The Business Case

for

Simitive Online Performance Management

Version: 4.3

Table of Contents

1 Introduction

This document seeks to review both the hard and soft benefits associated with the transition from a legacy paper based approach to annual appraisals to The Simitive online living review process. The contents are drawn from statistical and behavioural research as well as case study based results. The case study results are based upon the input and feedback from Simitive clients in public and private sectors. Significant contribution has been made by Performance For All (www.performanceforall.net) based upon the experience of over 40 Universities on 4 continents.

2 Legacy Appraisal

The historical approach to performance management is both costly and ineffective. There have been numerous studies carried out into both the costs and impact of legacy appraisal processes in the UK and outside. There are a number of issues and outcomes that are associated with these models:

- A paper based appraisal process costs between £500 and £1,000 per appraisal once all of the steps are taken into account:
    o Creating Appraisal Forms.
    o Agreeing Forms with Unions, management.
    o Finding previous forms.
    o Organising the completion of forms.
    o Setting and holding appraisal meetings.
    o Collecting completed forms.
    o Filing completed forms.
    o Collating Information from completed forms (training needs etc.).
    o Ensuring that forms are signed off by all parties.
    o Manually generating reports and spreadsheets on completions and outputs.

- Inadequate appraisal process creates risks for the organisation through:
    o Failure to address performance issues in a fair and compliant fashion.
    o Failure to carry out an equal and fair process across the organisation.
    o Failure to provide a framework for competent management.
    o Creating an opportunity for HR and industrial relations issues.
    o Failure to retain key staff.
    o Failure to address poor performance.
- 90% of staff find the appraisal process demoralising and demotivating.

In addition to the failure of the old approach, the work environment has changed dramatically and is no longer supportable by the historical process:
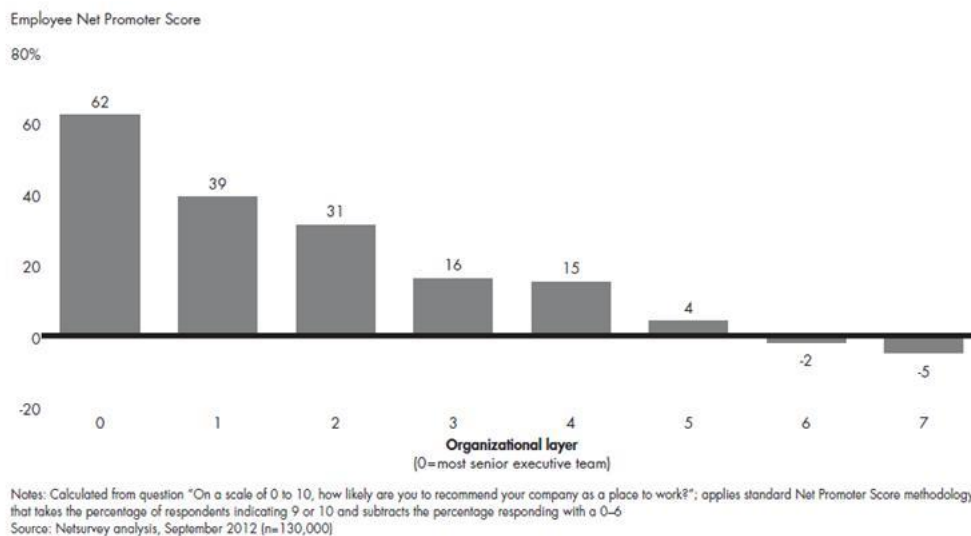
In this new world of work, team relationships often influence an individual's performance more than a supervisor. As individual and organisational goals are increasingly tied to project cycles that last a few months or weeks, the fiscal year can become less relevant.

In the matrix organization—with individuals migrating from one cross functional team to another, each with a different leader performance management can turn into chaos

Deloitte Consulting LLP

There are consequences of the problems highlighted above that are illustrated in the MacLeod report (produced for the UK government), which critically measured the link between employee enagagement in organisations desired outcomes and the organisational performance impact.

Figure 1: Employee engagement drops with each organizational layer farther from the CEO

Employee Net Promoter Score

Notes: Calculated from question "On a scale of 0 to 10, how likely are you to recommend your company as a place to work?"; applies standard Net Promoter Score methodology that takes the percentage of respondents indicating 9 or 10 and subtracts the percentage responding with a 0–6
Source: Netsurvey analysis, September 2012 (n=130,000)

Other studies have shown that over 34% of an average employees time is spent on activities that do not directly contribute to the organisations desired outcome. This means losing c2 days per week of constructive contribution for every employee.

The failure to provide sufficient context for an employee to know what 'doing a good job' looks like also leads to non-constructive stress, with the UK having a poor record in the amount of long term stress related absence from work. The worst sectors for long term stress related absence are Education and Health.

All of the above suggests a process and approach that is very expensive to execute whilst delivering significant negative impacts on individual and organisational performance and outcomes.

3 Benefits of Online Performance Management

On its own Simitive online Performance management system cannot resolve all of the issues identified in section two. However it does provide a tool set to address some issues immediately whilst delivering a platform to support the changes and improvements that the organisation requires.

Short Term Benefits

- Significant reduction in the cost of each appraisal.(section 4)
- Review take less time but deliver more relevant value.
- Reduction in employee, HR department and management time required.
- Drive completion rates through clearly visible progress reporting.
- Standardised process, workflow and forms.
- Identify issues at manager level through reporting and dashboards.
- Increase compliance with standards.
- Clear and consistent process help protects HR issues.
- Improve identification and addressing of poor performance.
- Increase awareness of over performance.
- Improve staff engagement in the organisational outcomes through clear identification of individual role and contribution.
- Enable effective engagement in cross functional tasks.
- Identify and capture organisational training needs.
- Easily support multiple reviewers, multiple contributor process.
- Provide clear links of individual contribution to organisational needs.
- Easy identification of issues at very early stage.
- Automated chasing of actions.
- Business as usual happens quicker and with less resource.
- Staff may access the system from anywhere at any time.
- Very fast implementation and roll out across the organisation.
- Provision of highly available system without the capital or ongoing IT costs.(section 5)
- Program and project management becomes part of the organisational process not a disengaged activity.

Longer Term Benefits
- Aligned, outcome focussed behaviour becomes a living part of the organisation.
- Cultural change can be enacted quicker and with more predictable, visible results.
- Top down visibility of progress and outcomes reduces the need for meetings for mundane reporting.
- Contextualised employee roles with clarity of contribution and personal value reduce stress related absence.
- Increased level of informed decision-making, through accurate capture and reporting of actual progress and outcomes.

4 Cost Savings

By using benchmark data, it is possible to calculate the cost of potential savings.

1. Physical Costs:
   Traditional appraisals require forms to be printed and completed. There are toner and paper costs associated with this method. There is no requirement to print off appraisal forms as these can be accessed over a web browser. The Simitive performance review system has a notepad feature which allows individuals to save notes throughout the year.

2. Time before the 1:1 appraisal
   Each member of staff finding the forms on the web, printing these, finding last years form, transferring 'goals and objectives' from one form to another and completing the rest of the form by hand, passing (sometimes posting) these to their manager .

   Undertaking the same process as above but located via a simple web based tool that can not only transfer goals and other parts of the form but also record these in a central place, allows managers to see forms and comment on them via the web and completely eliminates the need to 'post' or 'store' in any way.

   The time saving is typically estimated to be 1 hour per review.

3. Time during the 1:1 appraisal
   The time set aside to conduct the appraisal is typically 1 - 1.5 hours, which is the same for 'paper' and 'web' based process systems.

4. Time following 1:1 appraisal
   Any final amendments to the form and final 'sign off' is reduced by efficient web communication process although minimal.

   Time savings are made by each head of department knowing where all staff review information is held and their ability to view and undertake the process from their desktop. This is a role often undertaken by a member HR. Typically it is estimated to be 15 minutes per member of staff, for a department of 50 people this is approx. 750 minutes or 12.5 hours.

5. Studies show that employee turnover costs an organization 30-50% of the annual salary of entry- level employees, 150% of middle level employees, and up to 400% for specialized, high level employees. This figure is proven to be higher if an organization loses one of its top performing employees. Studies have shown that individuals are more likely to leave an organisation close to the appraisal. This may be due to apprehension around the review process, lack of development opportunities and employees not feeling appreciated and recognized for the work they are doing. Case studies have shown that retention of staff who might otherwise have left can increase by 30%.

4.1 Calculating ROI

To calculate the return on investment an organisation needs to calculate current headcount, average annual salary and the cost of replacing an employee and employee turnover % (per annum)

> Time Savings: Department of 50 people
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> Individual admin - 50 hours
>
> Department coordination 12.5 hours
>
> Total - 62.5 hours @ £12 per hour = £750 per group of 50 staff.

If this calculation was used for 1,000 people it would equate to £15,000 cost savings across the whole organisation per annum

The cost of employee turnover for an average salary of £18,000 would be typically £5,400 to £9,000 per employee leaving the organisation.

The above benefits and calculations assume that the existing review process actually takes place and that all of the staff receives the appropriate amount of time and preparation. In many instances this is not always the case, and would suggest that the benefit of delivering a significant increase in the engagement in and completion of reviews provides a significant return on investment based on the improvements in staff engagement and alignment with organisational objectives.

5 Cloud Benefits

Reduced Risk – Simitive removes all reliance on internal staff for the provision, development, upkeep and support of the system.

Configurable – Simitive has been specifically designed to facilitate the inclusion of each organisation's unique requirements.

Extendable functions – Simitive Review may be connected to the other modules –Goals, Learning.

Standardisation and consistency – Simitive provides a single institution wide model replacing multiple models, approaches and documents. This ensures transparency, fairness, equality across the institution.

Reduced Administration – standardisation in Simitive enables significant efficiency gains through the use of cloud based centralised workflow driven process. The reduced administrative burden allows redeployment of resource to higher contributory requirements. As Simitive can integrate with HR and other systems it removes the needs for entering and maintaining multiple data sources as the integration can be fully automated.

Decision Making – The capture and validation of accurate data provides the information required to facilitate timely decision making in critical areas:

Improved Dialogue – Having a demonstrably and measurably transparent and fair organisation wide system creates the context for significant improvements in communication between managers and staff around work and outcomes. The same transparency and fairness having been agreed in advance with Unions provides a sound platform for improved dialogue and collaborative working towards agreed outcomes.

Predictable Costs - Simitive has a simple annual cost for usage, all maintenance, updates, improvements and added features are included in that cost, as is support. There are no requirements for traditional upgrades of hardware or software, no need for dedicated support personnel.

Cost Savings - The Simitive solution is delivered via the Cloud, requiring no on site servers, storage, backups, power or computer room space. Gartner estimates that the annual cost to own and manage traditional "on-premise" software applications can be up to four times the initial purchase price. This is due to a company's need to acquire and maintain the resources needed to support a large scale in-house software deployment; including: hardware, software upgrades and maintenance, user education, and technical support. Simitive from the cloud eliminates many of these costs, by taking responsibility for the day-to-day operations, upgrades, and infrastructure rather than placing it at the organisation. Savings of 30% and above are realistic when compared to on premise and traditional solutions.
Reduced resources in processing appraisals, dealing with issues, and supporting the IT around it. Is likely to be approximately 2-3 FTE/ annum. Which at a fully absorbed cost equates to c£140,000-£180,00 per annum.

5.1 The Cloud Generic Benefits

With cloud computing you no longer need to spend large amounts of upfront capital on the hardware and software necessary to run your network. In most cloud environments, these costs and the cost to maintain your network are included in a flat, monthly fee. Additionally, when the server and network backbone (switches, firewalls, storage) need to be upgraded, it is the responsibility of the cloud provider to do these upgrades – with no added cost to the user … thus eliminating big financial commitments of performing future company-wide upgrades.

Cloud Servers and Network Hardware are much Higher Quality – A very important difference in the infrastructure of an onsite-based network versus a cloud-based network is that the servers and network hardware is the very best and highest quality when purchased for cloud environments. A very good premise-based server might cost £5,000 – £10,000 whereas a Cloud-based server might cost £35,000 – £100,000 or more. The same is found for the firewalls, the switches and all of the rest of the hardware that is used in a cloud environment. Cloud solution providers cannot afford equipment failure, so very high quality equipment is used and all of it is highly redundant within the data centre.

No expenditures on expensive hardware –Cloud solutions do not require the outright purchase of server hardware, network storage, backup systems, disaster recovery systems, power or cooling systems, data centre or utility costs. When a business moves to a cloud environment they eliminate the need for servers and the physical space needed to house those servers.

No need for the Upfront Capital Expense of Infrastructure Software – Cloud computing eliminates the need for the upfront capital requirement of purchasing software like Windows Server, SQL Server, Application and Database Servers, Client Access Licenses, Middleware, SharePoint, Citrix Server and client licenses etc. These costs are effectively covered in the monthly fees for the cloud environment and support.

Fewer Expensive Software Upgrades – cloud includes software upgrades for applications that are hosted in the cloud and are paid as a subscription within the monthly/ annual cloud environment fees. This means no expensive software upgrades and none of the interruption that software upgrades create in businesses.

The Cloud offers predictable IT costs

The unpredictability of the current "Break-Fix" system of support for computer networks has frustrated business owners for many years. One of the big advantages of cloud computing for business owners and their staff is the predictability that it brings. Continual software upgrade fees, replacing outdated servers and other variable costs are virtually eliminated with Cloud computing. Most businesses that have moved to the Cloud greatly appreciate the consistency and predictability of paying a fixed monthly cost for their IT needs.

This predictability happens on a couple of levels. First, companies only pay for the services they use, instead of paying for hardware, software, power and the support for keeping these items secure, stable and functioning properly.

Second, in the old, on premise model, when you purchase software you are stuck with that version for many years, along with the software's multi-year upgrade cycles. While you can work around this with third-party add-ons, it's not nearly as efficient as cloud software which is updated automatically as the upgrades become available … and when these upgrades occur, there is no downtime or added cost for the business. As a business owner or manager it is good to know what you are paying for now and in the future and it is very comforting to know that the software is being updated automatically and without causing major disruption to the business. With Cloud Computing, this all happens behind the scenes!

Never fall behind the technology curve

Although it is impossible to place a specific cost on this for your company, having outdated technology can be very costly to your company. There are many examples of companies purchasing very expensive hardware for their company only to find that within 12-18 months the hardware needs to be upgraded and is already out of date.

Lacking adequate technology support for businesses processes, employees and customer interactions can contribute to a host of lost opportunities … and lost revenues! If one business has automated systems that allow them to do things more efficiently, it is easy to imagine how that could be great advantage within that space. The ability for a company to ramp up production or reduce overhead can greatly affect the profitability of that company.

Reduce spending on IT Operations

This is typically one of the greatest sources of savings when a business moves some or all of its systems to the Cloud. The expense of the typical IT support model (whether outsourced, in-house or a combination of the two) is oftentimes not clearly understood by business managers and owners. Staffing costs in the IT department or for outsourced IT Support for deploying, operating and maintaining applications and underlying infrastructure can be extremely expensive … and many of these costs are greatly reduced in a cloud environment.

When a business is operating in the cloud, the cloud vendor takes on nearly all of the costs associated with installing, running and maintaining the applications, the underlying software infrastructure and the associated hardware. For most businesses, this represents savings of at least one full time IT professional. As an aside – this doesn't always mean eliminating jobs in the IT department – it can also be seen as removing unnecessary, low value-added work from IT, which allows the IT team to focus on more strategic, value-added services.

Reduced IT Support Costs

The cost to your business, both in downtime and in human costs of diagnosing and fixing the problems, is a major ongoing part of typical IT support costs. A major improvement in

the Cloud world is that through the magic of the Internet both the support people at the Cloud vendor and the client can be logged into the system and looking at the same screen / data / problem at the same time. The customer doesn't have to describe the problem to the support rep anymore – they both can look at it at the same time from the comfort of their own web browser. The ongoing support savings are significant!

Hosting your business applications on the Cloud means you no longer need to install and set up that software across your business yourself. By outsourcing your IT needs your business may no longer need the same levels of in-house technical expertise – allowing you to focus more on your core business.

Higher worker productivity

Cloud Computing typically offers higher working productivity because the network is "always-on," users can be "always connected" and users can connect to the network from any device (iPhone, iPads, laptops, home desktops, hotels, coffee shops, etc.). Because workers can access the system anytime and from anywhere, they typically get more done than if they can only use the system in the office during normal business hours.

A well-designed cloud platform will allow employees to get work done anytime and from anywhere. If the company is also paperless, and they extend their systems through web-based portals and dashboards, reports can be generated and delivered quickly and efficiently – eliminating wasted time and paper processes – and extending productivity improvements beyond the finance department and across the business. These productivity improvements quickly add up, and in many implementations can free up one or more full time support staff across the business.

6 In House Systems

It is possible to realise some of the benefits of the Simitive 'on-line' system through an on-line solution developed by the organisation itself. However whilst some of the cost savings are possible to achieve these are largely offset by the cost of development, maintenance, support and ongoing development of the 'in house' solution. Even if the work required is only half of a staff member's time it is still likely to cost over £20,000 per annum. Whilst this cost may already be accounted for in the current costs of the organisation, it means that the resource cannot do some of the other tasks that might have been possible, and there is therefore additional work that must be resourced elsewhere, which by definition effectively carries a cost implication.

As well as representing (at the very best) no cost saving, an 'in house' solution cannot support the level of development and additional functionality that is delivered with each (monthly) release of the Simitive solution. These enhancements are created with input from over 40 Universities enabling Simitive customers to take advantage of sector wide best practice far faster than would otherwise be possible.

Simitive has dedicated support, and a very large dedicated development team that ensure the system is always supported and maintained at a level not possible using general in house resource.

In house developed systems also fail to deliver any of the benefits described in Section 5 of this document.

In summary whilst 'in house' solutions may initially appear attractive when all of the costs and disadvantages are taken into account they are not capable of providing a comparable solution or cost benefit.