stages (i.e. learning and development or succession planning).

Specific recommendations for organizations that fall into Laggard, Industry Average, or Best-in-Class categories follows.

Laggard Steps to Success

- **Standardize employee performance ratings across the organization** - While 76% of Laggard organizations say they have standardized their employee appraisal / review process, only 49% have standardized employee performance ratings. Standardizing ratings is about eliminating the subjective and creating a level playing field. This will also aid in managers to provide clear and consistent feedback to employees - an element that is critical not only to ensure appropriate employee development and organizational alignment, but also to build employee satisfaction and morale.
- **Involve employees in their development and goal planning** - Managers at only 42% and 55% of Laggard organizations (respectively) involve employees in the employees' career development planning and goals definition process. This dual buy-in is essential to get both parties on the same page and provides the basis for mutual agreement on job priorities and performance progress.

Fast Facts

- √ **43% of Best-in-Class** organizations had an employee/staff turnover rate of 4% or less during the previous 12 months - only 18% of Laggards can boast the same
- √ **22% of Laggard organizations** had an employee/staff turnover rate of more than 20% during the previous 12 months - versus only 6% of Best-in-Class

- **Define the metrics against which your organization will measure employee performance** - Currently, only 35% of Laggard organizations know how they are measuring the success of their employee performance management program. Laggards must assign clear metrics to measure the effectiveness of employee performance management and regularly assess the performance of the process. Currently, only 21% of Laggards evaluate their program more than once annually, 22% assess it on an as-needed basis, and 22% never assess it. The value of regularly assessing a program provides the ability to measure progress and also to adapt or tweak the program in order to perform better.
- **Educate employees on how their personal performance affects the organization's goals** - While 55% of Laggards have made the *alignment of employee goals and development activities to business objectives* their top strategic action pertaining to employee performance management, only 41% of these organizations say that their employees understand how their individual performance affects the organization's goals. The alignment of employee performance to goals should also be reinforced via compensation. However, though 54% of Laggard organizations say they have linked employee performance to compensation, only 41% say their employees understand how the work they do is linked to how they are paid. The inconsistencies that results from this disconnect can become the basis for poor employee morale, lost motivation and decreased productivity.

"Performance management is only effective with the full support and backing of the senior management. If you don't have that, the exercise is a waste of everyone's time."

~ Director of Human Resources, International Information and Communications Technology company

Industry Average Steps to Success

- **Schedule quarterly "informal" reviews** - Currently, only 48% of Industry Average organizations have a formal process for managers and employees to meet regularly. Regular communication and agreed-to expectations are critical to ensure a healthy manager - subordinate relationship. Industry Average organizations should standardize quarterly informal reviews to support annual formal reviews. Currently, 44% of Industry Average organizations conduct informal reviews on an ad-hoc or as-needed basis. Standardizing the frequency of informal reviews will ensure that these critical "check-ups" are not ignored.
- **Expand the pool of reviewers to include more stakeholders** - Multi-rater feedback can be extremely valuable and should be considered for all positions where interaction with organizational stakeholders is critical. For example, a field service engineer may interact with prospective and current clients, company employees (i.e. product marketing, sales and IT) and even channel sales partners. In this event, feedback from each stakeholder group is imperative to ensure satisfaction and optimal personal development. Currently, while 85% of Laggard organizations conduct supervisor-

to-subordinate reviews, only 45% enable subordinate-to-supervisor reviews and 44% enable peer-to-peer reviews.

- **Identify competencies of each individual employee -** Currently, less than one-third of Laggard organizations understand the knowledge, skills, attributes and/or behaviors of each individual employee. This information is essential in order to help the organization leverage the full talent and ability of each employee. For example, though someone may be new to a position or the company, they may have extensive knowledge or experience that can be extremely beneficial to leverage in a coaching or mentoring capacity. Also, this information will enable individuals to gain a better perspective regarding their own potential which, in turn, will provide more accurate career development planning.

Fast Facts

Top three (3) Best-in-Class activities most valuable for growing employees and their capabilities:

- √ 74% Appraisals / reviews
- √ 66% Goal setting
- √ 51% Learning / training programs

Best-in-Class Steps to Success

- **Analyze your current employee performance management process and system and define areas of improvement -** Despite the significant performance gains achieved by Best-in-Class organizations against critical key performance indicators, 34% of Best-in-Class are either neutral, somewhat or very dissatisfied with their current process and 48% are either neutral, somewhat or very dissatisfied with their current system. Take the required time to identify specifically why people are satisfied or dissatisfied with the process and/or system, and address their issues accordingly. As part of this, make sure to include feedback from everyone involved in the performance management process.
- **Broaden the use of performance reviews across all employee types -** While 84% of mid-level managers receive performance reviews, all other employee types are less (to much less) represented. For example, only 64% of executives receive these reviews. In a position where an "ivory tower" or "us versus them" perception/mentality among employees can prevail, the opportunity to provide feedback to and receive feedback at the executive level can have great benefits. Additionally, only 12% of Best-in-Class currently utilize performance reviews with contractor workers. Given the strategic nature of the work that many contractors are involved in, as well as the growth in work sourced to non-employees, organizations are missing an opportunity to make the contractor feel more like an employee as well as adjust / adapt to meet the company's expectations.

Aberdeen Insights — Summary

Employee performance management (EPM) goes beyond annual employee performance appraisals. Done right, EPM can help organizations align employee goals and development activities to business priorities, create a more motivated workforce, and improve retention of high potential talent. Best-in-Class organizations clearly articulate what the employee goals are, how their goals fit into the organization's objectives, and how success will be measured. Additionally, Best-in-Class organizations involve both the employee and manager in the process to establish mutually-agreed to objectives and dual accountability. Employee performance management is nothing new to organizations, however, its use has taken on heightened strategic importance and this will not waiver any time in the near future.

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Appendix A: Research Methodology

Between April and May 2008, Aberdeen examined the use, the experiences, and the intentions of more than 900 enterprises using employee performance management (EPM) in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on EPM strategies, experiences, and results.

Responding enterprises included the following:

- *Job title / function:* The research sample included respondents with the following job titles: senior management (CEO, COO, CFO, CIO, CTO, president) (8%); vice president (VP, SVP, EVP) (8%); director (27%); manager (36%); others (21%). In terms of functions in their respective organization, the majority of respondents (50%) were in human resources (including recruiting, talent management, training and organizational development). Other functional areas represented sales and marketing (11%), operations (8%), and information technology (6%).
- *Industry:* The research sample included respondents from a variety of industries. Telecom, Hi-tech and IT (including software, hardware and services) represented 25% of the sample, followed by manufacturing (10%). The public sector represented 4% of the sample.
- *Geography:* The majority of respondents (67%) were from North America. Remaining respondents were from Europe (17%), Asia-Pacific (8%), Middle East / Africa (4%), and South / Central America (4%).
- *Company size:* Twenty-two percent (22%) of respondents were from large enterprises (annual revenues above US\$1 billion); 38% were from mid-sized enterprises (annual revenues between \$50 million and \$1 billion); 40% were from small businesses (annual revenues less than \$50 million).
- *Headcount:* Twenty-six percent (26%) of respondents had over 2500 employees; 10% had between 1000 and 2500 employees; 22% had between 250 and 1000 employees; 42% of respondents came from companies with less than 250 employees.

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which EPM is deployed in their operations and the financial implications of the technology
- √ The structure and effectiveness of existing EPM implementations
- √ Current and planned use of EPM to aid operational and promotional activities
- √ The benefits, if any, that have been derived from EPM initiatives

The study aimed to identify emerging best practices for EPM usage and to provide a framework by which readers could assess their own management capabilities.

Table 5: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, May 2008

Table 6: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, May 2008

Table 7: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, May 2008

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Enhancing Operational Results with Employee Performance*](#); June 2007
- [*Competency Management: The Link Between Talent Management and Optimum Business Results*](#); August 2007
- [*Learning and Development: Aligning Workforce with Business Objectives*](#); September 2007
- [*The Looming Leadership Void: Identifying, Developing, and Retaining Your Top Talent*](#); November 2007
- [*Integrated Human Capital Management: Over-hyped or Over-due?*](#); December 2007
- [*All Aboard: Effective Onboarding Techniques and Strategies*](#); January 2008
- [*Compensation Management: Taming Costs and Rewarding Employees*](#); March 2008
- [*Best-in-Class Use of Metrics in Talent Management*](#); March 2008
- [*Trends in Human Capital Management*](#); May 2008

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

Author: Kevin Martin, Research Director, Human Capital Management,
kevin.martin@aberdeen.com

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