



Aberdeen *Group*

# The Employee Performance Management Benchmark Report

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*Managing Human Capital for a Competitive Edge*

June 2006



## Executive Summary

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To keep up with demand for skilled employees and increased competitive pressures, corporations are finding they must make significant changes in how they run their employee performance management (EPM) operations. Here's why:

### The Key Drivers for EPM Change:

This study revealed that the most critical drivers for change in employee performance management are:

- Lack of ability to attract sufficient talent for replacement and growth needs
- Need to increase customer satisfaction and retention
- Need for higher worker productivity to meet competition
- Need to better prepare workers for senior leadership needs

Among the most critical areas that companies are revamping are:

- **Goal definition and measurement** to increase focus, accountability, and transparency of business purposes
- **Strategic goal linkage at multiple levels** to achieve desired cause-effect business outcomes and synergies between collaborating work units
- **Employee performance evaluation coverage and frequency** to increase overall capacity for organizational self-correction
- **Performance-based links to employee development and compensation** to ensure that talent is maximized and appropriately rewarded

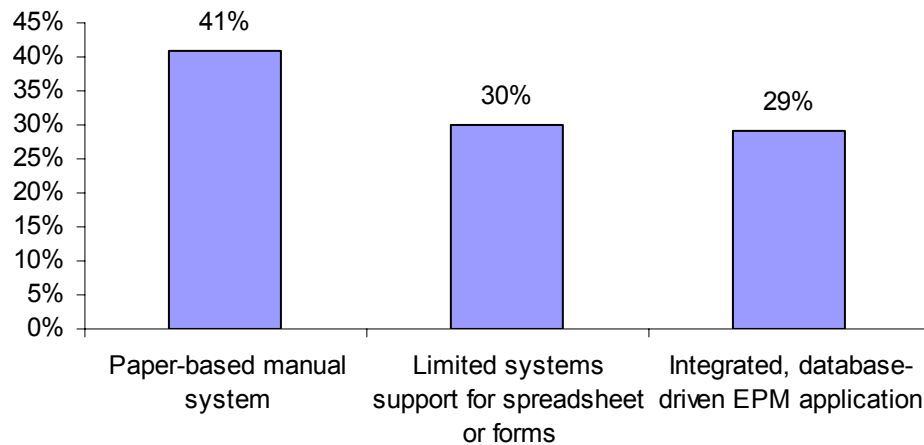
This report looks at these key trends and how large, mid-size, and small companies are building game plans for success. Findings are based on a benchmark report conducted in June 2006 of more than 150 companies. Fully 31% of respondents were vice president or C-level executives, with most others at a director of human resources or manager level.

### A Critical Lack of Employee Performance Management Automation

Our study revealed that 98% of all Best in Class firms have automated their EPM processes, versus 59% of all other firms. Automation helps the better-performing firms to achieve greater visibility into individual and collective employee performance. Depending on the features of the application, it can also enable better goal alignment, highlight performance deficiencies needing correction, uncover rating inconsistencies in performance evaluations, and provide decision support for critical redeployment, promotion, and termination decisions. The field of prospects for EPM automation is ready to harvest, as almost three-quarters of all respondents report that they don't have enterprise-wide, database-driven automation of their EPM processes (Figure i). Why not? *Aside from the fact that 27% say they cannot make a solid business case for it, a full 34% reported that they are unaware of EPM vendors and their offerings.*



**Figure i: Technology Maturity Remains Primitive for EPM**



Source: [AberdeenGroup](#), June 2006

### **A Bias in Favor of Salaried Individual Contributors**

The data from this study shows that it pays to manage well the performance of salaried individual contributors. This employee sub-group receives decidedly focused attention from Best in Class organizations for mentoring, development planning, project-based performance feedback, functional skills training, and other activities designed to convert their potential into actual value added. In this study 100% of Best in Class organizations gave this group documented performance feedback at least annually, with 63% of them giving project-based performance feedback as well. This is in contrast to the often neglected care and feeding of executives, hourly employees, and especially contract employees. Contractors are increasing in importance as many are hired to perform mission-critical tasks for companies who employ growing numbers of them in a flexibly-sized, long-term “extended workforce” component of their talent base. The downside for these contractors is that they do not typically receive the same level of management services and support to enhance their performance and careers as do their full-time, permanent counterparts. (*Aberdeen’s Human Capital Group will publish a benchmark report on contingent workforce management strategies, technologies and services in September of 2006.*)

### **Recommendations for Action**

- Evaluate your organization’s human capital effectiveness and efficiency, both financially and operationally. Use “revenue per employee (FTE)” for financial effectiveness and “operating income per employee (FTE)” for financial efficiency. Define similar measures for human capital operational effectiveness and efficiency according to the units of product or service delivered by your organization’s value chains.



- Evaluate your current EPM processes: are all employees receiving motivational, actionable performance feedback? Focus on your salaried individual contributors and mid-level managers first, then the rest.
- Automate your EPM processes; 98% of Best in Class organizations already have done this. More employees will receive performance feedback more often, resulting in quicker performance corrections and accelerated operational and financial improvements.
- Check your organization's vertical and horizontal goal and metrics alignment and realignment "refresh" rate when changes in corporate objectives or strategies are announced. (Hint: It is easier to check goal and metrics alignment online than on paper). Your organization must show agility in adjusting to changes in direction, and you must be able to track those adjustments.



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## Chapter One: Issue at Hand

### Key Takeaways

- Talent attraction, customer retention, and productivity are driving changes in EPM
- Lack of goal alignment from top to bottom of the enterprise is the central issue
- Primitive automation support is hindering EPM impact in many organizations

Aberdeen’s previous research on employee performance management (EPM) revealed that 90% of respondents saw improved EPM as a key to gaining competitive advantage. (Source: [“Employee Performance Management: The Aligned, Performance-Driven Workforce”](#), December, 2004).

Today, the fastest changing area of employee performance management is the relentless drive to achieve and maintain complete alignment of employee work efforts with corporate objectives. Large and small companies alike have seen the advantages of getting all employees working on the same page to create a high-performance work culture that attracts talent, improves customer satisfaction and retention, and prepares capable people for future leadership roles. This is in response to the near-criminal waste of scarce talent and loss of competitive strength that occurs when people are focused on sub-optimal uses of their time. In essence, current changes in employee performance management are about creating a revolution in the management of human capital through behavioral engineering. Organizations are seeing the advantages of systematically getting leaders, and their direct reports at all organizational levels, to constantly focus on the right goals, the right metrics, and the right improvement initiatives—every day, all day.

To accomplish this, human capital professionals and, to an increasing extent, chief operating officers, are finding that they must make significant changes in how they manage employee performance. The makeover is occurring at a technology level (via automation of integrated goal-setting at both organizational and individual levels), at a process level (with increases in the frequency of performance feedback and realignment), and at a structural level (via pre-automation consulting to re-engineer the organization’s performance management architecture from top to bottom).

### Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

*Laggards (30%)* —practices that are significantly behind the average of the industry

*Industry norm (50%)* — practices that represent the average or norm

*Best in class (20%)* — practices that are the best currently being employed and significantly superior to the industry norm



Among the most critical areas that companies are revamping are:

- Renewed emphasis on goal-setting at multiple organizational levels, to increase focus, accountability, and transparency
- Improved goal linkage between levels, from corporate to department to individual, to achieve desired cause-effect relationships
- Methods for insuring that all employees understand, and are continuously updated on, exactly how their jobs support corporate goals

## Top Drivers for Change in Employee Performance Management

Although regulatory compliance is receiving a lot of attention, particularly with regard to changes in applicant tracking documentation requirements, this is not what keeps human capital executives up at night (Figure 1). Of graver concern is their ability to attract enough high-talent individuals. While 61% of all organizations cited this as their top need, it is especially crippling for large enterprises (\$1 billion or more in revenue), where 71% call it their top concern as they seek the organizational fuel needed for talent replacement and continued growth.

The second highest priority is to increase customer satisfaction and retention. While 56% of mid-size enterprises highlighted this concern, 63% of large enterprises, with more organizational infrastructure to coordinate than smaller companies, felt the pressure to improve employee productivity as their second-highest concern.

A third key area of pressure for change in large companies arises because many of them operate at a scale where poor visibility into individual performance and its impact on aggregate organizational outcomes yields a fundamental gap in cause-effect understanding. This, together with uncoordinated and inconsistent goal-setting, feedback and development processes, results in “poor performance going unmentored and good performance going unrecognized,” according to one manager in a large transportation enterprise. The outcome: “Mediocrity is the order of the day.”

Midsize organizations (54%) also report significant challenges with their ability to retain valued employees and, at the same time, effectively prepare them for senior staffing and leadership needs (51%).

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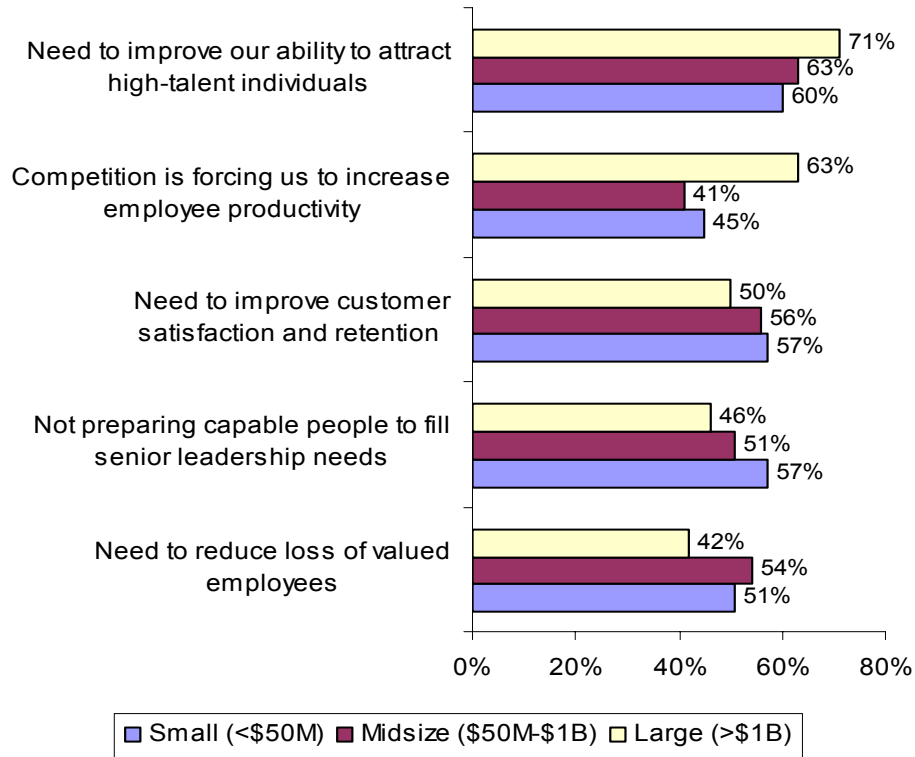
“Our research staff discovered that when poor performance goes unmentored and good performance goes unrecognized, mediocrity is the order of the day.”

— Manager of a large transportation enterprise

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**Figure 1: Pressures to Improve Employee Performance Management**



Source: AberdeenGroup, June 2006



### Beyond Annual Performance Reviews

Our 2006 EPM research shows that most companies are still woefully inadequate in their automation and staff support for employee performance management. The continued reliance on inefficient manual efforts by HR staff and line managers is resulting in poor employee coverage levels for EPM. The net effect is too many people who go to work each day without a clue about how their work contributes to organizational outcomes, how well they are performing in absolute or even relative terms within their function, or what specific areas of competence need to be strengthened.

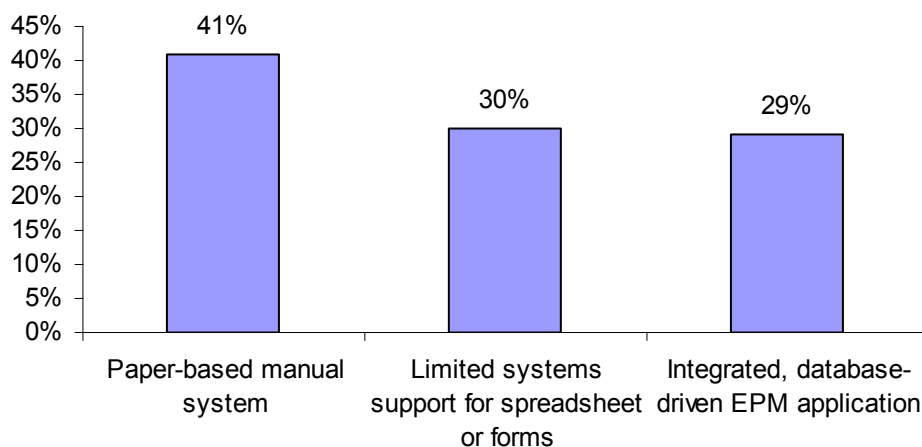
Over 70% of all responding firms lack enterprise-wide, database-driven EPM automation (Figure 2). In fact, large enterprises were slightly behind their mid-size counterparts in this regard, the former having only 33% system-wide EPM automation versus 38% for the latter. Still, this level of process enablement leaves much opportunity for improvement overall.

#### PACE Key — For more detailed description see Appendix A

*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:*

- Pressures** — external forces that impact an organization’s market position, competitiveness, or business operations
- Actions** — the strategic approaches that an organization takes in response to industry pressures
- Capabilities** — the business process competencies required to execute corporate strategy
- Enablers** — the key functionality of technology solutions required to support the organization’s enabling business practices

Figure 2: EPM Technology Remains Primitive



Source: AberdeenGroup, June 2006

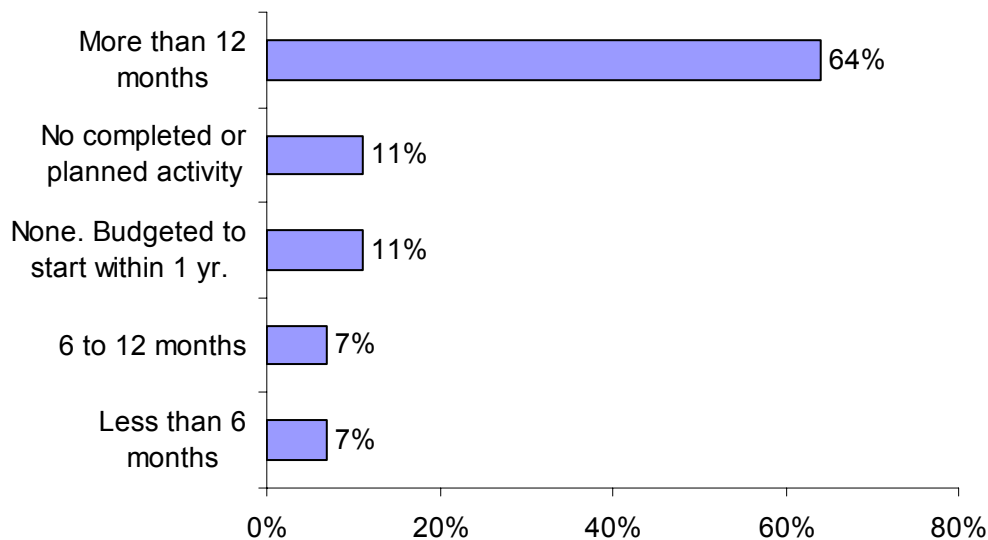
## Chapter Two: Key Business Value Findings

**Key Takeaways**

- Most organizations are still lacking sufficient automation to fully cover EPM needs
- Vertical and horizontal goal alignment is the performance “glue” that organizations are seeking
- Best in Class organizations are showing distinct preferences toward salaried individual contributors in their investment of EPM energies.

Despite the widespread availability of technology-enabled employee performance management programs, there are plenty of firms that have little or no systematic approaches in place. In fact, 22% of respondent firms have no formal program of scheduled activities whatever and another 14% have had their program running for less than a year (Figure 3). In time, most organizations eventually confront operating pressures that require more than a reactive approach to employee performance management needs.

**Figure 3: Tenure of Formal EPM Activity Programs**



Source: AberdeenGroup, June 2006

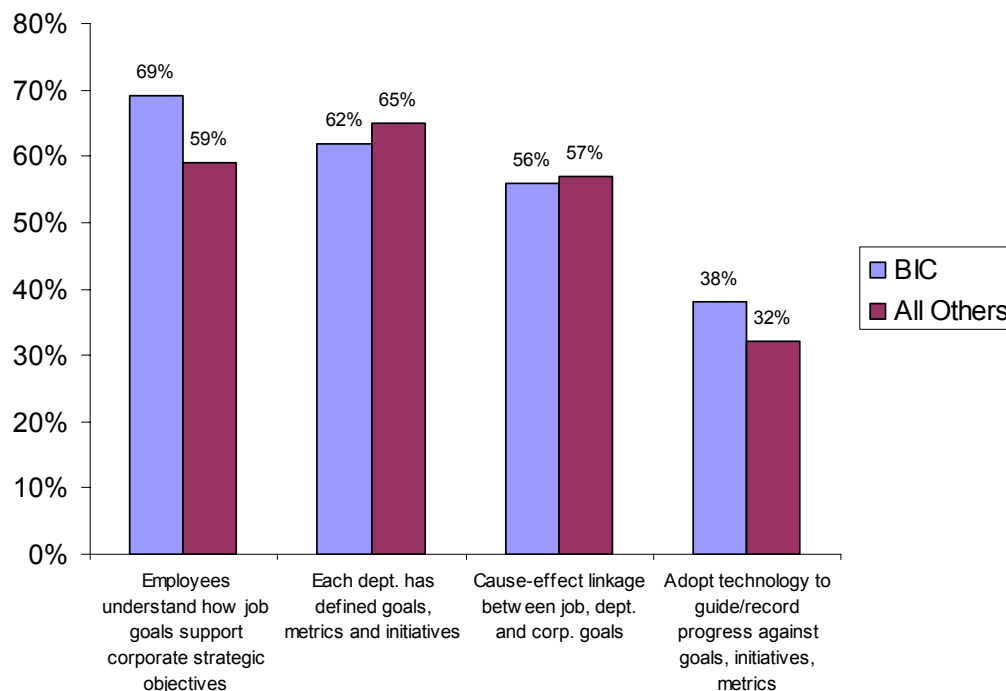
### Strategic Actions to Improve EPM

For Best in Class organizations, improvement in employee performance management revolves around aligning employees’ actions with organizational purpose (Figure 4).



Specifically, 62% of leading organizations reported that all of their departments have defined goals, metrics, and initiatives. For 56% of them, these performance parameters are linked in cause-effect relationships between organization levels, i.e., from the job to the department level, and from the department to the corporate level. The top strategic action taken by Best in Class organizations (69%) was to insure that all employees understand exactly how their job goals support corporate strategic objectives.

**Figure 4: Strategic Actions Taken to Improve EPM**

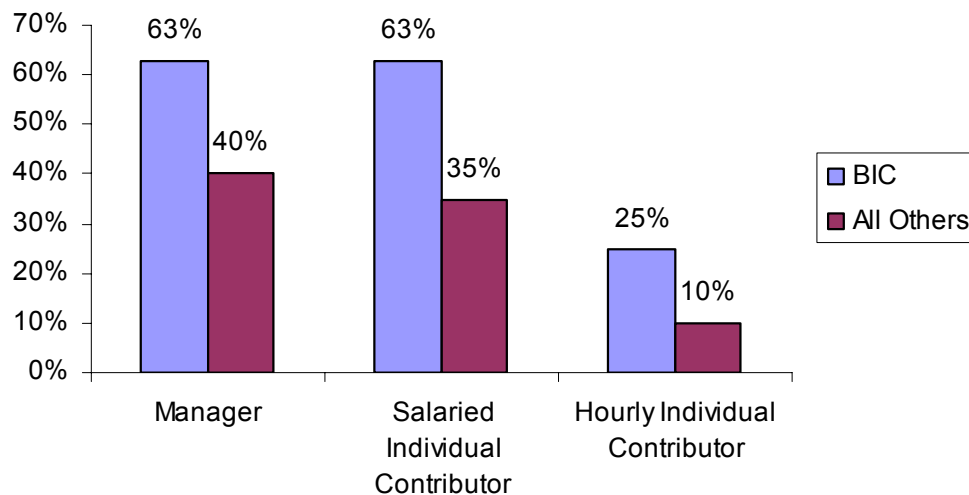


### **EPM Favorites: Salaried Individual Contributors**

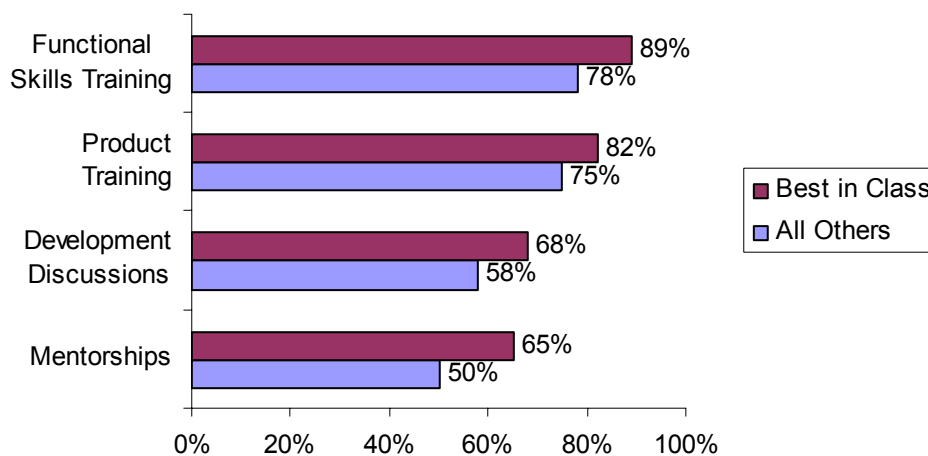
One interesting outcome from the survey findings was the special treatment accorded managers and salaried individual contributors. In contrast to the majority of respondent organizations, 100% of Best in Class firms reported that they provide documented performance evaluations to their salaried individual contributors. In addition, 63% of these leading firms provide even more frequent performance feedback on specific work projects to both managers and salaried individual contributors (Figure 5).

Finally, salaried individual contributors receive favored treatment from Best in Class organizations compared to all other organizations in the areas of mentorship assignments, development discussions, functional skills training, and online training (Figure 6).

**Figure 5: Project-based Performance Feedback—BIC vs. All Others**



**Figure 6: Salaried Individual Contributor Development--BIC vs. Others**



From this data it is abundantly clear that Best in Class firms differentiate themselves by the care and feeding that they give to salaried individual contributors and, to a somewhat lesser extent, managers. Apparently these feedback and development strategies enable them to sustain a market advantage by extracting maximum performance from their human capital investments in professionals. This finding will be especially relevant for all industries where the dominant share of commercial value delivered to the market is created by people rather than by machines.



## Challenges and Responses

The above-cited EPM action strategies are a tall order for many firms. Standing in the way of optimal employee performance management, according to survey respondents, are inadequate metrics to differentiate individual and team performance, and insufficient means to relate those differences to compensation decisions. (Table 1).

All too often, individual performance ratings by managers suffer from rater bias, inconsistent rating criteria, or both. The former can be discovered with data analytics algorithms. Rating criteria differences can be remedied through application of system-wide policies on what rating criteria should be used.

Companies are responding to the compensation challenge by matrixing the use of base pay and variable pay. This allows managers to rate and rank employees on mission-critical capabilities while, at the same time, rewarding them for goal accomplishment. Almost half of survey respondents (45%) see individual and department performance scorecards as essential tools for tracking capability and accomplishment. The more advanced organizations not only track individual and team performance but also incorporate optional commentary by raters to add helpful explanations about their ratings.

**Table 1: EPM Challenges and Responses**

Challenges	% Selected	Responses to Challenges	% Selected
1. Many work functions lack clarity and consistency in the criteria by which they measure and differentiate individual and team performance	52%	1. Create scorecards for departments and individuals to report progress on mission-critical capabilities and goal achievement	45%
2. Performance reviews don't provide useful data to solidly link performance to pay; top performers are therefore difficult to consistently identify and reward	50%	2. Create greater compensation differential between high-performers and under-performers by rewarding attainment of certified, mission-critical capabilities as part of base pay and accomplishment of mission-critical team or individual goals for variable pay	39%
3. Company has clear financial, customer and product/service strategic objectives, but does not communicate them well enough for employees to internalize them	49%	3. Regular communication to employees of updates to corporate financial, customer and product/service strategic objectives, followed by tests of their understanding	55%
4. Company has no system for checking employee understanding of updated corporate strategy objectives and their linkage to job goals and metrics	46%	4. Multi-functional review of each department's goals and metrics for internal consistency and cause-effect alignment with company strategic objectives	38%

Source: AberdeenGroup, Month 2006



## Chapter Three: Implications & Analysis

### Key Takeaways

- Best in Class organizations have a systematic, organization-wide approach to EPM
- Best in Class organizations own EPM at the executive level with HR partnership
- Stakeholders in Best in Class organizations all have access to the same real-time EPM data
- In Best-in-class organizations, all EPM performance components are automated and synchronized via licensed or on-demand applications

**A**s shown in Table 2, survey respondents fell into one of three categories – Laggard, Industry Average, or Best in Class — based on their characteristics in four key categories representing an end-user organizational maturity grid consisting of:

- (1) process: the level of systematic approach to employee performance management
- (2) organization: the relationship between HR and line management in owning and driving EPM processes
- (3) knowledge: the level of visibility into employee and team goals, metrics, initiatives, performance histories, approvals and commentaries
- (4) technology: the scope of automation and the technology platform for supporting EPM processes.

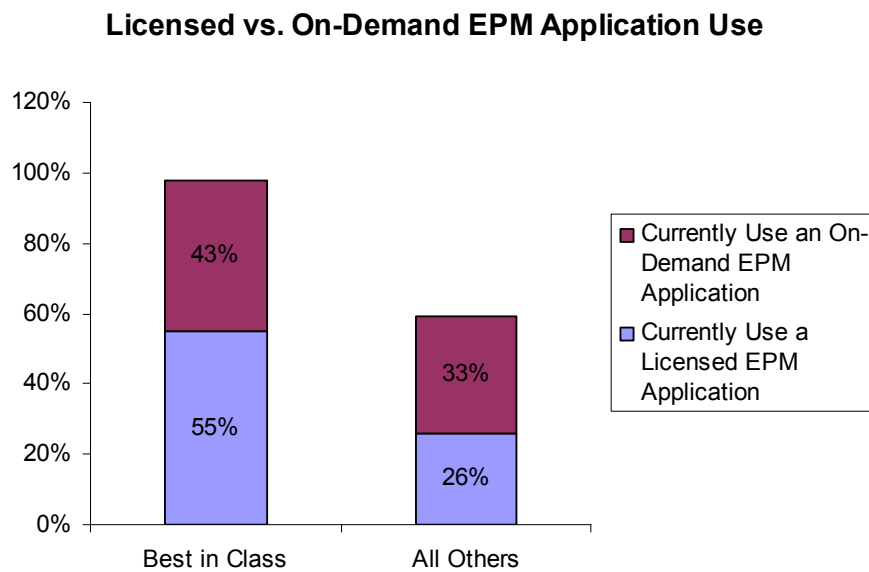
For this study, Best in Class is defined as those firms who are among the leaders in their respective industries in market share and/or profitability. The typical ratios of Best in Class to Average to Laggard companies in an Aberdeen study will be 20-30% Best in Class, 40-60% Average, and 20-30% Laggard.

### EPM Technology Platform

Across all polled industry categories, the message in this study, loud and clear, was to automate the EPM process, whether by licensed or on-demand applications. (Figure 7)



**Figure 7: EPM Automation Platforms In Use**



Source: [AberdeenGroup](#), Month 2006

Ninety-eight percent of Best in Class organizations have either a licensed or on-demand EPM application at work in their enterprise; only 59% of the rest featured either type of EPM application. Going forward, 31% planned to inaugurate a licensed EPM application within the next 24 months, as compared with 19% who planned for an on-demand version.

In each of the maturity grid categories, survey results show that the firms exhibiting best-in-class employee performance management characteristics also enjoy best-in-class market performance (Table 2). When the organizational culture and leadership practices are in place and strongly supportive of continuous performance improvement at individual and team levels, properly configured EPM automation can provide the exact leverage needed to accelerate that performance-driven culture to much higher levels of market impact. The reason is that leaders only have so much time. The better tools they have, and the easier they are to use, the more likely they will be to do the goal setting, metrics definition, data collection and performance feedback required to focus employees and elicit the best possible results from them.

**Table 2: Employee Performance Management Competitive Framework**

	<b>Laggards</b>	<b>Industry Average</b>	<b>Best in Class</b>
<b>EPM Process</b>	<ul style="list-style-type: none"> <li>Employee Performance Management is ad hoc at the single manager level; no systematic or consistent approach, other than annual salary adjustments; annual performance evaluations at best, if they happen at all</li> </ul>	<ul style="list-style-type: none"> <li>EPM is a formal system of processes driven at the business unit level; varying approaches by unit; some project-based evaluations along with annual evaluations; may be linked to compensation or development planning</li> </ul>	<ul style="list-style-type: none"> <li>EPM is a formal, company-wide system with linkages to development planning, compensation, succession planning and learning; annual, quarterly, project and continuous evaluations as needed</li> </ul>
<b>Organizational View of EPM</b>	<ul style="list-style-type: none"> <li>HR owns it; the rest tolerate it</li> </ul>	<ul style="list-style-type: none"> <li>Each business unit leadership team owns it, with HR support</li> </ul>	<ul style="list-style-type: none"> <li>The senior executive team owns it and cascades it downward with HR partnership and support</li> </ul>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>Locally obtainable performance ratings on some employees</li> </ul>	<ul style="list-style-type: none"> <li>Centrally stored records on rated performance of all employees; may include some record of goals and accomplishments</li> </ul>	<ul style="list-style-type: none"> <li>Real-time visibility into employee goals, metrics, performance ratings and accomplishments histories, with data analytics layered on top</li> </ul>



	Laggards	Industry Average	Best in Class
Technology	<ul style="list-style-type: none"> <li>No systematic approach; manual or local spreadsheets and forms</li> </ul>	<ul style="list-style-type: none"> <li>Some in-house systems support for spreadsheets or forms; limited reporting or analysis capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Licensed or on-demand EPM systems in place throughout the business unit with data links to compensation, development, learning and succession plans. Provision for ad hoc reporting and data analytics</li> </ul>

Source: AberdeenGroup, Month 2006

### Process and Organization

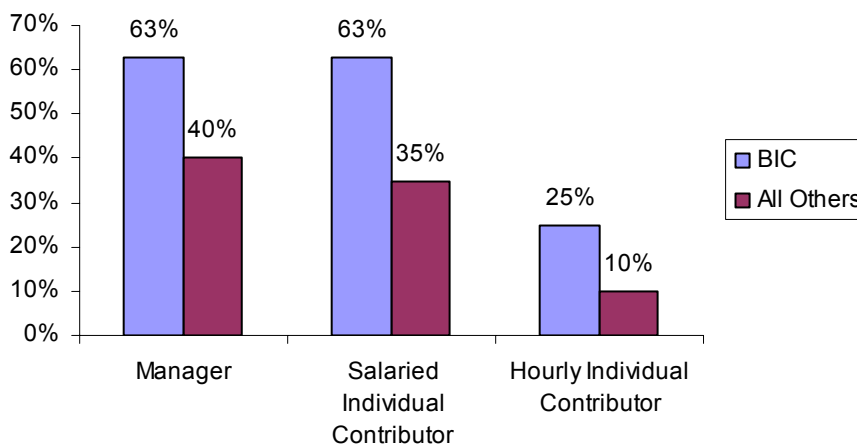
- In the process category, firms that deploy a company-wide employee performance management system with more frequent feedback and strong linkages to employee development, compensation and succession planning consistently performed better than firms that left EPM to the whims of local managers.
- Firms that use a company-wide EPM system enjoy higher overall performance in their markets.
- Indeed, the best organizational combination was for executive teams to spearhead the goal-setting, measurement, and performance feedback process with the partnership and support of HR, rather than leaving the process to HR by itself. In other words, the more effective organizations went beyond mere documentation of employee performance for the sake of an annual compensation adjustment. Rather, they placed stronger emphasis on the need for gathering and delivering systematic feedback to employees as a means for driving their performance to higher levels.

### Knowledge and Technology

- Employee performance records are required as a simple matter of compliance and legal protection for managerial decision-making. However, the Best in Class organizations arrange for the creation of and access to individual employee performance records in real-time systems. This enables managers to rapidly and comprehensively record capability ratings on mission-critical competencies, goal achievements, and development requirements for each of their people. They can then feed that data in an orderly way back to each direct report as a guide to behavior change and performance improvement. All other things equal, the more frequently they can do this, the better. As an example, Best in Class organizations focus more intensely on project performance feedback, rather than remain

content with annual evaluations (Figure 8). When leaders support employees with the psychological and material motivation they need to improve their performance, an automated EPM support system configured to fit the firm’s needs will ensure that those leaders can give high-quality performance and development feedback, as well as make informed and legally compliant decisions on pay, promotion and termination. In this way, automating EPM leverages and accelerates organizational performance improvement. The Best in Class firms demonstrate this.

**Figure 8: Performance Evaluations Delivered with Each Project Completed**

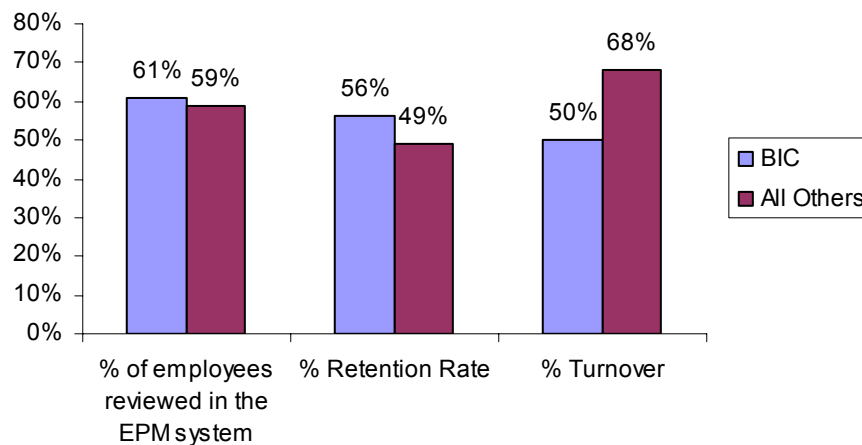


### The Measures of EPM Success

Organizations as a whole (68%) chose the lagging indicator, employee turnover, as their prime organizational measure of EPM program success. Best in Class companies, on the other hand, preferred a leading indicator, i.e., the percentage of their employees who are reviewed in their EPM system (Figure 9). In other words, they see a direct and positive correlation between the number of employees who regularly receive performance feedback and the performance of the workforce as a whole.



**Figure 9: Metrics Tied to EPM Success**



Source: [AberdeenGroup](#), June 2006

### **Pressures, Actions, Capabilities, Enablers (PACE)**

We have shown that there is a clear relationship between the pressures companies identify, the actions they take, and their subsequent competitive performance. All participants should examine the prioritized PACE selections and determine whether there are valuable perspectives to be gleaned by comparison with the PACE priorities of Best in Class companies (Table 3).

What is the dominant focus and priority? Dependence on talent. Enterprises ranked the ability to attract high-talent individuals as the strongest driving pressure behind their decisions to optimize employee performance management processes, in the context of Aberdeen’s PACE (pressures, actions, capabilities, enablers) analytical framework (Tree 1). Sixty-one percent of firms classified this pressure as a top priority.

In response to this, companies are setting strategies and taking actions primarily around maximizing accomplishment of managers and salaried individual contributors. The reason: it gives managers the biggest “bang for their buck” in expending leadership time. By contrast, less time is typically invested by leaders in hourly or contract employees.

So it is not surprising that 86% of respondent firms complete annual performance reviews on their managers and 85% of them do the same for salaried individual contributors, vs. only 66% doing annual performance reviews for hourly employees and 13% for contract employees. In the latter case, it may turn out to be a mistake. Dependence on contingent workers who develop a firm’s intellectual capital may dictate the need to manage, evaluate, and motivate them with EPM practices in order to a) keep them employed on high-value projects, and/or b) convert them, if desired, into permanent employees.

**Table 3: PACE (Pressures, Actions, Capabilities, Enablers)**

Priorities	Prioritized Pressures	Prioritized Actions	Prioritized Capabilities	Prioritized Enablers
1	Need to improve our ability to attract high-talent individuals to meet our growth objectives (61%)	Ensure that employees understand how job goals support accomplishment of corporate strategic objectives (69%)	Regular communication to employees of updates to corporate financial, customer and product/service strategic objectives, followed by tests of their understanding (55%)	IT enabled solutions that can keep all employees aware of corporate strategy updates and efficiently test them
2	Need to improve customer satisfaction and account retention through better employee performance (54%)	Ensure each dept. has defined goals, metrics and initiatives as a basis for assessing employee and team performance (62%)	Create scorecards for departments and individuals to report progress on mission-critical capabilities and goal achievement (45%)	IT-enabled solutions that drive scorecard creation for corporate, department and individual use in rating capability and accomplishment
3	We are not preparing enough capable people to fill senior staffing and leadership needs from within (50%)	Create a logical, cause-effect linkage between job goals, department goals and corporate strategic goals (56%)	Create greater compensation differential between high-performers and under-performers by rewarding attainment of certified, mission-critical capabilities as part of base pay and accomplishment of mission-critical team or individual goals for variable pay	IT enabled solutions that can align compensation policy with individual capability and accomplishment performance ratings
4	Need to reduce loss of valued employees and associated turnover costs (49%)	Adopt technology to guide, document and record progress against goals, initiatives, metrics, and targets as a basis for ongoing evaluation of teams and individuals (38%)	Multi-functional review of each department's goals and metrics for internal consistency and cause-effect alignment with company strategic objectives (38%)	An IT-enabled solution that can supply broad-based overview of all departmental goals and metrics with linkages to corporate strategy
5	Strong competition is forcing us to increase employee productivity--i.e., produce more with fewer people (46%)	Develop better linkage between team or individual accomplishments and compensation decisions (36%)	Measure and certify mission-critical capabilities in individuals while continuing to evaluate department goal accomplishment (38%)	An IT-enabled solution that can help facilitate tracking of capability ratings and of team and individual goal accomplishments

Source: AberdeenGroup, June 2006



## Chapter Four: Recommendations for Action

### Key Takeaways

- Best in Class Firms concentrate on vertical goal alignment, measured performance, and frequent feedback
- Focus EPM upgrade efforts on managers and salaried individual contributors to achieve the biggest “bang for the buck”
- Provide strong connectivity to employee development and compensation planning processes

**W**ith human capital dominating the corporate balance sheet of many organizations, cost, revenue, profitability, and customer satisfaction benefits await all firms that are committed to optimizing employee performance management.

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

### Laggard Steps to Success

1. *Sensitize the organization to the need for EPM by developing baseline data on financial and operational human capital performance measures.*

The need here is to prove the business case for upgrading employee performance management as a process. Financial human capital measures, charted for the past 3-5 years of trending, can include “revenue per employee”—a measure of human capital effectiveness—and “operating income before taxes per employee”—a measure of human capital efficiency. With this data in hand over multiple years, other operational productivity and efficiency data on human performance can be assembled to make the business case for systematizing EPM.

2. *Conduct an assessment of current EPM processes; highlight deficiencies and readiness for change.*

By surveying the organization to see what percentage of salaried, hourly and management employees receive concrete, useful feedback on how well they are performing, exactly how their contribution makes a difference, and what they need to do to improve, you will see what needs to change and begin to sense your organization’s readiness for change.

3. *Start a pilot EPM upgrade in a small portion of the organization to demonstrate “proof of concept”.*

Begin small with a friendly operating unit and the blessing and sponsorship of its executive “owner.” Demonstrate that giving frequent (at least annual, but preferably quarterly or by project), specific, practical, measurable performance feedback to 100% of the workers in a unit will motivate them to pay attention and respond to it. Then, when they respond by upgrading their performance in measur-



able terms, celebrate with appropriate private and public appreciation. Before considering an automated EPM application for support, be sure that the performance management process is first specified and agreed to by the stakeholders in the organization.

### Industry Norm Steps to Success

1. *Evaluate clearly your organization's EPM program at both the process and automation levels.*

Use an EPM vendor that can help with the specification of your performance management needs. The goal: keeping all employees aware of, linked to, and receiving useful performance feedback on clearly defined goals and metrics, coupled with development action plans, appropriate recognition, and fair compensation.

2. *If not yet automated, then automate the upgraded EPM process, either with licensed or on-demand software (not an in-house developed application).*

Ninety-eight percent of Best in Class organizations have automated their EPM processes; your organization should, too! Strive for 100% of employees receiving the benefits of the system, including especially the managers and salaried individual contributors.

### Best in Class Next Steps

1. *Assess the linkages of your current EPM system to employee development, succession planning, and compensation processes.*

The performance data from your EPM application should be driving decisions about next steps for upgrading worker capabilities through mentoring, training, job assignments, etc. It should also drive decisions about redeployment/promotion of people, along with their proper compensation. You may need data analytics tools to supplement the basic reports available on your current system. See if your EPM vendor has those tools or partners with someone that produces them.

2. *Examine the extent to which your current EPM processes and support software permit, encourage or even force the existence of "silos" of performance management which are unconnected to your enterprise's strategic objectives. Check on whether the linked goal system in the application "realigns itself" through employee inputs after additions to or changes in corporate goals.*

If employees are being perfectly managed for performance against outcomes which are at cross purposes with changing corporate strategies, getting them to work harder will actually hurt your enterprise. You need to be sure that every goal from the enterprise level to the operating department level to the individual employee level is organizationally aligned vertically as well as horizontally to avoid dysfunctional conflicts. The more advanced EPM applications will support goal setting and feedback linkages, both vertically and horizontally, and at both the individual employee and the department level. This is a more advanced



level of technology enablement that requires strong organizational clarity of structure, process, accountability and purpose. Some EPM vendors will offer pre-automation consulting to clarify these issues and assist clients with redesigning their EPM processes before automating them. Of course, this is a moving target: end-user leaders become more sophisticated and demanding as they mature. The ideal EPM application should be capable of continuous reconfiguration to meet virtually every emerging client demand without requiring custom coding. This is a tall order, but clearly preferable to forcing the client organization to “bend” by choosing from the application’s available configuration options, however many there may be.



## Author Profile

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**David Foster**  
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David Foster directs research on technology-driven strategy execution at two levels: the management of workforce performance and the management of individual performance. His HCM research looks at the technology drivers for optimizing all functions in the workforce management lifecycle, from workforce planning, sourcing and screening, to on-boarding, deployment and development, to recognition, rewards, and retirement—all in the service of corporate strategy. Prior to his work at Aberdeen, David led best practice research in strategy execution at the Balanced Scorecard Collaborative and in managerial drivers of shareholder value for Harvard Business School. He is a graduate of the Marriott School of Management with a Masters degree in Organizational Behavior and Business and has served as an adjunct professor of organizational behavior at Boston University.



## Appendix A: Research Methodology

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Between May and June 2006, **AberdeenGroup** examined the employee performance management pressures and technology priorities of more than 150 enterprises. Responding human capital executives completed an online survey that included questions designed to determine the following:

- To what extent does strategic goal alignment predict measurable differences in human capital performance?
- What impact does the level of EPM automation have on human capital performance?
- Who should drive EPM organizationally in order to achieve maximum impact on performance?
- How often do best-in-class organizations conduct performance evaluations for executives, managers, salaried individual contributors, hourly individual contributors and contractors?
- To what extent does frequency of individual performance evaluation impact overall organizational performance?

Aberdeen supplemented this online survey effort with telephone interviews with select companies, gathering additional information on employee performance management pressures and plans.

The study aimed to identify the priorities for employee performance management technology and service adoption and provide frameworks and benchmarks by which readers could assess their own plans.

Demographics of respondents include:

- **Job title/function:** The research sample included respondents with the following job titles: 26% C-level executives, 7% vice president/senior vice president, 51% director or manager, 8% internal consultants, and 8% staff and other.
- **Industry:** The research sample included respondents from finance, banking and accounting (24%), high tech (14%), health/medical/dental services (8%), public sector (7%), insurance/real estate/legal services (5%), and transportation/logistics (5%). Nineteen other industries represented included apparel, computer equipment and peripherals, and mining/oil/gas.
- **Company size--Revenue:** About 20% of respondents were from large enterprises (annual revenues of US\$1 billion or greater); 35% were from midsize enterprises (annual revenues between \$50 million and \$999 million); and 45% of respondents were from small businesses (annual revenues of less than \$50 million).
- **Company size--Employees:** About 15% of respondents were from large enterprises (headcount of 10,000 or greater); 23% were from midsize enterprises (headcount be-

tween 1,000 and 10,000 employees); and 62% of respondents were from small businesses (headcount less than 1,000 employees).

Solution providers recognized as sponsors of this report were solicited after the fact and had no influence on the direction or results of the report. Their sponsorship has made it possible for **AberdeenGroup** 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><i>Pressures</i> — 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><i>Actions</i> — 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><i>Capabilities</i> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</p>
→	<p><i>Enablers</i> — 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: **AberdeenGroup**, Month 2006



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: AberdeenGroup, Month 2006

### Table 5: Competitive Framework

#### Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of FIELD SERVICES practices and performance:

*Laggards (30%)* — FIELD SERVICES practices that are significantly behind the average of the industry, and result in below average performance

*Industry norm (50%)* — FIELD SERVICES practices that represent the average or norm, and result in average industry performance.

*Best in class (20%)* — FIELD SERVICES practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.

Source: AberdeenGroup, Month 2006



## *Appendix B:* **Related Aberdeen Research & Tools**

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

- The Pay for Performance Benchmark Report: Moving from Pay for Performance to Performance for Profit (March 2006)
- Retaining Talent: Retention and Succession in the Corporate Workforce (December 2005)
- Employee Performance Management: the Aligned, Performance-Driven Workforce (December 2004)

Information on these and any other Aberdeen publications can be found at [www.Aberdeen.com](http://www.Aberdeen.com).



## About AberdeenGroup

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### Our Mission

To be the trusted advisor and business value research destination of choice for the Global Business Executive.

### Our Approach

Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- CREATE DEMAND, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

### Our History of Integrity

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

Aberdeen's integrity has always been and always will be beyond reproach. We provide independent research and analysis of the dynamics underlying specific technology-enabled business strategies, market trends, and technology solutions. While some reports or portions of reports may be underwritten by corporate sponsors, Aberdeen's research findings are never influenced by any of these sponsors.



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Month 2006

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