# It's About People:

## How Performance Management Helps Middle Market Companies Grow Faster

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET, WITH DR. RAYMOND NOE AND DR. LARRY INKS OF THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With

THE OHIO STATE UNIVERSITY
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SHRM
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

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# About This Report
## Performance Management

### THE U.S. MIDDLE MARKET

The U.S. middle market is defined by companies with annual revenues between $10 million and $1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses and sole proprietorships. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness. *It's About People—How Performance Management Helps Middle Market Companies Grow Faster* reports on insights from C-suite executives who lead middle market firms across the nation. The report shows that there is a strong relationship between companywide financial success and effective performance management.

### EFFECTIVE PERFORMANCE MANAGEMENT

Performance management is the discipline of identifying, assessing, and improving individual (and collectively, team) performance and ensuring that it is aligned with the company's strategic goals. Done right, it is a continuous process, not an event that happens once or twice a year. Effective performance management consists of a series of actions and initiatives occurring over a given time period (e.g., annually). It includes 1) setting employee's goals and objectives for the upcoming performance cycle based on the organization's strategy, mission and values, 2) providing formal and informal feedback to the employee about his or her performance, 3) a midcycle review of the employees performance, 4) a review of the employee's performance (often referred to as a performance appraisal) at the end of the performance cycle, and then 5) discussion about and changes to the employee's pay, and opportunities for promotion and development that are consistent with his or her performance record. The process starts again at the beginning of the next performance cycle with the development of new performance goals and objectives.

The performance appraisal process provides a scorecard for what employees have achieved and is generally linked to discussions about pay, promotion and opportunities for career development. But if it is the only occasion when a manager talks to an employee about how the employee is doing, that isn't effective performance management. Instead, there need to be regular discussions about performance, occasional adjustments to expectations, and an ongoing emphasis on an employee's development as well as his or her performance.

Though there are aspects of performance management that involve a process, it needn't be overly formal. This is an especially important point for midsize companies to keep in mind, since they are often so focused on serving customers and expanding their markets that they may feel they can't invest additional resources or energy in performance management. That may not be necessary. In some cases, in fact, it's possible to make performance management simpler and more effective at the same time.

### HOW THE RESEARCH WAS CONDUCTED

The survey was conducted among 300 C-suite executives from middle market firms. Participants were asked to grade their companies in terms of how effectively they conduct employee performance management. They were also asked what appraisal practices they use, what challenges they face, and their general attitudes with respect to performance management. Research for this report was designed and managed by the National Center for the Middle Market in partnership with the Society for Human Resource Management.

### THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the leading source of knowledge, leadership and innovative research on the U.S. middle market economy. The Center provides critical data, analysis, insights and perspectives to help accelerate growth, increase competitiveness and create jobs for companies, policymakers and other key stakeholders in this sector. The Center's website, which offers a range of tools and resources for middle market companies, can be visited at www.middlemarketcenter.org.

### SOCIETY FOR HUMAN RESOURCE MANAGEMENT

Founded in 1948, the Society for Human Resource Management (SHRM) is the world's largest HR membership organization devoted to human resource management. Representing more than 275,000 members in over 160 countries, the Society is the leading provider of resources to serve the needs of HR professionals and advance the professional practice of human resource management. SHRM has more than 575 affiliated chapters within the United States and subsidiary offices in China, India and United Arab Emirates. Visit us at shrm.org.

# Executive Summary

Performance management isn't the most popular activity in business. Although some executives have a natural gift for it—for getting the most out of the people who work for them at the same time that they're helping those people develop skills and advance in their careers—the facility is relatively rare.

To find out how effective middle market companies are at performance management, and what they could be doing better, the National Center for the Middle Market conducted a survey of 300 business executives. The survey shows that there is a strong relationship between the quality of performance management at midsize companies and their financial performance.

Companies that rate themselves as proficient in performance management have faster revenue growth and better profit margins than their competitors, and are less likely to have to reduce staff. Also, while the right approach to performance management will vary by company, the midsize companies that do it well tend to have senior executives who believe in performance management and treat it as an integral part of every working day.

Companies associate performance management with the performance review—the formal event, often lasting less than an hour, in which managers, binders in hand, sit down with their employees. In fact, when performance management is done well, it's an ongoing process, with informal feedback flowing regularly, and the "sit-down" is merely a chance to summarize feedback that has already been given and to discuss expectations for the future.

When companies fail to take performance management seriously, they generally pay a price. The price may be obvious to everyone, like the promotion of people with poor supervisory skills or the continued employment of underperforming employees who hurt morale in a department. Or the price may be more subtle, like continued subpar growth or the frequency with which a company finds itself having to throw money at top employees who may be recruited by competitors and are ready to walk out the door.

If leaders want to conduct performance management effectively at a companywide level, they must provide managers with tools and guidance. This report includes a list of key takeaways on performance management, as well as a case study from a middle market company, that business executives and HR leaders can implement in their companies.

# Key Takeaways for Middle Market Executives

### START WITH GOAL-SETTING

A critically important part of performance management is communicating what you need from an employee in the coming months or year. In many cases, this part of the communication isn't effective. Create guidelines for (and examples of) what constitutes a well-articulated future goal.

### GET TOP MANAGERS BEHIND IT

There is no faster way for something to become a corporate priority than for top executives to demonstrate their commitment to it. One way to do this is to hold managers accountable for identifying and building talent as part of their performance goals and linking their pay, bonuses, and promotion opportunities to meeting these goals.

### TELL THE TRUTH IN PERFORMANCE APPRAISALS AND BE SPECIFIC

Establish a management culture in which managers and supervisors can share open and honest feedback with employees. Underperforming employees need to get the message—and so do your stars. You have employees' full attention in these meetings—you should take advantage of that and tell it like it is.

### KEEP YOUR APPROACH TO PERFORMANCE MANAGEMENT SIMPLE AND MAKE SURE IT FITS YOUR FIRM'S CULTURE

If there are ways to simplify the performance management process at your company, by all means give them a try. Your emphasis should be making your people more integral to your company's success. Anything that detracts from that is a waste of energy.

### INSTITUTE SECOND-LEVEL REVIEWS

Even the fairest managers have employees whom they like more than others or less than others and those biases can creep into performance reviews. To avoid this, insist that every review gets input from a second-level manager who knows the employee too.

### TURN PERFORMANCE MANAGEMENT INTO AN ONGOING DISCUSSION

Employees lose focus, fall into ruts, and lose confidence— not unlike athletes playing a sport over the course of a long season. And like athletes, employees need regular encouragement and coaching. Even if the appraisals you do are only once a year, make sure there is an ongoing discussion that grows out of that appraisal and that you are constantly reinforcing your expectations and helping your employees improve.

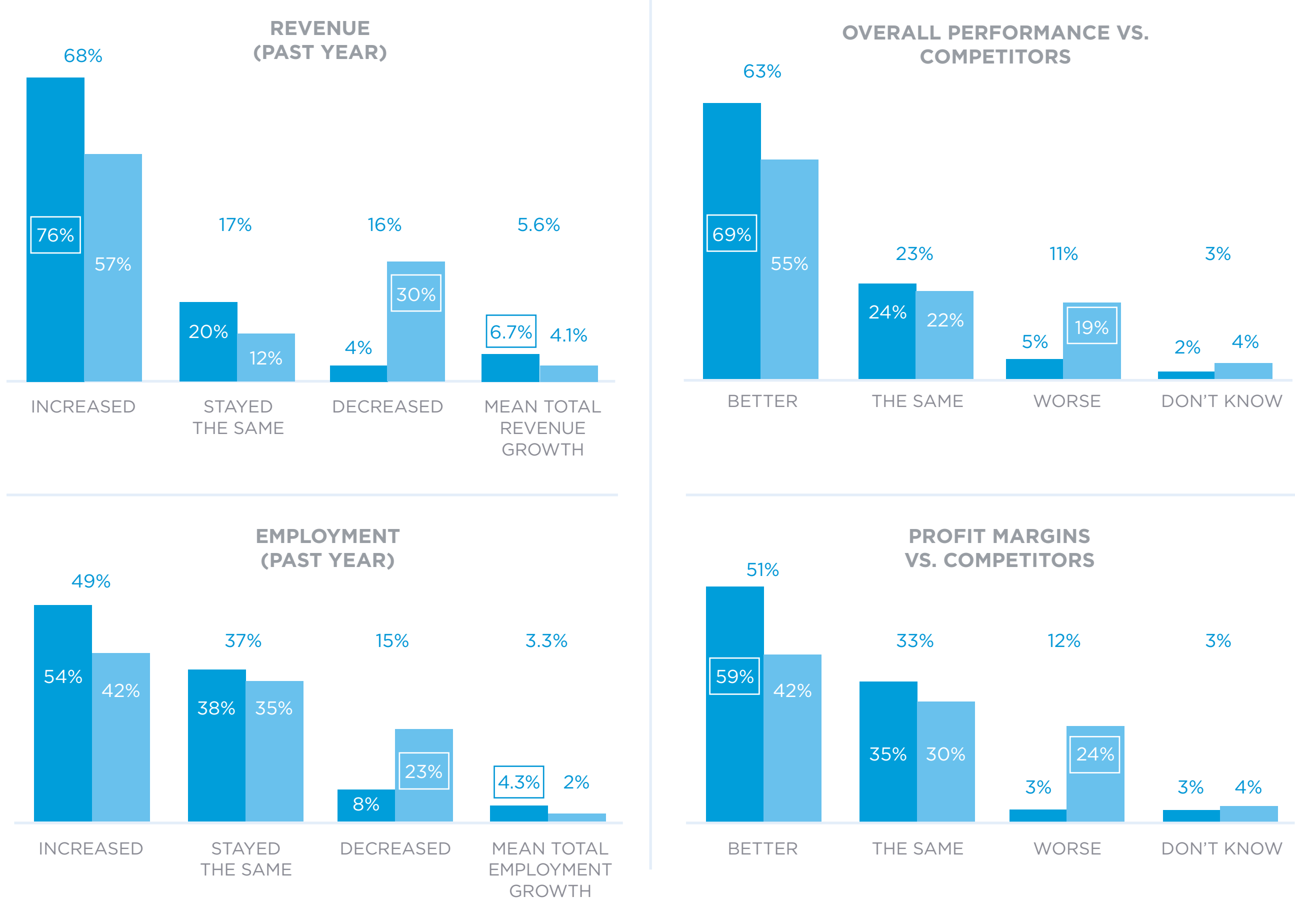
# Performance Management
## Affects the Bottom Line

Among all corporate activities, few are performed with more variability and less consistency than performance management. In our direct experience in business and in our observation as researchers, we have seen three prevailing perspectives taken by management teams. First are management teams that steadfastly believe in performance management and use it as a tool to drive their companies' growth. Then there are management teams that do performance management out of a sense of duty, but are mostly going through the motions. Finally, and most in need of change, are the management teams that actively subvert the process or are overtly dismissive of it.

One of our human resource colleagues worked with one of those cynics, a Fortune 500 chief operating officer. The executive had his direct reports write their own performance reviews and then send them to his administrative assistant, whose job was to change all the pronouns. That was demoralizing for the HR department and may have prevented this executive's direct reports—who were presumably talented people, given the heights to which they had risen at a big company—from reaching their potential in subtle but important ways. This behavior sent the wrong message—that performance management, at this company, was just about 'going through the motions' and being able to check a box.

### PERFORMANCE MANAGEMENT MAKES A DIFFERENCE

Better self-reported performance management is associated with better company performance in terms of increasing revenue and employment, as well as better overall performance and profit margins compared to competitors.




A/B (173)   C/D/F (127)   SIGNIFICANT AT THE 90% CONFIDENCE LEVEL AS COMPARED TO THE CORRESPONDING STAT FOR THE OTHER SUBGROUP.

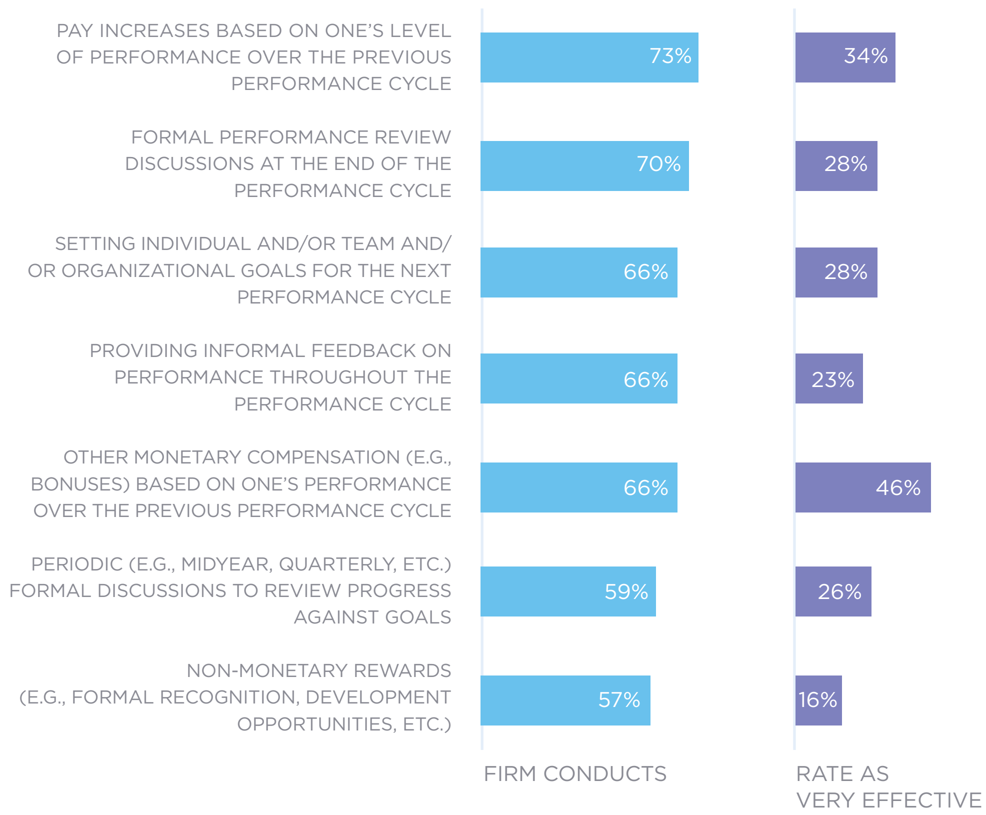
NOTE: PERCENTAGES MAY NOT ADD UP TO 100%, AS THEY ARE ROUNDED TO THE NEAREST PERCENT.

The relationship between good performance management and companywide financial success comes through clearly in the survey of 300 business executives by the National Center for the Middle Market. Among middle market companies that see themselves as excellent or very good at performance management (an "A" or a "B"), 76% say their revenues increased in the past year; only 4% say their revenues declined. By contrast, 30% of companies less skilled in performance management (those that give themselves a "C," "D" or "F") say their revenues declined in the last year, and one in five says they lost ground to competitors.

Surprisingly, performance management seems to persist as a discipline in most organizations despite its critics. Four out of five midsize companies administer reviews once a year or more and only 4% never do them at all, which is likely a function of how intimately bound the annual review is with compensation decisions. About three quarters of midsize companies say they use some sort of review to determine employees' salary increases, and two-thirds say that performance determines other monetary compensation, such as bonuses. In fact, midsize companies think their administration of bonuses is the best way in which they use performance management. The farther they get away from a link to compensation decisions, the less sure most midsize companies are of the effectiveness of their performance management practices.

## RATING THE EFFECTIVENESS OF PERFORMANCE MANAGEMENT PRACTICES

Most middle market firms have a variety of practices in place to develop employees, but few rate themselves 'very effective' on the most common practices. The one exception is bonuses paid based on performance. In this area, nearly half of firms rate themselves 'very effective'.




BASE: TOTAL RESPONDENTS: MIDDLE MARKET COMPANIES (N=300)

# Obstacles to
## Better Performance Management

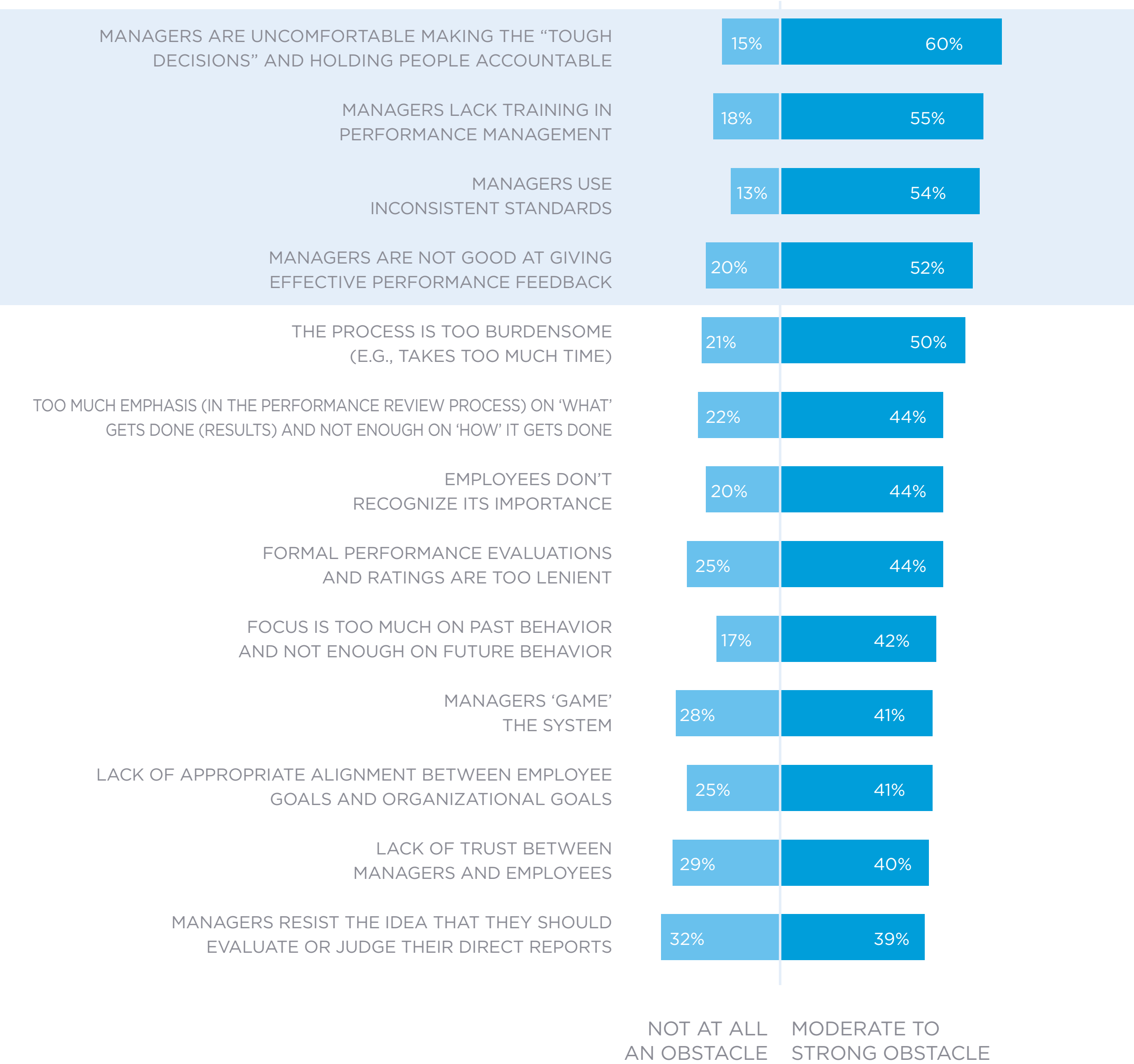
At the midsize companies surveyed, the biggest obstacles to effective performance management are rooted in the inexperience and discomfort of the people responsible for doing the reviews. More than half of midsize companies say their managers lack training in performance management, use inconsistent standards, or are simply not good at giving performance feedback. An even bigger obstacle is the discomfort managers have about making tough decisions and holding people accountable. Things like withholding raises for poor performers or firing people who aren't carrying their weight is a moderate to strong obstacle for 60% of midsize companies.

When asked about the least helpful practices in performance management, executives mentioned the tendency some companies have to continually change their appraisal processes and to only use performance reviews to warn underperforming employees. Executives say those practices make performance management less effective and should be stopped.

A significant number of executives - 50% - say the performance management process is too burdensome. Rather than jettison the process, this suggests an opportunity to improve it. Formality isn't essential to effective performance management. Organizations don't have to incorporate 360-degree feedback, use a behaviorally anchored rating scale, or rank their entire workforce using a forced choice approach. Reviews don't need to involve a complex process; they just need to be consistent with the mission of the business and include the fundamental principles of performance management. This doesn't mean companies can get away without doing them or that the approach to them isn't important.

## PERFORMANCE MANAGEMENT OBSTACLES

Ineffective management practices top the list of performance management obstacles. In addition, the process is seen as burdensome, there is no "road map" for effective implementation, employees don't appreciate the importance of performance management and evaluations are too lenient.




BASE: TOTAL RESPONDENTS: MIDDLE MARKET COMPANIES (N=300)

# Solution #1: Set Better Goals

Goal-setting is one aspect of performance management that can sow confusion – and give rise to credibility issues – instead of creating clarity. A third of companies surveyed think performance goals are set too high; another third think performance goals are set too low. And this see-saw of what's wrong does not even take into account the many types of workers (those in administrative support positions or in strictly creative roles, for instance) for whom numerical goals might not make sense.

Midsize companies that rate themselves an A or B at performance management tend to do a much better job at setting goals with their direct reports: 54% versus 27% for companies that rate themselves a C, D, or F in using performance management. They are also far better at letting weak performers know they need to improve (65% versus 25%), at providing informal feedback (60% to 34%), and at making tough calls like firing poor performers (64% to 26%).

Goal setting is certainly a critical part of performance management and companies can increase the effectiveness of their goal-setting in two ways. The first is to make sure that an individual's goals derive from and link back to his or her departmental goals and company strategy. The second is to write objectives in such a way that larger goals can be broken down into sub-goals. This makes them easier to address and track.

For example, consider a manager who is expected to reduce costs at his plant by 10% by the end of the next calendar year. Rather than leaving him to figure out how to accomplish that alone, you should sit down and discuss with him ideas about how he might reach his goal. This should result in a commitment to sub-goals such as identifying a process improvement that can contribute to the savings by the end of February, beginning the program by the first of May, and generating an initial report on the program's results by the second week in September. In addition to setting realistic goals and sub-goals, it's important to have regular meetings to discuss the manager's progress and any obstacles that have arisen, and do so in a way that makes it clear these touch points and sub-goals are not an attempt to micromanage.

One good piece of news is that companies recognize they need to do a better job of setting goals for individuals. Indeed, along with doing a better job of providing informal feedback, setting individual and team goals is the area in which the most midsize companies (40%) will be looking to make formal improvements in the next year. Almost as many —38%— will be looking for better ways to provide non-monetary rewards, an area that is starting to receive increased attention in a world that has not quite shaken the memory of the financial crisis.

## WHAT EFFECTIVE PERFORMANCE MANAGEMENT LOOKS LIKE

Most middle market leaders believe their firm communicates to strong performers that they are valued but firms that rate themselves better in performance management are more engaged in all aspects of talent management.


A/B (173) C/D/F (127) SIGNIFICANT AT THE 90% CONFIDENCE LEVEL AS COMPARED TO THE CORRESPONDING STAT FOR THE OTHER SUBGROUP.

BASE: TOTAL RESPONDENTS: MIDDLE MARKET COMPANIES (N=300)

## Solution #2: Empower Managers to Say and Do What is Necessary

Good performance management requires "managerial courage," which includes having difficult conversations when necessary. Two things make managerial courage easier. The first is a thoughtfully designed performance management process, matched to the company's strategy, that gives both managers and employees an objective basis for rating performance. The second is a management culture in which leaders communicate with their employees throughout a performance period. No boss likes waking up to a day on which his most important task is going to involve telling someone that his or her job is on the line, or terminating the person's employment. Those discussions may lead managers to second-guess, lose sleep, and put off the conversation as long as possible. But when the moment comes to have that conversation, it's a lot more awkward if the news takes the recipient by surprise. And this is exactly what happens when a company has not done the rudiments of performance management—like setting clear goals for employees, giving them regular feedback, and, if they're not working to standard, sounding an alarm early so they have a chance to get back on track.

Sixty-four percent of executives from middle market firms who believe they have an effective performance management process agreed that their managers are able to make tough calls but less than half (48%) believe they are willing to do so. This highlights the importance of communicating to managers the need to make the tough calls as well as helping them develop the necessary skill sets (e.g., coaching).

## Solution #3: Institute 2nd Level Reviews

Another common problem is how performance reviews are viewed by those on the receiving end. Fewer than half of all executives at midsize organizations see performance conversations as being open, honest, and fact-based. As with other aspects of performance management, the proportion of executives who are satisfied with the process is higher at companies that rate themselves better at performance management. There is also a sense that managers "game" the system (about 41% of respondents see this as a problem), glossing over favored employees' weaknesses in order to give them better reviews and the biggest salary increases and bonuses possible.

The perceived legitimacy of a review is of great importance, and one way to ensure it is to require that, before any review is administered, it gets looked at by the reviewers' own manager (the employee's second-level manager), who knows the work of the employee. In our experience these second-level reviews can increase employees' confidence that the feedback they're getting is fair, and the process needn't be limited to companies with tens of thousands of employees and layers of management. It also helps hold the reviewing manager accountable for accurate ratings across his or her employees.

## Solution #4: Address Doubts about Performance Management

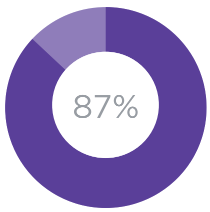
For all its demonstrable value, performance management still has its doubters. A book called "Get Rid of the Performance Review," by Samuel Culbert, a professor at UCLA's Anderson School of Management, received significant attention when released a few years ago. Culbert's argument is that, in most cases, performance reviews end up being used as a way to intimidate and control employees and end up inhibiting performance instead of enhancing it. There is no question that this sometimes happens, but when it does, we believe it is an executional flaw, not a conceptual one.

This skepticism about performance management persists at midsize companies. Fewer than one in five midsize companies say performance management will be a top priority in the next year. About the same proportion say they won't be devoting additional time or resources to it. Most companies are in-between, saying that while other business issues will have higher priority, performance management will receive some of their attention and resources. If they are smart, these companies will realize how much leverage they can get out of employees who feel valued, understand the mission, and buy into the personal development plan that a thoughtful boss has laid out for them.

# How Companies Plan to Improve Performance Management

Few middle market firms consider performance management a top priority, but nearly all have some formal plans for improvements in performance management in the coming year.

## HAVE SOME FORMAL PLANS FOR IMPROVEMENT



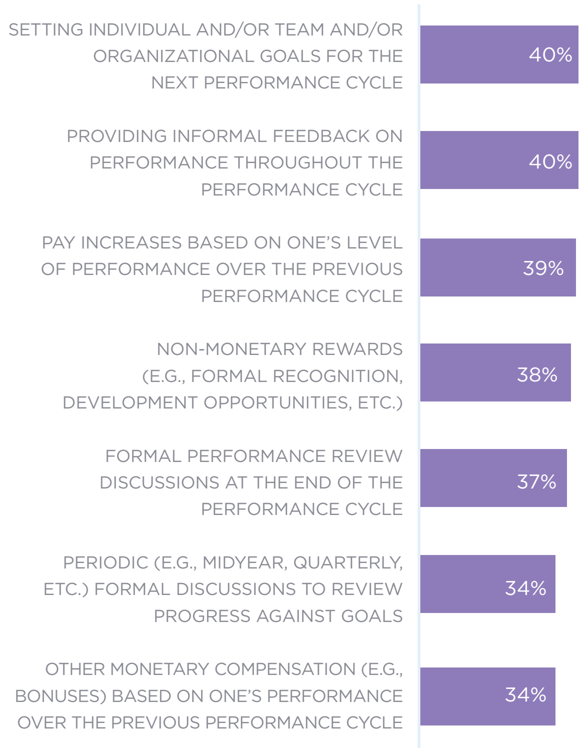

## PRIORITY OF PERFORMANCE MANAGEMENT IN NEXT YEAR

**18%** PERFORMANCE MANAGEMENT WILL BE A TOP PRIORITY AT OUR FIRM

**63%** SOME ATTENTION AND RESOURCES WILL BE GIVEN TO PERFORMANCE MANAGEMENT, BUT OTHER BUSINESS ISSUES ARE HIGHER PRIORITIES

**19%** PERFORMANCE MANAGEMENT WILL NOT BE A PRIORITY IN THE COMING YEAR AT OUR FIRM

## FORMAL PLANS FOR IMPROVEMENT IN NEXT YEAR




BASE: TOTAL RESPONDENTS: MIDDLE MARKET COMPANIES (N=300)

# Connecting Performance Management to the Full Talent Management Proposition

Many of the challenges that midsize companies have in the area of performance management go to the heart of their future prospects. For instance, 60% of respondents say they have difficulty recruiting new employees with the necessary skill sets. Fifty-seven percent say their performance management practices create challenges for the way they do succession planning. And 49% say their challenges in the area of performance management keep them from capitalizing on opportunities to grow, whether geographically or by introducing new products.

One experience of a business-to-business company specializing in power management with a strategy of growing through acquisitions highlights the importance of performance management. The parent company emphasizes an integrated operating philosophy which means that same philosophy needs to be understood and accepted by employees of acquired firms. An important part of the operating philosophy is ensuring that the parent company culture and goals are effectively communicated and accepted, and that they drive, energize, and help maintain employee's performance.

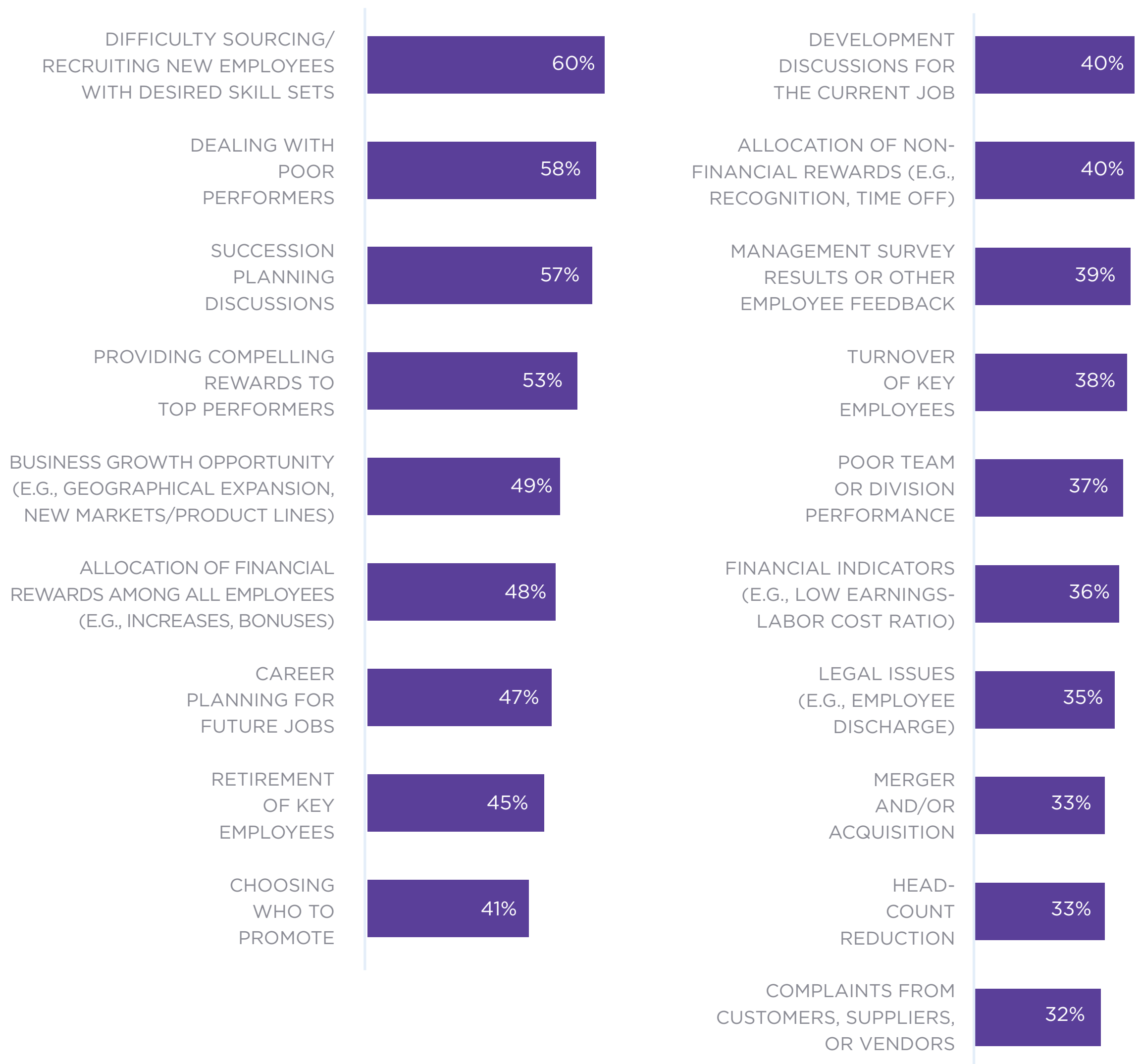
Within the first three months of a recent acquisition, 95% of employees from the acquired firm had identified performance goals linked to business goals and entered them into the parent company's online performance management system. As a result the parent company reached record profits and managers from the acquired firm quickly recognized that the parent company made a strong linkage between performance and merit increases.

Contrary to the practice in their firm, employees in the parent company who received low overall performance ratings received no merit increases. This sent a strong message to managers that performance management was taken very seriously in the parent company. To support these new managers the parent company used several practices that were already part of their performance management philosophy. These practices included providing training in how to make ratings, coach employees throughout the performance cycle, and using calibration meetings to ensure that evaluations were fair and accurate.

# Most Challenges Can Be Addressed With Effective Performance Management

Many middle market firms have difficulty recruiting the right employees, dealing with poor performers internally and succession planning. Providing compelling rewards to top performing talent is also a challenge for many.

**EXTREMELY OR VERY CHALLENGING/ CHALLENGING**




BASE: TOTAL RESPONDENTS: MIDDLE MARKET COMPANIES (N=300)

# Case Study:
## At LiftOne, Belief in Performance Management Starts at Top

**Headquartered in Charlotte, North Carolina, LiftOne is a full-service lift truck and material handling dealership with 17 branch locations throughout North Carolina, South Carolina, Alabama, Georgia and Tennessee. Learn more at: www.liftone.net.**

After LiftOne bought a division of Barloworld in 2012, LiftOne president Bill Ryan found his new company in a challenging position. Both companies were in the business of selling and leasing forklift equipment, but the Barloworld enterprise was considerably larger—the whale to LiftOne's minnow. After the deal was finalized, LiftOne—which had been a $60 million company with 167 people in parts of two states—suddenly found itself a $180 million enterprise with 560 people in five states.

A lot can go wrong in a situation like that, and Ryan and his staff decided their best chance of ensuring the acquisition's success was to incentivize the combined company to work toward seven strategic goals. LiftOne's goals spell out targets for market share, after-market share, gross profit and return on assets; LiftOne's bonus plans are tied to these specific goals. The company also has three people-related strategic goals, relating to on-site safety, employee engagement and customer engagement. LiftOne is comparing itself to industry benchmarks and has been making progress in all of these areas.

LiftOne's clear goal-setting—one of the tenets of effective performance management—has set the tone for other parts of the company.

Every division of LiftOne displays progress monthly on a football field-like electronic grid showing progress toward some monthly financial goal. Not every forklift technician or service person is steeped in the finer points of finance, so the "advancing football" becomes an opportunity for division managers to educate their employees on concepts like gross profit. Getting into the end zone by the end of the month means a potential cash bonus for every member in the division so the employees take an interest. The average bonus for non-management employees at LiftOne is now about $300 a quarter, Ryan says.

Another good performance-management tactic practiced by LiftOne is being willing to make the tough decisions. When Ryan arrived at LiftOne in 2005, it quickly became apparent to him that the company's culture was one of low trust and internal competition. With the help of his management team, Ryan figured out that the culture problem stemmed from a small group of people who had long since stopped seeing themselves as part of a team and after a few months, called those people into a meeting.

"Guys, we're going to go through a change here," he told them. "We're going to go from a low-trust, internally focused, internally competitive environment to an externally focused, positive, engaged, high-trust culture. You're either going to be with us or you're going to be against us." Within months, the people who had been poisoning the atmosphere the most were gone.

Ryan subscribes to one of the simpler truths of performance management—that it pays to let good performers know they are valued. There are executives who think it makes sense to operate in an atmosphere of fear. Ryan, who grew up as the oldest of eight children, isn't one of them.

"I'd much rather catch a worker doing something right" than doing something wrong, he says. "It can be as seemingly minor as someone handling a distraught customer very well. We will recognize that—privately at first and publicly later on. We spend a lot of time singing the praises of right behaviors."

# SHRM Survey Findings:
## HR Professionals' Perceptions about Performance Management Effectiveness

No matter the size, industry or culture of an organization, its success is enhanced by a strong performance management process. A fully-fledged process includes setting expectations for each employee as well as periodic informal and formal feedback about performance. Performance appraisals are used by many companies to inform decisions about where to invest their training and development dollars, how to allocate compensation, whom to transfer or promote, and in some cases, which employees to terminate.

### HR PROFESSIONALS AND PERFORMANCE MANAGEMENT

Human resource professionals play a central role in building organizational performance management strategies and work with line managers to carry out the performance appraisal process. To gain more insight into how performance management strategies and systems are developed and implemented, the Society for Human Resource Management conducted a survey of 391 SHRM members. The SHRM study, whose respondents were U.S. HR professionals representing a wide range of industries, staff sizes and revenue levels, complements NCMM's survey of C-suite executives in middle market firms.

The SHRM survey found that a majority of HR professionals reported that their companies conduct performance appraisals on an annual basis (72%), with a significant minority (16%) undertaking them twice per year. Only 3% say they don't do them at all.

### MANAGING PERFORMANCE

HR professionals are split in their views of how effectively performance management works in their companies. Overall, a majority (53%) give their firm a "grade" between B and C+. Just 12% would give out an A or B+. This is evidence of a need for improvement, but it also indicates that companies that develop a strong and effective employee performance management system can stand out from their competitors and position themselves for success.

Asked about the willingness of their organization's line managers to make the "tough calls" that are needed in assessing employees' performance, HR professionals were split in their views. While 42% had some level of agreement with the statement that "managers in my organization are willing to "make the tough calls'" such as giving a low/no increase for poor performance or firing a poorly performing employee, an almost equal number (38%) had some level of disagreement with this statement. (See Table 1). And while almost half (46%) said they agreed with the statement that their companies' managers "did an effective job of differentiating between poor, average and strong performers", about 32% disagreed. (See Table 2.)

**TABLE 1: MANAGERS IN MY ORGANIZATION ARE WILLING TO "MAKE THE TOUGH CALLS" (E.G., GIVING A LOW/NO INCREASE FOR POOR PERFORMANCE, FIRING A POORLY PERFORMING EMPLOYEE, ETC.) AS APPROPRIATE**

| | |
|---|---|
| STRONGLY DISAGREE | 4% |
| DISAGREE | 34% |
| NEITHER DISAGREE NOR AGREE | 19% |
| AGREE | 38% |
| STRONGLY AGREE | 4% |

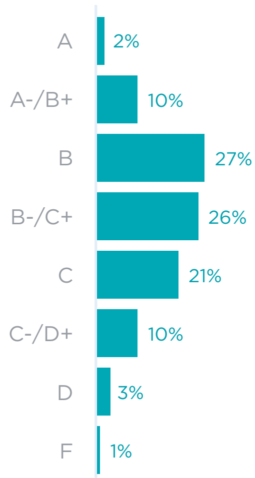
BASE: TOTAL RESPONDENTS: MIDDLE MARKET COMPANIES (N=358). PERCENTAGES MAY NOT TOTAL 100% DUE TO ROUNDING.

**TABLE 2: MANAGERS IN MY ORGANIZATION DO AN EFFECTIVE JOB OF DIFFERENTIATING BETWEEN POOR, AVERAGE, AND STRONG PERFORMERS**

| | |
|---|---|
| STRONGLY DISAGREE | 2% |
| DISAGREE | 30% |
| NEITHER DISAGREE NOR AGREE | 22% |
| AGREE | 43% |
| STRONGLY AGREE | 3% |

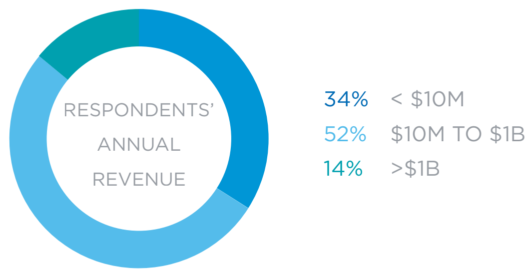
BASE: TOTAL RESPONDENTS: MIDDLE MARKET COMPANIES (N=361).

**TABLE 3: IF YOU WERE TO GIVE YOUR ORGANIZATION A "GRADE" BASED ON ITS OVERALL EFFECTIVENESS WITH PERFORMANCE MANAGEMENT, WHAT GRADE WOULD YOU GIVE?**




BASE: TOTAL RESPONDENTS: (N=359).

**TABLE 4: WHICH OF THE CATEGORIES BELOW BEST DESCRIBES YOUR COMPANY'S TOTAL ANNUAL REVENUE FOR THE MOST RECENT FISCAL YEAR?**




BASE: TOTAL RESPONDENTS: (N=247). PARTICIPANTS WHO ANSWERED "DON'T KNOW" OR "PREFER NOT TO SAY" WERE EXCLUDED FROM THE ANALYSIS.

## COMPARING SHRM AND NCMM DATA

SHRM's findings reinforce many of the findings of the NCMM's research on performance management. Respondents in the NCMM's survey shared some of SHRM's members' doubts about the effectiveness of their overall performance management system. The role of managers was an area of concern. Both surveys indicate that most of the obstacles to effective performance management relate to managers receiving little or no training in performance management, applying standards inconsistently, and, most of all, feeling discomfort about making tough decisions and holding people accountable.

But there were some revealing differences in the findings. Notably, more companies in the SHRM study (30%) said that performance appraisals would be a top priority in the year ahead compared with those in the NCMM survey (18%).

Overall, the SHRM and NCMM data on performance management suggest that more firms should make performance management a priority. The NCMM data show a clear relationship between excellence in performance management and excellence in overall corporate performance—top-line growth, jobs growth, profitability, and competitive advantage. High-growth companies in particular need to assure that their HR capabilities are developing at a pace that can keep up with the growth of the enterprise. And even those organizations who currently report high levels of satisfaction with the way their performance management systems are working will need to continuously monitor and assess their effectiveness to stay ahead of the competition.

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