

Head Light



Online performance management:
know the four key benefits



Ian Lee-Emery, Managing Director, explores the benefits to the organization embarking on online performance management.

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91% of organizations have a performance review process in place, according to our latest survey of HR and Learning & Development decision makers.

Yet only 34% of these organizations use an online performance management system. The rest are laboring on with offline, paper-based processes. But, in doing so, they're jeopardizing their own success.

Companies that conduct paper-based performance reviews complain about inconsistencies in the quality of objectives set (71%); line managers say the process takes too long (67%) and there's too much paperwork (45%). HR teams complain that it takes too long to analyze the results (23%) and that it is difficult to monitor performance across the organization (34%). Questions are also asked about the value of the process. 45% of line managers, in these organizations, don't see performance reviews as a valuable activity.

In contrast, those organizations that have moved their performance reviews online, claim to receive four key benefits:

- 1. Better goal alignment and more objectives achieved.** 80% claim to have achieved better goal alignment between the individual and those of the organization and two thirds have witnessed a greater achievement of objectives.
- 2. Increase in employee engagement and managers becoming 'coaches'.** 46% of organizations that have moved their performance reviews online claim to have increased employee engagement as a result. They also say their managers have become better coaches.
- 3. Performance issues tackled more readily.** More than half of organizations report that any counterproductive behavior or performance is addressed more readily and two thirds have seen an increase in the quality of performance.
- 4. More relevant development planning.** Nearly 70% say their development planning has become more relevant, compared to when they were undertaking paper-based performance reviews.

So what stops organizations from implementing online performance reviews?

The answer seems to be that the benefits of online performance management are not being 'sold' effectively to the business.

For example, there appears to be hardly any desire or requirement to conduct a business case when introducing an online performance management system. Only 24% of organizations that have introduced online performance reviews were asked to submit a business case before doing so. 40% of those organizations that intend to purchase an online performance review system in the next three years state that they will not need to write business case.

Also, there seems to be little appetite to calculate the return on investment (ROI) that organizations achieve from their performance management process. In our survey, only 13% of organizations had tried to calculate the ROI of their online performance review system. 35% said they didn't know how to assess the ROI of their performance reviews.

And yet, of those organizations that have attempted to calculate ROI, 42% claim to see a return on their investment in online performance management within 12 months. 92% see pay back within two years.

Building a business case through ROI

Numbers are the 'language' that is best understood by the business. So any organization that wants to achieve the benefits of online performance reviews would be well-advised to create an informed business case.

Calculating the return that could be gained by implementing online performance reviews is not as difficult as you might think. All organizations 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 organization with revenues of \$320m 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's assume that this organization introduces online performance reviews. Time saving efficiencies and less administration would cut the amount of time that each manager needs to spend on performance management. For example, a more automated approach will mean that managers would spend less time writing up notes and reports. Potentially, this could save around 2.5 hours per manager for each performance review undertaken. That alone would result in \$120,000 of cost savings by moving performance management online.

However, the real business impact comes from examining the four key benefits of online performance reviews, cited earlier. Imagine if more relevant, goal-focused conversations about performance started to happen and if employee engagement started to rise. Imagine if each manager started to become more effective as a coach to their team and started to better address any issues of under-performance. Imagine if more relevant development planning started to take place.

Here's 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 organizations. There's a clear benefit in using performance management more effectively to get people to implement and work on whatever it is that drives the organization'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 \$2m worth of potential net productivity improvements, just by introducing a few small behavioral changes (\$5,170 x 375).

A calculation of the return on investment that your organization can gain from online performance management should form an essential part of any business case. Armed with this information, you should be able to convince business leaders of the need to establish performance management as a priority in your organization and you should also be able to explain to managers and employees exactly what's in it for them. All of this will create a stronger commitment to performance management.

Embedding effective, online performance reviews within your organization will enhance performance, help to close skills gaps, enable career progression within the business and create a better engaged workforce. HR professionals who want to achieve these benefits should calculate the ROI of performance management and 'sell' the idea, of moving the process online, to the business.

Online Performance Management

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.

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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.

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