



Performance Reviews and the Future of Variable Pay

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Employee Performance Reviews - A Thing Of The Past?

You will have undoubtedly read headlines that many organizations are moving away from ratings-based employee performance reviews or forgoing performance reviews altogether.

From a compensation perspective, this begs the question: Are we really in a performance ratings-free age, and if so, how are organizations rewarding performance through variable pay?

In April of 2019 Western Compensation & Benefits Consultants ("WCBC") surveyed Canadian employers on their employee performance review process and their annual incentive plans. WCBC would like to thank the 97 organizations that shared their practices with us.

Employee Performance Review Process

78%

percentage of organizations with a formal employee review process in place

Out of the organizations surveyed, **78%** have implemented a formal review process. **16%** of the organizations had an informal review process in place, and **6%** did not have an employee performance review process.

What does the employee performance review process include?
(multiple responses allowed)

Documented performance objectives or expectations



Employee involvement in development of performance objectives/expectations



Regular meetings between employee and supervisor/manager to assess performance over an extended period of time



Feedback gathered from sources other than an employee's supervisor/manager (e.g. peers, other colleagues or clients)



Documented results of the performance review



Other

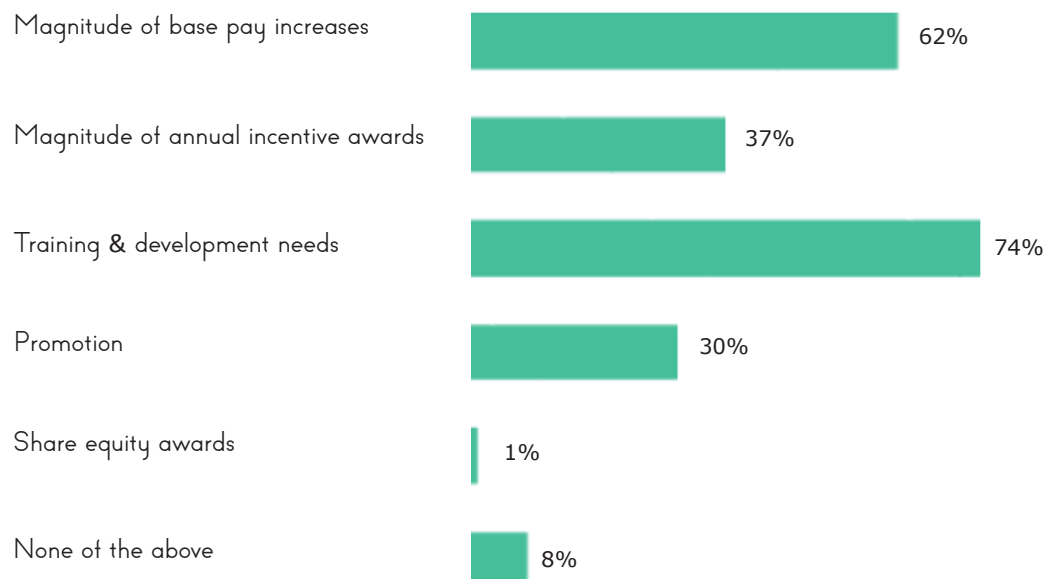




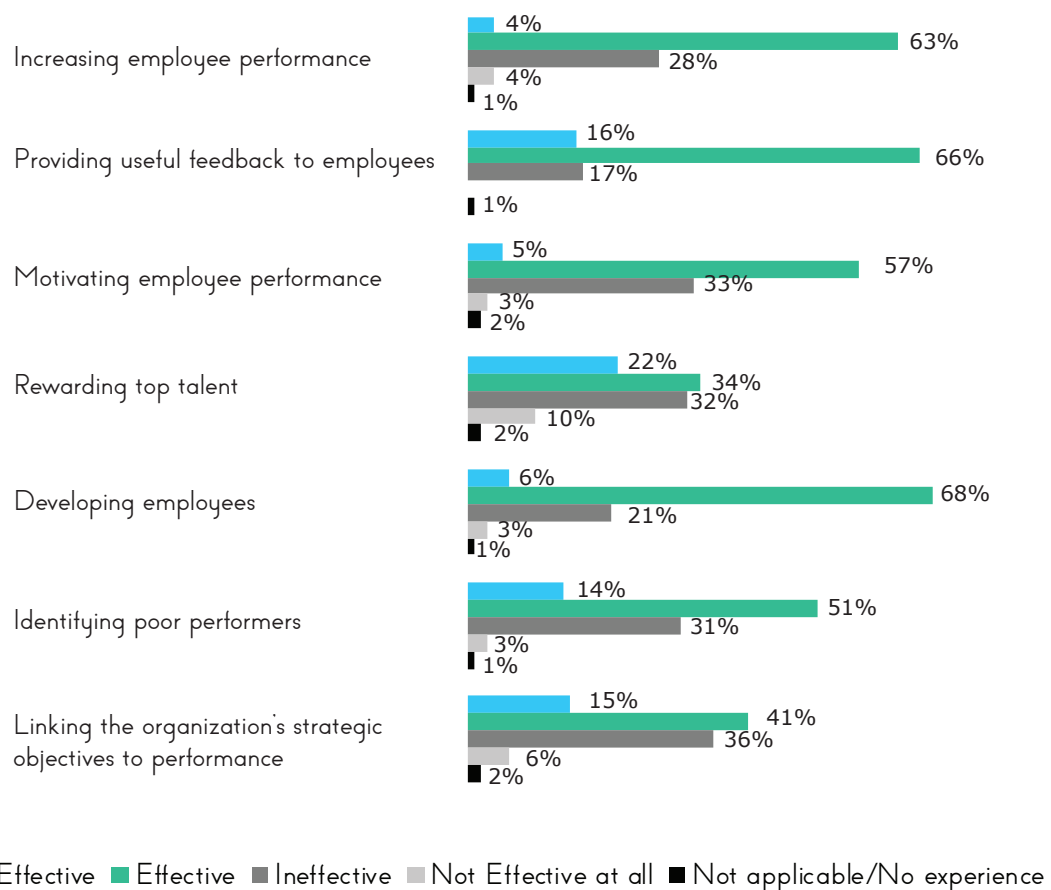
How often are employee performance review meetings conducted?

Of those organizations with performance review programs, **58%** carry out reviews annually and at the same time for all employees, while **6%** of the organizations conduct reviews annually with the timing based on each employee's anniversary date. **18%** of organizations carry out reviews on a semi-annual basis, and **11%** conduct quarterly. **7%** of the organizations conduct review meetings at other intervals.

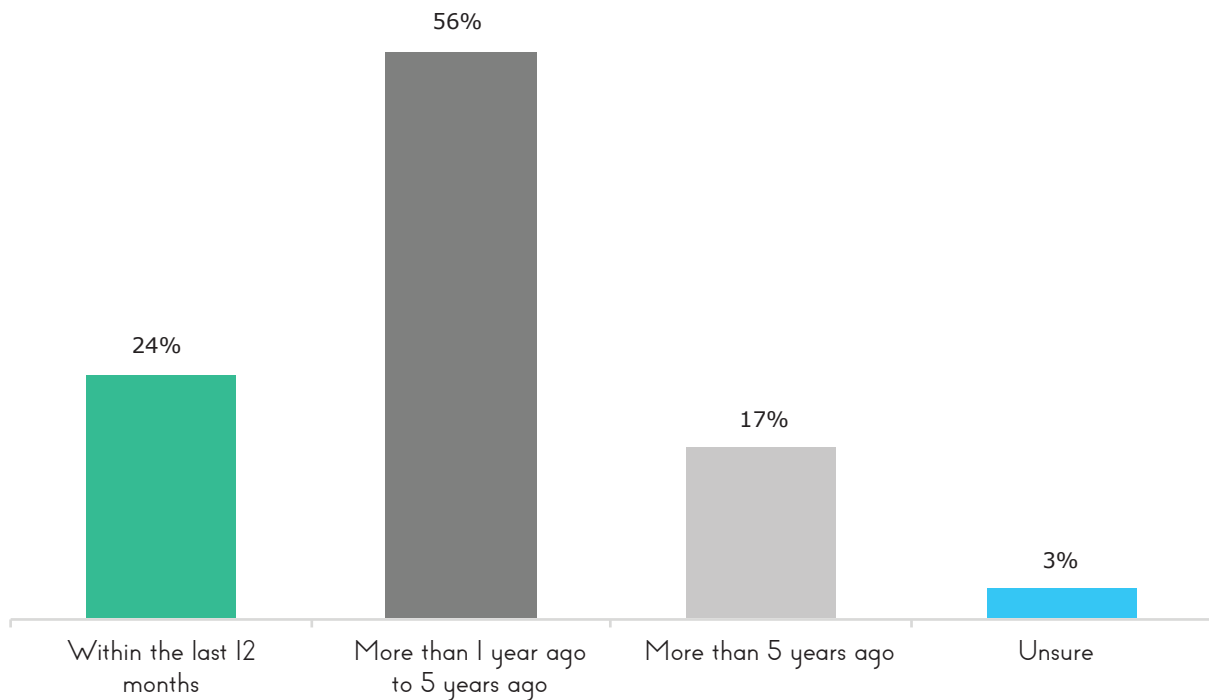
Results of employee performance reviews are used to determine: (Multiple responses allowed)



Employer's opinion on effectiveness of employee performance reviews at:

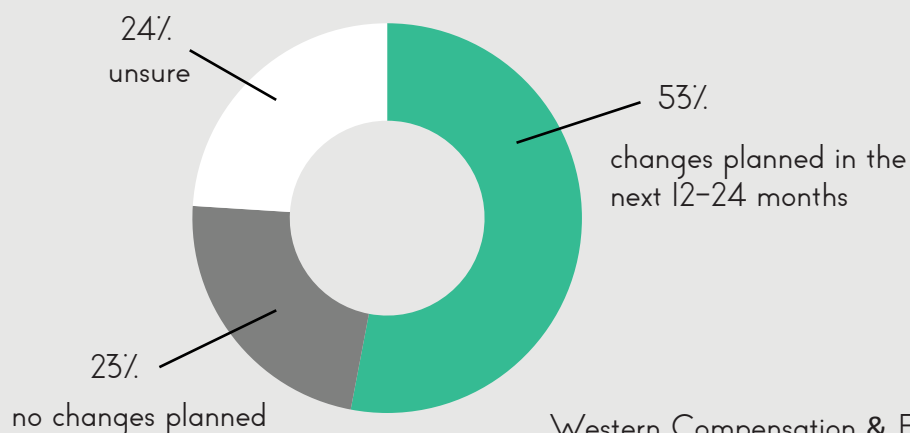


Performance review process was changed:



Future Changes to the Performance Review Process:

53% of the organizations with a (formal/informal) review process are planning to make changes to their performance review processes in the next 12-24 months. **23%** of organizations are not planning on making changes, and **24%** are unsure.



A majority (87%) of those respondents with an employee performance review process (formal or informal) had documented performance objectives and expectations developed with the involvement of employees.

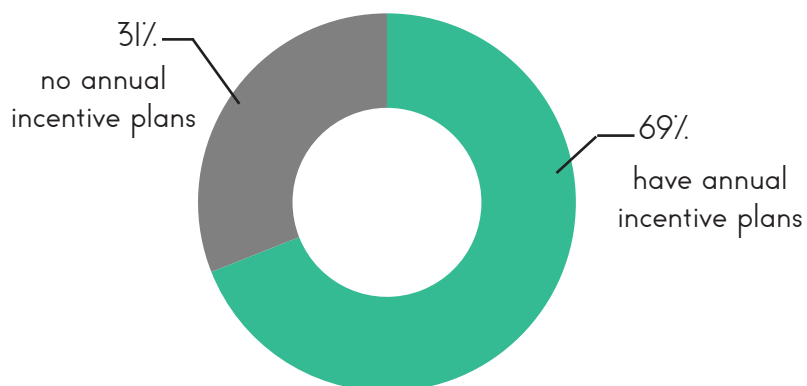
From the sentiments shared by these employers regarding desired changes to performance review practices and annual incentives some common themes emerged:

- The linkage between organizations' strategic objectives and employees' responsibilities and development goals is often unclear.
- Developing the appropriate metrics to measure success remains a challenge for employers.
- Employers would like to increase the frequency and informality of performance discussions throughout the year, moving away from the formal annual review.
- Managers/supervisors could benefit from additional resources and training to ensure consistency and fairness in performance management which would, in turn, increase buy-in from employees.
- Employees and managers would like the ability to set performance goals rather than basing goals on pre-defined position descriptions which may not accurately reflect job situations.
- The administration of the performance review process should be simplified. Employers feel their processes have too many forms, cumbersome questionnaires and complex documentation.
- The use of technology to manage the administration of the process continues to grow, including the use social media.
- Employers would like to see a move from fixed annual reviews to an ongoing feedback/check-in style.
- Adding competency measurements to performance review practices is being considered by employers.

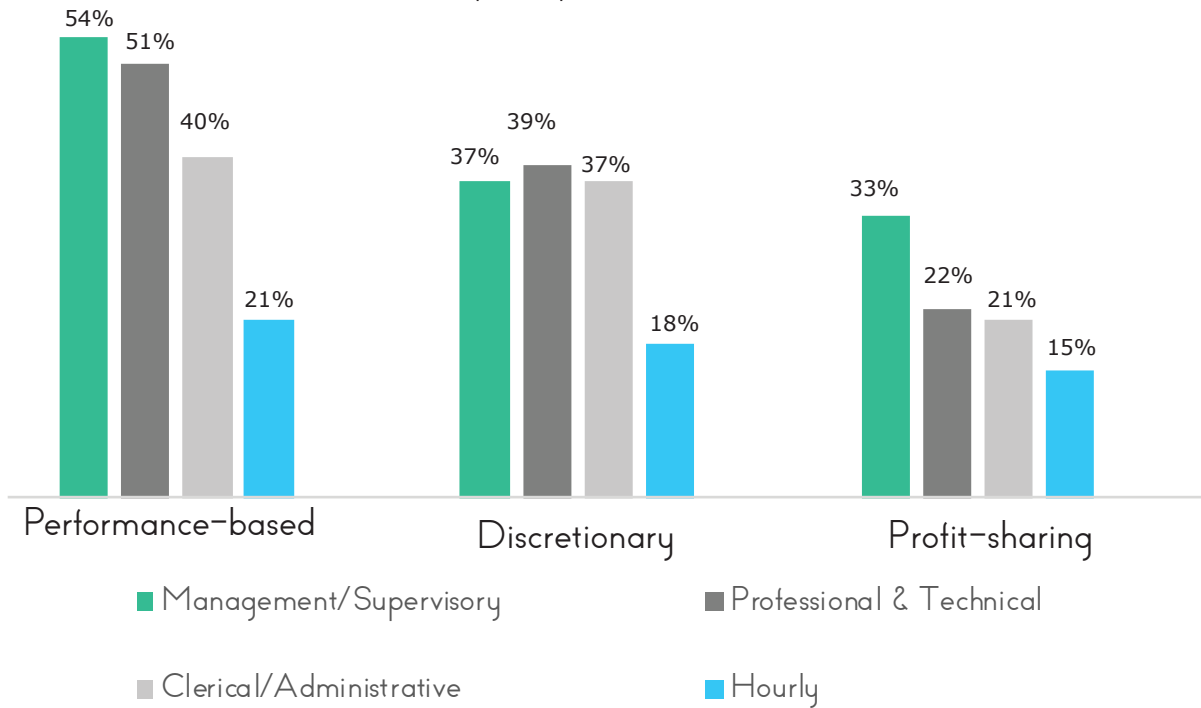


Annual Incentive Plans

Of those organizations surveyed, **69%** had performance-based, discretionary and/or profit-sharing annual cash incentive plans.

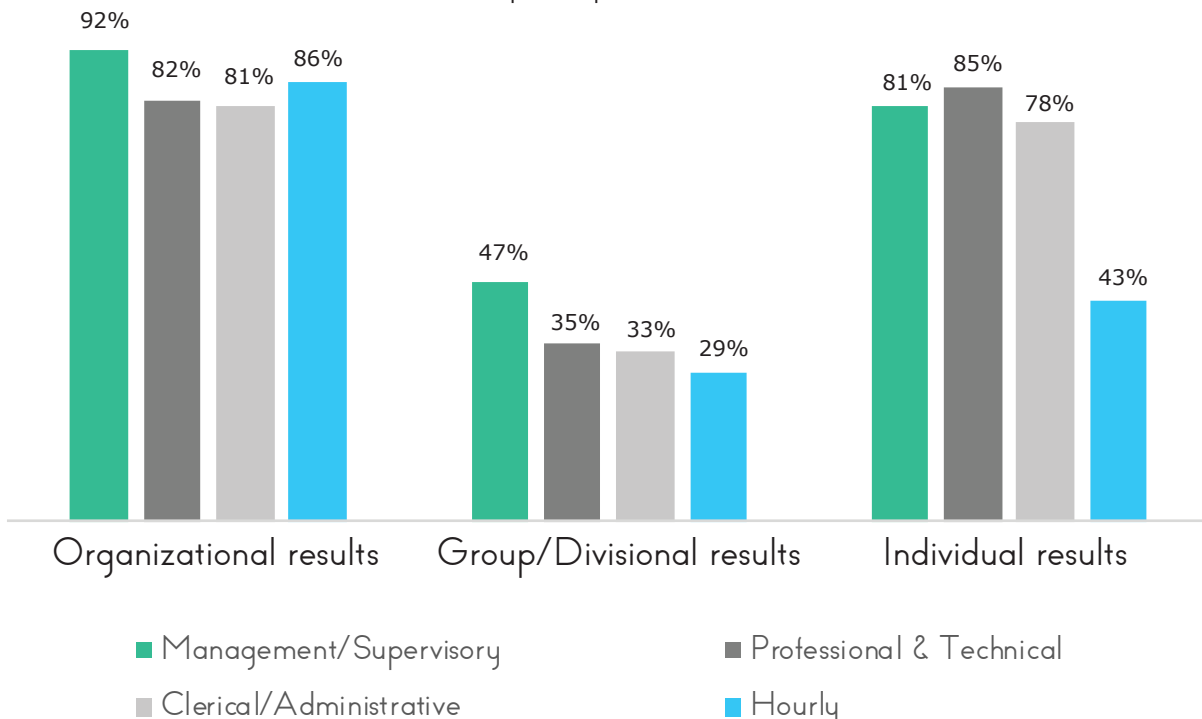


Types of annual incentive plans offered:
(multiple responses allowed)

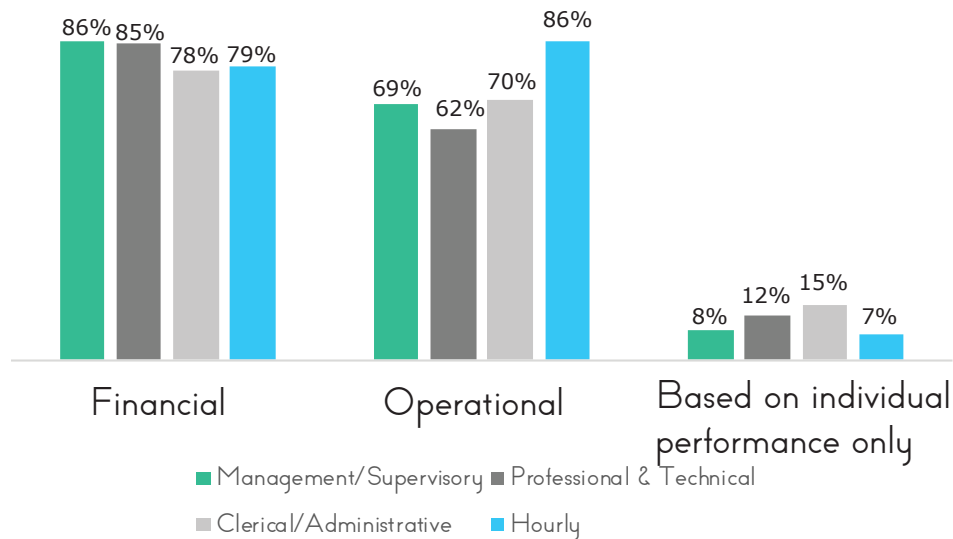


The following tables refer to organizations with performance-based plans

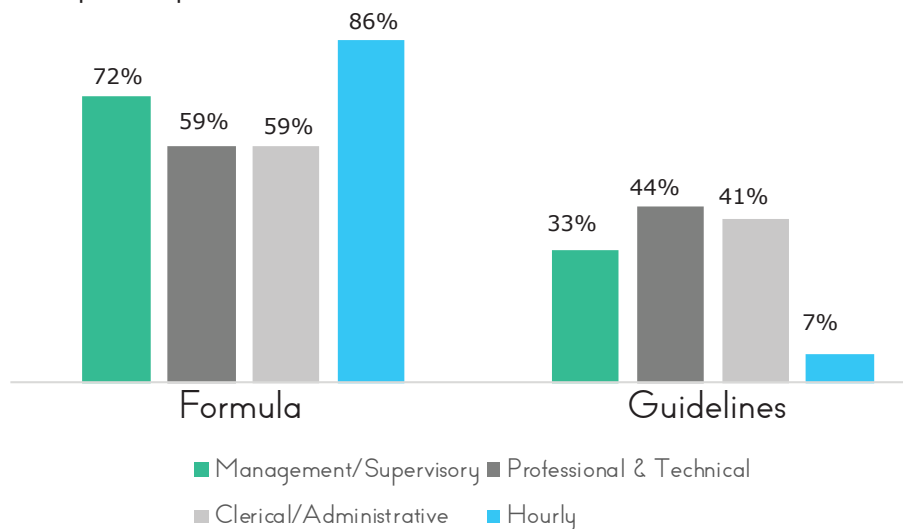
Annual incentive awards are based on:
(multiple responses allowed)



If the award is based either fully or partially on organizational and/or group/divisional performance, performance measures used to determining the annual incentive payout are:
(Multiple responses allowed)



Method used to determine the amount of the annual incentive:
(Multiple responses allowed)

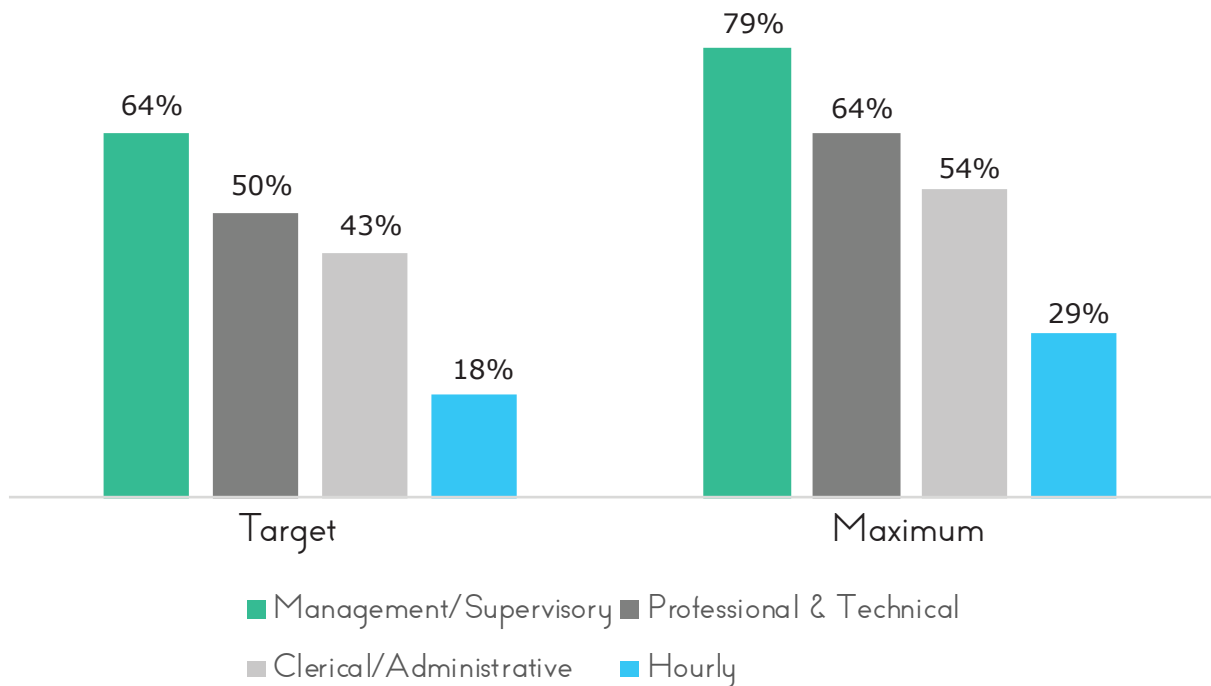


70% of organizations with a performance-based annual cash incentive plan have a defined target and/or maximum award*stated as a percentage of salaries for at least one of their employee groups.

*

70%

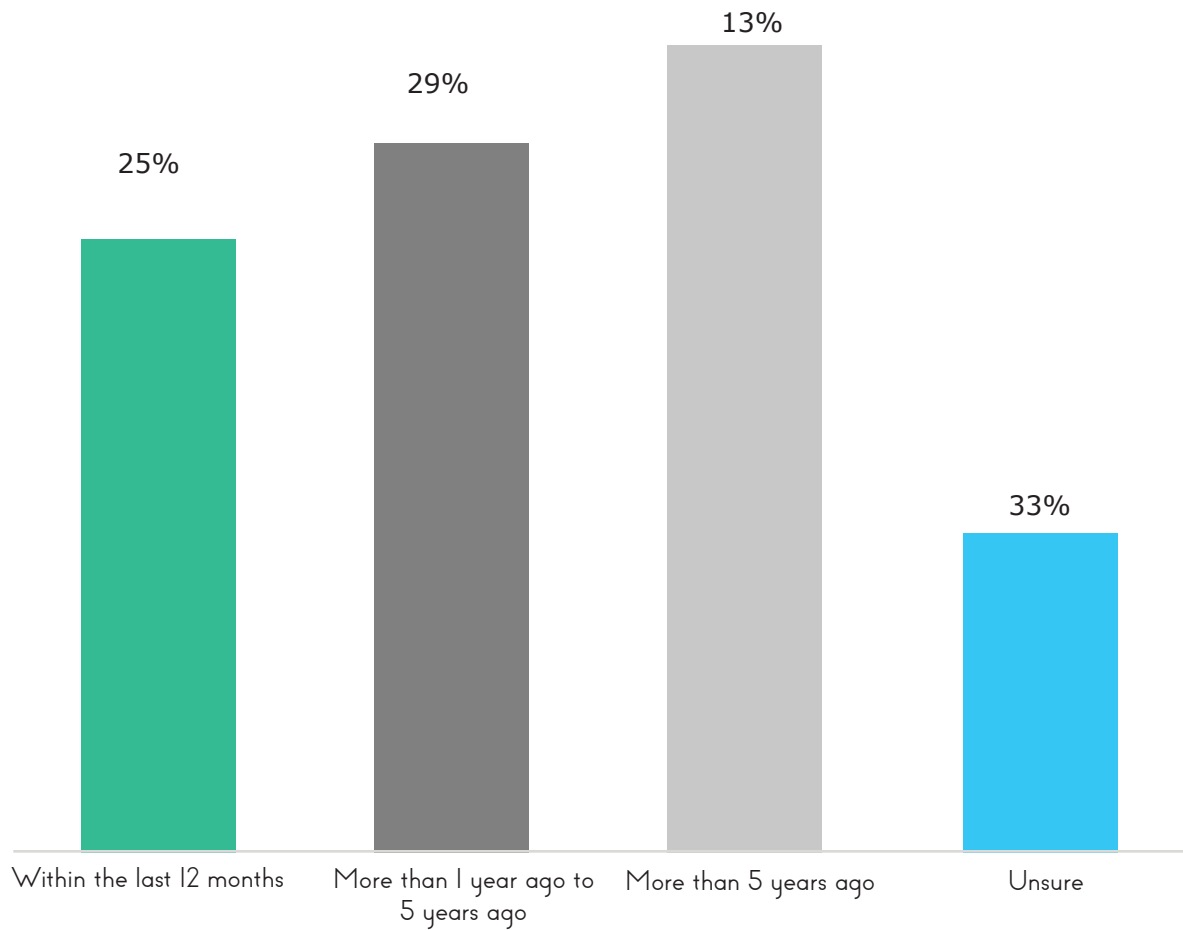
Percent of organizations that have a formal defined target and/or maximum award stated as percentage of base salary



Average Target/Maximum Award as a Percent of Base Salary

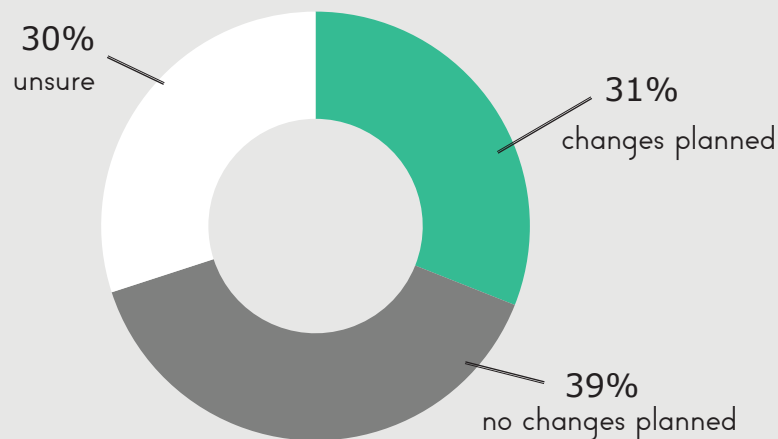
	Target	Maximum
Management/Supervisory	22%	31%
Professional & Technical	9%	15%
Clerical/Administrative	6%	9%
Hourly	6%	7%

Annual incentive plan(s) were changed:

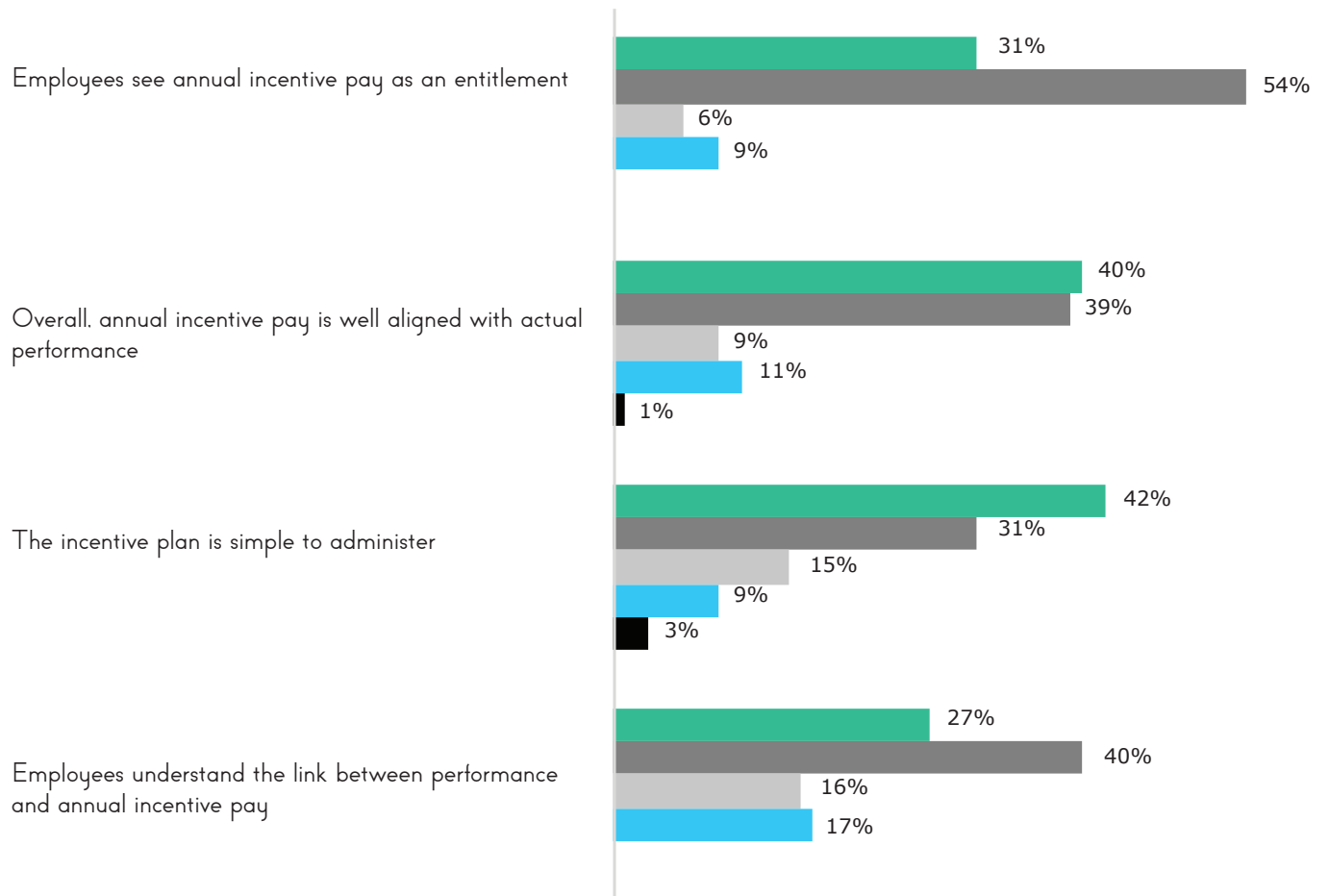


Future Changes to Annual Incentive Plans

31% of organizations with annual incentive plans are expecting to making changes to their annual incentive plans in the next 12-24 months. **39%** are not planning on making changes to their annual incentive plans within the next 12-24 months. **30%** are unsure.



Employers' opinions of their annual incentive plans:



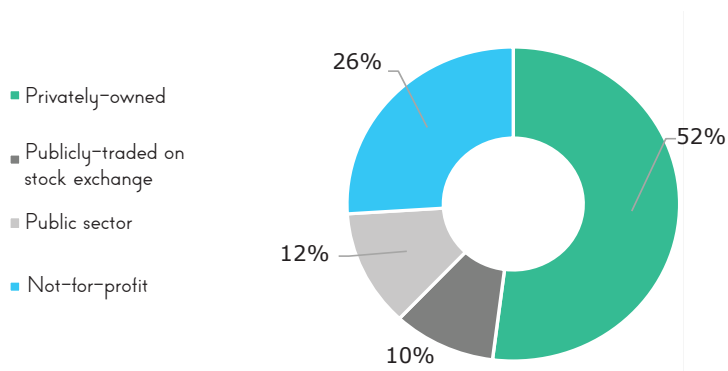
■ Agree ■ Somewhat Agree ■ Somewhat Disagree ■ Disagree ■ Unable to answer

There is no 'one-size-fits-all' annual incentive plan. Participants mostly consider their annual incentive plans as being well aligned with actual performance.

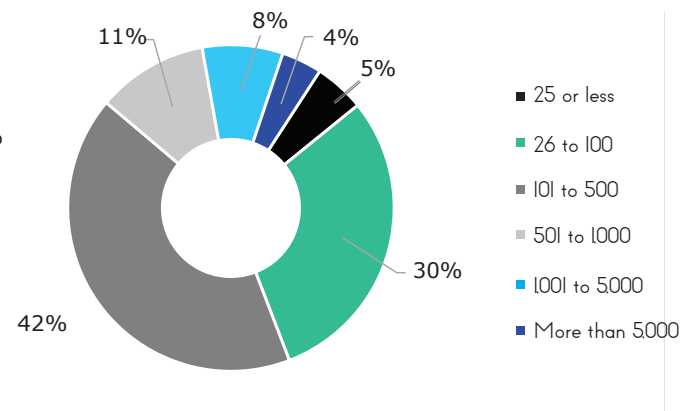
The following are the most common changes to annual incentive plans that participants reported they would like to see in their organizations:

- Moving from discretionary or profit-sharing incentive plans to performance-based incentive plans for management and executives.
- Simplifying the design of performance-based incentive plans so employees better understand the correlation between their performance and bonus awards.
- Adding collaboration goals for cross-functional teams to the performance-based incentive plan.
- Increasing base salaries and basing annual incentives only on corporate performance measures.
- Including non-financial performance measures as a basis for annual incentive awards.
- Weighting corporate performance measures based on the function an employee holds.

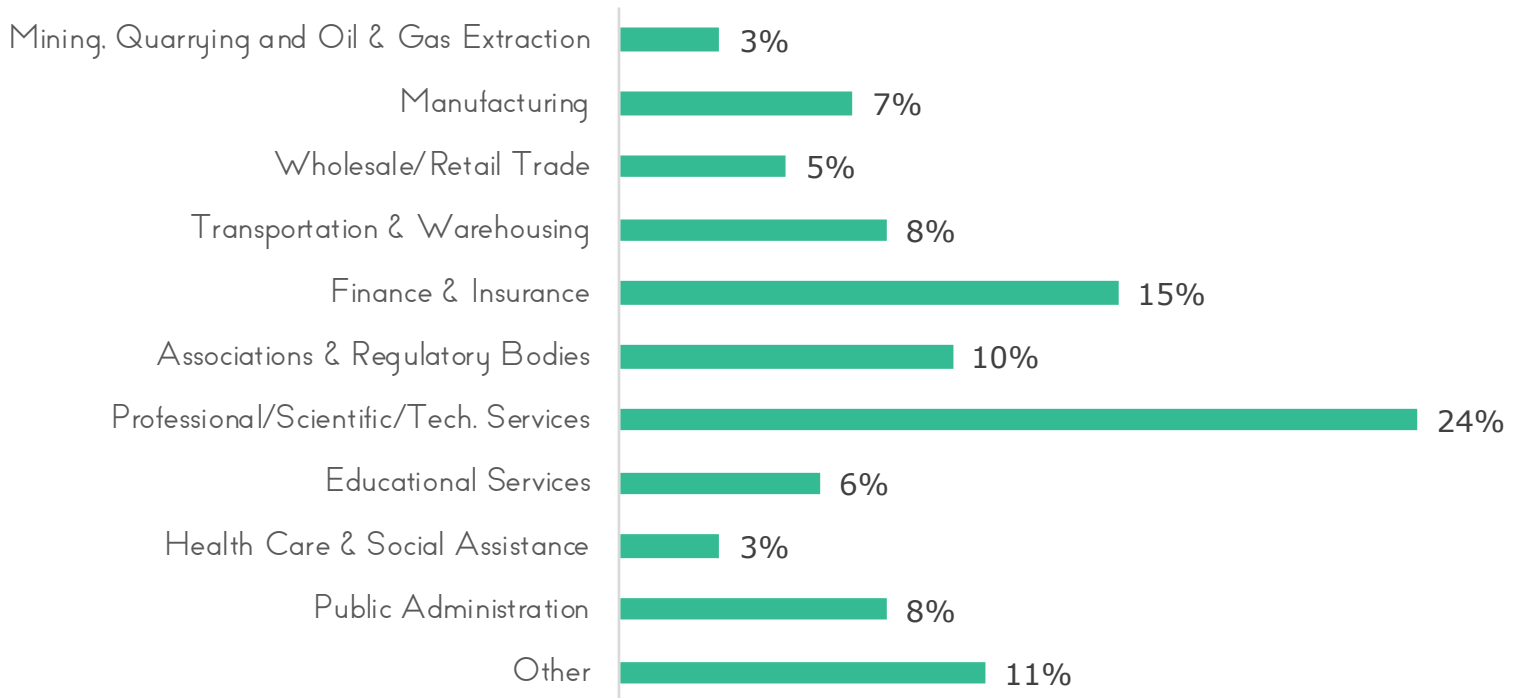
Participants, by sector



Number of employees in Canada



Participants, by industry



WCBC Western Compensation & Benefits Consultants

WCBC helps Canadian employers pay employees appropriately by providing customized solutions, market-based research and professional advice. Contact us to learn how we can help you achieve your compensation goals.

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