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2013 GLOBAL PERFORMANCE MANAGEMENT SURVEY REPORT EXECUTIVE SUMMARY

MARSH & McLENNAN COMPANIES

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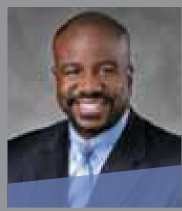
Early this year, we asked organizations worldwide to participate in an important survey that would help shed light on the state of performance management.

More than 1,050 performance management leaders representing 53 countries participated in Mercer's 2013 Global Performance Management Survey, uncovering many of the most pressing issues in performance management today.

If you would like to purchase the global, regional-country, or industry reports, please visit www.imercer.com/performance. It is our hope that this research leads to thought-provoking reflections and action on your organization's approach to performance management. If you would like Mercer to be a part of these discussions, please contact your representative or one of our performance management experts listed on page 13.

Respectfully,

Orlando Ashford
President, Mercer Talent



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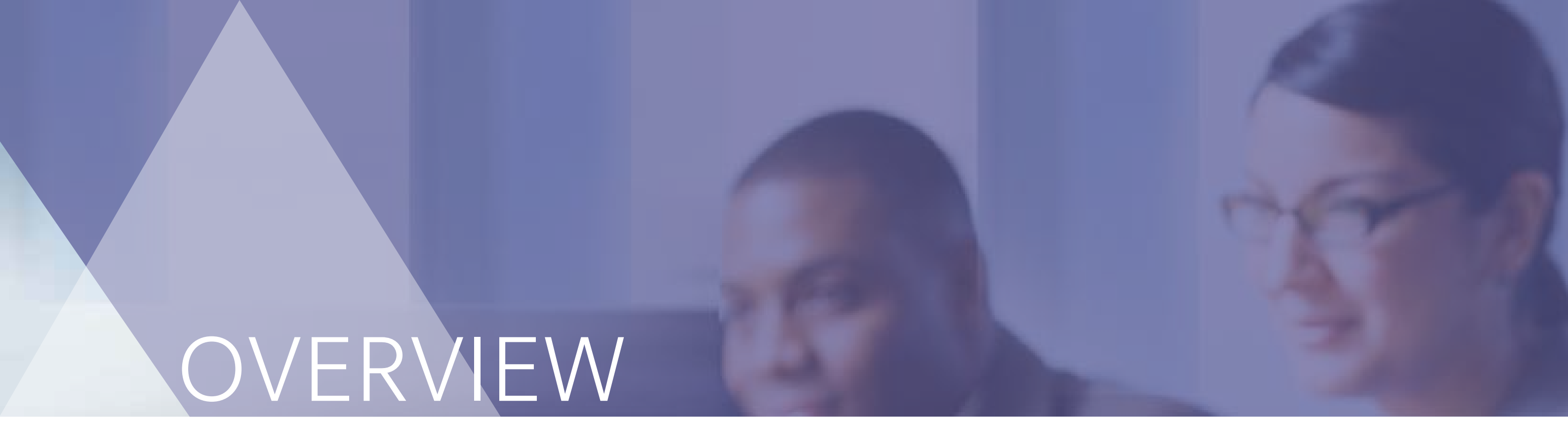
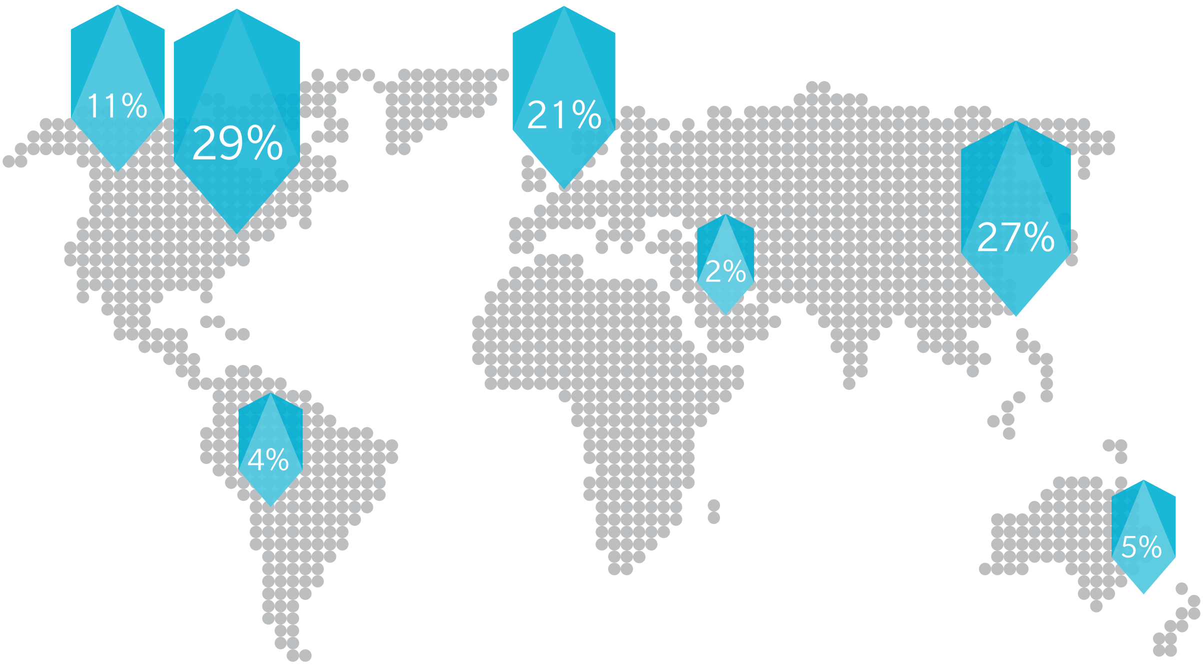


OVERVIEW

Mercer's Global Performance Management Survey includes responses from performance management leaders of 1,056 organizations representing 53 countries around the globe. The organizations surveyed varied in size from fewer than 1,000 employees to more than 10,000 employees and represented a wide variety of industries and structures (for-profit, nonprofit, government).



53 countries

1,056 organizations

INDUSTRIES WITH HIGHEST PARTICIPATION

- Durable Manufacturing 14%
- Technology 10%
- Consumer Goods 8%
- Financial Services 7%
- Energy 7%
- Health Care Provider 7%
- Nondurable Manufacturing 6%
- Insurance 5%
- Transportation 5%
- Professional Services 5%
- Pharmaceutical 5%
- Retail 5%
- Education 4%
- Telecommunications 4%

PERFORMANCE MANAGEMENT: WHAT'S WORKING ... AND NOT WORKING

Establishing an effective employee performance management system is a major challenge for most organizations, making performance management a perennial hot topic among HR leaders. Consequently, companies around the world are regularly in search of best practices and new solutions for this core process.

In today's business and economic environment, some HR executives are even openly questioning whether to abolish their current performance management programs. Despite all the attention, it is difficult to find specific information on what's working and not working and how practices vary by region and industry.

In early 2013, more than 1,000 companies worldwide shed light on global performance management practices by participating in Mercer's Global Performance Management Survey. As evidenced by the high rate of participation, it is clear that performance management continues to be of critical interest worldwide.

While there are some notable differences in performance management practices across regions, globally the overall design of the process looks nearly the same. The vast majority of organizations set individual goals (95%) and conduct formal year-end review discussions (94%). Most have overall performance ratings (89%), evaluate competencies/behaviors (86%) in some fashion, include an employee self-assessment (82%), and link individual ratings and compensation decisions (89%). More than half (57%) of the organizations globally use a 5-point rating scale.

Are company performance management approaches effective?

Not overwhelmingly, as evidenced by 51% of respondents saying their planning process needs work, 42% saying their linkage to compensation decisions need work, and 48% saying their overall approach needs work.

What is the most important outcome companies seek through performance management?

The majority of respondents (43%) say it is to drive employees to higher levels of performance, while 21% say it is to provide performance feedback and 15% say it is to focus employees on the "right" things.

Some performance measurement practices that are known to be valuable for development are less prevalent in formal performance evaluation decisions. Globally, about one-third of organizations use informal multisource feedback, but fewer than one-fourth (22%) use formal 360-degree feedback in their performance management process. More than one-third (36%) provide managers with a separate people management rating, yet only 10% link the people management rating to compensation decisions.

Despite the commonalities in performance management process design around the world, very few companies (3%) reported that their overall performance management system delivers exceptional value. Many aspects of organizations' performance management approach were evaluated as ineffective. The linkage to succession planning received the lowest marks, with 70% of companies indicating this practice needs work.

Very few companies (3%) reported that their overall performance management system delivers exceptional value.

ROADBLOCKS TO PAY FOR PERFORMANCE

An important objective for many organizations is to pay-for-performance. Yet Mercer's survey results show a number of factors interfere with successful pay-for-performance implementation. The lack of manager skill or motivation to implement successfully is the roadblock that most survey respondents say has impeded pay-for-performance execution.

In order to discourage uniform ratings by requiring managers to differentiate performance, some companies use forced, or guided, ratings distributions. Nearly one-third (30%) of the global respondents report that they have a forced distribution of ratings. However, only 5% of companies say that forced distribution practices have significantly improved the effectiveness of their pay-for-performance programs.

EMERGING TRENDS

The recommended practice of tailoring performance management programs to align with distinct business unit needs or role requirements does not yet appear to be widespread. Three out of four global survey participants say that their performance management practices are similar across business units and levels of leadership. Only 23% of companies indicate that the design of the executive performance management process differs from that of the rest of the workforce.

A growing number of boards are making changes to CEO performance management processes. In most companies, the unrelenting pressure to deliver immediate financial results places the primary focus on CEOs' financial goals. While two out of three companies report that CEO performance evaluation addresses bottom-line and operational impacts, less than half of the survey respondents also say that their CEO performance evaluation focuses on personal leadership qualities.

Best practice advice in performance management typically includes recommendations to leverage technology and Big Data. When asked about the status of technology, more than half of the global survey respondents say that they use performance management and compensation technology, and one-third of companies say that they plan to implement performance management technology in the next two years.

The metrics used to evaluate performance management concentrate on compliance measures, with relatively few companies focusing on anything of a strategic nature. For example, three out of four organizations report measuring the percentage of their workforce completing performance evaluations. Yet only 23% of companies measure the percentage of high performers selected for succession planning or high-potential programs, and 19% measure the differentiation in retention rates between top and poor performers. In spite of the fact that nine in 10 organizations have a pay-for-performance philosophy, surprisingly only four in 10 actually track and measure the alignment between performance ratings and compensation decisions.

Companies with pay-for-performance philosophy — 89%.

Companies that track and measure alignment of ratings and compensation — 42%.

KEY FINDINGS: CRITICAL DRIVERS OF PERFORMANCE MANAGEMENT SUCCESS

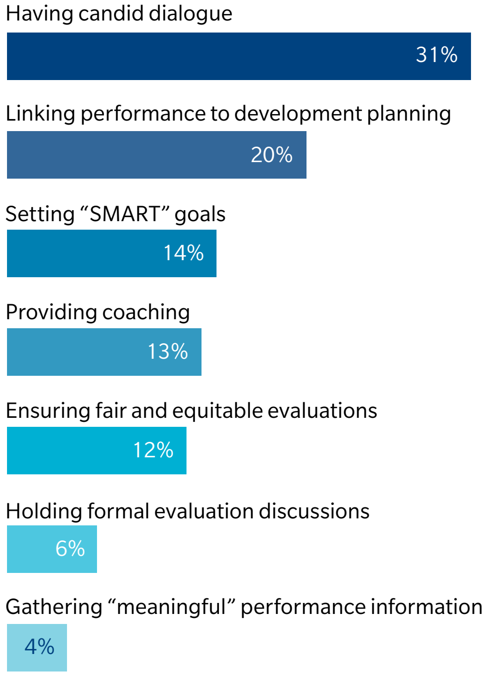
Global survey respondents report that the highest-priority outcome of performance management is "driving employees to higher levels of performance." Mercer's statistical survey analyses — and years of performance management experience — reveal that the key drivers of performance management success are manager skills, executive commitment, technology, and calibration.

MANAGER SKILLS — SPECIFIC TO DEVELOPMENT AND GOAL SETTING — TOP THE LIST

The primary driver of accomplishing desired performance management objectives is the strength of a company's people manager skills. These skills include capabilities such as setting goals, providing feedback, evaluating performance, and linking performance to critical talent management decisions such as compensation, development, and careers. About one-third of survey participants indicate that improving managers' ability to have candid dialogue is the skill that is believed to have the greatest impact on overall company performance.

Generally, how skilled are your company's managers at doing the following?

If your organization could improve the overall capability of your managers, what one skill area would have the biggest impact on the organization's overall performance?



Figures in this report may not total 100% due to rounding.

When it comes to manager skills, what elements have the most impact on overall success?

	Perceived impact on organization	Actual driver of organizational impact	Percentage of managers with marginal skills
Having candid dialogue	**1st** (perceived highest impact)	3rd	33%
Linking performance to development planning	2nd	**1st** (skill with highest impact)	**48%** (lowest skill level)
Setting SMART goals	3rd	2nd	29%

MANAGER DEVELOPMENT AND ACCOUNTABILITY ARE KEY

With a third of participants saying managers are only marginally skilled, it is no surprise that candid dialogue is identified by survey participants as the perceived best lever of change. However, although the importance of candid dialogue is supported in Mercer's study and is often highlighted in other best practice research, Mercer's statistical analyses actually reveal some new insights. Other people management skills, beyond feedback skills, are even more important drivers of overall performance management success. Linking performance to development and setting SMART goals (specific, measurable, ambitious but achievable, relevant, and time-bound) are the two skills that matter most in delivering on a company's desired performance management outcomes.

Given that participants indicate that 48% of managers are marginally skilled in linking individual performance to actionable development planning and 29% are marginally skilled in setting SMART goals, many companies have a big gap to fill in people management capability in order to deliver on expected results of performance management.

Most companies appear to undervalue the importance of goal setting, assuming that managers intuitively know how to conduct performance planning effectively. In examining how people management training time is spent, most companies spend 20% of performance management training sessions on goal setting, while twice as much time is spent on year-end activities such as completing the performance evaluation form, year-end meetings, and calibration. Part of setting SMART goals is creating alignment with the goals of the business unit and company; however, only 56% of companies cascade goals from the company to the business unit, and only 51% of companies cascade goals from the business unit to the employee.

While it has long been understood that manager skills are crucial to an organization's success, experience shows that people management is a complex capability that requires specific accountability and development. According to Mercer's global survey, very few organizations explicitly value people management skills by measuring and rewarding good people managers. Although nine out of 10 companies link performance and compensation decisions, only 10% of organizations assign managers a separate rating on people management where it greatly impacts compensation decisions (for example, 20% or more of overall rating).

EXECUTIVES LEADING BY EXAMPLE

In addition to manager skills, executive commitment has a strong impact on the likelihood of performance management success. Companies reporting a higher level of executive commitment are more likely to report effectiveness in performance management.

Committed executives go beyond formal goal setting and year-end discussions with employees. Nine in 10 companies say that their highly committed executives provide regular coaching and feedback to direct reports and hold their direct reports accountable for doing the same with their own teams. Three in four say that their highly committed executives regularly talk about performance management as a core business process. These executives recognize that by directing and enabling their teams by role modeling behaviors, they can accomplish desired business results.

Executives at your company demonstrate visible commitment to performance management by doing which of the following? (Select all that apply.)

Companies reporting a higher level of executive commitment are more likely to report effectiveness in performance management.

TECHNOLOGY AND CALIBRATION BUILD CONSISTENCY AND SUPPORT

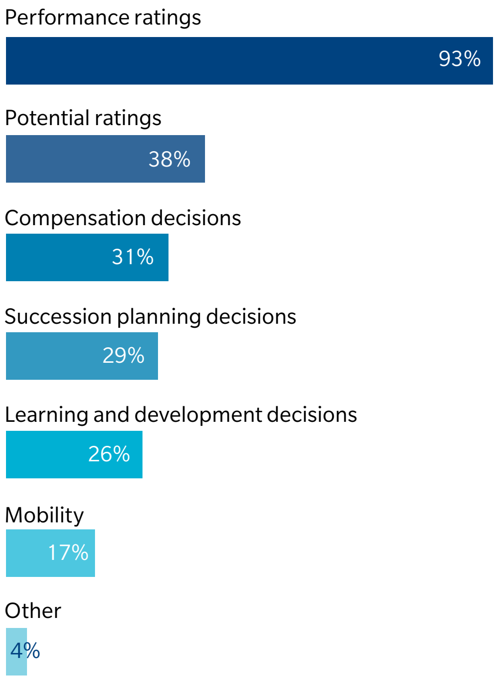
Technology and calibration are also key drivers of performance management success. Mercer's research shows that more skilled people managers are in companies that practice calibration. Calibration among managers to discuss employee performance has many benefits, including reaching more accurate performance rating decisions, increasing talent awareness, and identifying individual employee development needs and opportunities.

To ensure differentiation between performance levels, more than half (56%) of organizations use informal or mandatory calibration processes. More than half of companies include a review of all employees in calibration discussions, while 27% of companies only discuss leaders or some subset of leaders, such as executives or directors. Ninety-three percent of calibration discussions and reviews focus on performance ratings, followed by a third of companies also discussing compensation, development, potential, and/or succession planning.

While technology alone will not ensure a company's performance management process delivers exceptional value, it is a key driver of success. Technology can afford key benefits, such as ready access to accurate data and actionable insights to all stakeholders. Given the plethora of technology choices, it was rather surprising to see that just 40% of participants use performance management technology. Of those, only 7% have a performance management system that is fully integrated into other HR and financial systems, maximizing the ability to leverage performance management data to better allocate rewards, improve recruiting, and enrich career planning.

What career levels are calibrated at your organization?

During calibration meetings, which of the following topics are discussed? (Select all that apply.)



INDUSTRY INSIGHTS

Industries with 40 or more companies participating were included in the industry analysis. They are Consumer Goods, Education (US and Non-US), Energy, Financial Services (Banking, Non-Banking, Insurance), Health Care (US and Non-US), Manufacturing (Durable and Nondurable), Pharmaceutical, Professional Services, Retail, Technology, Telecommunications, and Transportation.

While many design elements and practices are consistent across industries, there are some differences that are worth noting.

Below are insights specific to the four drivers of effective performance management: manager skills, leadership commitment, calibration, and technology. Insights on pay-for-performance are also included since it is a common design element.

MANAGER SKILLS

Retail organizations lead the way in reporting a culture of candid dialogue (63% vs. 53% overall). Education lags, with only 28%, preceded by roughly 40% each in Telecommunications, Insurance, and Health Care. In the US, Health Care organizations represent the highest percentage of participants that provide managers with a separate rating on people management skills (55% vs. 36% overall); the industry least likely to do so is Telecommunications (12%).

LEADERSHIP COMMITMENT

Executives at Health Care organizations outside the US are most likely to regularly talk about performance management as a core business process (47% vs. 35% across all industries), while executives in Education and Non-Banking Financial Services are least likely to do so (20% and 17%, respectively). Executives in the Education industry are notably less likely to demonstrate visible executive commitment through one-on-one performance discussions, formal planning discussions, and holding teams accountable.

DIFFERENTIATION

Energy and Banking are most likely to use guidelines (65% and 67%, respectively, vs. 55% overall), while Pharmaceutical and Nondurable Manufacturing are more likely to use forced distributions (40% and 42%, respectively, vs. 30% overall). With regard to using mandatory calibration, Consumer Goods, Banking, and Durable Manufacturing are slightly more likely to use the process (43%, 43%, and 45%, respectively, vs. 33% overall), while mandatory calibration is least likely to be used by Education (4%).

TECHNOLOGY

Forty-three percent of global companies report using performance management technology. Both Banking and Technology exceed the global practice, with 61% and 57%, respectively. Consumer Goods and Banking are more likely to have their performance management technology integrated with other talent management technology solutions.

PAY FOR PERFORMANCE

All Telecommunication participants report linking performance and pay decisions (vs. 89% overall), while seven in 10 in Education and Health Care do so. While pay-for-performance may be a common design element, Banking leads industries in tracking and measuring the alignment between performance ratings and pay decisions (at 57% of firms).

To obtain responses to each question for select industries, please visit www.imercer.com/performance to explore purchase options.

REGIONAL AND COUNTRY INSIGHTS

Regions and countries with 15 or more companies participating were included in the regional and country analysis. They are Americas (Canada, United States, Latin America, Argentina); Asia Pacific (China, Australia, India, Singapore, South Korea, Japan, Hong Kong); and EMEA (Eastern Europe, Western Europe, Middle East, Germany, United Kingdom, Spain, Italy, Portugal, Switzerland).

Similar to the industry analysis, no one region or country leads the world in best practice performance management. Asia Pacific is more likely than other regions to have tools, guidelines, and metrics in place. Europe has more countries that emphasize the importance of career development in their pay-for-performance value propositions.

GOAL CASCADE

Fifty-six percent of overall participants cascade goals to the business unit, while in Eastern Europe and Asia Pacific this is done by 85% and 71% respectively. At a country level, South Korea (83%) and India (79%) lead the way, while Canada and the United States lag, with 38% and 42% respectively.

LINKING PERFORMANCE AND DEVELOPMENT

Eastern Europe also leads the world in linking performance and development decisions, with 88% of companies reporting this practice. Western European countries – Italy and Switzerland – lead in this practice, at 85% and 83% respectively.

EXECUTIVE COMMITMENT

Select Asia Pacific countries (i.e., India, Singapore, and Japan) and Eastern Europe are more likely than most countries to demonstrate executive commitment to performance management, while Latin America, Italy, and Spain are least likely.

DIFFERENTIATION

While only 30% of overall participants use forced distributions, 48% of Asia Pacific companies use this approach, led by India (61%), China (58%), and South Korea (58%). Globally, 33% of participants conduct mandatory calibration sessions, while 50% or more of companies do so in India, Japan, Germany, and Switzerland. And all these countries, with the exception of Germany and Switzerland, tend to calibrate all their employees.

PAY FOR PERFORMANCE

The top practice considered as part of a pay-for-performance program among overall participants is linking performance to merit increases. Whereas in the UK, Italy, Japan, and Spain, it is primarily about rewarding performance through an individual short-term incentive payout. In Asia Pacific, the Middle East, and Italy, pay for performance is also notably about linking performance to advancement and promotion.

METRICS

India tracks performance management metrics significantly more than all other countries included in the analysis. For example, India has 69% of companies tracking the alignment of performance and pay decisions (vs. 42% overall) and 52% of companies measuring alignment between business performance and employee performance rating distribution (vs. 20% overall).

To obtain detailed country and region findings for each question, please visit www.imercer.com/performance to explore purchase options.

PARTICIPANT PROFILE

Country of company headquarters

Of total survey respondents	Americas is 45% of total
29%	United States
11%	Canada
2%	Argentina
1%	Chile
< 1% (each)	Bermuda, Brazil, Colombia, Jamaica, Mexico, Peru

Of total survey respondents	Asia Pacific is 32% of total
10%	China
5%	India
4%	Australia
4%	Singapore
3%	South Korea
2%	Japan
2%	Hong Kong
1%	Taiwan
< 1% (each)	Bangladesh, Malaysia, New Zealand, Philippines, Thailand, Vietnam

Of total survey respondents	EMEA (Europe, Middle East, Africa) is 23% of total
4%	United Kingdom
3%	Germany
2%	Spain
2%	Italy
2%	Portugal
1%	Switzerland
1%	Netherlands
1%	Romania
1%	France
1%	Denmark
< 1% (each)	Austria, Belgium, Czech Republic, Finland, Ireland, Kuwait, Luxembourg, Oman, Poland, Qatar, Russia, Saudi Arabia, South Africa, Sweden, Turkey, Ukraine, United Arab Emirates

Number of employees

Percentage of total survey respondents	
22%	Fewer than 500
10%	501–1,000
24%	1,001–5,000
15%	5,001–10,000
30%	More than 10,000

Type of company

Percentage of total survey respondents	
50%	For-profit Company
42%	Multinational Company
13%	Nonprofit Organization
6%	Local/Domestic Company
4%	Government Agency
2%	State-owned Enterprise

Percentages do not add up to 100% as multiple responses were allowed.

Industry

Percentage of total survey respondents		Percentage of total survey respondents	
14%	Manufacturing — Durable	5%	Pharmaceutical
10%	Technology	5%	Retail
8%	Consumer Goods	4%	Education
7%	Financial Services	4%	Telecommunications
7%	Energy	2%	Utilities
7%	Health Care Provider	2%	Government
6%	Manufacturing — Nondurable	1%	Associations/Trade Groups
5%	Insurance	1%	Hospitality/Tourism
5%	Transportation	1%	Charity/Foundation
5%	Professional Services	< 1%	Legal

FOR MORE INFORMATION

Want to dig deeper? For more on this report's findings and what they could mean for your organization, contact:

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