

Survey report September 2005



PERFORMANCE MANAGEMENT

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Summary of key findings

The CIPD's most recent survey of performance management carried out in 2004 received 506 responses and aimed to give a snapshot picture of current performance management in action. This survey replicated a previous investigation carried out in 1997. Where possible, the results have been compared to 1997 figures to give an indication of the overall development of performance management processes. The highlights of the survey analysis are summarised below.

- Eighty-seven per cent of respondents operated a formal performance management process (37% of these were new systems).
- Seventy-one per cent agreed that the focus of performance management is developmental.
- Sixty-two per cent used objective-setting.
- Thirty-one per cent used competence assessment.
- Fourteen per cent used 360-degree feedback.
- Six per cent used team appraisal.
- Sixty-two per cent used personal development plans.
- Fifty-nine per cent gave an overall rating for performance, with 17% using six or more rating levels, 48% using five, 28% using four and 6% three.
- Eight per cent used forced distribution to guide ratings.
- Fifty-five per cent disagreed that pay contingent on performance is an essential part of performance management.
- Forty-three per cent used ratings to inform contingent pay decisions; 53% did not.
- Thirty-one per cent had performance-related pay (only 26% of this group thought it was more than partly effective).
- Seven per cent had competence-based pay.
- Four per cent had contribution-related pay.
- Three per cent had a form of team-based pay.
- Forty-six per cent separated performance management review from pay reviews; 27% did not.
- Seventy-five per cent agreed that performance management motivates individuals; 22% disagreed.
- Twenty-six per cent thought performance management was bureaucratic and time-consuming.
- Seventy-five per cent said that line managers own and operated the performance management process.
- The extent to which buy-in to performance management was obtained from line managers was:
 - completely, all actively in favour (16%)
 - most generally accepted that it was useful (62%)
 - most were indifferent but went through the motions (22%)
 - most were hostile (1%).
- Sixty-one per cent of line managers believed that performance management was very or mostly effective; 37% believed it was partly effective or ineffective.
- Forty-two per cent of respondents agreed that performance management should be distanced as far as possible from payment systems; 56% disagreed.

Features of performance management

Respondents were asked to indicate what activities feature in their performance management arrangements and whether they believe this activity is effective. Their responses are listed in Table 1.

Fewer respondents are carrying out individual annual appraisals than in 1997, when the figure was 85%. Objective-setting and review also appears to be less popular than in 1997, when 83% of respondents were using this process. And the use of performance-related pay has dropped from 43% to 31%.

But 360-degree appraisal has grown in popularity, from 11% previously to 14% in the latest survey findings.

Team assessment now features for the first time.

Table 1: Features of performance management

	Organisations (%) using this feature	Organisations (%) using this feature and believing it to be effective
Individual annual appraisal	65	83
Twice-yearly/bi-annual appraisal	27	38
Rolling appraisal	10	21
360-degree appraisal	14	20
Peer appraisal	8	12
Self-appraisal	30	53
Team appraisal	6	10
Subordinate feedback	11	17
Continuous assessment	14	20
Competence assessment	31	39
Objective-setting and review	62	82
Performance-related pay	31	39
Competence-related pay	7	11
Contribution-related pay	4	6
Team pay	3	5
Coaching and/or mentoring	36	46
Career management and/or succession planning	37	47
Personal development plans	62	81

The link between team and organisational objectives

More than three-quarters (78.9%) of respondents currently link team and organisation objectives.

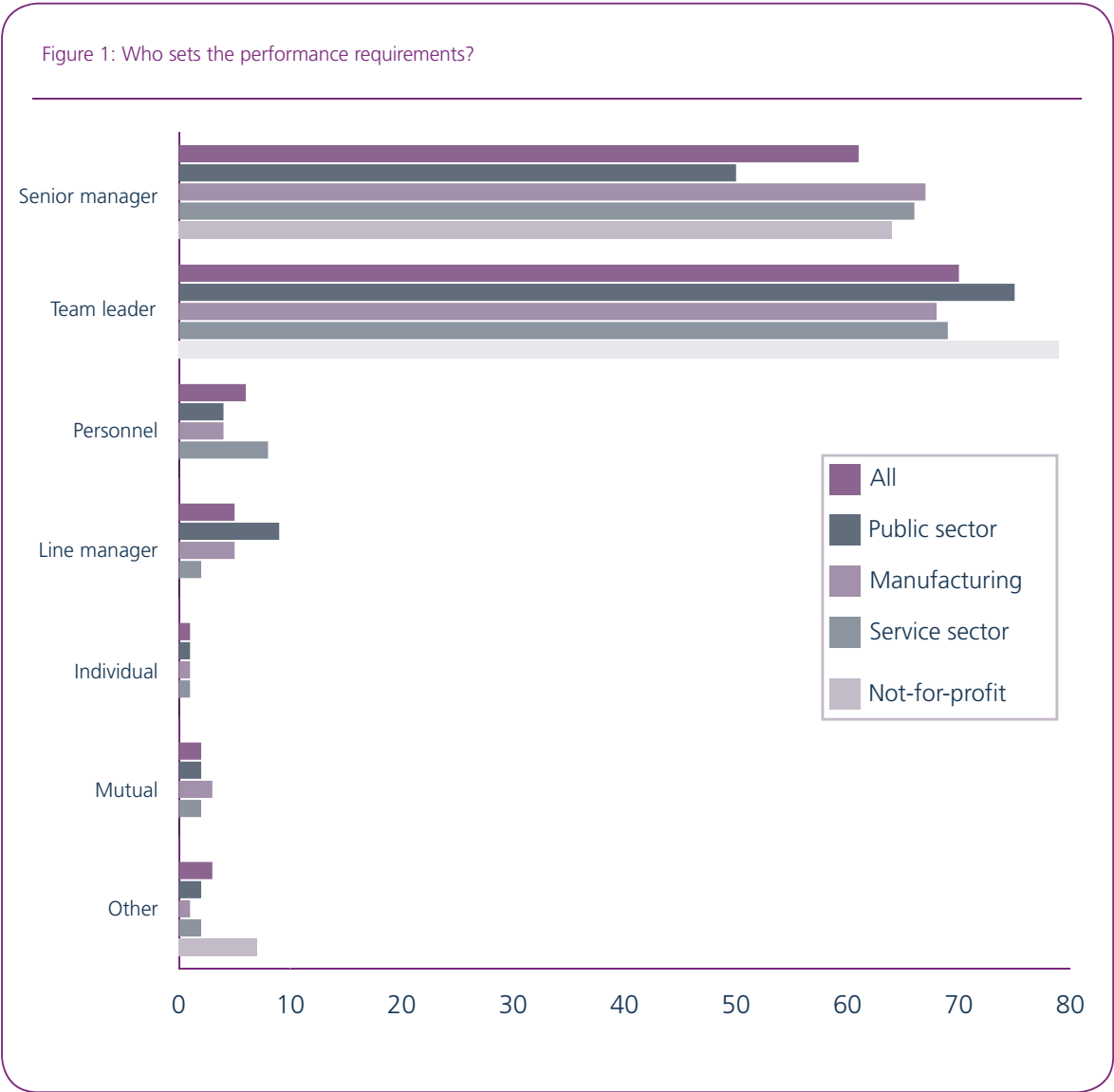
The methods for linking objectives are listed in Table 2.

Table 2: The link between team and organisational objectives

	Organisations (%) using this method to link objectives
Cascade from central business strategy	44
Linked to business plan	12
Appraisal	5
Key performance indicators support business objectives	4
Individual goals	4
Team plans	4
Balanced scorecard	3
Financial results	2
Bonus process	2
Other	13
Not stated	11

Who sets the performance requirements for individuals?

In the main, senior managers or team leaders are involved in specifying the performance requirements for individuals (Figure 1).



Current performance management arrangements

The majority of respondents operate a mature system that has been developed over some years (Figure 2).

Forty-six per cent of respondents say their system took less than one year to develop, 35% say it took more than one year but less than two, and 14% say it took more than two years to develop their system. The service and not-for-profit sectors generally take less time to develop their systems.

Over half (57%) of respondents took less than one year to implement their system, 29% took more than one year but less than two, and 10% took more than two years over theirs. In general, the public sector takes longer to implement their systems, with only 40% taking less than one year.

Figure 3 shows the level of consultation that takes place on performance management systems. Only 23% of respondents consult all staff on

performance management, but 73% consult senior managers and 57% consult personnel staff.

The most common form of consultation is briefing sessions for groups of employees – used by 51% of respondents. Twenty-four per cent of respondents have workforce representatives on advisory panels and 45% channel information and comments through line managers. Only 1% of respondents consult with trade unions and 2% undertake no consultation at all.

Appraisers are those most likely to receive training in performance management, although only 57% of respondents report that they train appraisers. Thirty-four per cent train all staff. All staff are more likely to receive training in the public and not-for-profit sectors, where, respectively, 49% and 42% of respondents say this is the case, as opposed to 25% in the private sector.

Figure 2: Maturity of performance management system

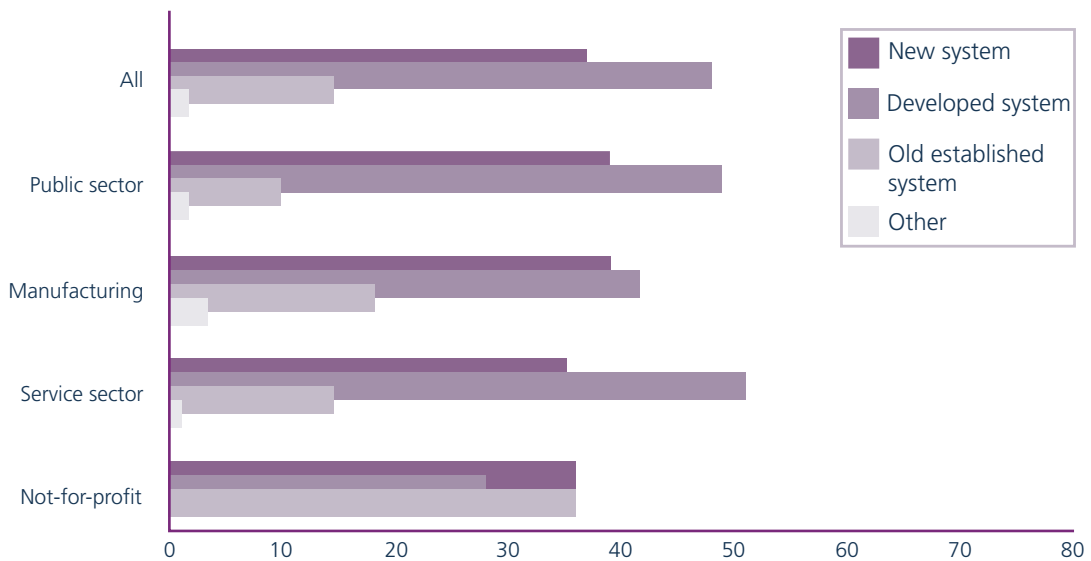
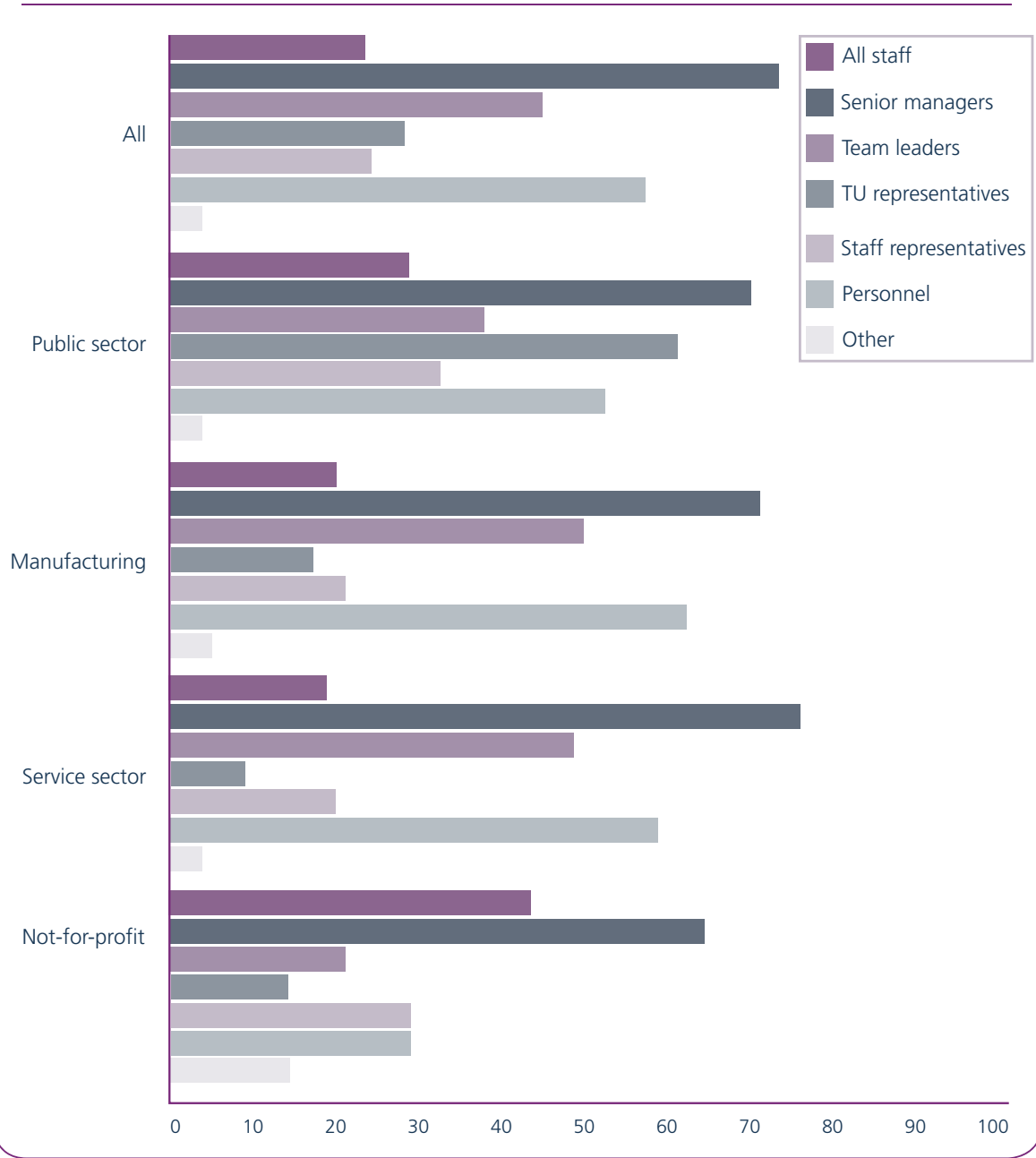


Figure 3: Who is consulted on performance management development and design?



Process

Respondents were asked to indicate which of a number of statements best describes performance management in their organisations by indicating how strongly they agreed or disagreed with each. Their responses are detailed in Table 3.

Pay contingent on performance is thought to be more of an issue in the private service sector than elsewhere, with 43% of respondents agreeing that it is an essential element.

The respondents were also asked a series of questions about the operation of the performance management process. This included questions about ratings and the link (if any) to pay decision-making.

Fifty-nine per cent give an overall rating for performance. This rises to 68% in manufacturing and 65% in the service sector and dips to 46% in the public sector. The majority (72%) use numerical or alphabetical ratings but 42% use verbal ratings.

Table 3: Descriptions of performance management

	Strongly Agree	Agree	Disagree	Strongly Disagree
Pay contingent on performance is an essential part of performance management	9	33	38	17
Line managers own and operate the performance management process	15	60	21	2
Performance management is an integrated part of the employee–line manager relationship	20	65	13	0
Performance management is integrated with other people management processes	13	64	20	1
The focus of performance management is developmental	12	59	27	1
Performance management integrates the goals of individuals with those of the organisation	21	63	13	2
Performance management is an integral part of the people management strategy	26	61	11	1
Performance management motivates individuals	7	68	22	0
Performance management is used to manage organisational culture	6	48	39	4
Performance management sets stretching and challenging goals	10	63	24	0
Performance management is bureaucratic and time-consuming	2	24	60	13
The aims and objectives of performance management are well communicated and fully understood	5	57	34	1
Performance management helps us express the value of the people contribution in the organisation	10	61	24	1

The highest use of numerical or alphabetical ratings is in the service sector, with the public sector more likely to use verbal ratings. The most common number of levels used for rating is five (47% of respondents).

The most common method used to achieve consistency in ratings is management group review – used by 32% of respondents. Forced distribution is used by only 8%, although it is more popular in manufacturing, where 12% reported its use. Eighteen per cent of respondents use a grandparenting system, 16% use workshops or seminars, and 10% use prior estimates by the management group.

Forty-three per cent of those using ratings use them to inform contingent pay decisions. This figure rises to 54% in private sector manufacturing and 48% in

service sector but dips to 29% and 30% in the not-for-profit and public sectors respectively.

Where ratings are not used to inform contingent pay decisions, a variety of methods are used. Five per cent use annual increments and 5% national pay systems. Others use industry norms, management opinion and the budget available.

Forty-six per cent of respondents try to separate performance management from contingent pay reviews. This is most likely to happen in the private service sector and least likely to happen in the public sector, where the figures were 55% and 37% respectively.

Attitude of line managers

Sixty-two per cent of respondents report that line managers generally find performance management useful. However, 22% feel they 'go through the motions' and 2% report active hostility. Sixteen per cent say most are very positive about performance management. Performance management data is most likely to

be kept by the personnel department (74% of respondents). However, in 72% of cases, line managers keep documentation and in 67% the individual keeps a copy.

Evaluation

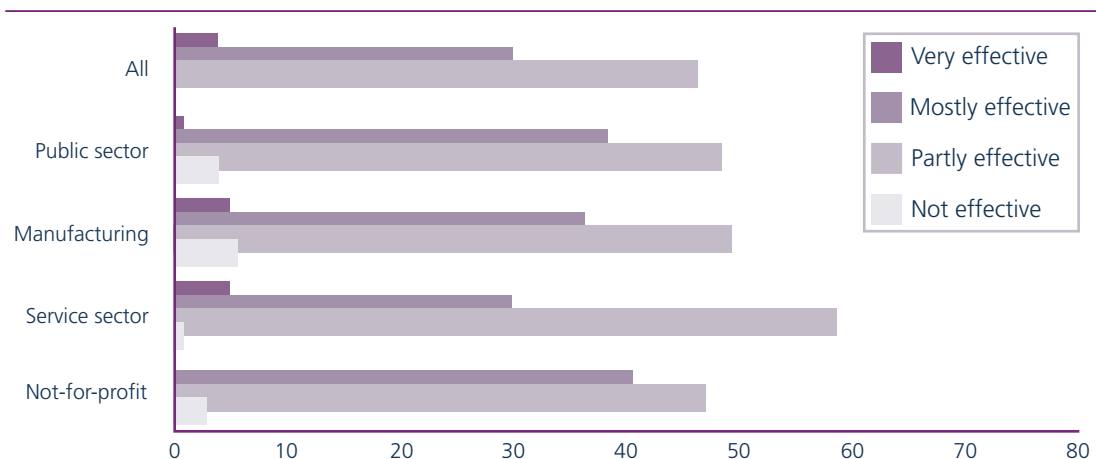
Fifty per cent of respondents formally evaluate performance management. The most common process for evaluation is opinion or attitude surveys which are used by 56%. Information feedback is used by 47%, formal written feedback is used by 39% and focus groups are used by 29%.

The key factors used to determine the effectiveness of performance management are shown in Table 4. Very few respondents feel performance management has been 'very effective' in improving performance. Respondents from the manufacturing and not-for-profit sectors were marginally more positive than others about its effectiveness (Figure 4).

Table 4: Factors used to assess the effectiveness of performance management

	Respondents (%) giving a 1 or 2 importance rating
Achievement of objectives	50
Achievement of financial targets	25
Development of skills	17
Improved customer care	15
Changes in behaviour	14
Motivation	9
Productivity	19
Development of competence	21
Improved quality	13
Feedback on clarity of purpose	8
Analysis of problems	8
Changes in attitude	6

Figure 4: How effective have performance management processes been in improving overall performance?



Criteria used to measure individual performance

Respondents were asked what criteria were deemed most important in measuring individual performance.

Table 5 shows that a wide range of criteria were reported in all sectors. Working relationships, customer care and business awareness are more important in the service sector. Quality is more important in manufacturing.

Table 5: Criteria used to measure individual performance

	Respondents (%)			
	Very important	Important	Not very important	Not used as a measure
Customer care	45	40	7	5
Quality	47	44	3	4
Flexibility	22	56	13	4
Competence	53	40	3	2
Skills/learning targets	18	57	16	4
Business awareness	17	52	21	6
Working relationships	35	53	7	3
Contribution to team	34	57	4	2
Financial awareness	11	47	28	10
Productivity	34	49	9	6
Aligning personal objectives with organisational goals	29	48	16	4
Achievement of objectives	52	42	3	1

Attitudes to performance management

Respondents were asked to rate how various groups in their organisations regarded performance management (Table 6).

Managers in the public and service sectors are more likely to rate performance management as 'very' or 'mostly' effective

Table 6: Attitudes to performance management

	Respondents (%)			
	Very effective	Mostly effective	Partly effective	Not effective
Senior managers	14	60	22	3
Other managers/team leaders	3	58	35	2
Other staff	1	36	51	8
Personnel	10	49	33	6

The future of performance management

Nearly half (48%) of respondents propose to make changes to their performance management arrangements in the coming 12 months.

Key issues

Respondents were asked to list the three key issues they believe to be important in the introduction, maintenance or improvement of performance management.

This was an open question and as a result attracted a wide range of answers. However, management buy-in and the communication of objectives were considered to be the most critical factors by a significant number of respondents (Table 7).

Table 7: Key issues in performance management

	Respondents (%)				
	All	Public sector	Manufacturing	Service sector	Not-for-profit
Management buy-in	35	29	42	39	50
Communication of objectives	35	34	35	34	21
Regular evaluation	17	18	11	18	29
Training	15	16	13	13	36
Simple process	15	14	18	15	14
Alignment with business objective	12	14	9	13	14
Follow-up/feedback	11	8	14	12	0
Trained line managers/appraisers	10	9	12	9	7
Consistency of use/fairness	10	11	12	9	7
Staff understand value	9	4	9	12	0
Links to personal development	8	11	8	8	7
Joint ownership	6	7	4	8	0
Achievable goals	6	3	5	7	14

Factors demonstrating a positive outcome

Finally, respondents were asked to recommend three factors that they believe to be essential in determining whether or not performance management achieves a positive outcome. Again, this was an open question attracting wide-ranging answers.

But there also appeared to be broad agreement that performance management is successful if it improves communication, particularly the communication of objectives, and if performance targets are achieved (Table 8).

Table 8: What factors demonstrate a positive outcome for performance management?

	Respondents (%)				
	All	Public sector	Manufacturing	Service sector	Not-for-profit
Proper discussion/communication	15	16	20	11	14
Increased profitability/productivity	14	10	14	17	21
Achieved performance goals	14	17	12	12	7
Motivation	14	8	17	17	14
Regular feedback	14	11	16	13	28
Support of personal development	13	15	16	11	7
Management buy-in	12	11	11	14	21
Alignment with business objectives	12	16	16	9	7
Low turnover	11	7	12	10	14
Development of skills	10	8	12	10	14
Joint ownership	6	5	9	4	14
Consistency of approach	6	5	7	6	0
Contented workforce	5	8	1	6	7
Recognition of overachievers and underachievers	5	4	5	6	7

Conclusions

The evidence from this survey demonstrates that the practice of performance management still largely revolves around objective-setting and appraisal. It also shows that a wide range of tools are used to manage individual performance that are more likely to be linked with other aspects of people management, such as talent management, succession planning, development or career management. Some of the trends noticed in 1997 have continued, particularly encouraging line managers to own performance management, linking performance management to development, and integrating it with other aspects of management.

Interview data (summarised in *Managing Performance: Performance management in action* by Michael Armstrong and Angela Baron) confirms that many

practitioners now take a much wider view of performance management, linking it to motivation systems and even human capital evaluation systems. Where it is linked to reward, there tends to be a much broader definition of reward, and many organisations are also using behaviour as a factor in the performance management process, measuring not just what people do but also how they do it and how this impacts on other members of the team.

In summary, performance management is now a sophisticated and powerful tool that can't be separated from other management systems. In successful companies, it enables line managers to exercise their people management responsibilities effectively and get the best from the people they manage.

Background

The survey of performance management practice was carried out in December 2003. Questionnaires were mailed to a total of 5,000 practitioners and 506 useable responses were received.

Where possible, the results have been compared with the previous performance management survey carried out by the CIPD in 1997.

Profile of respondents

Thirty-one per cent of responses came from the public sector, 24% from manufacturing, 40% from the service sector and 3% from the voluntary sector. A further 2% described themselves as being in some other category. Fourteen per cent of responses were received from organisations with more than 5,000 employees, 28% with 1,000–5,000 employees, 36% with 250–1,000 employees and 21% with 100–250 employees.

Eighty-seven per cent of those returning the questionnaire operate formal processes to manage performance. Of those who don't, 65% have plans to introduce them in the next two years. The majority of respondents operate formal processes for all employees, although managers and professionals are more likely to be included in formal processes than manual, blue-collar, technical or clerical workers. Thirty-seven per cent of respondents have different processes for different groups of workers.

Where more than one process existed, respondents were asked to complete the questionnaire on behalf of the largest group of employees to which formal processes applied. In the majority of cases (53%), this meant managers.

Aims of the survey

The aims of the survey were to gather information on what tools and activities practitioners are using under the banner of performance management and the thinking behind the design of performance management processes. The questionnaire therefore began by asking the extent to which respondents agreed or disagreed with a set of statements describing what performance management should be about.

The majority of respondents either agreed or strongly agreed with the following statements about performance management:

- The most important aspect of performance management is the setting of challenging and stretching goals. (67%)
- Performance management will only succeed if it is part of an integrated approach to management. (98%)
- Performance management will only succeed if it integrates the goals of individuals with those of the organisation. (95%)
- It is essential that line managers own the performance management system. (93%)
- The focus of performance management should be developmental. (82%)
- Performance management should be a continuous and integrated part of the line manager/employee relationship. (99%)
- Performance management should be about motivating individuals. (96%)
- Performance management is an essential tool in the management of organisational culture. (94%)
- Everyone must be trained in performance management techniques for any performance management system to be successful. (77%)

- It is essential that performance management is accompanied by extensive communication to ensure its aims are fully understood. (94%)
- Quantifiable measures of performance are essential to successful performance management. (84%)

There is therefore a great deal of consensus among respondents about the need for performance management to be integrated, owned by line managers and fully understood by everyone involved.

This broadly reflects the findings of our last survey, in 1997, although the level of agreement is now much higher, particularly on issues of integration and ownership.

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Chartered Institute
of Personnel and
Development

151 The Broadway London SW19 1JQ
Tel: 020 8612 6200 Fax: 020 8612 6201
Email: cipd@cipd.co.uk Website: www.cipd.co.uk
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