

Enhancing Operational Results with Employee Performance Management

June 2007

Executive Summary

Employee performance management (EPM) has long been a mainstay of most organizations, yet remains fraught with imprecision and dissatisfaction. Rather than serve as an opportunity for providing direction, growth, and alignment, employee performance management is most often viewed as a necessary evil. While over 600 individuals responded to our survey (and 95% reported regularly conducting performance reviews), only 11% indicate that they are very satisfied with the current process utilized by their organization. There is clearly a disconnect between the concept of employee management and a successful execution. This report is a roadmap for companies who desire to increase user satisfaction and utilization through Best in Class use of employee performance management.

Best in Class Performance

Two key performance criteria were used to identify Best in Class companies:

- Improved bottom line results: Best in Class Companies experienced profitability growth of 10% or more during the last 12 months.
- Increased employee retention rates: 94% of Best in Class companies increased or maintained stable employee retention rates during the past 12 months.

Competitive Maturity Assessment

Survey results show that the firms enjoying Best in Class performance shared several common characteristics with respect to employee performance management. Best in Class companies:

- Are more than twice as likely to monitor the performance of teams and work groups, as well as individuals.
- Are almost 40% more likely to align performance criteria with specific objectives.

Required Actions

In addition to the specific recommendations in chapter 3 of this report, to achieve Best in Class performance, companies must:

- Establish specific and appropriate performance goals and actions for each job role, tailored for each employee.
- Provide the necessary resources (training, development, coaching, reference materials) needed to successfully achieve performance goals and long-term career success.

Customer Call Out Quote

√ “Performing reviews and managing employees on a regular basis is a painful process for everyone, but it is an integral way for employees to agree with their managers on their objectives for the year. If we didn’t do it, we would have lots of drifting without purpose, and it would be much harder to stay on track.”

Vice President, HR; \$630 million entertainment provider

Customer Call Out Quote

√ “We need to know how we are all working towards the same goals, and we need to know where there are trouble spots, and where there are successes. If not, we are working blind.”

HR Specialist; \$8 billion media firm

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Chapter One: Benchmarking the Best in Class

Industry Pressures Propel EPM Implementation

The need to focus on employee performance management remains more important than ever. While companies struggle to adapt to ever-changing market requirements, the labor pool is shrinking, and the pressure to perform more and more profitably is increasing. Overwhelmingly, the majority of the 600+ respondents indicated that improving overall company performance was the single most important factor driving organizations to focus on Employee Performance Management.

Table 1: Top Five Pressures Driving Employee Performance Management

Pressures	Response
Improve overall company performance	57%
Improve employee productivity	46%
Increase employee satisfaction	31%
Obtain visibility into goals, metrics, and ratings	30%
Provide structure to the process	20%

Source: Aberdeen Group, June 2007

But, how does one improve company performance with a process that employees don't want to use? Thirty-one percent of respondents reported being dissatisfied with their Employee Performance Management solution. Follow-up interviews suggest that the review process is not one that is anticipated, by managers and employees alike, with anything but dread. The vast disconnect between user satisfaction and a clear recognition of the value of a successful system illustrates the need to further explore and emulate effective executions.

Maturity Class Framework

Aberdeen used two key performance criteria to distinguish Best in Class companies from Industry Average and Laggard organizations. These key performance indicators (KPI's) are an **increase in employee retention during the past 12 months** and an **increase in company profitability during the past 12 months**.

Fast Facts

- √ Improving company performance is the key pressure driving EPM efforts
- √ 31% of respondents are dissatisfied with their current EPM solution
- √ Best in Class companies have superior profit performance and retain employees better than Average and Laggard companies
- √ Aligning individual performance to overall business objectives is the number strategic action used by Best in Class companies

Customer Call Out Quote

- √ “At least half of our managers are unhappy with our current process (using paper forms). People HATE to do performance reviews, and making sure everyone is doing what they should takes an awfully long time.”

HR Director; \$50 million
specialty beverage
manufacturer

**Table 2: Companies With Top Performance 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"> • 94% Employee retention improved or remained constant in the last 12 months • 88% Profit increased at least 15% in the last 12 months
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> • 73% Employee retention improved or remained constant in the last 12 months • 4% Profit increased at least 15% in the last 12 months
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> • 59% Employee retention improved or remained constant in the last 12 months • 0% Profit increased at least 15% in the last 12 months

Source: Aberdeen Group, June 2007

Maturity Framework Key
<p>The Aberdeen Maturity Framework defines enterprises as falling into one of the three following levels of practices and performance:</p> <p><i>Best in Class (20%)</i> -- practices that are the best currently being employed and significantly superior to the industry norm.</p> <p><i>Industry Average (50%)</i> -- practices that represent the average or norm</p> <p><i>Laggards (30%)</i> -- practices that are significantly behind the average of the industry</p>

Employee turnover is one of the most disruptive factors an organization can face. Maintaining a stable workforce is one of the most important indicators of company vitality: a seasoned employee is well-trained, more efficient, more productive, and less reliant on other workers than a new hire or an un-filled position. Additionally, a stable workforce indicates a level of worker satisfaction and provides less of a drain on company resources as a whole. However, retaining and engaging workers is challenging and time-consuming. Companies that do it successfully are clearly doing something right, and the results are positively impacting the bottom line. For example: companies identified as Laggards are more than twelve times as likely to have experienced a decrease in revenue during the past 12 months (36%) than those identified as Best in Class (3%).

Customer Call Out Quote

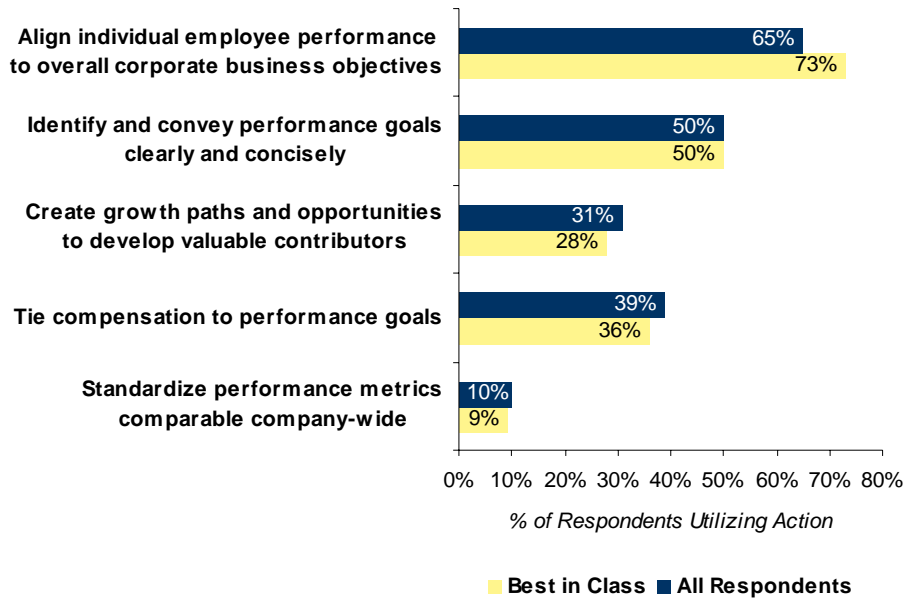
√ “Turnover is a huge problem for us. As soon as we finally get someone trained, it seems like they leave. Whatever we can do to stop folks from leaving will be a huge benefit to our bottom line.”

HR Manager; \$5 billion insurance provider

Strategic Actions

The leading action companies are taking in order to achieve their employee performance management goals is aligning individual employee performance to corporate business objectives. However, Best in Class companies are more likely to identify this as a priority, as well as tie compensation to performance goals.

Chart I: Top Strategic Actions in Use



Source: Aberdeen Group, June 2007

Customer Call Out Quote

√ “All of our individual performance goals must be in alignment with division and overall company goals. If they are not driving the division and the company goals, then we are out of alignment. “

VP of HR; \$50 million boutique management consulting firm

Best in Class PACE Model

Understanding how Best in Class companies alleviate key pressures using employee performance management solutions provides insight for others experiencing similar pressures to implement comparable solutions. Successful application of Best in Class methods requires implementing a combination of strategic actions, organizational capabilities and enabling technology that can be summarized as follows:

Table 3: Best in Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> ● Increase productivity to improve overall company performance 	<ul style="list-style-type: none"> ● Align individual employee performance to overall corporate business objectives ● Identify and convey performance goals clearly and concisely 	<ul style="list-style-type: none"> ● Established and appropriate performance goals and actions ● Critical skills training process ● Company-wide employee review policy ● Expectations and desired outcomes communicated clearly 	<ul style="list-style-type: none"> ● Individual and team performance metric analysis tools ● Real-time self service portals ● Associating results with specific objectives ● Tiered or cascading goal alignment for functional teams ● Succession planning tools

Source: Aberdeen Group, June 2007

Aberdeen Insights – Strategy

While most companies have implemented employee performance management strategies that attempt to align individual employee performance to overall corporate results, Best in Class companies go a step further - they communicate goals and expectations more effectively, they provide insight into career growth and future opportunities, and they provide the resources needed to promote success on all fronts. This collaborative approach provides a greater sense of engagement among all participants, and elicits more positive results than simply enacting a top-down performance policy and demanding compliance. Employee performance management strategies work best when all employees are empowered, valued, and working in tandem.

Chapter Two: Benchmarking Requirements for Success

A clear relationship exists between the pressure to increase overall company results and a well-defined employee performance management strategy. Properly identifying and emulating the appropriate capabilities and technology enablers will determine the overall success of any employee performance management initiative. Across the board, Best in Class companies have demonstrated an ability to manage employees in a manner that is associated with superior corporate performance.

Competitive Maturity Assessment

Survey respondents were classified as being either Best in Class, Average, or Laggard, based on their characteristics in five key categories:

- **Process** - the underlying principles and processes required to effectively manage employee performance
- **Organization** - the systems that are in place to facilitate performance
- **Knowledge** - understanding the processes required to accomplish objectives
- **Technology** - selecting the appropriate tools and the intelligent deployment of those tools
- **Performance** - ability of the organization to measure the benefits of technology deployment and use the results for further improvement

Table 4: Competitive Framework

	Laggards	Average	Best in Class
Process	Established and appropriate performance goals and activities		
	59%	69%	78%
Process	Critical skills training process		
	32%	36%	40%
Organization	Performance reviews conducted on time		
	30%	41%	50%
Knowledge	Results are associated with specific objectives		
	40%	53%	55%

Fast Facts

- √ Best in Class companies exhibit superior profit performance and retain employees better than Average and Laggard companies
- √ Companies do not need to be using a technology EPM product to be considered Best in Class – but companies using a technology solution significantly outperform their peers and exceed Best in Class performance

Customer Call Out Quote

- √ “Sometimes, the goals that are set aren’t very understandable, and no one really knows how to measure them. We have to select goals from a list provided to us by the HR department. I don’t know where they come from, and a lot of them don’t apply to our work environment.”

Manager of Operations; \$5 billion Information Technology firm

	Laggards	Average	Best in Class
Technology	Technology enabler adoption strategy		
	<ul style="list-style-type: none"> • 34% Performance dashboard • 32% Real-time self-service portal • 58% Scheduling & check-in reminders • 45% Individual & team performance metrics tools • 40% Real-time reference to historical results 	<ul style="list-style-type: none"> • 50% Performance dashboard • 40% Real-time self-service portal • 60% Scheduling & check-in reminders • 56% Individual & team performance metrics tools • 51% Real-time reference to historical results 	<ul style="list-style-type: none"> • 52% Performance dashboard • 50% Real-time self-service portal • 65% Scheduling & check-in reminders • 63% Individual & team performance metrics tools • 57% Real-time reference to historical results
Performance	Percentage of employees being reviewed		
	90%	93%	94%
	Completion rate of required reviews		
	82%	89%	90%

Source: Aberdeen Group, June 2007

Organizational Capabilities and Technology Enablers

While Best in Class companies collectively outperform Average and Laggard organizations, a deeper examination of the data shows that companies utilizing a technology solution outperformed companies using a manual solution AND exceeded Best in Class performance. Looking at the Competitive Framework table once again, but now highlighting the performance of companies using a manual versus a technology-enabled employee performance management process, the results show a superior level of performance among companies utilizing technology.

Customer Call Out Quote

√ “When we upgraded to an electronic solution, we didn’t look around very much – we just selected the vendor that already does our other corporate stuff.”

HR manager; \$600 million industrial manufacturer

Table 5: Competitive Framework: Manual vs. Technology vs. Best in Class

	Manual Process	Technology Process	Best in Class
Process	Established and appropriate performance goals and activities		
	65%	82%	78%
	Critical skills training process		
	31%	52%	40%
Organization	Performance reviews conducted on time		
	38%	53%	50%

	Manual Process	Technology Process	Best in Class
Knowledge	Results are associated with specific objectives		
	44%	66%	55%
Technology	Technology enabler adoption strategy		
	<ul style="list-style-type: none"> • 39% Performance dashboard • 35% Real-time self-service portal • 58% Scheduling & check-in reminders • 50% Individual & team performance metrics tools • 45% Real-time reference to historical results 	<ul style="list-style-type: none"> • 60% Performance dashboard • 66% Real-time self-service portal • 71% Scheduling & check-in reminders • 69% Individual & team performance metrics tools • 67% Real-time reference to historical results 	<ul style="list-style-type: none"> • 52% Performance dashboard • 50% Real-time self-service portal • 65% Scheduling & check-in reminders • 63% Individual & team performance metrics tools • 57% Real-time reference to historical results
Performance	Frequency of employee reviews		
	88%	94%	92%
	Completion rate of required reviews		
	83%	91%	89%

Source: Aberdeen Group, June 2007

- Establishing actionable, role-specific, and achievable performance goals is critical to the success of an employee performance management initiative.
- Tools and capabilities that assist managers with the **process** of managing and developing employees (scheduling & reminders, coaching tools, succession planning, critical skills training) are just as valuable as tools and capabilities that aggregate, summarize, and **report** results (portals, dashboards, customized reports).
- Reporting tools that link the performance of teams and team members, and provide insight and analysis into metrics and objectives are considered as more valuable by Best in Class organizations and is done more effectively by companies utilizing a technology system.
- Bonus and commission calculations are invariably subject to misunderstanding, and often are determined quite subjectively. Companies with technology enablers implemented are more likely to provide a measurable, consistent, and automated way to link performance objectives to variable compensation calculations.

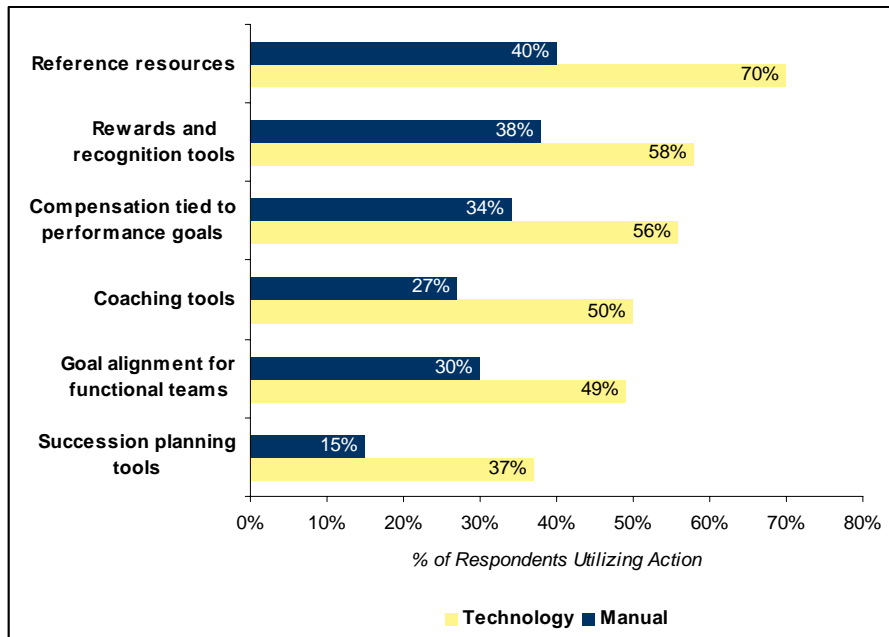
While companies did not need to be using a technology solution to be ranked as Best in Class, those that do significantly outperform their peers.

Customer Call Out Quote

√ “Ever since we started making clear connections between the amounts of bonus payments and actual tasks, people have been a lot happier.”

Director of Logistics; \$850 million Apparel manufacturer

Chart 2: Manual vs. Technology Solution Performance



Source: Aberdeen Group, June 2007

Companies using a technology solution are also:

- 50% less likely to report a drop in revenue during the last 12 months
- 44% less likely to experience a decline in profit during the last 12 months
- three times as likely to be very satisfied with their EPM solution

Aberdeen Insights – Technology

Successful employee performance management is not simply instituting a policy, filling out a form, or installing a piece of software. Doing that just adds structure to an inefficient process, but does not necessarily provide insight, alignment, or results. A truly successful EPM initiative must first consider the unique needs and requirements faced by an organization and the industry it operates in, determine the steps necessary to succeed, and the path to reach them. Only then should an organization implement an employee performance management process and utilize technology to assist in the effort. Doing otherwise will not provide the desired outcome.

Customer Call Out Quote

√ “We use an online system, but no one really relies on it. It is not easy to use, and we were never really trained. It might be able to do a lot more, but we have no way of finding out.”

Manufacturing Manager; \$100 million industrial manufacturing firm

Chapter Three: Required Actions

Whether a company is trying to move its performance in Employee Performance Management usage from “Laggard” to “Average,” or “Average” to “Best in Class,” the following actions will help spur the necessary improvements:

Laggard Steps to Success

Laggard companies focus on immediate results and quick fixes. Variable compensation is more frequently tied to performance objectives, yet is measured and monitored in an inconsistent manner. In order to improve employee performance management efforts, Laggards need to:

- Build growth path scenarios and career opportunity planning into all facets of the employee performance management process.
- Establish clearly defined, role-appropriate, and realistic performance goals and objectives for all employees. Engage employees in crafting these expectations and outcomes, rather than dictating them from an ivory tower.
- Communicate expectations and desired outcomes clearly to all employees and workgroups. Involve participants at every level of the organization in identifying the policies and behaviors to achieve desired outcomes.

Industry Norm Steps to Success

Average companies often consider employee performance management implementations a destination, not a journey. A superior process is one that is on-going and evolving. In order to move beyond Average status, companies should:

- Creating procedures and metrics to address the specific situations faced. Select the top three actions and measures that matter most to the organizations, and build all the employee performance management plans around them.
- Link employee objectives to qualifications for variable compensation. Companies classified as Average are less likely than Best in Class firms to link employee performance to some portion of compensation. By creating quantifiable outcomes to performance objectives, companies reward successful participation appropriately.
- Develop specific strategies and actions for succession planning, career development, and critical skills enhancement for each employee. Build these action items into individual performance goal requirements, and provide guidance and structure to implement them at each step along the career path.

Fast Facts

- √ Laggard companies must focus on the long-term goals of the organization, communicate those goals clearly and build growth paths for employees.
- √ Average companies must allow EPM to evolve with the organizations, beyond specific situations, to include succession planning and long-term career development.
- √ Best in Class companies must lead with expanded workflow views, continual feedback from employees and technologies to address specific issues as they arise.

Best in Class Steps to Success

Best in Class organizations, while leading the pack in terms of successful employee performance management, can still improve significantly. Managing employees can be complicated and time-consuming. To maintain Best in Class status, and better manage employee performance initiatives, companies should:

- Develop expanded workflow views for individuals, groups and teams. Individuals rarely work in a vacuum, and their continued success is often dependent on the performance of others. Aligning these missions in tandem with overall corporate objectives will provide a greater level of achievement for all involved.
- Regularly obtain feedback from all users of the system, monitoring successes and failures to provide actionable insight on new directions and initiatives.
- Identify ways to facilitate the utilization of employee performance management objectives. While technology solutions are not a panacea that can solve every dilemma, they are useful tools that empower individuals to better manage and define processes. Best in Class companies are successfully adopting **specific** solutions that address **specific** issues.

Aberdeen Insights – Summary

Employee performance management is certainly not a new topic - companies have been reviewing and rating employees for decades. Nor is the dissatisfaction that often surrounds the performance management process a new development - managers and staff members have been unhappy with the systems for as long as there have been systems. However, what is new are the pressures to continually improve company performance and the technologies that can facilitate those desired results. With the pace of business increasing ever more rapidly, companies simply cannot afford to ignore the benefits of a well-designed, expertly aligned employee performance management implementation.

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Appendix A: Research Methodology

During May and June 2007, Aberdeen Group examined the process of Employee Performance Management (EPM) solutions at use in more than 600 organizations.

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

- The degree to which EPM solutions are deployed within their organizations
- 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

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

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

Responding enterprises included the following:

- **Job title/function:** The research sample included respondents with the following functional areas: Human Resources (59%); Operations/Business Process Management/Logistics (13%); Finance (4%); Information Technology (4%); Strategic Development (4%); and Sales or Marketing (3%). Nearly 15% had executive-suite level titles (C-level or president), while 13% were vice-presidents, 26% were director-level, and 33% were managers.
- **Industry:** The research sample included respondents from a variety of industries. Computer hardware and software was the largest segment with 19% of the sample. Finance, Banking and Accounting accounted for 13% of respondents, followed by Consumer Goods (11%), Education (11%), Medical and Healthcare (10%), Public Sector (9%), Insurance/Real Estate/Legal (8%), Retail (7%), and Transportation and Logistics (7%). Other sectors responding included Aerospace/Defense, Automotive, Construction, Food and Beverage, Publishing, Telecommunications, and Utilities.
- **Geography:** The majority of respondents (85%) were from North America. Remaining respondents were from the Asia-Pacific region (7%), Europe/Middle East/Africa (7%) and South/Central America and the Caribbean (1%).
- **Company size:** About 14% of respondents were from large enterprises (annual revenues above US\$1 billion); 29% were from midsize enterprises (annual revenues between \$50 million and \$1

billion); and 57% of respondents were from small businesses (annual revenues of \$50 million or less).

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

Table 4: PACE Framework

PACE Key
<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, June 2007

Table 5: Maturity Framework

Maturity Framework Key
<p>The Aberdeen Maturity Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best in class (20%) — EPM practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.</p> <p>Industry norm (50%) — EPM practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — EPM 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</p>

Maturity Framework Key

particular process?

Knowledge — What visibility do you have into key data and intelligence required to manage this process?

Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?

Performance — What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, June 2007

Table 6: Relationship between PACE and Competitive Framework

PACE and Competitive Framework How They Interact

Aberdeen research indicates that companies that identify the most impactful 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.

Source: Aberdeen Group, June 2007

Appendix B: Related Aberdeen Research

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

- *Incentive Compensation Management: Aligning Compensation with Business Goals* (March 2007)
- *Benefits Management Benchmark: Technology Automation and Self Service* (January 2007)
- *Succession Planning Strategies: The Right People, for the Right Jobs, at the Right Time* (December 2006)
- *Beyond Time & Attendance: Agility Meets Efficiency in Workforce Management* (November 2006)
- *Optimizing Workforce Transitions* (September 2006)
- *The Key to Developing Talent* (September 2006)
- *On-boarding: Improving the New Hire Experience* (September 2006)
- *Workforce Analytics: Turbo Charging Workforce Management* (August 2006)
- *Talent Acquisition Strategies: Sourcing and Assessing the Best of the Best* (June 2007)

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

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