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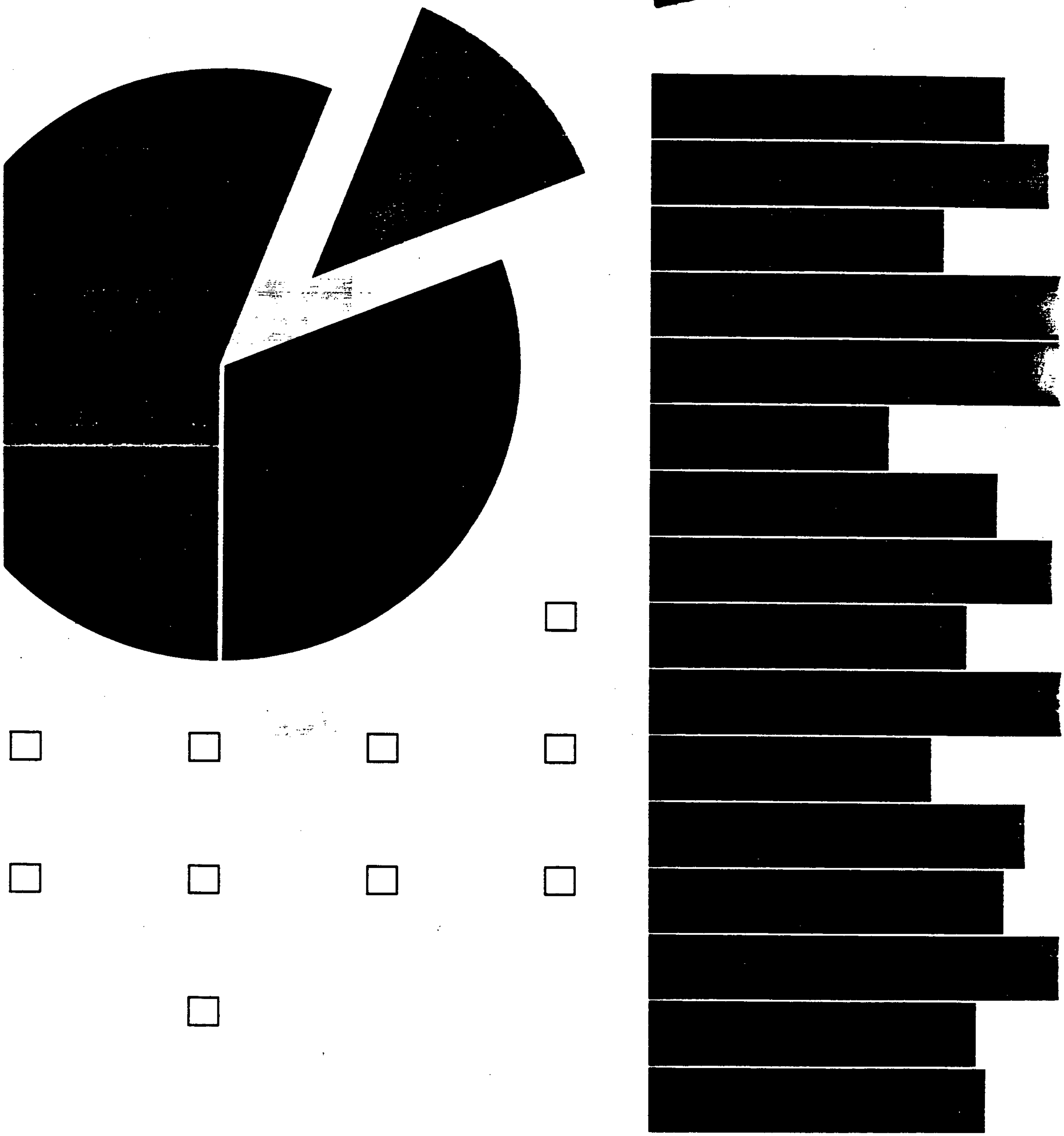
THE 1987 WYATT PERFORMANCE MANAGEMENT SURVEY

RESULTS



The Wyatt Company

INTRODUCTION AND RESPONDENT PROFILE

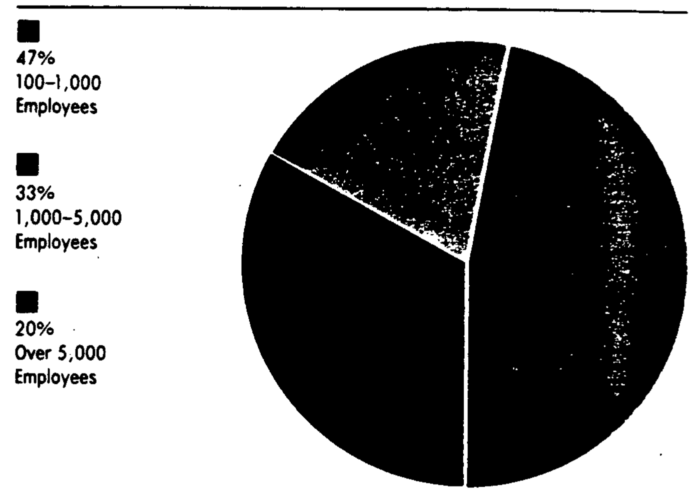
One of the most difficult issues facing Human Resource managers is identifying, measuring, and rewarding individual performance. Performance evaluation is consistently identified by managers as one of the most anxiety provoking and difficult aspects of their jobs. Rank and file employees also see problems with the pay for performance systems in their companies. In the recently completed Wyatt WorkAmerica™ study—the first comprehensive study of worker attitudes since corporate restructuring—performance management and its relationship to pay emerged as an area that employees and managers alike say is problematic. For example, only 28% of Wyatt WorkAmerica™ respondents think that there is a clear link between performance and pay increases. While performance reviews are conducted on a regular basis, a significant proportion of employees do not feel that reviews help improve job performance.

Realizing that performance management is a major issue in most American companies, Wyatt—in the summer of 1987—conducted a special survey on pay for performance compensation systems. The goal of the survey was to gather input from another constituency: the people who actually design, administer and communicate your company's pay for performance salary administration system. The survey asked a variety of questions about pay for performance—how well supported it is by management, how well does the system reward performance, how is performance measured, and what are the major problems in implementing pay for performance.

Human resource professionals from over 800 companies participated in the survey. About 47% of the respondents were from companies that employed 1,000 or less employees, 33% from companies with between 1,000-5,000 employees and 20% from companies employing over 5,000 employees. Point of Interest: Reflecting an era of un- precedented merger and acquisition activity, 32% of respondents indicated that their company had gone through a merger or acquisition in the last five years.

Respondent Profile: 805 Companies

Company Size



Respondent Profile: Industry Group

THE SURVEY FINDINGS: AN EXECUTIVE SUMMARY

The following report summarizes the findings of Wyatt's Performance Management Survey. The first section presents an executive overview of the key findings; and this is followed by detailed findings of each area of the survey. The second section of the report offers expert observations on the survey results by **Pete Smith, Chairman of Wyatt's Compensation Practice Committee and head of Wyatt's San Francisco office.**

Our thanks to everyone who participated in the survey.

The following is a brief overview of the major findings of the Wyatt Performance Management Survey:

Companies are generally dissatisfied with their performance management programs. Only 30% of the responding companies rate their present salary administration programs as "successful" in relating pay to performance.

The pay for performance concept is a high priority in most companies. All management/supervisory groups showed strong interest in the concept—with 54% of top management and 62% of human resource managers rating it a "very high priority."

The major impediments to overall success in pay for performance systems are:

1 Inadequate training of managers
2 Lack of objective measurement
3 Not enough money
4 Poor administration and design.

It should be noted that "inadequate training of managers" was ranked as the first, second or third major impediment by 55% of the respondents.

The major impediments to successful performance ratings are ranked in order:

1 Inconsistent ratings
2 Too much subjectivity in rating procedure
3 Supervisors are not adequately trained
4 There are too many high ratings.

It should be noted that *all* of the four impediments were identified by nearly 50% of the respondents. The next nearest rating was 35% for "supervisors manipulating ratings."

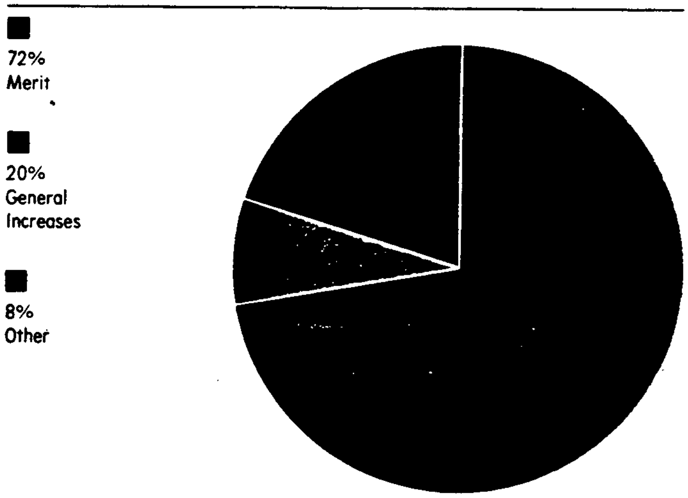
Nearly two thirds of the responding companies are considering changes in their programs to improve pay for performance. 43% plan to redesign their appraisal system. 39% plan to increase management/supervisory training; 30% plan to redesign policies and procedures; 28% plan to improve communications; 23% plan to implement tighter controls; and 18% plan to implement individual/group incentives.

DETAILED SURVEY FINDINGS

How Pay Increases Are Determined

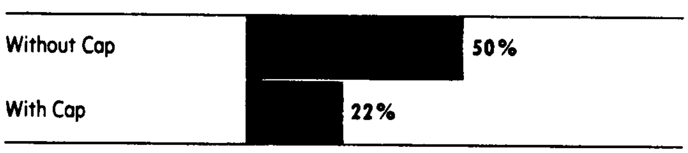
We wanted to determine how pay increases are managed in the current salary administration programs of our respondent audience. Respondents told us that nearly three quarters of the salary administration programs in place are based on periodic "merit" increases only, and do not include any form of general pay increases.

Primary Method of Pay Increase



About half of our respondents say that there are no restrictions on the employee's progress through the salary range, but nearly one-quarter say that part of the salary range is not available to all employees (e.g., top quartile is for high performers only).

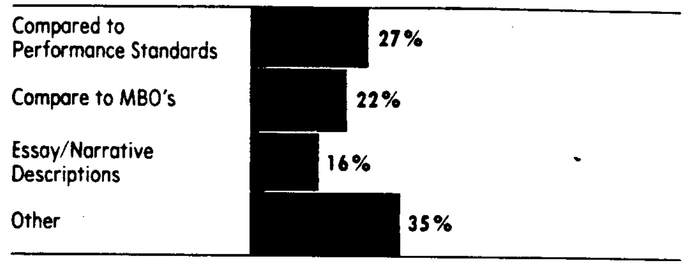
Merit Salary Increases with/without Cap



How Performance Is Measured

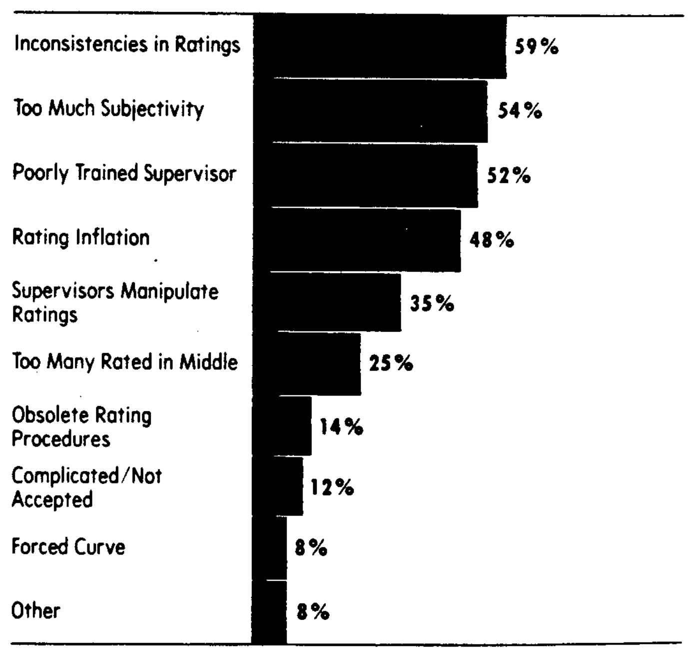
We then asked respondents about the principal methods used to assess performance in administering the "merit" portion of salary increases. About one quarter (27%) report that the principal method used to assess job performance is rating against defined standards of performance for the job. An additional quarter (22%) say that they primarily compare performance results to previously established objectives, while 16% use a more qualitative approach based on essay or narrative descriptions of performance.

Principal Methods Used to Assess Performance



Recognizing the key role of performance ratings in pay for performance systems, what do respondents consider to be the major problems in their company's performance rating method? Quite simply, their answer can be summarized as "people"—the difficulty of managing the managers who have to produce performance ratings for their direct reports. Specifically, respondents identified: **1)** inconsistencies in ratings, **2)** too much subjectivity in the rating procedure, **3)** poorly trained supervisors, and **4)** rating inflation as the most significant problem.

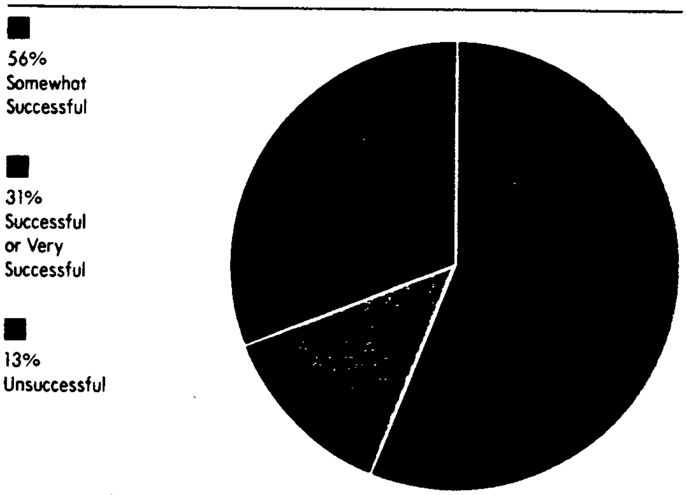
Major Problems with Current Performance Appraisal System



Success of Current Programs

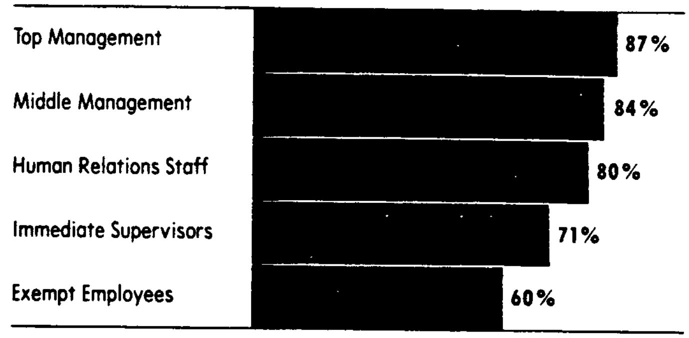
Overall, how do our respondents evaluate the success of their present salary administration program in recognizing pay for performance among exempt salaried employees? Nearly a third evaluate their current programs as "successful" or "very successful." However, the majority (over 50%) describe their current programs as only "somewhat successful." Indeed, 65% of respondents indicated that their company has made, or intends to make, some changes in their current pay for performance system.

Success of Present Salary Administration Program in Recognizing Pay For Performance



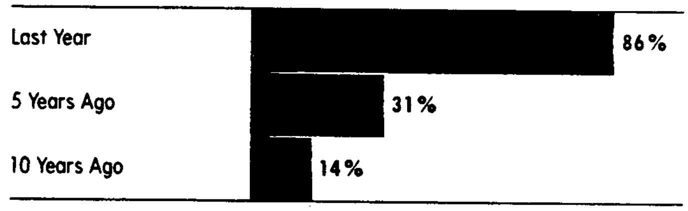
We asked respondents who identified their present salary administration program as "very successful" or "successful" in recognizing pay for performance, how satisfied they feel various groups in their companies were with the operation of their salary administration programs. The majority—over 80%—state that top management, middle management, and human resources staff are satisfied with the operation of their company's salary administration program. Other groups are positive, but less so: e.g., 60% of exempt employees and 71% of supervisors are described as "satisfied."

Levels of Satisfaction with "Successful" Salary Administration Programs (Percent Satisfied)



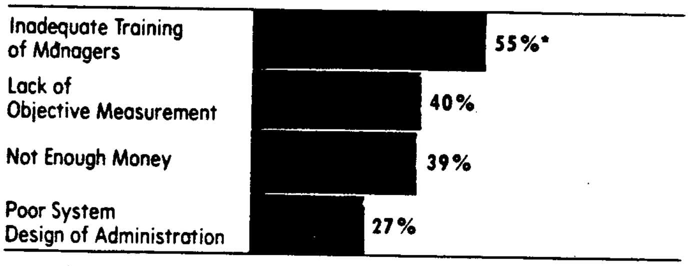
Among those respondents who identified their present salary administration program as "very successful" or "successful," almost half say they would *not* have given the same evaluation 5 or 10 years ago.

Employees Who Would Have Rated Their Present Salary Administration Program the Same in Recognizing Pay For Performance



Respondents are very consistent in what they see as the major impediments to a more successful management of the pay for performance system. "Not enough money," "inadequate training of managers," "no objective management," and "poor design and administration" are the most frequently raised factors detracting from successful pay for performance systems.

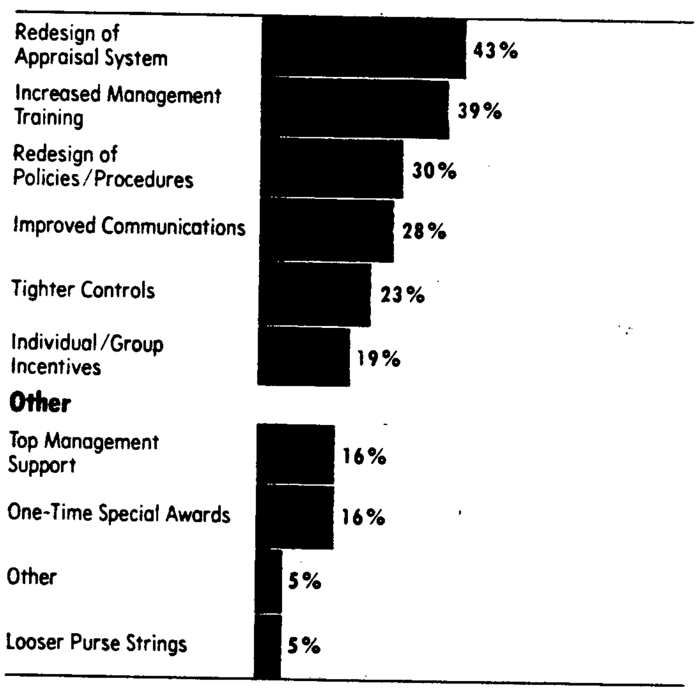
Main Impediments to Successful Management of Pay For Performance



*% ranking 1st, 2nd or 3rd greatest impediment

Those companies that are considering changes in their program will focus on redesign of the performance rating system, increased management training, and redesign of the policies and procedures of the basic salary administration program.

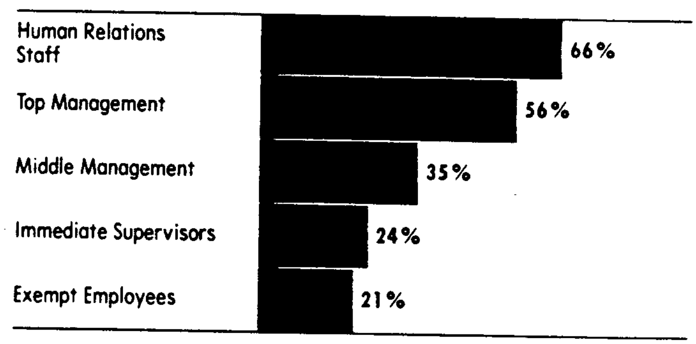
Improvements Considered or Made to Pay For Performance Programs



Management Support For Pay For Performance

What is the attitude or interest in the pay for performance concept? How much of a priority is pay for performance among various groups in the company? It is interesting that the groups considered to be the most interested in pay for performance are top management and human resources staff. Supervisors and exempt employees are "interested" but do not assign the same priority as do senior managers and human resources. It seems, therefore, that a high level of interest in pay for performance exists, especially at the most senior levels of management and among human resource professionals—but the interest level is significantly lower among the employee groups where a successful pay for performance program is most likely to produce the greatest bottom line value for the organization.

Perceptions of Commitment to Pay For Performance Concept
(Rated "Very High Priority" by Respondents)



Pete Smith is Chairman of Wyatt's Compensation Practice Committee; head of Wyatt's San Francisco office; and a member of the Board of Directors of The Wyatt Company.

WHY PERFORMANCE APPRAISAL IS FAILING by Pete Smith

A successful pay for performance salary appraisal program involves a variety of disciplines. However, few companies seem to recognize this. The absence of an inter-disciplinary approach may be the chief reason why most of these programs are not performing well for American businesses.

Consider the variety of skills needed for a successful pay for performance program: training, management development, communications, salary planning, and compensation. Yet too often the responsibility for making the pay for performance concept work is assigned organizationally to just one of these disciplines. For example, a large majority of responses to our survey questionnaire came from Compensation Managers, who have traditionally been responsible for performance appraisal programs.

To understand the importance of inter-disciplinary perspective on performance management, consider three major reasons why managers find performance appraisals difficult.

***First,* the focus in many appraisal systems is too narrow.** There is too much emphasis on issues such as form design, merit increase scales, and whether to use forced distributions. There is usually not enough emphasis on getting to the root of the performance appraisal process: the dialogue between managers and the employees working for them.

***Second,* managers find performance appraisal difficult because the process often puts them very close to the awkward situation of being asked to judge the *personal value* (rather than the job performance) of the people working with them.**

Why is this so? One reason is that much of the paraphernalia surrounding performance appraisal programs uses terms more related to qualities of personality than to performance criteria. Managers should be judging job performance, but when the review ends up with classifying employees as "average" or "commendable," the line between evaluating performance on the job and evaluating a person's worth as a human being is blurred.

These psychological implications are important, but they are not fully understood by many performance appraisal planners. Performance appraisals should be a tool of reinforcement, rather than an ordeal that leaves the manager uncomfortable and the employee frustrated.

***Third,* not enough attention is given to defining standards against which performance will be measured.** Clear performance standards, related to key aspects of the position, make appraisals much easier for managers. Well-defined standards enable managers to focus directly on job performance, rather than personality. In effect, managers can say "You're an outstanding person and I like working with you, but your performance has to improve substantially if you want a raise."

While developing effective performance standards is never easy, there is considerable room for improvement in most companies today. This is recognized by the survey respondents, 40% of whom cited "no objective measurement criteria" as one of the three key impediments to the success of their existing appraisal programs.

Significantly, the highest rated impediment to successful management of pay for performance was "inadequate training," cited by 55% of respondents. In my view, this is an accurate reflection of the missing key element in the entire process: the effective training of managers and supervisors in the *dynamics* of performance management.

Most companies put far too little emphasis on performance management and performance appraisal training. In many companies, the training that does take place concentrates on procedures and forms, rather than helping supervisors hone their communications skills, deal with difficult appraisal situations, and develop precise performance standards. In terms of return on investment, there is great potential for achieving higher levels of performance (and higher productivity) through improved management training in this area.

Nevertheless, these gains cannot be achieved without an inter-disciplinary effort. Designing and conducting training programs that get to the heart of performance management requires the collaboration of specialists in the compensation, communications, and management development functions, as well as trainers. The creation of effective performance standards should involve not only representatives of the human resources area, but also employees from the finance and corporate planning areas, not to mention the managers and supervisors themselves.

An effective pay for performance system must address the difference between the high interest level of the most senior levels of management and human resources professionals and the more limited interest level of supervisory staff. Clearly, programs will only be successful if the first line through middle management staff (who conduct the overwhelming majority of appraisals) perceive pay for performance as a priority.

Why are middle managers and supervisors less enthusiastic about pay for performance programs? It is this group who must make the tough decisions regarding who is rewarded and who is not; between who exceeds expectations and who fails to meet them. There is seldom a reward for such efforts. The penalties are many in time and employee resentment.

If supervisors are to be supportive, the system must offer some rewards to them as well. Supervisory performance appraisals must be predicated—in part—upon the abilities of individual supervisors to manage the program. Supervisors must have financial recognition for their work in performance appraisal if they are to hold the process in high esteem.

In addition to recognition and financial reward, supervisors require *support:* training in the art of effective performance discussions, time to do the job properly, and involvement in system development. A sense of ownership in the system does wonders to enhance the priority placed upon it.

The survey results presented here show a combination of dissatisfaction and hope: Few are satisfied with their current program, but most plan to make improvements. These plans seem to be focusing on the right things (training and communication, for example). But they may result in continuing frustration if they are not designed and implemented by task forces representing the necessary spectrum of functional areas.

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