

# Fontes-WU-SSE Riga Research Project Contemporary Performance Evaluation Practices Survey 2019



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(Research project in collaboration with Fontes)

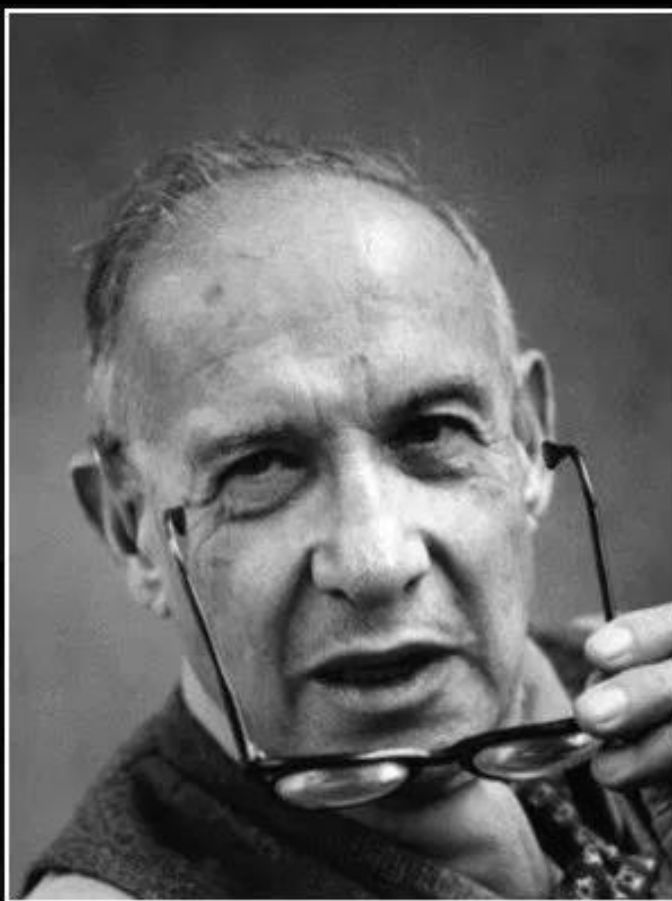
- This survey aims at studying **performance evaluation practices in Latvia and Lithuania** (Round I & Round II: as of Dec 2019, 61 participating organizations).
- Most organizations participating in the study agree that **the effectiveness of their performance evaluation process could be improved**.
- **One third** of survey participants are **not satisfied with the current process**, which is often attributed to inconsistency of performance evaluations across supervisors and inefficient staffing.
- In most companies, performance evaluation process reinforces strategic objectives, core values as well as employee retention and development, however, diversity and inclusion in the workplace are often not in scope of the performance evaluation process.
- **26%** of organizations surveyed **use calibration committees** and among these:
  - Most have done so for over four years
  - Half report that employees know the identity of calibration committee members
  - Most organizations indicate their calibration committees to be especially effective at, inter alia, increasing **transparency**, providing information for **promotion decisions**, limiting evaluation-related **biases**, increasing evaluation **consistency** and **staffing**.
- **57%** of organizations surveyed **use alternative raters** and among these:
  - Alternative raters usually provide open-ended feedback and do not use any metrics. If metrics are used, they are usually the same as the ones used by direct supervisors.
  - Most organizations indicate that alternative raters are especially useful for **talent management**, **bias mitigation**, **consistency** and **staffing**.

- This presentation summarizes the results of a new cooperative research project **Contemporary Performance Evaluation Practices** between **Fontes, WU** Vienna University of Economics and Business and **SSE Riga**. The first round of the survey was sent out in Jun 2019 to most of Fontes clients in Latvia and Lithuania with the follow-up round in autumn 2019, closing in Jan 2020 with **61 respondents from Latvia and Lithuania**. Participation in the survey is free of charge. All respondents are guaranteed anonymity.
- The survey is based on existing research in Management Accounting and HR Management (e.g., Bol et al. 2019, Lawler 2003) on the topic.
- In the core part of the survey, we asked participants to consider the performance evaluation process for their company's largest core group of mid-level employees who 1) are critical to the creation of the company's products and/or services, 2) share similar characteristics, and 3) are formally evaluated.

# Performance Measurement, Management, and Evaluation



Let's get definitions straight!



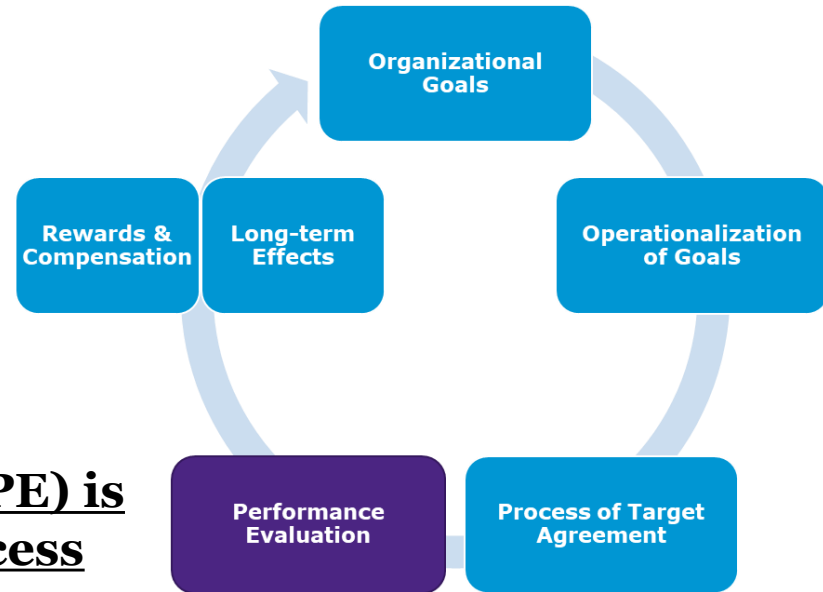
You can't manage what you don't  
measure.

— *Peter Drucker* —

AZ QUOTES

# Performance evaluation plays a crucial role in performance management process

**Performance management is key to organizational success, ...**



Performance Management Cycle (Ferreira & Otley 2009)

**... and performance evaluation (PE) is a crucial cornerstone in this process**

# Tight to predefined goals, choice of measures in PE affects human capital in three ways



## Selection

- PEs contribute to the formulation of job criteria and selection of best suited individuals



## Motivation

- PEs can also be used to aid in work motivation through the use of reward systems.



## Retention & Development

- PE helps guiding and monitoring employee retention and career development

**The main purpose of PEs is performance improvement at individual and organizational levels**

# Our survey specifically covers several modern performance management practices, inter alia



## Strategic Performance Management

- Strategic fit of performance evaluation (PE) process with organizational objectives and its effectiveness



## Formal Performance Reviews

- Characteristics of the formal PE process, including frequency, information sources, etc.



## Alternative Rater (AR) Feedback

- Role of alternative raters (e.g., peers, subordinates, clients, etc.) in performance evaluation process



## Calibration Committee (CC)

- Implementation of CCs (groups for discussing, justifying, and potentially adjusting performance assessment) in the PE process



# Performance Evaluation Process

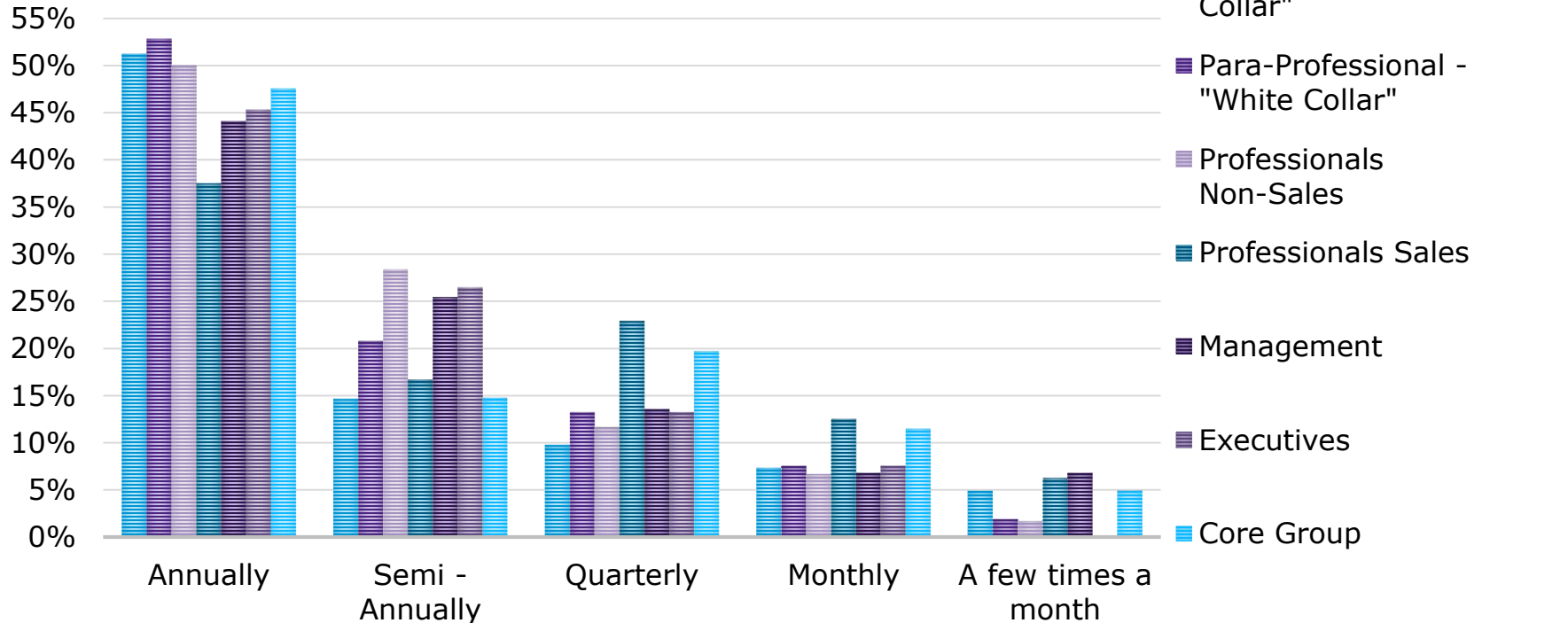


Characteristics of the performance evaluation process in Latvian and Lithuanian organizations

Usually done annually at all ranks, formal performance reviews for sales professionals and managers take place more frequently

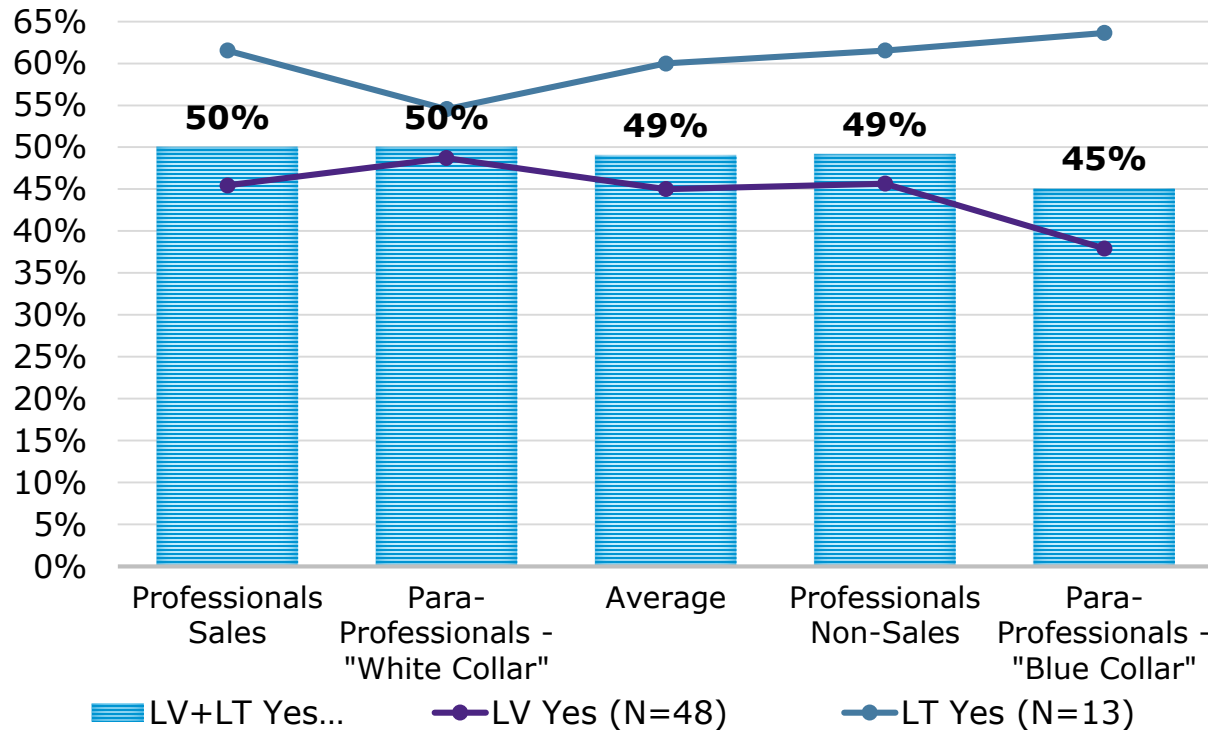
## FREQUENCY OF FORMAL PERFORMANCE REVIEWS

(N = 61)



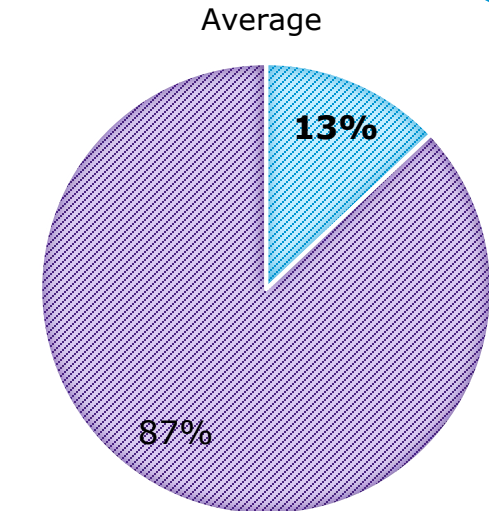
# Despite the recognized pitfalls of forced distribution, organizations in LV and LT still rely heavily on forced distribution

## FORCED DISTRIBUTION, LV & LT



**US  
(N=188)**

For  
comparison

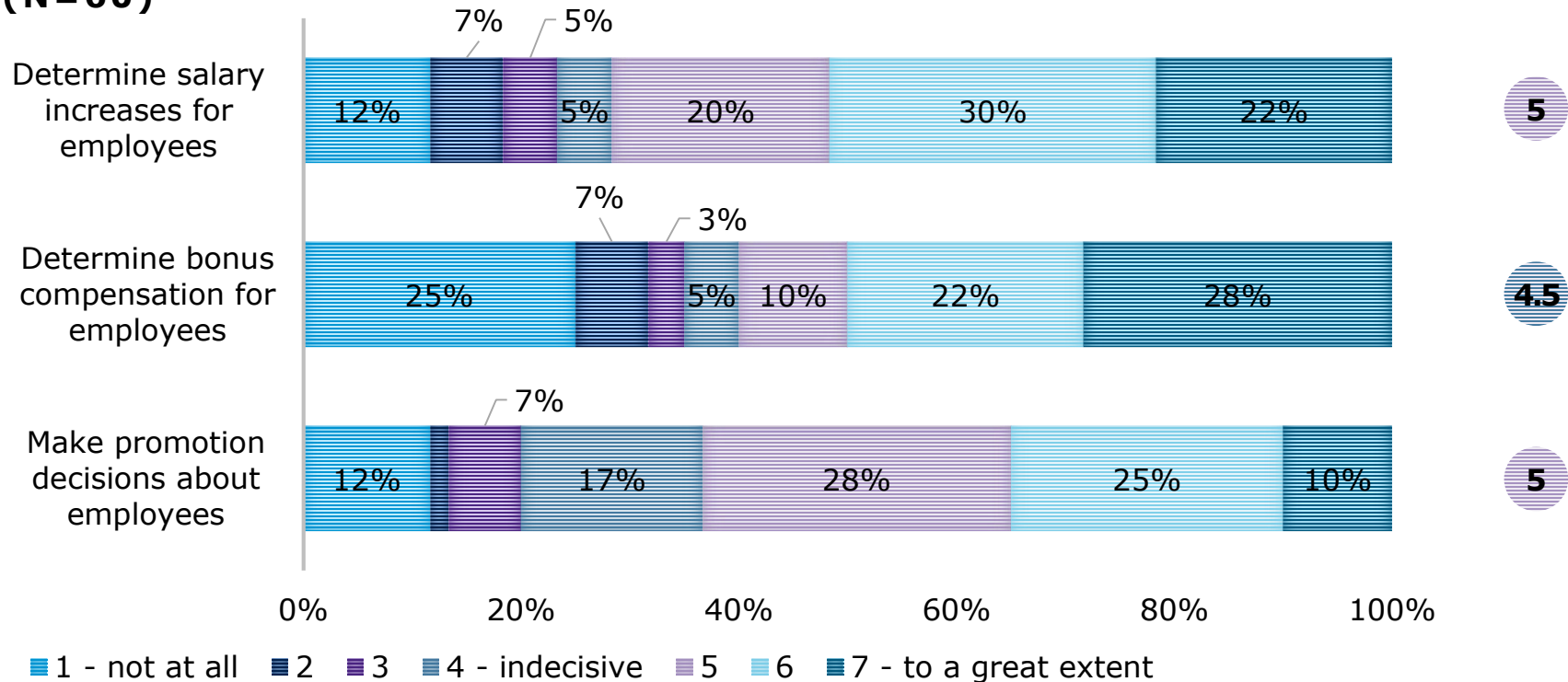


Source:  
WorldatWork  
2019

US Yes US No

# Most surveyed organizations make use of formal performance reviews for salary, bonus and promotion decisions

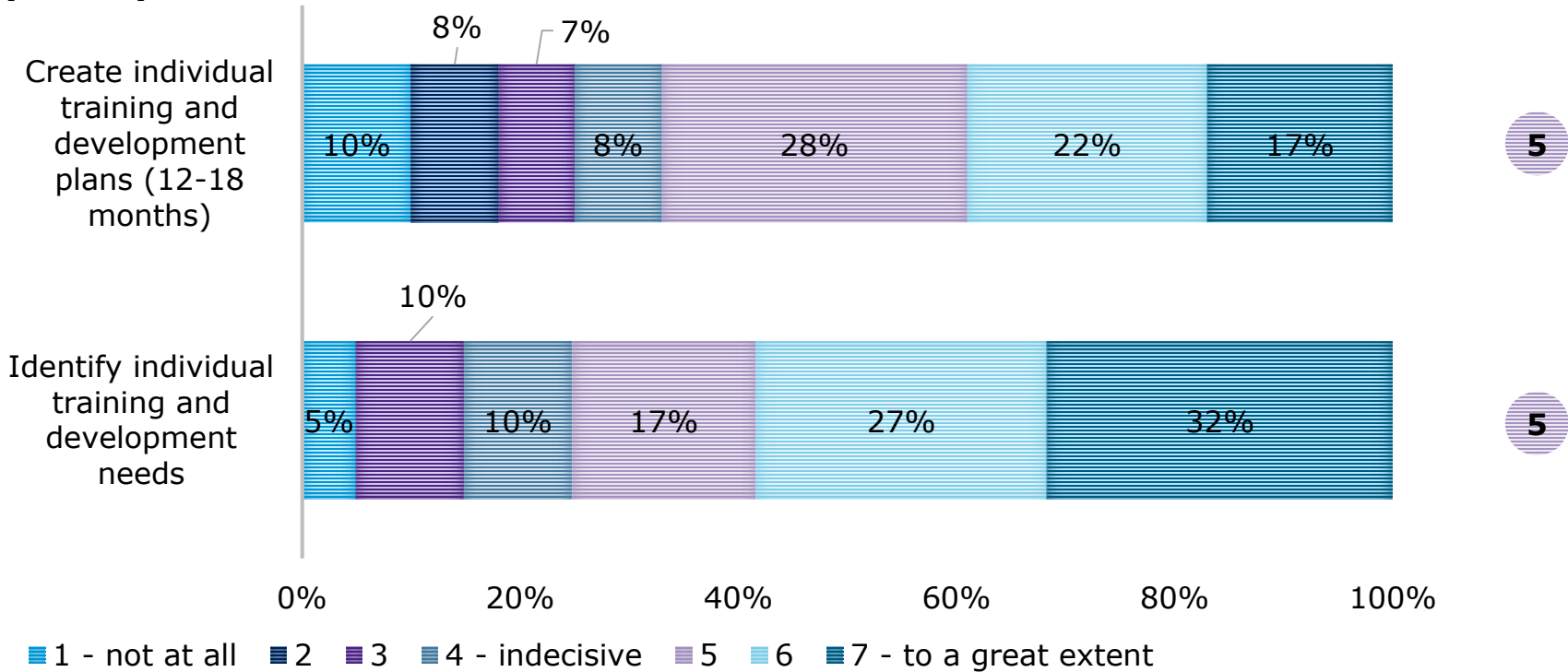
## USING FORMAL PERFORMANCE REVIEWS TO ... (N = 60)



# Majority of organizations also report that they often use formal performance reviews for training and development purposes

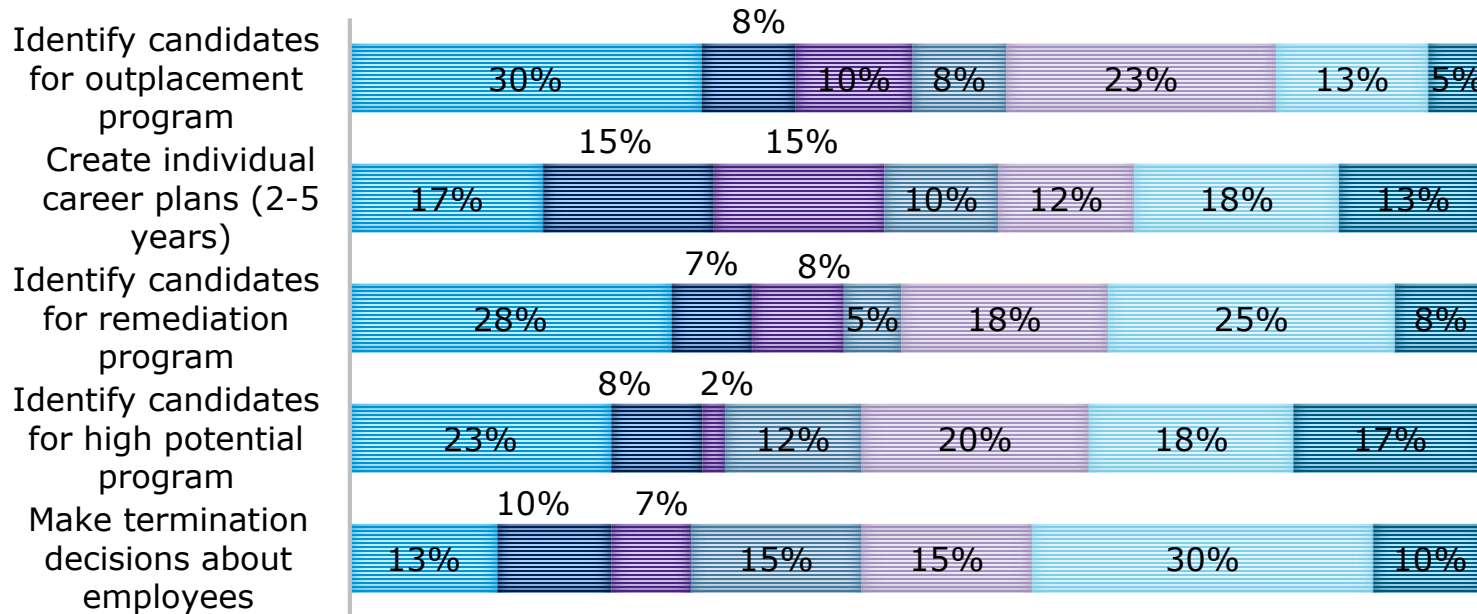
## USING FORMAL PERFORMANCE REVIEWS TO ... (N = 60)

Ø



# For more than one third of participating organizations, the use of formal performance reviews for retention and career development is less prominent

## USING FORMAL PERFORMANCE REVIEWS TO ... (N = 60)



Ø

3

4

4

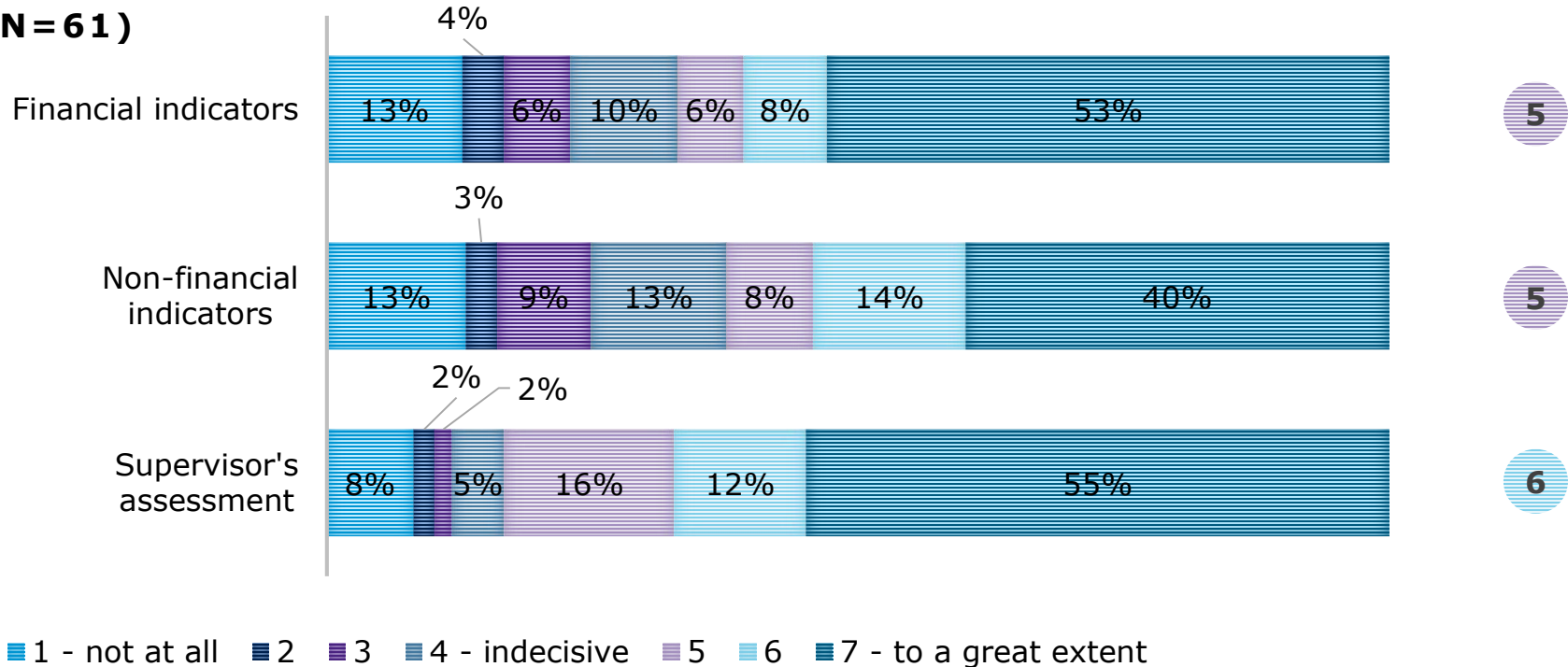
4

4

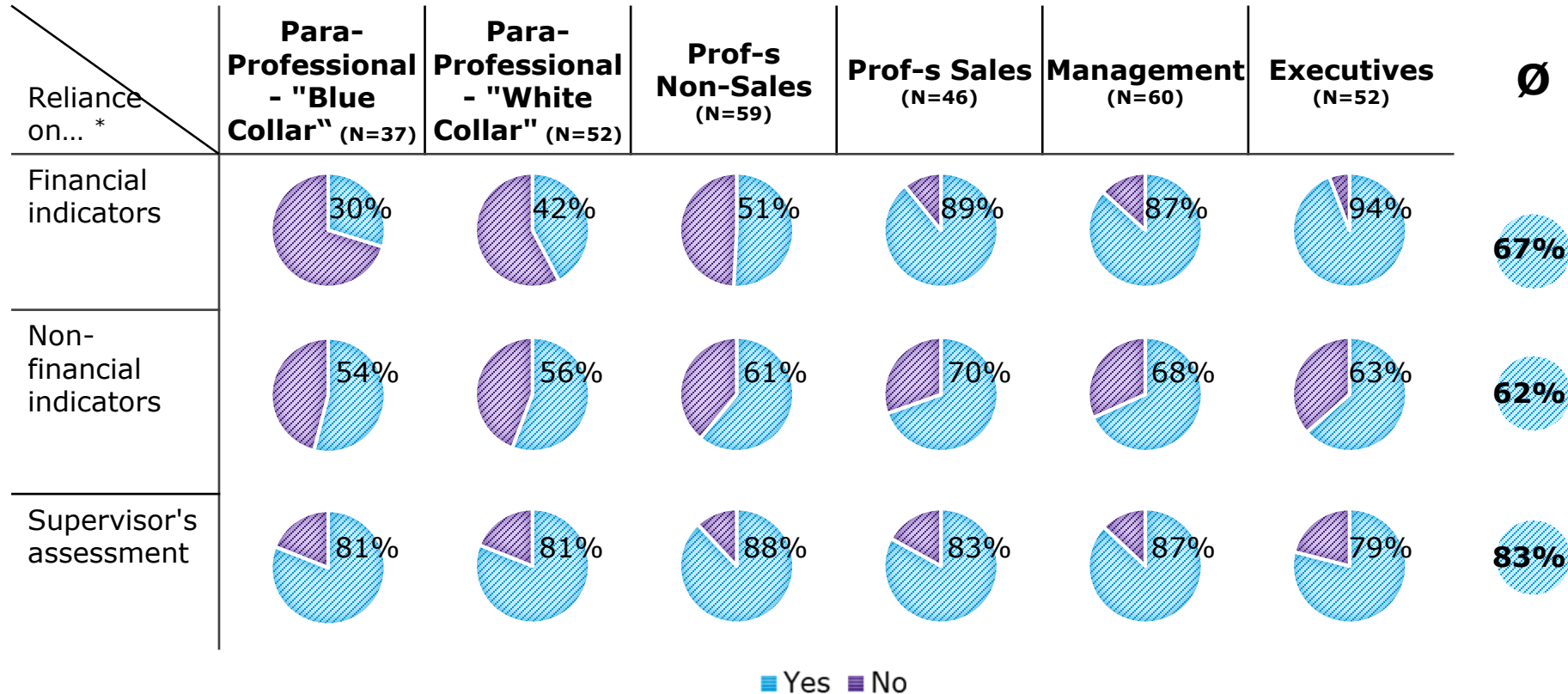
1 - not at all 2 3 4 - indecisive 5 6 7 - to a great extent

# When evaluating employees at all ranks, supervisors rely greatly on both accounting data as well as their own assessment

## IN FORMAL PERFORMANCE REVIEWS, SUPERVISORS RELY ON... (N=61)



# While own assessment is widely used in PEs of all employees, financial data is crucial for PEs of sales professionals, managers, and executives

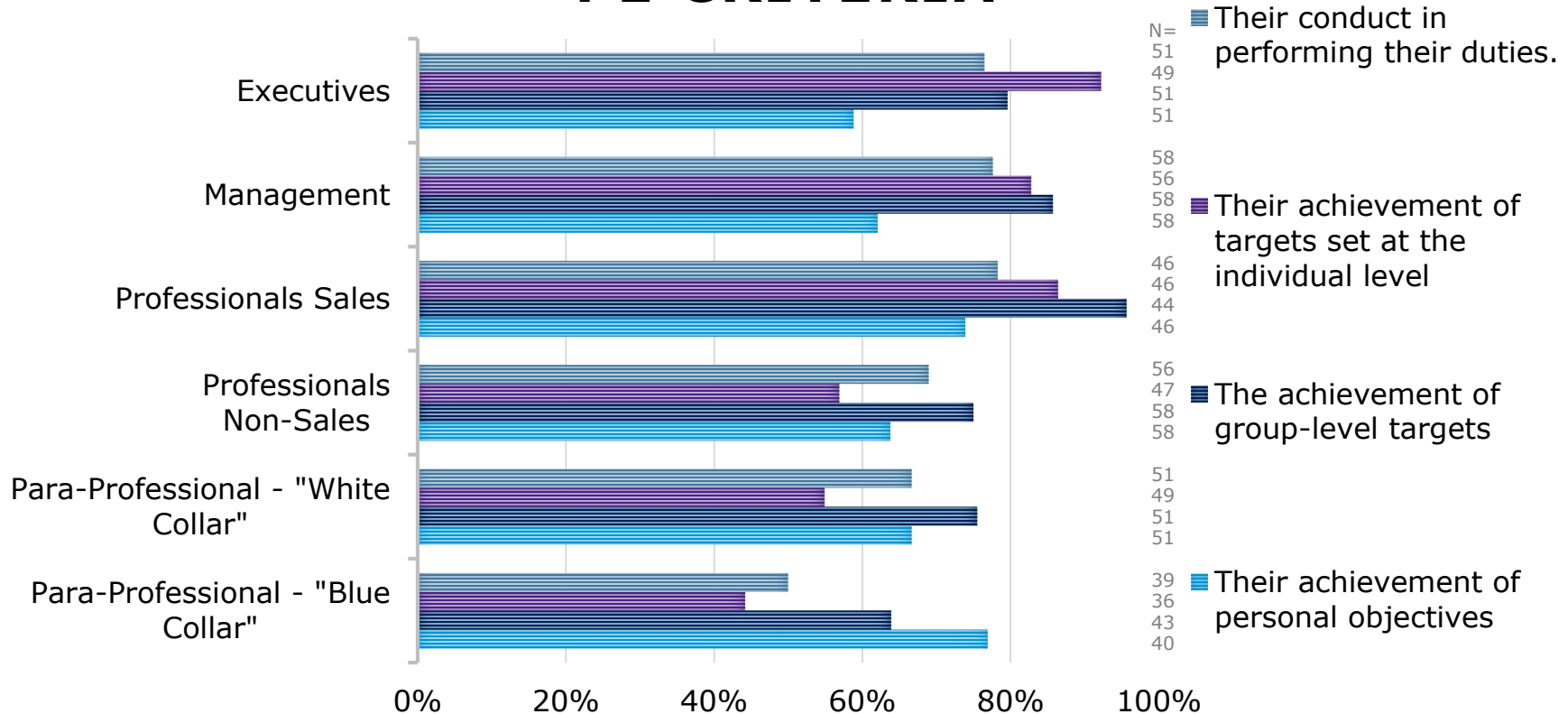


\* For each information source, participants were asked to rate the extent to which it is used in their company's performance evaluation process from 1 (not at all) to 7 (to a great extent). The percentages show answers that stated 5 and higher.



# While most organizations evaluate employees based on fulfilment of their direct duties and individual targets (among other criteria) ...

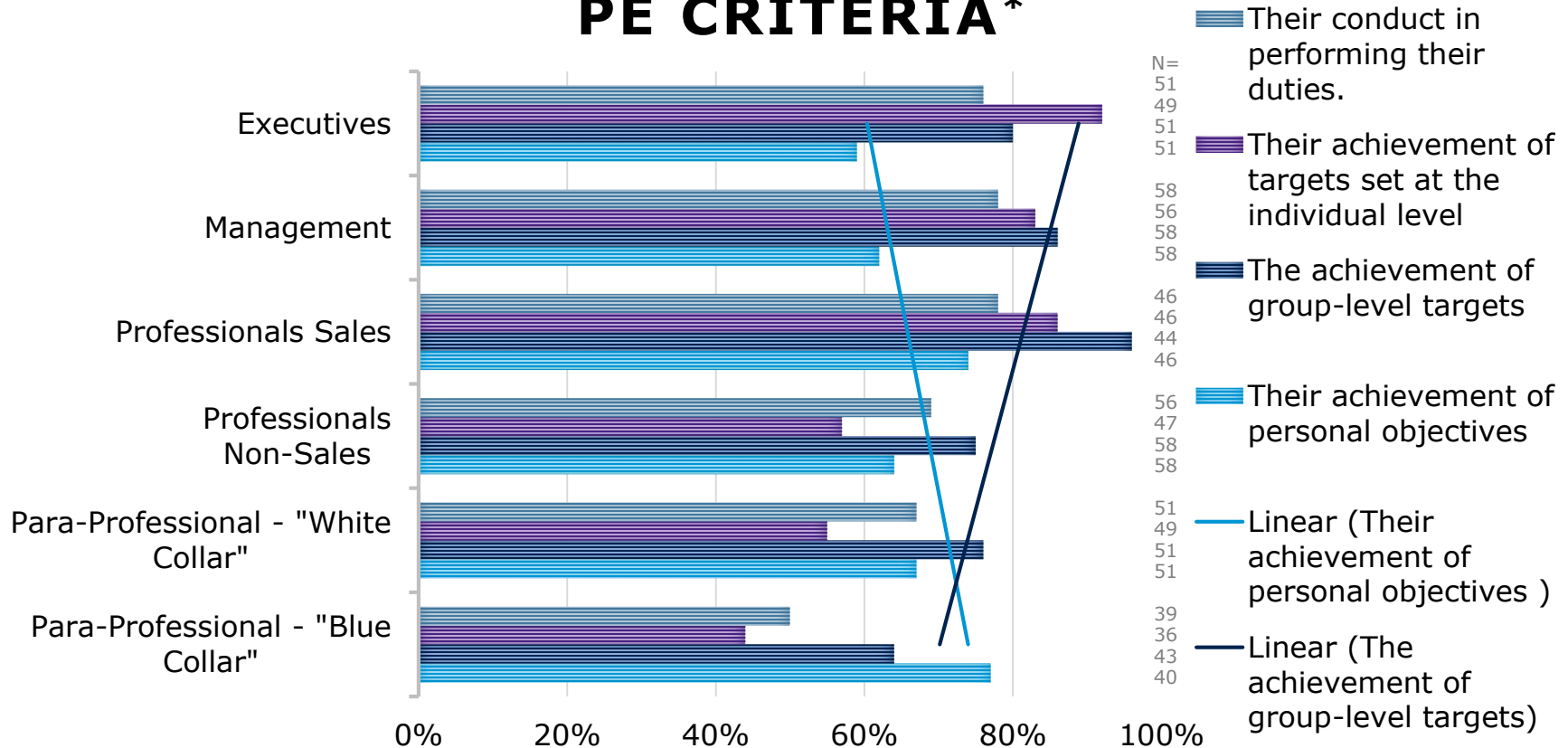
## PE CRITERIA\*



\* For each criterion, participants were asked to rate the extent to which it is used in their company's performance evaluation process from 1 (not at all) to 7 (to a great extent). The percentages show answers that stated 5 and higher.

# ... achievement of group-based targets and personal objectives becomes more important for sales professionals, managers, and executives

## PE CRITERIA\*

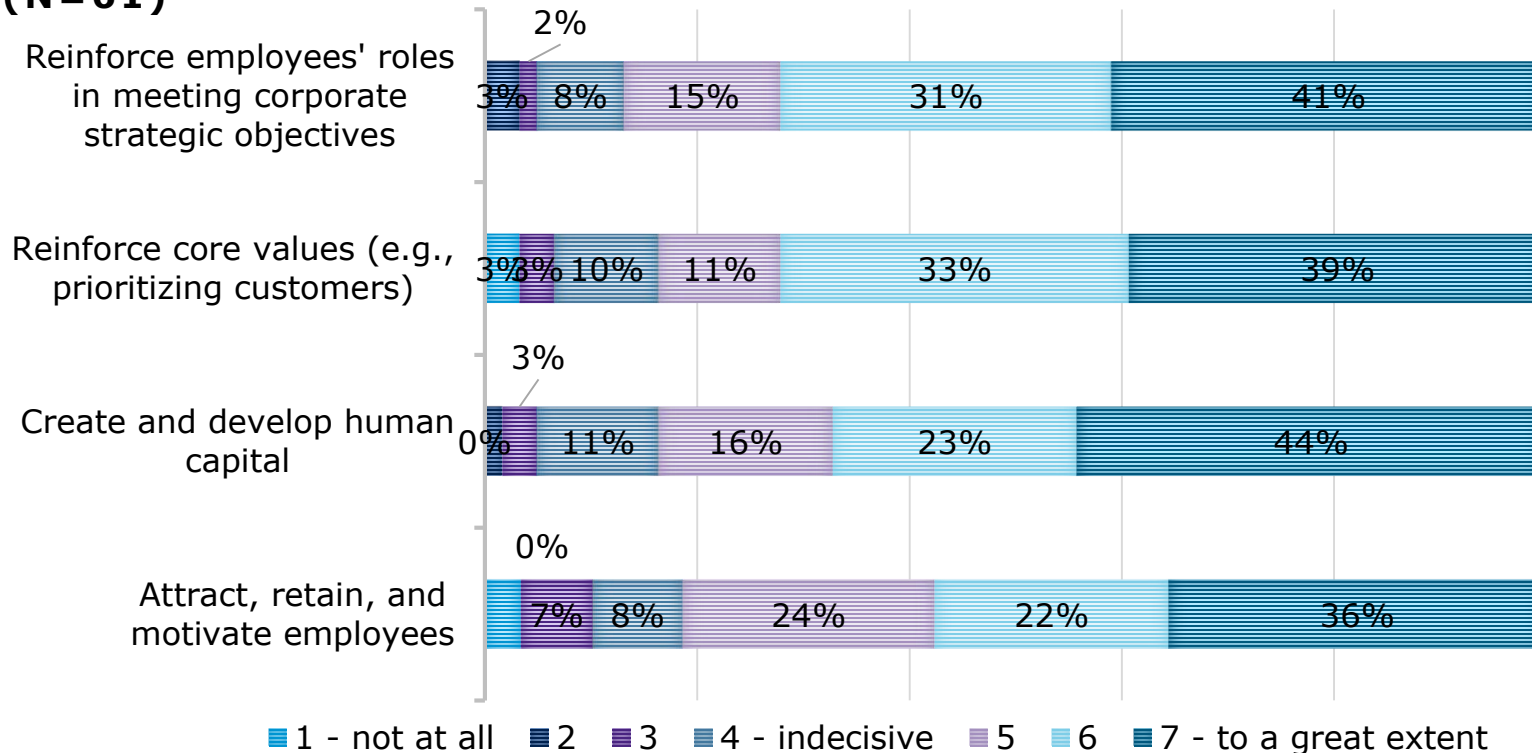


\* For each criterion, participants were asked to rate the extent to which it is used in their company's performance evaluation process from 1 (not at all) to 7 (to a great extent). The percentages show answers that stated 5 and higher.

# While PE process in most organizations reinforces strategic objectives, core values as well as employee retention and development, ...

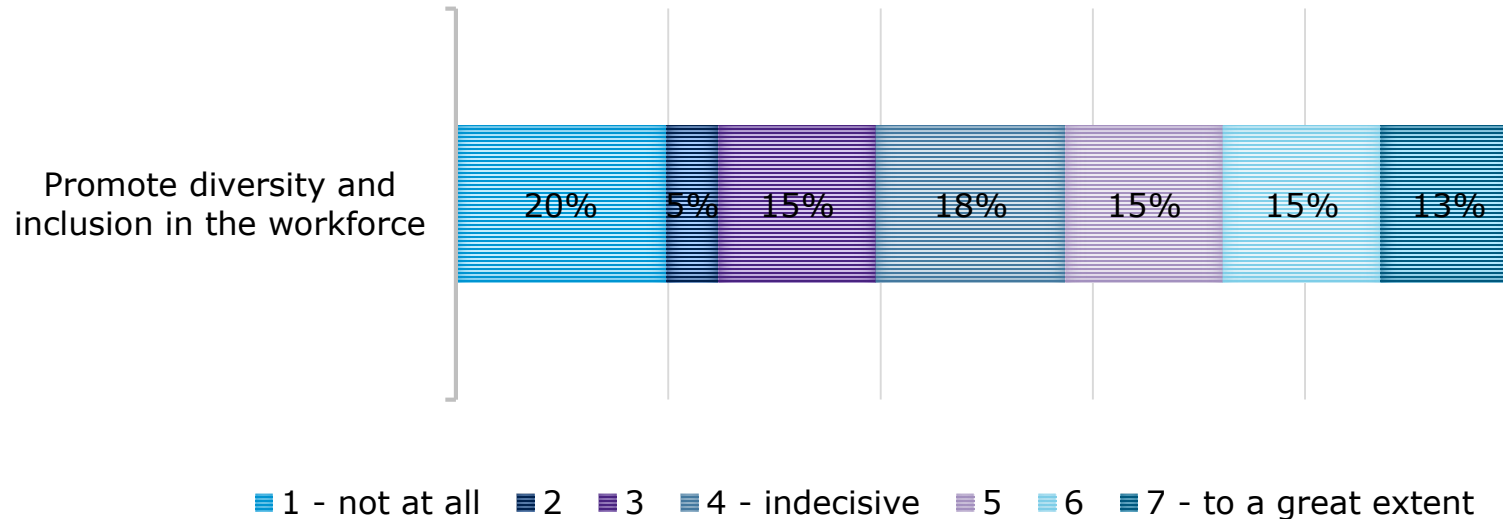
## PE PROCESS IS INTENDED TO...

(N = 61)



# ... diversity and inclusion in the workplace are often not in scope of the PE process

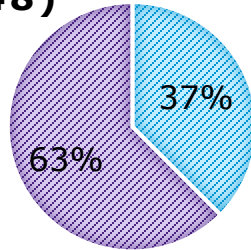
## PE PROCESS IS INTENDED TO... (N = 61)



# The extent of this laxity is different in Latvia and Lithuania

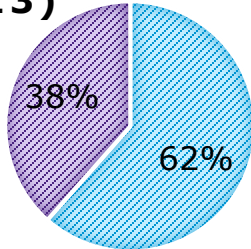
## PE PROCESS IS INTENDED TO PROMOTE DIVERSITY AND INCLUSION\*

(N = 48)



■ LV Yes  
■ LV No

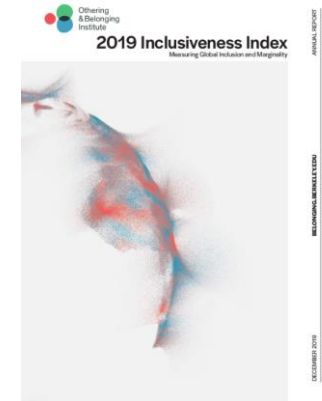
(N = 13)



■ LT Yes  
■ LT No

- This patterns is also reflected in the latest **Inclusiveness Index 2019 by Haas Institute**, University of California, Berkeley ranking 132 world nations by inclusivity (irrespective from wealth or economic conditions)

- **LV ranked 71<sup>st</sup>** (medium)
- **LT ranked 26<sup>th</sup>** (high)



\* For each objective, participants were asked to rate the extent to which their company's performance evaluation process aim at it from 1 (not at all) to 7 (to a great extent). The percentages show answers that stated 5 and higher.

# Effectiveness of the Performance Evaluation System



Strategic fit and effectiveness of the performance evaluation system in achieving its objectives

# Most organizations in our sample report that current PE process is not effective at meeting their strategic objectives

Objectives (N=61)	Objective of the PE process*	Effectiveness of the PE process*	Impact gap of the PE process*
Attract, retain, and motivate employees	81%	51%	↓ -31%
Create and develop human capital	84%	62%	↓ -21%
Reinforce core values (e.g., prioritizing customers)	84%	69%	↓ -15%
Reinforce employees' roles in meeting corporate strategic objectives	87%	77%	↓ -10%
Promote diversity and inclusion in the workforce	43%	39%	↓ -3%

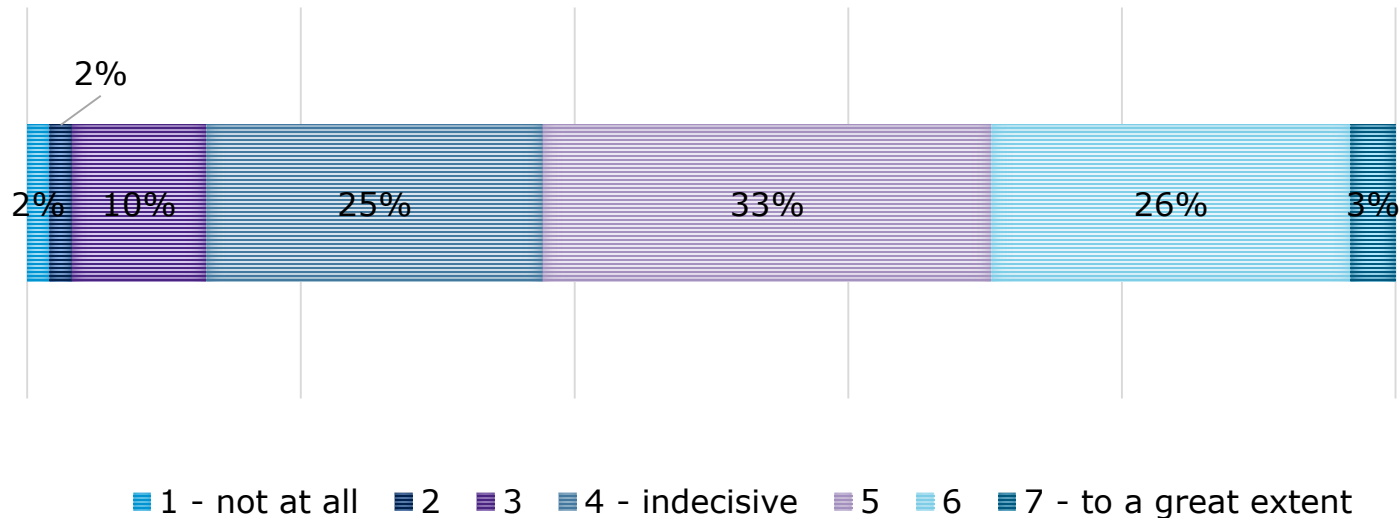
For comparison

**!** The **US companies struggle with** establishing effective **PE process**, too (WorldatWork 2019).

\* For each objective, participants were asked to rate the extent to which their company's performance evaluation process aim at it from 1 (not at all) to 7 (to a great extent). The percentages show answers that stated 5 and higher.

# More than one third of surveyed organizations are not satisfied with the existing performance management practices

## SATISFACTION WITH PERFORMANCE MANAGEMENT PRACTICES (N = 61)

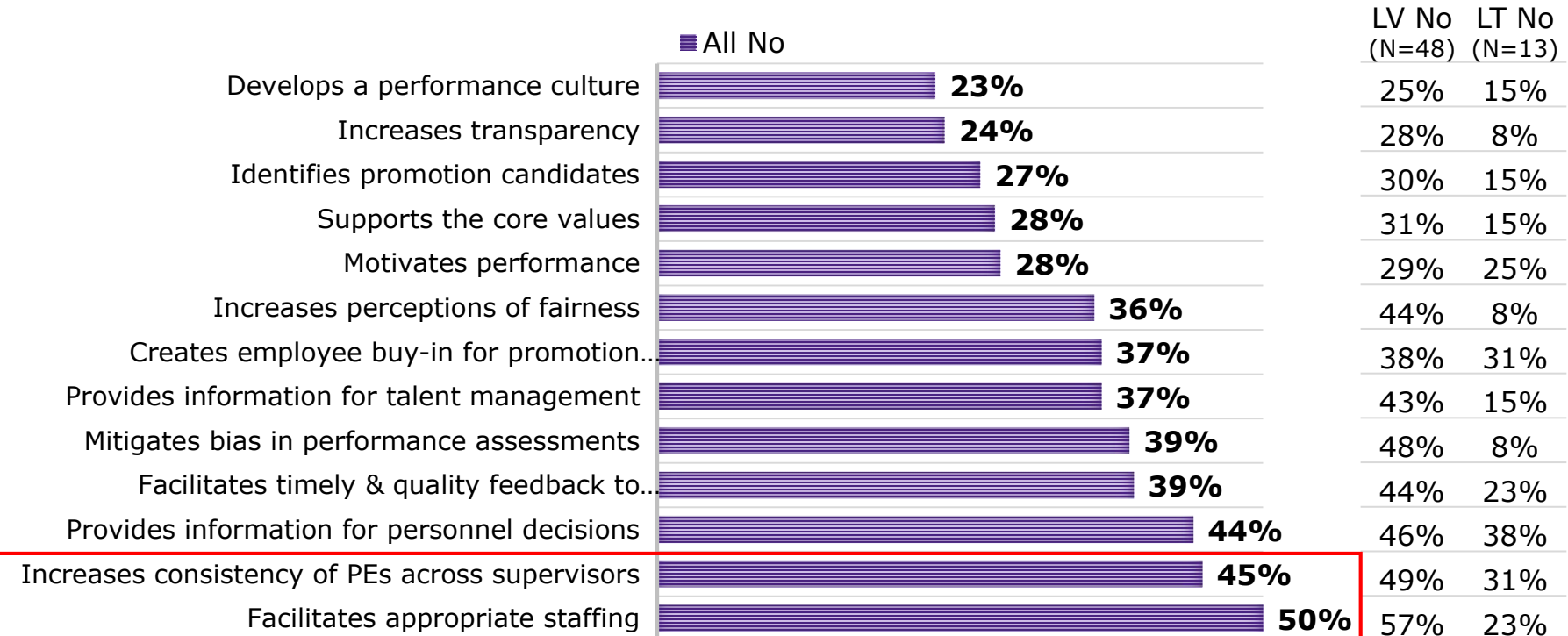




# Most of the dissatisfaction in our sample comes from inconsistency of performance evaluations across supervisors and inefficient staffing

## EXISTING PE PROCESS... (N=61)

■ All No



\* For each objective, participants were asked to rate the extent to which their company's performance evaluation process aim at it from 1 (not at all) to 7 (to a great extent). The percentages show answers that stated from 1 to 4.

# Calibration Committees (CCs)



Calibration committees are groups formed for the purpose of "calibrating" (i.e., discussing, justifying and potentially adjusting) performance assessments. Calibration committees convene to calibrate supervisors' assessments of their direct reports and make adjustments, where necessary, before final performance assessments are disseminated to employees and/or used in other decisions.

Common Other Names Used: Leadership team, management team, talent review team, calibration process, round table, etc.

# Data provided by organizations that use CCs points at salient similarities in their characteristics

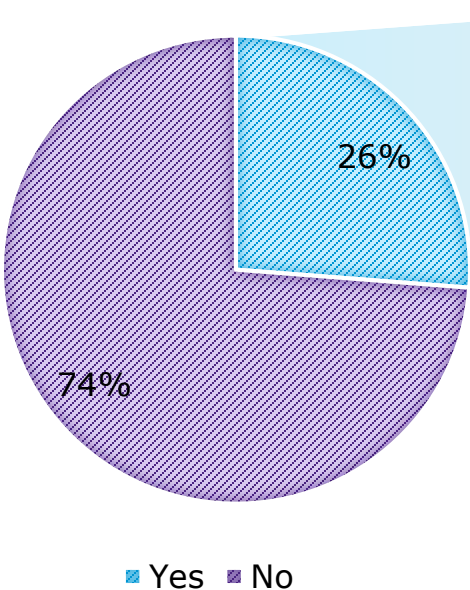
- Vast majority (>90%) of **CCs have fewer than 10 members**, one of which is typically an **HR representative**
- Most respondents indicate that their organization does **not communicate initial assessment** to employees prior to CC
- Most CCs **review/discuss 50+ employee assessments** during each evaluation period
- One third of organizations **never rotate CC membership**
- There is substantial variation in the extent to which organizations aim for **gender or ethnic diversity** on their CCs
- Half of the sample indicates that **CC membership** is **public knowledge**
- In all surveyed organizations, **CCs have more responsibilities** than only determining final performance assessment

# The use of CCs in PE process is a common practice worldwide

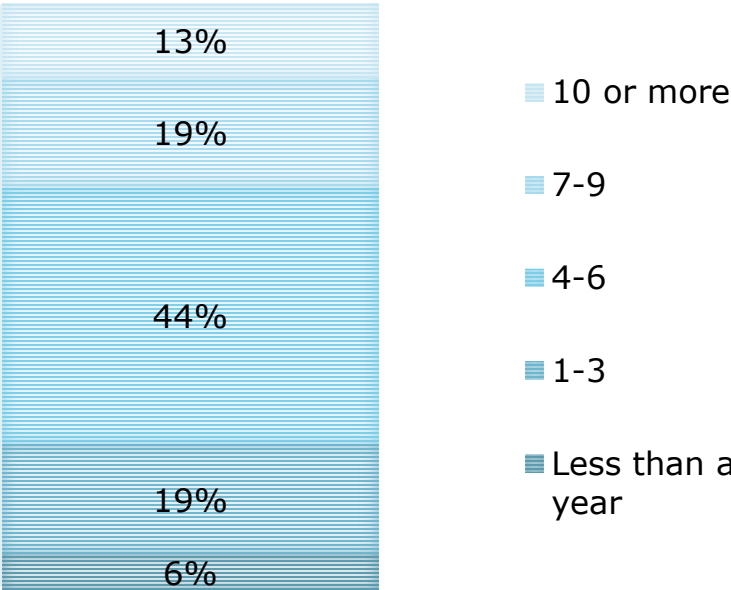
- In the last decade, calibration of employee performance ratings has gained its popularity among organizations worldwide (Bol et al. 2018; Lawler et al. 2012; Risher 2014; Albert 2017)
- The 2018 WorldatWork study in the US shows that CCs lead to better performance assessments (WorldatWork 2019)

Although the use of CCs is still comparatively rare, most organizations using them have done so for at least four years

**USE OF CALIBRATION  
COMMITTEES**  
(N= 61)

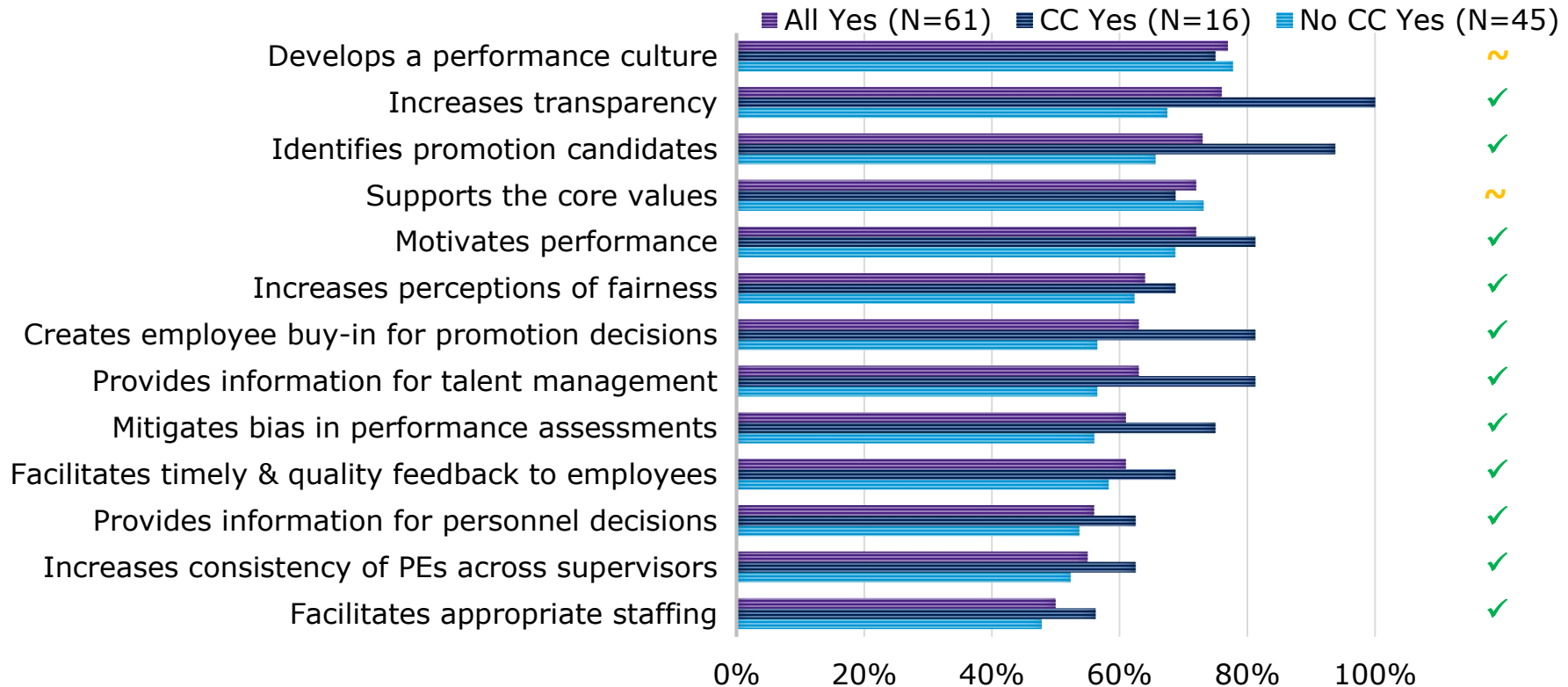


**TIME COMMITTEE HAS  
BEEN IN PLACE**  
(N= 16)



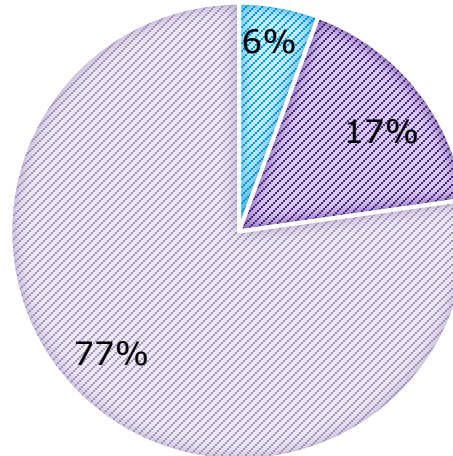
# On average, organizations using CCs enjoy a more effective PE process

## EXISTING PE PROCESS...



**While most ratings are not adjusted during calibration, downward adjustments are more frequent than upward adjustments**

**RATINGS ADJUSTED AS A RESULT OF THE  
CALIBRATION PROCESS**  
(N = 15)



■ Adjusted upwards   ■ Adjusted downwards   ■ Not adjusted

# Alternative Raters (ARs)

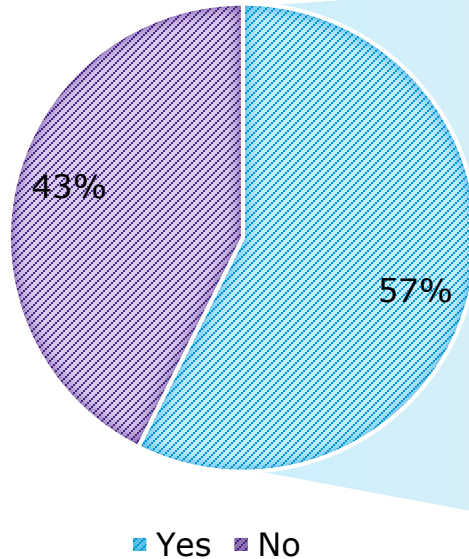


Alternative Raters are individuals who provide formal feedback about an employee's performance other than the employee's direct supervisor. The feedback is formally collected and incorporated into the employee's performance rating and/or used in other decisions.

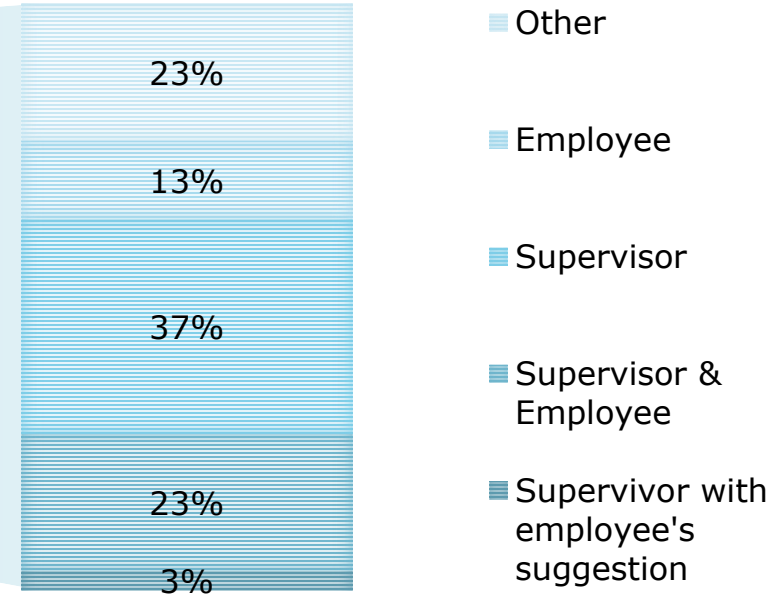


# Majority of surveyed LV and LT organizations use alternative raters, who are usually selected not exclusively by supervisors

## USE OF ALTERNATIVE RATERS (N = 61)

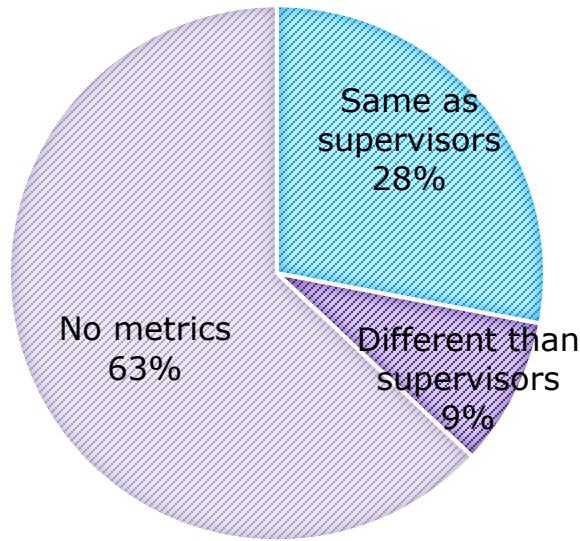


## PEOPLE WHO SELECT ALTERNATIVE RATERS (N = 35)



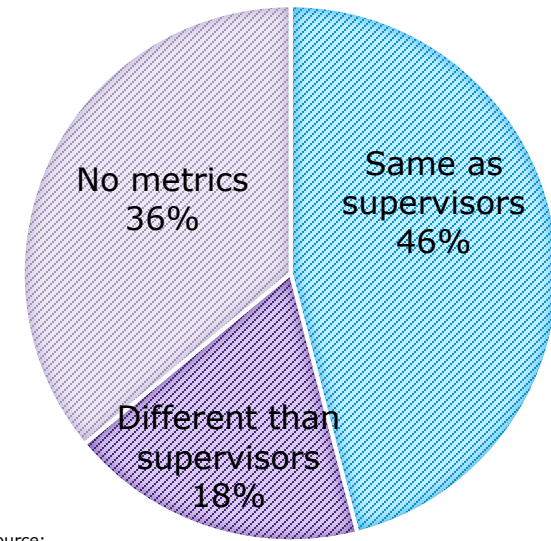
# There is a lot of variation in the extent and choice of metrics used by alternative raters

## METRICS USED BY ALTERNATIVE RATERS, LV+LT (N=32)



## METRICS USED BY ALTERNATIVE RATERS, US (N=85)

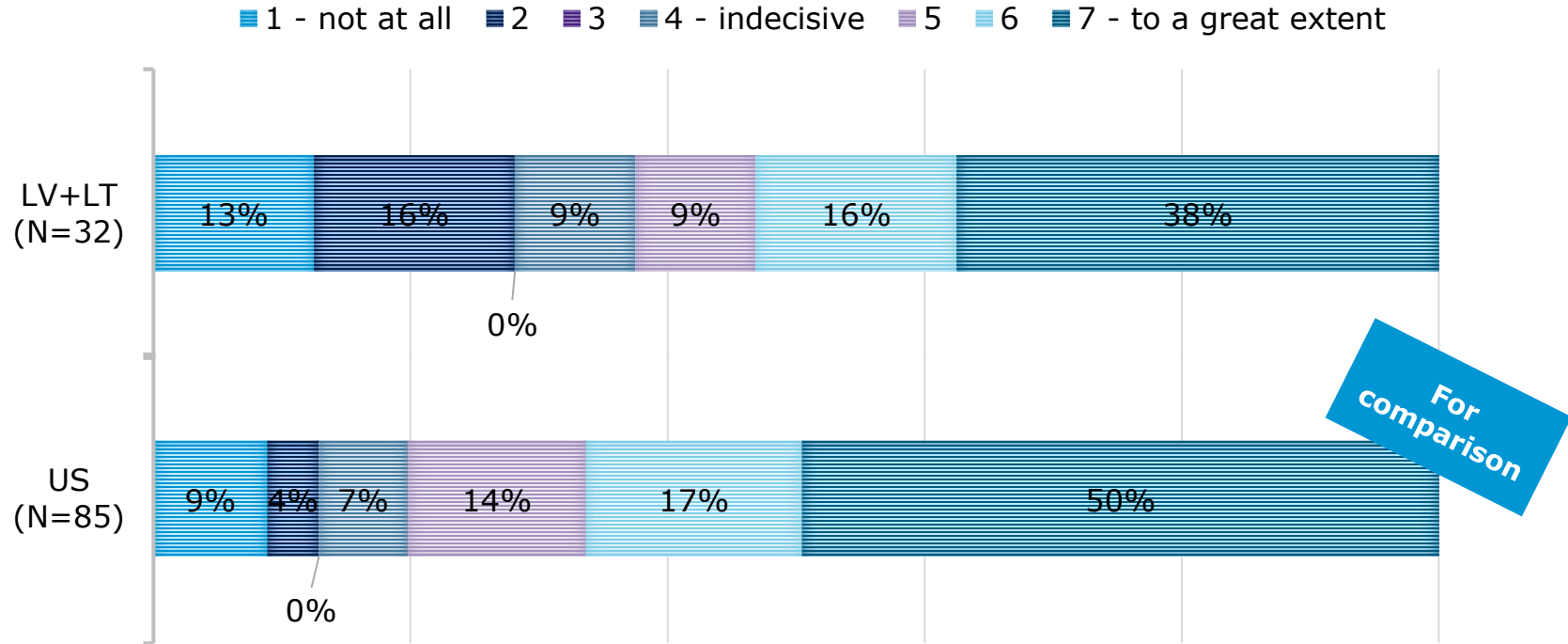
For  
comparison



Source:  
WorldatWork  
2019

# Most organizations provide supervisors with flexibility in the extent they incorporate AR feedback in performance assessment

## SUPERVISORS' FLEXIBILITY IN INCORPORATING AR FEEDBACK

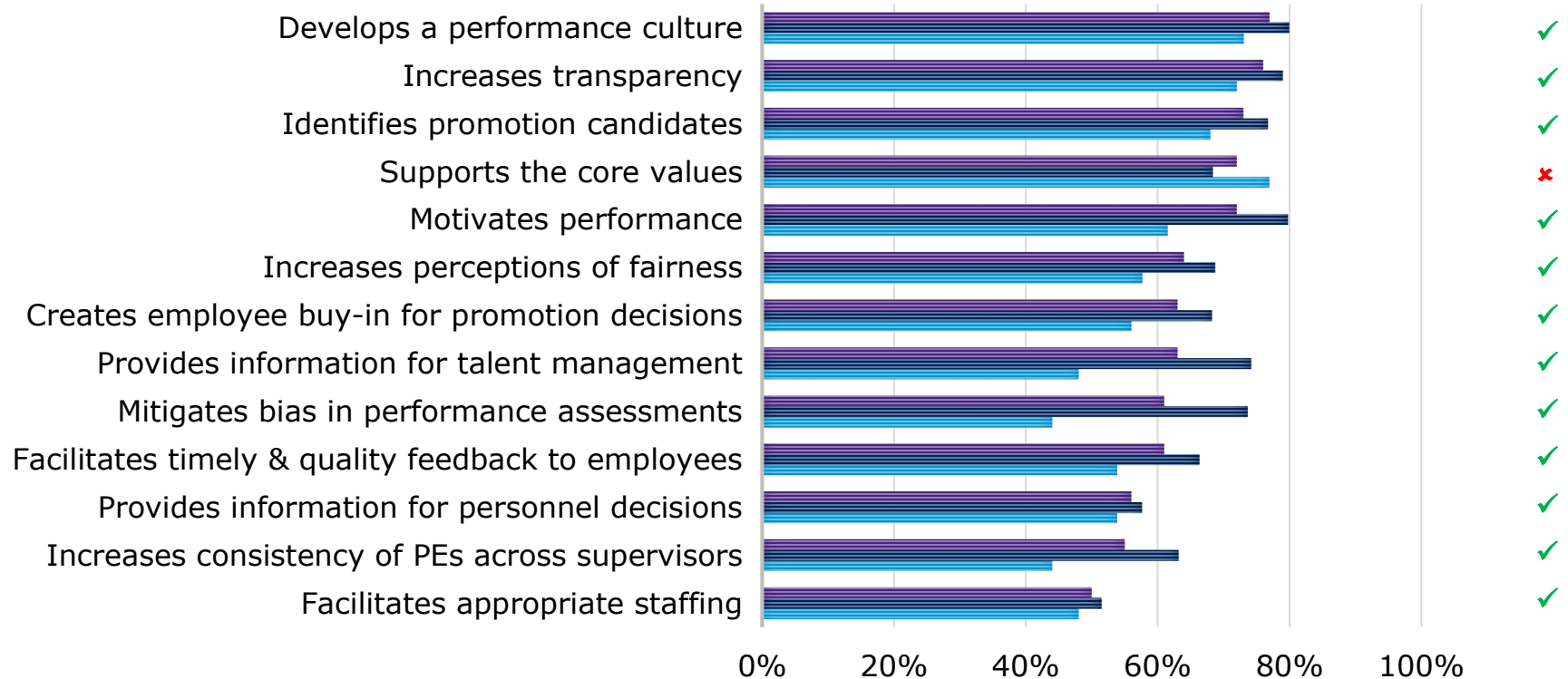


Source: WorldatWork 2019

# Typically, organizations in our sample that involve ARs in performance assessment have a more effective PE process

## EXISTING PE PROCESS...

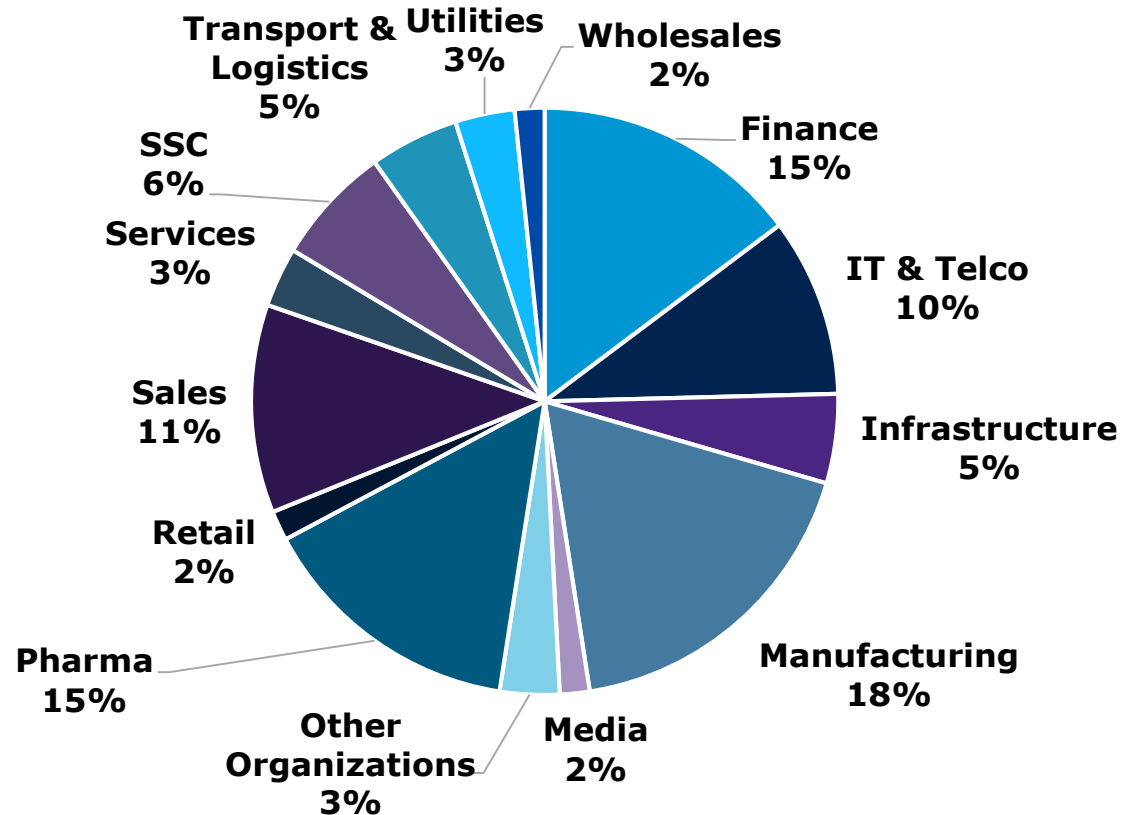
■ All Yes (N=61) ■ AR Yes (N=35) ■ No AR Yes (N=26)



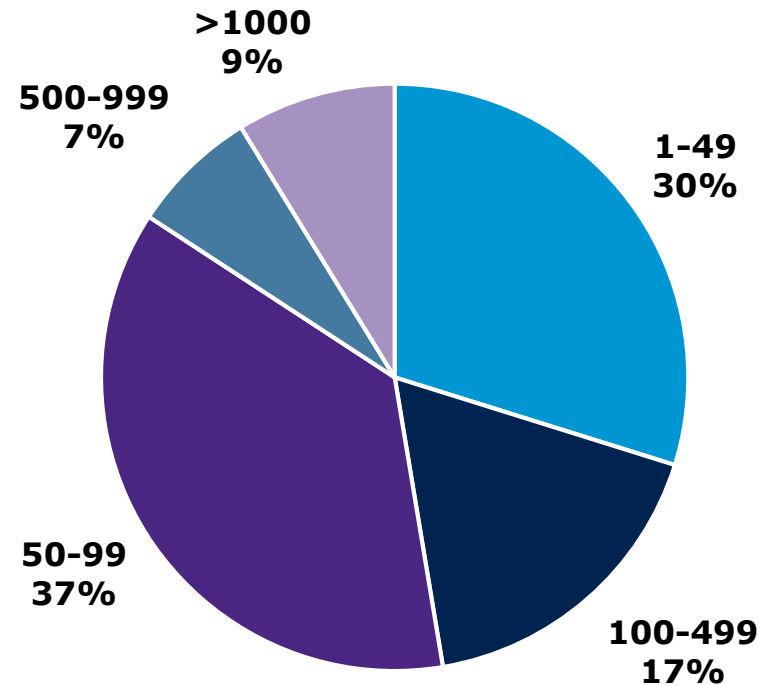
# Demographics



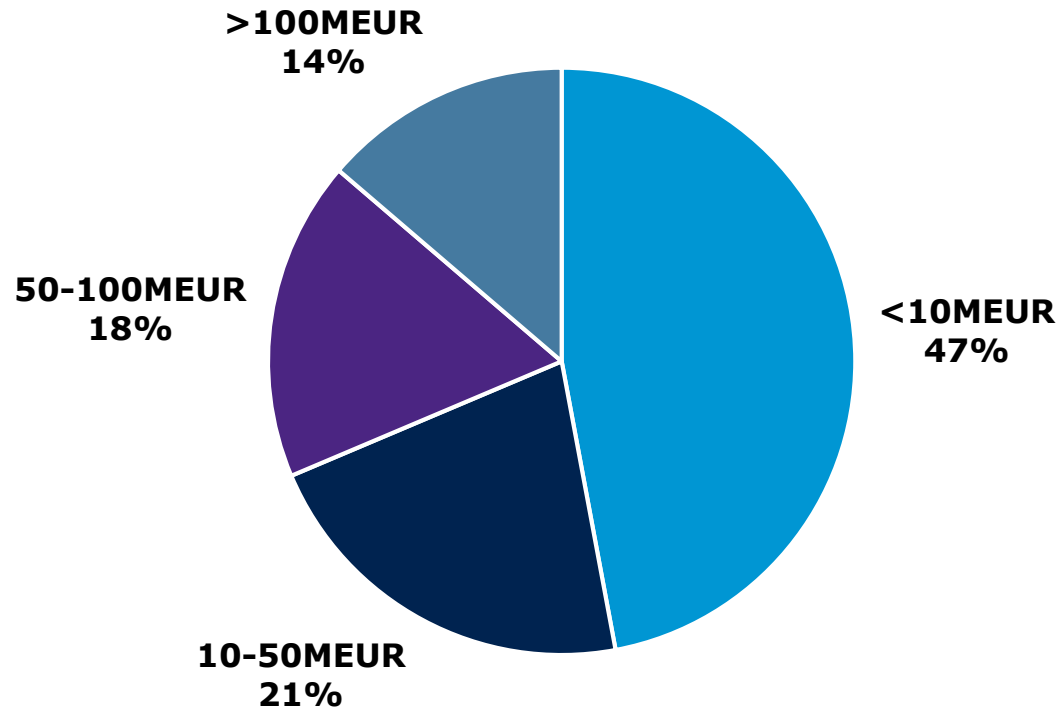
# Industry (N=61)



# Size (Number of Employees as of 2018) (N=57)



# Annual Revenue (N=51)





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# Thank you for your participation in the first round of the survey!



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