2022 Performance Reset Survey

Reshaping performance management and pay for performance in a challenging talent and business environment

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Overview

Amid the pressures of new work styles, high inflation and a tight labor market, organizations face the challenge of rethinking their approach to performance management and pay for performance. Our 2022 Performance Reset Survey suggests that there is much to be gained from embracing this challenge as an opportunity to deliver value in a reconfigured workplace.

While most organizations continue to struggle to be effective at both performance management and pay for performance, roughly one in four (26%) have discovered the path to "**high effectiveness**" in both these areas (Figure 1).

Organizations that succeed in using performance management or pay-for-performance programs effectively to power individual and team performance are more likely to outperform their industry peers financially and to report higher employee productivity (Figure 2).

Figure 1. **Being effective at both performance management and pay for performance continues to be elusive for most organizations**

High	Moderate **19%**	**High effectiveness** **26%**
Low	**Low effectiveness** **41%**	Moderate **14%**

Pay for performance (y-axis)
Performance management (x-axis)

While many continue to report low effectiveness for their performance management and pay-for-performance programs, **1 out of 4** organizations have figured out how to get it right.
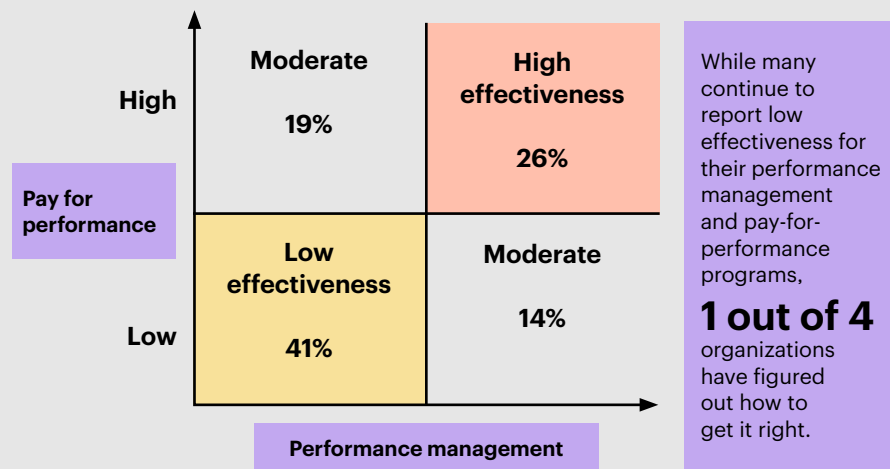
Figure 2. **The benefits of effective performance management and compensation programs**

Organizations that are using compensation programs or performance management programs effectively to drive individual and team performance are more likely to outperform their industry peers.

1.48x
as likely to report having significantly higher **financial performance** than their industry peers

1.16x
as likely to report having significantly higher **financial performance** than their industry peers

Organizations that are effectively using their performance management:

Organizations that are effectively using base pay, STI and LTI to drive individual and team performance:

1.25x
as likely to report having higher **employee productivity** than their industry peers

1.36x
as likely to report having higher **employee productivity** than their industry peers

Our survey findings highlight the practices of organizations in the high-effectiveness category and uncover improvement opportunities for the other organizations.

Start with a holistic definition of performance

Organizations are broadening their definition of performance beyond the what and the how. Survey respondents indicated that their organizations' definition of performance emphasized the following: individual performance against goals during a performance cycle (76%), individual performance against job/level expectations (66%) as well as demonstration of values (60%) and competencies (55%), and the impact of an individual's performance on an organization's objectives (54%).

There are opportunities to broaden the focus even further. Only four in 10 (40%) organizations report that their definition of performance includes an emphasis on team performance or progress against a development plan.

Effective performance management includes a holistic definition of performance that extends beyond individual performance. When compared with those in the low-effectiveness category, high-effectiveness organizations are three times as likely to include the following in their definition of performance:

• Demonstration of skills
• Individual potential
• Progress against development plans
• Team performance

Organizations in the high-effectiveness category also tend to see performance management as having a role in influencing career programs and creating alignment across the organization. For example, these organizations are twice as likely as those in the low-effectiveness category to say performance ratings influence career planning and discussions, development plans and promotions. Additionally, they are one and a half times as likely to say their pay-for-performance approach for non-executives is aligned with their approach for executives.

In addition, effective performance management fosters a better understanding among employees of key performance and compensation issues and promotes a sense of fairness. In contrast to those in the low-effectiveness category, high-effectiveness organizations are twice as likely to say their employees understand their pay-for-performance philosophy. These organizations are also twice as likely to report that their employees feel that their performance-based compensation is determined fairly and that their performance is evaluated fairly. Only slightly more than one in three organizations (35%) overall indicate their employees feel their performance is evaluated fairly. This is significant because of the prominent role performance management and, in particular, final ratings play in base salary increases and short-term incentive (STI) payouts.

Viewed from this broader perspective, performance management becomes a critical business and people imperative — and not just an HR compliance issue.

Only four in 10 (40%) organizations report that their definition of performance includes an emphasis on team performance or progress against a development plan.

Delivering on performance management objectives

Effective performance management involves the effective delivery of objectives around **performance, feedback and career development**.

On average, organizations identify about six and a half objectives for their performance management process and deliver on four of these priorities. The number and types of performance objectives were similar across high- and low-effectiveness organizations. But there is a difference when it comes to meeting objectives. Organizations with low effectiveness deliver on 40% of their objectives, while high-effectiveness organizations deliver on 91%.

Organizations can fall short in meeting their objectives for many reasons. Based on our experience, this often occurs when organizations focus on mechanics and compliance issues at the expense of setting appropriate goals and prioritizing quality interactions between managers and employees.

Organizations should strive to set flexible, focused objectives that deliver value to employees, the team and the organization. High-effectiveness organizations are more likely to have removed barriers to delivering on these objectives.

Opportunities to remove barriers to managerial performance

While managers play a critical role in performance management, only roughly half of respondents agree or strongly agree that managers in their organizations are effective at assessing (55%) or differentiating (50%) the performance of their direct reports.

Low-effectiveness organizations are more likely than their peers in the high-effectiveness category to report barriers to managers properly differentiating their direct reports' performance. These barriers arise from the following managerial concerns:

- Explaining differentiation
- Addressing underperforming employees
- Disengaging employees who get ratings below their expectations
- Not having enough time

High-effectiveness organizations are reducing barriers to managerial effectiveness in performance management. In contrast to low-effectiveness organizations, they are more likely to take the following actions in their approach to performance management:

- **Equip managers to manage the performance of individuals who use a range of flex work styles** (i.e., onsite, hybrid, fully remote) (43% versus 32%)*
- **Allow for more flexibility in goal setting and/or discretion in year-end evaluation** to account for business volatility (42% versus 30%)*
- **Strengthen linkages between performance management and career development** (40% versus 21%)*

*Note: Percentages indicate "Already taken action" (high-effectiveness organizations versus low-effectiveness organizations).

High-effectiveness organizations are also more likely to emphasize holistic performance check-ins, which may include reviewing progress against goals, discussing barriers to success and linking performance to development opportunities.
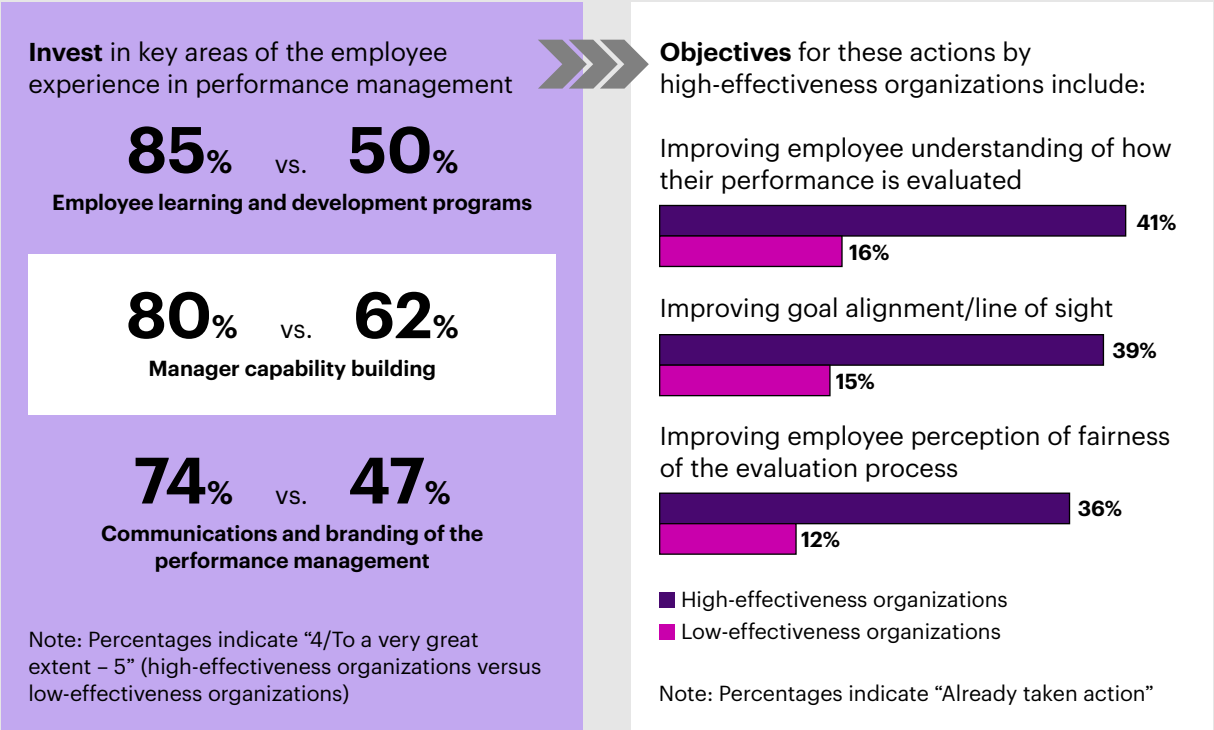
High-effectiveness organizations report they are effectively delivering on

91%

of objectives for their performance management process.

Investing in the employee experience

High-effectiveness organizations recognize the importance of engaging employees in the performance management process and fostering a favorable view of the process among employees. Consequently, these organizations are more likely than their peers in the low-effectiveness category to invest in employee learning and development programs, manager capability building, and communication and branding efforts in order to build a positive employee experience around performance management (Figure 3). This experience will help boost employees' understanding of how their performance is evaluated and improve their perception of fairness of the evaluation process.

Figure 3. **High-effectiveness organizations are more likely to invest in the employee experience**

Invest in key areas of the employee experience in performance management

85% vs. **50%**
Employee learning and development programs

80% vs. **62%**
Manager capability building

74% vs. **47%**
Communications and branding of the performance management

Note: Percentages indicate "4/To a very great extent – 5" (high-effectiveness organizations versus low-effectiveness organizations)

Objectives for these actions by high-effectiveness organizations include:

Improving employee understanding of how their performance is evaluated
41%
16%

Improving goal alignment/line of sight
39%
15%

Improving employee perception of fairness of the evaluation process
36%
12%

■ High-effectiveness organizations
■ Low-effectiveness organizations

Note: Percentages indicate "Already taken action"

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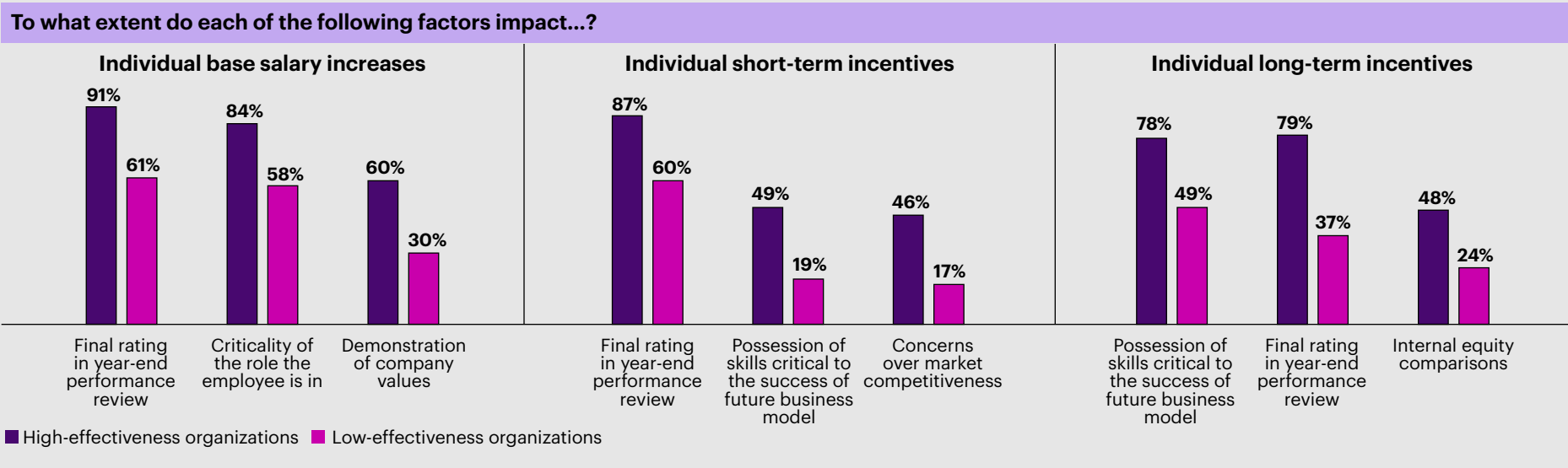
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Understanding what it takes to effectively pay for performance

An effective pay-for-performance program draws on all components of compensation — base pay, STIs and LTIs — to power individual and team performance.

Respondents in the high-effectiveness category were more likely than low-effectiveness organizations to report that base pay increases should emphasize rewarding top performers in critical roles (Figure 4).

Figure 4. **What does effective pay for performance look like?**

To what extent do each of the following factors impact...?

Individual base salary increases
- Final rating in year-end performance review: 91% / 61%
- Criticality of the role the employee is in: 84% / 58%
- Demonstration of company values: 60% / 30%

Individual short-term incentives
- Final rating in year-end performance review: 87% / 60%
- Possession of skills critical to the success of future business model: 49% / 19%
- Concerns over market competitiveness: 46% / 17%

Individual long-term incentives
- Possession of skills critical to the success of future business model: 78% / 49%
- Final rating in year-end performance review: 79% / 37%
- Internal equity comparisons: 48% / 24%

■ High-effectiveness organizations ■ Low-effectiveness organizations

High-effectiveness organizations were also more likely to indicate that the final rating along with the possession of skills critical to the success of the future business model drive both STIs and LTIs; however, market competitiveness is also a key factor in determining STI payouts.

Respondents indicated that they are planning or considering making changes to improve the effectiveness of their pay-for-performance programs in the following areas:

- Pay-for-performance philosophy
  - Changing their pay-for-performance philosophy: 39%
- New technology
  - Enabling the process with new technology: 44%
- Increased managerial discretion and flexibility
  - Introducing more managerial discretion: 29%
  - Allowing more flexibility in translating performance outcomes into payouts: 41%

- Improved differentiation
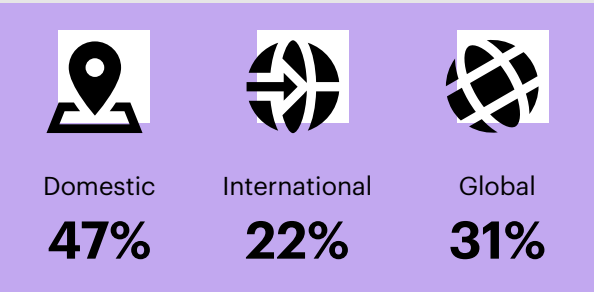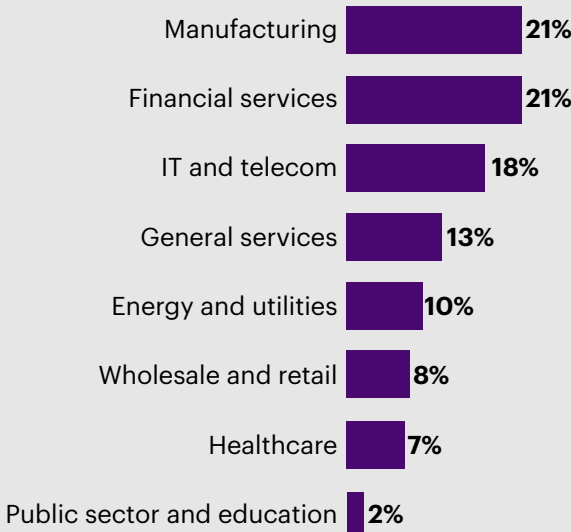 - Increasing upside earnings opportunities for high performers: 48%
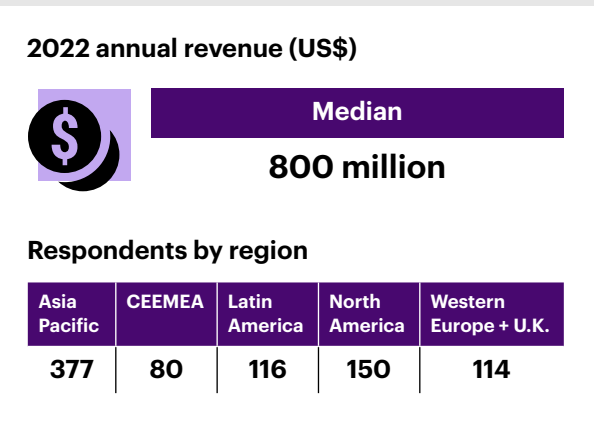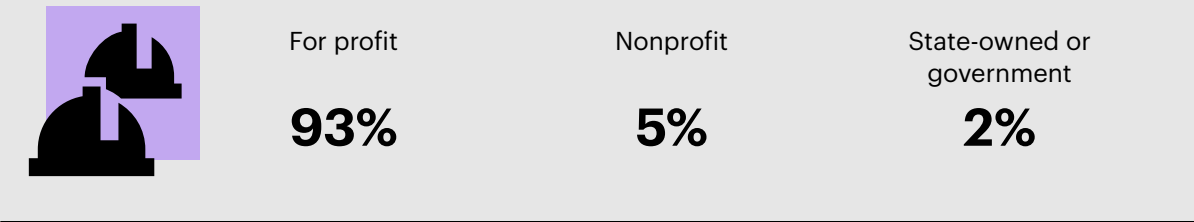
Given that pay is often a top driver of attraction and retention, these changes should help organizations hire and retain talent essential to their future success.

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Key actions to improve the effectiveness of your performance management and pay-for-performance programs

- **Reframe performance management as a key business and people process** as opposed to an HR compliance exercise.

- **Define the top three to four objectives of your organization's performance management process** and ensure the performance definition and measures of program success align with the intent of the program.

- **Shape a differentiated performance experience.** Review the role of the manager, employee and HR in performance management. Commit to a fundamental behavior change and set expectations to shape a differentiated performance experience.

- **Emphasize career development, continuous feedback and wellbeing checks.** Prioritize meaningful interactions and outcomes over program mechanics.

- **Align your pay-for-performance approach with objectives.** Strive to align your pay-for-performance philosophy and design with the overall objectives of the performance management process.

About the survey

A total of 837 organizations globally participated in the 2022 Performance Reset Survey, which was conducted mid-September to early November. Respondents employ 7.3 million employees.

For profit	Nonprofit	State-owned or government
93%	**5%**	**2%**

2022 annual revenue (US$)

Median
800 million

Respondents by region

Asia Pacific	CEEMEA	Latin America	North America	Western Europe + U.K.
377	**80**	**116**	**150**	**114**

Domestic	International	Global
47%	**22%**	**31%**

Manufacturing **21%**
Financial services **21%**
IT and telecom **18%**
General services **13%**
Energy and utilities **10%**
Wholesale and retail **8%**
Healthcare **7%**
Public sector and education **2%**

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