

Performance Management Review

Companies must address performance appraisal to increase employees' contribution

Survey of 175,000 employees reveals that almost 40% are dissatisfied with performance appraisal

An analysis of the ETS Employee Survey. April 2009.

It's time to review performance appraisal (again)

Even small changes in employee behaviour can have a massive impact on business performance and companies regularly review how employees' efforts are directed, measured and rewarded.^{1,2}

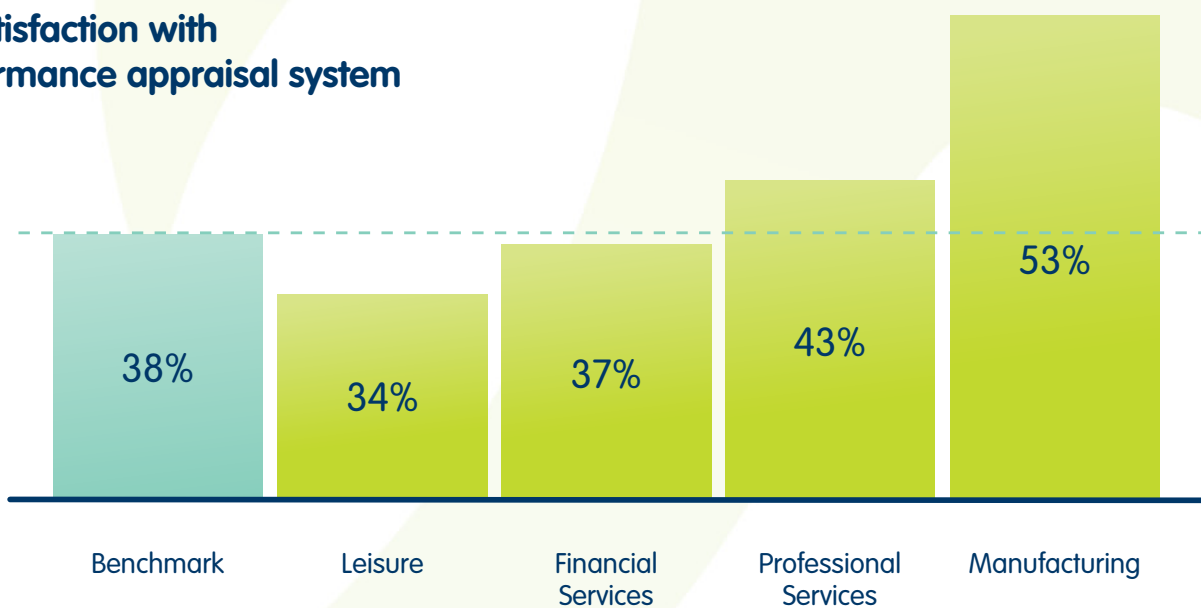
We define performance management as the sum of the systems, processes and management employed to maximise the contribution of human capital.

Performance Management Review³ is an authoritative account of private sector performance management based on the views of over 175,000 employees in the ETS Employee Survey, a contemporary benchmark database. We've enriched the research with views from some highly-regarded HR professionals.

A common finding across sectors is dissatisfaction with the performance appraisal system among nearly 40% of employees, a significant minority that rises to a majority in the manufacturing sector. HR leaders will want to examine this and the related issues of promotion, careers and development. The time to address performance appraisal systems has come again.

Overall, **leisure sector** employees are satisfied with their training and career development but are unhappy with their management support. **Manufacturing** was generally the most poorly-regarded of the sectors across management, appraisal and promotion. The appraisal system is criticised in **professional services** firms while line managers are praised for being supportive. **Financial services** employees report they know company objectives and are favourable about promotion and careers.

Dissatisfaction with performance appraisal system



Source: ETS Performance Management Review. ETS plc 2009.

1. J Combs, Y Liu, A Hall & D Ketchen. How much do high-performance work practices matter? A meta-analysis of their effects on organisational performance. Personnel Psychology 2006; 59: 501-528.
2. HR believes line managers hold key to improvements in performance. IRS Employment Review 2006 abstracted by Expert HR 2006.
3. Performance Management Review: An analysis of the ETS Employee Survey. ETS plc 2009.

Employees are not helped to perform at their best

There are some marked differences in views of the **appraisal system** by sector. Employees of professional services and manufacturing companies are less satisfied than the all-employee benchmark. Appraisal can encompass a wide range of activities from goal setting, through appraisal and coaching to reward, so reasons for this can be similarly wide-ranging.

Dr John Mahoney-Phillips (Leadership, Performance and Talent Team, UBS AG), gives an insight: "A major source of dissatisfaction is the clarity of objective setting and the extent to which the appraisee is involved in the setting and on-going review of achievement against objectives. You only have to think about all of the research on goal-focused behaviour to appreciate the importance of goal clarity."

It is striking that employees of financial services firms say that they are highly motivated to achieve. This sector outperforms the benchmark in several of the areas reported here. These organisations are highly structured around procedures with clear objectives and targets. They often have high-performance

cultures leading to high-pressure, demanding roles.

Appraisal should be an ongoing process, not a meeting

Charlie Keeling (HR Director, Field Fisher Waterhouse LLP) sees a common error among professional services firms: "A combination of too much emphasis on an annual, formal process, as opposed to more frequent informal feedback, and the impact on chargeable time, lead to unsatisfactory processes and systems in this important area."

Neither is appraisal part of the daily process of managing a manufacturing business; it's seen as 'extra work' that does not always lead to direct outcomes, according to David Bellis (HR Director, Johnson Matthey). He also highlights that many managers find the formal nature of appraisals threatening.

In contrast, regular feedback should be almost automatic for front-line staff at Gala Coral's casinos, betting shops and bingo clubs. Helen Frewin, Head of

People Performance, says, "Our frontline staff can get constant feedback through direct observation.

We can say 'that was a great interaction with the customer' or share their mystery shopper scores."

The Group HR Director of Land Securities plc, Angela Williams, records how investment in HR processes has resulted in healthy scores for appraisal. "All our performance measures are aligned with business objectives at the individual, business unit and group level. Employees can see that their contribution makes a difference."

	Benchmark [†]	Leisure	Financial Services	Professional Services	Manufacturing
I am satisfied with the performance appraisal system	62%	66%	63%	↓57%	↓47%
I am motivated by the company to do the best job I can	66%	65%	↑87% [‡]	70%	62%
I have enough say over how I do my work	83%	86%	87%	82%	83%
The company's procedures help me to do my work well	62%	61%	↑77%	66%	↓53%

[†] The scores in each section are presented for the whole survey sample (the benchmark) and for four business sectors. [‡] Scores that are five or more percentage points above the benchmark are considered strikingly better, highlighted with an upward arrow; five or more percent below are strikingly worse, highlighted with a downward arrow. In each case, the scores are the percentage of people who agreed with the question.

Employees feel well **managed** and **supported** by their line managers. These scores are among the highest in the benchmark database and are stable over time.

The line management of professional services firms is recognised as being supportive. Charlie Keeling suggested that “a lot of development effort has been oriented to this over the past five to ten years.”

Employees in manufacturing scored their managers rather more poorly, which David Bellis suggests may have a cultural dimension: most manufacturing operations are focused firmly on output and volumes, which often supersede the need for managerial support and appreciation.

Helen Frewin highlights the need for greater consistency. In the bingo clubs and casinos with excellent general managers, the staff constantly ask ‘what can I do for the customer today?’ but this is not yet true of all outlets. “For those moving into management positions, there is a variation in response about what being a manager is.”

Angela Williams agrees that managers are very well regarded at Land Securities, but highlights the years of focused effort that were required. “It’s to do with the amount of investment put into leadership development and about giving managers the tools to manage effectively,” she says.

Line managers need to connect employees with the strategy

Since performance improvement in most jobs is primarily a result of learning from on-the-job experience, line management plays a key part in helping individuals to understand how and why they should change their behaviours.^{4,5}

John Mahoney-Phillips notes that employees are often less satisfied with more distant (and more senior) management than with their local management. “This can be linked to a greater awareness of their immediate manager’s pressures. Also, individual employees can find it difficult to see how their objectives and team strategy link to corporate goals. While local managers should feel encouraged, they also have a greater responsibility to create a clear line of sight between local goals and corporate objectives.”

Helping managers to manage better can be achieved through coaching and ongoing feedback, raising their self-awareness through gathering and interpreting multi-rater feedback. At some of ETS’ client companies, individual line managers’ engagement scores are part of the performance appraisal process as are multi-rater feedback ratings.

Performance management in financial services

“The renewed focus on productivity and performance within the financial services sector reinforces the importance of good performance management. External oversight is increasing and so are expectations for clear performance targets. There is a growing belief that rewards need to be much more closely related to longer-term performance at both the organisation and individual level, this puts a premium on good performance management practices and emphasises the importance of core managerial skills – setting and reviewing objectives and giving performance orientated feedback”

Dr John Mahoney-Phillips,
Leadership, Performance and Talent Team, UBS AG

	Benchmark	Leisure	Financial Services	Professional Services	Manufacturing
I feel that I am well managed	81%	79%	82%	85%	↓69%
My immediate manager shows appreciation for the work I do	84%	82%	85%	87%	↓72%
My immediate manager gives me the support I need to do my job well	85%	↓75%	84%	89%	↓73%

4. CD McCauley, MN Ruderman, PJ Ohlott & JE Morrow. Assessing the developmental components of managerial jobs. Journal of Applied Psychology 1994; 79: 544-5610.

5. DT Hall & PH Mirvis. Careers as lifelong learning. In A. Howard (Ed.), The changing nature of work, 323-361. San Francisco, CA: Jossey-Bass. 1995.

Corporate objectives are not communicated consistently well across sectors

One of the most effective ways to maximise workforce productivity is to tell employees exactly what it is you want them to do.⁶

Employees of financial services and leisure companies are confident that they **know what their employers are seeking to achieve**, but this is less true in professional services and manufacturing firms. There is an incredible 28 percentage point difference between the employees that consider themselves the least (manufacturing) and most informed (leisure). Of course, there is variation within industries, with Johnson Matthey scoring well on this measure.

A strong external brand makes the job of aligning employees far easier, according to Helen Frewin, "If employees fully understand the brand, they probably know what the company is aiming for.

It might be number one choice for customers choosing a hotel, for example."

Cascade goals to get buy-in and strategic alignment

Getting buy-in to objectives works better when the communication is two-way. Most people do not like simply to be told what to do. They want to be involved in helping determine what goals make the most sense for them given the company's strategic objectives and their personal needs and capabilities.⁷ One technique is to use 'cascading goals' which allows organisational leaders to set strategic objectives and then communicate these to people throughout the organisation. Employees can then set their goals based on their managers' goals.

Performance management in the leisure sector

"Leisure companies are so much about customer service. The emotional intelligence we employ with our customers must also be applied to people management. Talking to colleagues in peer companies it's clear that we are better at managing customer-facing staff than support function staff. The key is creating the right culture: we need our people managers to spend most of their time doing just that – managing people."

Helen Frewin,
Head of People Performance,
Gala Coral Group

	Benchmark	Leisure	Financial Services	Professional Services	Manufacturing
I know what the company wants to achieve over the next year	74%	↑88%	↑84%	↓66%	↓60%
I know what the department's targets are for the next year	78%	↑87%	↑83%	↓73%	↓72%

About the report

The report was written by Betsy Travis, a chartered occupational psychologist and senior consultant at ETS plc, where she advises clients on performance management, employee research and multi-rater feedback programmes. Dominic Wake is a director at ETS plc and contributed to the content of the report.

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ETS would like to thank the participating companies and the HR professionals who have provided comments on the findings. No conclusions from these figures can be drawn regarding any individual or participating company.

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6. EA Locke & GP Latham. Building a Practically Useful Theory of Goal Setting and Task Motivation: A 35-Year Odyssey. American Psychologist 2002; 57: 705-717.

7. EA Locke & GP Latham. A Theory of Goal Setting and Task Performance. Englewood Cliffs, NJ: Prentice Hall, 1990.

Employees diverge on satisfaction with promotion and development opportunities

Financial services and leisure sector employees are satisfied with their **opportunities for career development**. In manufacturing, the picture is significantly different with employees frustrated about **promotion, training and development and career development**.

Career development is as important as appraisal, asserts John Mahoney-Phillips: "Employees consistently cite career development opportunities as a major driver of engagement. We also know that research continually points out that most development happens on-the-job. Together, this suggests that companies which create strong, open internal job markets and a developmental culture are likely to find that employees are more positive about performance appraisal."

Many companies benefit from an online resource that allows managers to search CVs and allows employees to see available roles. This improves the perception and visibility of career opportunities. Leading companies have created a 'My Profile' area in their performance appraisal system or on their intranet so that every employee can record their career history, qualifications, mobility and career aspirations.

In leisure firms, opinions on careers and promotion vary depending on whether employees have an operational or support role. Helen Frewin explains, "If you're working in a betting shop, the career path is to shop manager, area manager, then regional manager. You know the training programmes and promotion criteria on the career path. In support functions across the industry it is a lot less clear how it works."

Charlie Keeling accepts that promotion and careers are well catered for in professional service firms: "Advancement is fairly fast, and expected, in a sector where people are much focused on developing themselves. There are still consistency issues though."

A transparent promotion mechanism will gain employees' trust

This whole topic requires transparency, according to Angela Williams. "It's not a question of 'fair' or 'unfair' – it's about being clear about the skills and behaviours needed to develop through the organisation. Moreover, our managers and employees have the tools they need to succeed."

This view is echoed by John Mahoney-Phillips, "The way that appraisal data feeds into promotion decisions is too often opaque. Employees probably do not expect a linear relationship but rather some transparency around standards and expectations and factors outside of the performance appraisal. Companies need to think as much about process transparency and communication as they do about the performance review itself."

David Bellis points to the wider socio-economic dimension to these issues. Since many manufacturing roles tend to be less skilled, individuals may feel less likely to be developed and get promotion. "The limited number of manufacturing job opportunities in the wider employment arena may influence these perceptions," he notes.

Performance management in professional services

"I believe that the whole performance management area is a real challenge in professional services firms. The vast majority of the people we employ are very bright and competent with high expectations. Being able to differentiate between them is difficult because of leaders' time pressures, their desire to motivate good performers and their apparent unwillingness to recognise the elite group of great performers. My own feeling is that the higher performing professional firms will be those with regular, informal feedback processes."

Charlie Keeling,
HR Director, Field Fisher
Waterhouse LLP

	Benchmark	Leisure	Financial Services	Professional Services	Manufacturing
I believe that the promotion system is fair	59%	61%	↑71%	61%	↓44%
I am satisfied with the training & development I have received from the company	70%	↑79%	74%	69%	↓63%
I am happy with my opportunities for career development	67%	↑76%	71%	66%	↓55%

1. There is a clear disparity between the experiences of people working in different sectors. Broadly, financial services employees are happier with many dimensions of performance management than employees of manufacturing companies. Financial services firms are familiar with audited processes and may be more used to working within a performance system. These companies have high-performance cultures focused on the individual.

Given the serious economic difficulties in most countries today, it may seem unusual to present financial services as exemplars of performance management. However, you can infer that the process delivered exactly what was intended (i.e. short-term gains) and the lesson is to be careful what you ask for because you might just get it.

The differences between scores to different questions are highly suggestive of underlying trends:

2. Employees are dissatisfied with the ways in which their contributions are appraised. This suggests that companies need to re-visit this topic to explore issues, perhaps with paper-based processes or an online system. Research suggests that companies which automate their performance management are more than twice as likely to be satisfied with their current process than companies that have not done so.⁸ Also, the link is far clearer between automation and greater corporate performance (including lower costs).^{9, 10} We recommend companies review this option.
3. Employees are enthusiastic about the support they get from their line managers. Does this suggest that we have developed a managerial class whose teams have confidence in their leadership? For some, it highlights effective investment in leadership development.

For others, it may owe more to employees valuing their managers' efforts which they personally experience.

4. Finally, doubts persist about whether the promotion system is fair. From the views presented here, the roots of this dissatisfaction are a lack of transparency, limited opportunities for career development and inconsistent managerial support. The solutions to this challenge may lie in greater support for individuals and their managers, clearer career paths and a culture of empowered employees. This could be facilitated by a common technology platform for employees to publish their profiles, access careers and see open roles.

The factors leading to individual survey scores are complicated and dynamic; they can't be neatly summarised. To uncover the key issues and identify improvements in performance management practice will require every company to interpret their own data against sector and all-company benchmarks.

8. The Employee Performance Management Benchmark Report: Managing Human Capital for a Competitive Edge. Aberdeen Group 2006.

9. Employee Performance Management and Talent management in mid-size companies and larger enterprises. Aberdeen Group 2007.

10. Managing employee performance. Aberdeen Group 2008.