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By Karen Hutcheson

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Although many people think of "performance management" as synonymous with the annual performance evaluation, in reality it affects other people-management processes as well-including base pay decisions, promotions, transfers, goal setting, career movement, and training and development.

To gather information about performance management (PM) practices and outcomes in a variety of employers-including colleges and universities-WorldatWork and Sibson Consulting invited a sample of WorldatWork members to participate in a confidential online survey. More than 550 individuals, primarily senior-level HR professionals, responded.

The demographic profile of the respondents is similar to the membership of WorldatWork, an association headquartered in Scottsdale, Arizona. The organizations represented in the study range in size from fewer than 100 employees to more than 100,000 employees. They represent these industries: finance and insurance, healthcare, higher education, manufacturing, professional services, public sector, and utilities.

Here are several key findings from the study.

Cross-Industry Results

Effectiveness of the system: Just over half of all respondents view their organization's performance management system as effective, giving it an overall grade of "A" or "B" on the traditional grading scale. Forty-eight percent rated their organization's performance management at a "C," "D," or "E" level.

Using three-year shareholder return as the indicator of company performance, Sibson conducted an analysis of the publicly traded corporations to explore how PM programs differ in high-performing organizations. Interestingly, this analysis found that PM techniques and practices are relatively similar between high- and low-performing organizations. The more effective programs, however, have two differentiators: execution and leadership support.

Key goals and challenges: The top three reported goals for performance management programs are fairly consistent among respondents: Distribution of rewards, increasing individual accountability, and improved financial and operational results top the list.

Overwhelmingly, the top challenge faced by organizations is their managers' inability to have difficult performance discussions with employees. Respondents ranked employee perception of performance as an HR process as the second greatest challenge, followed by poor goal setting.

Rewards tied to PM: More than half of the respondents use information from the performance management process to determine merit increases (76%), promotions (68%), and annual incentive distributions (58%). Only 37 percent of respondents use performance management to determine equity awards (company ownership).

Links between individual and organizational goals: At lower levels of the organization, the alignment between individual and organizational goals lessens. Respondents indicate a stronger perceived alignment with goals among senior managers (73%) compared to middle managers (48%) and non-managers (26%).

Champions of the process: Just under half (46%) agree that the top HR executive is the greatest champion of performance management within the organization,

followed by line leadership (the president, CEO, or COO), cited by 32 percent. Line-leadership support, however, is most closely linked to positive outcomes, including employee perceptions that the system is fair.

Higher Education Results

How do the responses from higher education compare to the overall responses? While the number of educational institutions participating in this study is small (12), their responses are consistent with findings from Sibson's performance management consulting experience. Here are some key differences between higher education and cross-industry results.

Higher education views program effectiveness as being significantly lower.

Compared to their counterparts in other sectors, respondents from higher education rate the effectiveness of their PM program far more negatively. Half indicate that their institution's PM program is "below average" in effectiveness, and about one in three (35%) says the program is "average."

PM is not seen as being linked to the effectiveness of managing the education institution. Specifically:

- 60 percent report that their leaders do not view performance management as a critical business process.
- Only one in four (25%) say their leadership's own goals align with the institution's goals. Respondents detect virtually no alignment among goals at the middle-management and non-management levels.
- 70 percent believe PM does not contribute toward helping the institution achieve its strategic goals.

The link between performance ratings and rewards is less direct.

- 63 percent report no differentiation between performance ratings and corresponding pay actions. (This indicates a bias toward across-the-board increases, whether by design or in practice.)
- Only two out of five respondents (40%) report a strong tie between performance ratings and promotions, compared to about two out of three (65%) cross-industry.

Details and Delivery Matter

Overall, the results of the WorldatWork/Sibson State of Performance Management Study indicate that performance management needs improvement in many organizations. Performance management is stronger in higher performing companies, primarily because it receives leadership support and endorsement. When compared to other sectors, colleges and universities seem to have further to go to integrate performance management into their culture, build leadership support, and design and execute effective programs.

The important message for all employers is that, while PM program design is important, the details matter less than the execution. Improving performance management includes an analysis not only of program design but also of the key elements of execution: leadership support, managerial courage in delivering important performance messages (both praise and constructive criticism), and rigor in execution.

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