



Executive Briefing: Estimating the ROI of Performance Management

Fortune 500 Manufacturer
Prepared by MetrixGlobal, LLC

The Bottom-Line: The ROI of the performance management process was forecast to be in the range of 42% to 74%, given how well the expectations would be met for program participation and application of program content to the job. It is recommended that, in order to meet these expectations, steps be taken to track deployment progress, to test for application success and to reinforce accountability for results.

Introduction

The Performance Management Process (PMP) was designed to give managers the skills, knowledge and tools required to effectively manage performance. PMP will be deployed globally to all managers and many team members during 2003 and 2004. PMP represents a significant investment and is therefore expected to deliver significant monetary and intangible benefits to the business. The key questions were:

1. What financial return on investment will this initiative deliver to the business?
2. What actions can be taken to maximize the ROI?

A line of sight was drawn from the evaluation objectives and the business goals. Evaluation objectives were linked to PMP objectives, which in turn, were linked to strategic business goals. Two of these objectives – increased accomplishment of SMART goals and increased productivity – guided the ROI forecast conducted during the pilot phase.

Given the importance of understanding and maximizing the ROI, the PMP sponsors decided to forecast the financial ROI of this process based on initial pilot data. The purpose of the forecast was twofold: first, to better understand how PMP will add value to the business; and second, to discover ways to increase the positive business impact of PMP. Benefits of conducting the forecast included:

1. Increased accountability for managers to produce tangible business results with PMP
2. Improved ability and focus of managers to deploy PMP on a global basis
3. Increased likelihood that the change will be sustained

Data Collection

Four pilots were conducted in February 2003: two in Europe and two in the U.S. Fifty people participated in the pilots who were drawn from a variety of business and support areas. Most were people managers. At the conclusion of each pilot, evaluation questionnaires were distributed:

1. Reaction to PMP: questionnaire allowed participants to evaluate the program content and facilitation
2. Learning PMP content: questionnaire tested how well the participants comprehended and retained the knowledge of the program
3. Forecasting ROI: questionnaire gathered data to estimate the potential impact of PMP on the business

Results

Forty percent of the people who received the ROI forecast questionnaire indicated that improved performance management would produce a tangible monetary benefit for the business. The sources of these annualized monetary benefits were as follows:

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| 1. Personal Productivity | 12% |
| 2. Team Productivity | 57% |
| 3. Quality Improvements | 5% |
| 4. Sales (Margins) Increase | 5% |
| 5. Cost Reductions | 21% |

Estimated monetary benefits were not taken at face value, rather, these benefits were discounted by two factors:

1. Participants' estimates, on a percentage basis, of how much of the monetary benefits were directly due to PMP. This qualifier in effect isolates the impact of PMP on producing business results.

2. The confidence level, on a percentage basis, of participates in their estimate of the contribution PMP will make to the business. This qualifier represents the error of the estimate.

Forecasting the ROI

The total program cost of PMP was estimated and monetary benefits were calculated based on prorating the benefits from the pilot participants. The ROI forecast was calculated as follows:

$ROI(f) = ((Benefits - Cost) / Cost) \times 100 \times Participation \times Application$, where:

The initial $ROI(f) = 130\%$

Participation = the percent of people in the target population who participate in PMP sessions

Application = the percent of program material that is used on the job

A range of ROI was forecasted based on assumptions about the levels of participation (ranged from 80% to 95%) and application (ranged from 40% to 60%).

The Maximum ROI	$130\% \times (P = 95\%; A = 60\%)$	=	74%
Medium ROI	$130\% \times (P = 95\%; A = 40\%)$	=	50%
Medium ROI	$130\% \times (P = 80\%; A = 60\%)$	=	63%
The Minimum ROI	$130\% \times (P = 80\%; A = 40\%)$	=	42%

Recommendations were made to achieve the higher rates of participation and application, including tracking participation rates by business unit VP; and conducting quarterly virtual focus groups to monitor application and to gather the necessary data in which to make mid-course corrections during deployment. Intangible benefits of PMP include improved teamwork and employee engagement. The consequences of not effectively deploying PMP are clear: a lower ROI and likely not realizing the full value of the intangible benefits.

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