

GLOBAL PERFORMANCE MANAGEMENT TRENDS

The performance management process has been an established business practice for more than 50 years, yet for many companies it remains one of the more challenging aspects of workforce management and employee engagement. Performance management programmes seek to optimise employee performance by providing an environment within which to set objectives, plan development, review results, and provide feedback, with the outcome informing critical talent decisions such as reward, promotion, and succession planning. However, many companies fail to achieve what they need from their performance management efforts.

In 2013, Mercer conducted the Global Performance Management Survey, a global survey of performance management practices in 1,056 organisations across 53 countries. The purpose of the survey was to gain a better understanding of how performance management systems are executed worldwide and the common challenges organisations encounter when implementing these systems. Participants ranged from companies with less than 1,000 employees to those with in excess of 10,000, and covered all industries and structures, including for-profit, not-for-profit, and government. The high rate of participation in the survey revealed both the high level of interest in information in this area and the lack of knowledge about what is and isn't working and how practices vary from region to region.

The survey results revealed a surprisingly homogenous approach to performance management across the board. Globally, the design of performance management systems and processes looks similar and centres on the setting of individual goals and formal year-end reviews. Most also include overall performance ratings, evaluation of competencies and behaviours, employee self-assessment, and a linking of individual ratings to compensation decisions. Almost 60% of organisations globally use a five-point rating scale.

What was clear from the survey responses was that, for many, current approaches to performance management are not effective, with only 3% of respondents stating that their overall performance management system delivers exceptional value. That leaves 97% with work to do.

The survey revealed a number of specific areas in which companies believe they need to revise their approach to performance management, such as performance planning (51%) and linkage to compensation decisions (42%). A staggering 48% believe that

they need to reconsider their entire approach. There are clearly obstacles preventing performance management achieving its aims.

Mercer’s statistical analysis of the survey identified four key drivers of performance management success: manager skills, executive commitment, calibration, and technology — and when any of these areas are lacking, an organisation is likely to face challenges in implementing and maintaining an effective programme.

MANAGER SKILLS

The survey provided valuable insights into the perceived skill levels of managers in areas relevant to performance management, and also into which skills could have a significant impact on the organisation if improved.

Figure 1
Manager Skill Levels around Performance Management

Generally, how skilled are your company’s managers at doing the following?



Percentages in graphs may not total 100% due to rounding.

Source: Mercer Survey Report Global Results

The feedback in this area revealed that few managers are perceived as highly skilled in these key areas, and this figure is significantly outweighed by the number that are perceived as only moderately or marginally skilled. This disparity becomes even more stark when measured against the skills that were identified as having the largest impact on an organisation's overall performance if improved. For instance, 31% of respondents identify "having candid dialogue" as the skill that would most improve their organisation, yet only 5% of managers are rated as highly skilled in this area.

Figure 2
Improving Manager Skills for Greater Impact

If your organisation could improve the overall capability of your managers, what one skill area would have the largest impact on the organisation's overall performance?



Although candid dialogue is perceived as the skill with the largest potential impact, the survey revealed that linking performance to development planning is the number-one driver of organisational impact, yet it has the lowest-rated skill level, with 48% of managers seen to be only marginally skilled.

Figure 3
 Manager Skill Areas with Largest Potential Impact on Overall Business Performance

When it comes to manager skills, what elements have the largest impact on overall success?

	Perceived impact on organisation	Actual driver of organisational impact	Percentage of managers with marginal skills
Having candid dialogue	1st (perceived largest impact)	3rd	33%
Linking performance to development planning	2nd	1st (skill with largest impact)	48% (lowest skill level)
Setting "SMART" goals	3rd	2nd	29%

Source: Mercer Survey Report Global Results

The challenges that arise from this lack of skilled managers are compounded by the fact that valuable performance assessment practices, such as formal 360-degree feedback and informal multisource feedback, are typically not used as part of performance evaluation discussions.

EXECUTIVE COMMITMENT

Executive commitment is an integral part of performance management success, because it not only conveys to employees that their performance and development are considered important at the highest levels of the business, but also because it creates accountability for managers to gain the necessary skills and apply them properly. The survey highlighted the lack of accountability around people management skills, and also the lack of recognition and reward for those who are good people managers. Companies reporting a higher level of executive commitment are more likely to report effectiveness in managing performance.

CALIBRATION

Skilled people managers, the survey showed, are more likely to be found in organisations that practise calibration, which enables an assessment of where employees' performance is sitting in relation to each other. Calibration allows managers to more easily identify individual development needs and opportunities, and it increases managerial awareness of talent.

TECHNOLOGY

An unsurprising 56% of companies surveyed use informal or mandatory calibration processes, and technology can often play a key role in optimising calibration by allowing easy access to data. However, despite technology's benefits, only 40% of respondents use performance management technology, with one-third of companies reporting that they plan to implement performance technology in the next two years.

Only 7% reported that they have a system that is fully integrated into other HR systems, hindering the ability to leverage performance management data — for example, knowing the number of high performers selected for succession, or the difference in retention rates between top and poor performers, or the alignment between performance ratings and compensation decisions. Access to this type of analysis enables organisations to demonstrate whether there is a “performance culture” or a “pay-for-performance” philosophy — something that many aspire to.

OTHER INTERESTING RESULTS

Despite the many similarities in system design and practices globally, the survey identifies some notable differences across industries and regions. Although these insights are outlined in the survey in full, some of the findings stand out as particularly interesting. For instance, India tracks performance management metrics more than any other surveyed country, with 69% of companies tracking the alignment between performance and pay decisions. Eastern Europe leads the world in linking performance and development, with 88% of survey respondents reporting this practice. The retail sector leads the way with a culture of candid dialogue, and energy and banking are most likely to use performance differentiation guidelines. Pharmaceutical and nondurable manufacturing are more likely to use forced distributions.

Mercer’s survey revealed that most organisations do not believe that they are getting the most from their performance management programmes. They continue to look for best practices and new solutions to ensure that all employees know what they have to do and are held accountable for doing it. Organisations can use the survey results for insight into performance management design and implementation considerations, and for identifying specific areas of focus for improvement.

ABOUT THE AUTHOR

Sue Filmer is a principal in Mercer’s Talent business and specialises in the Leadership and Organisation Performance practice. Based in London, she can be reached at +44 20 7178 5546 or sue.filmer@mercer.com.

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