



**Head
Light**

Appraisals undervalued?
Calculate their
Return on Investment

part of our We think... series

Talent **Cloud®**. Breakthrough **software**. Raise **expectations**.





Ian Lee-Emery, Managing Director, explores how to demonstrate in business terms the value of appraisals and more effective performance management. This article first appeared in Personnel Today on 25 April 2014 - <http://www.personneltoday.com/hr/appraisals-undervalued-calculate-return-investment/>

Does performance management add real value in your organisation or do people dismiss it as an HR bureaucracy that takes valuable time away from the 'day job'?

Intuitively, we all know that performance management can benefit individuals and the organisation. But too often it does not.

Part of the problem might be that different people have different views on the real purpose of performance management. Team members may use it as an excuse to look for a pay rise; managers may see it as a chance to deal with poor performance; and business leaders may promote it in order to reassure themselves that everyone understands and supports the business objectives.

So, although you may have a performance management process in place, conflicting perceptions such as these may be preventing individuals and the organisation from getting the best out of it.

So how can you convince the senior team – and all managers and staff in your organisation – to change not only their point of view on performance management but also their behaviour? Why should they invest in adopting best practice?

The answer to both of these questions is to express the benefits of performance management in figures, because numbers are the “language” that is best understood by the business.

Calculating the return that you could achieve by implementing best practice performance management is not as difficult as you might think. All organisations may be different but they do have one thing in common: people create value in teams led by a manager. So, start by quantifying that value.

For example, take an organisation with revenues of £320 million that employs 2,500 staff, working in 375 teams. The average revenue per team is approximately £853,000. We can then calculate the cost to employ that team, by adding their salaries plus a share of the overheads. If this comes to £336,000, then the net contribution made by an average team (the difference between what they contribute and what it costs to employ them) is £517,000.

Now, let us assume that this organisation introduces best practice performance management. Each manager starts to become more effective as a coach to their team. Other benefits accrue, such as: better goal alignment and increased employee engagement; more relevant, goal-focused conversations about performance; issues of underperformance start to be addressed and more relevant development planning starts to take place.

Here is the critical question: if all of this happened, what impact would it have on the performance of each team? Could it make a 1% improvement in a team's performance in a year? Would it, more realistically, be a 5% or even a 10% improvement?

The impact on productivity, efficiency and performance could be significant, even in teams that don't generate revenue or in not-for-profit organisations. There is a clear benefit in using performance management more effectively to get people to implement and work on whatever it is that drives the organisation's success. But, in our simplified example above, if we just look at a conservative estimate of a 1% improvement in each team's performance (£5,170), that equates to nearly £2 million worth (£5,170 x 375) of potential net productivity improvements, just by introducing a few small behavioural changes.

Calculating the return on investment that your organisation can gain from best practice performance management not only gives you a baseline of where you are, it helps you create an informed business case. Armed with this, you can convince business leaders of the need to establish performance management as a priority in your organisation and you can explain to managers and employees exactly



what is in it for them. All of this will create a strong commitment to performance management.

Embedding best practice performance management within your organisation will create an uplift in performance, help to close skills gaps, enable career progression within the business and create a better engaged workforce. And all of this can be initiated by simply looking at performance management through the lens of ROI.

Next steps

If you would like to take a closer look at how you can calculate the ROI on Performance Management, please get in touch.

About Head Light

Head Light is an award-winning talent management software and consulting firm that works with clients to define and implement impactful talent management strategies.

Talent Cloud® is our cloud-based portfolio of integrated talent management software tools designed for those who expect the maximum return from talent management processes. Our training and consulting services uniquely complement our breakthrough software that engages employees, managers and senior leaders in the selection, development and progression of people in their businesses.

Companies in the FTSE 350, public sector, large and small, from retailers to high tech innovators have all benefitted from our tools, techniques and expertise. Founded in 2004, we are headquartered in the UK.

Head Light has attained the ISO27001 standard for Information Security. Certificate No 217613.





How do I...

transition to Continuous Performance Management

How do I...

introduce robust Succession Planning

How do I...

spot High Potentials and Future Leaders

How do I...

drive Engagement through Career Conversations and Development

How do I...

embed new values and improve culture

How do I...

conduct Skills Assessments and a Gap Analysis

E: info.request@head-light.co.uk

W: www.head-light.co.uk