



Selecting the right Employee Performance Management (EPM) system

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STRONG TEAM, STRONG BUSINESS.

Abundant evidence reported by such large consulting firms as Hewitt, Watson Wyatt, and Towers Perrin demonstrates that quality employee performance management significantly raises productivity, profitability, employee engagement, and company valuation.

At the same time, analysts caution that not all EPM software investments prove successful. For example, simply automating your performance appraisal process is not sufficient. Real return on investment (ROI) follows when your best and poorest performers can be accurately differentiated and given the appropriate developmental opportunities and training, when you can align employee performance goals with company strategy, and when you can use performance data to strategically plan talent resources for the future. For those reasons, a performance management system must meet some key criteria to measurably improve your organization's performance. Don't be penny-wise and pound-foolish by compromising organizational success with purely cost-based decisions.

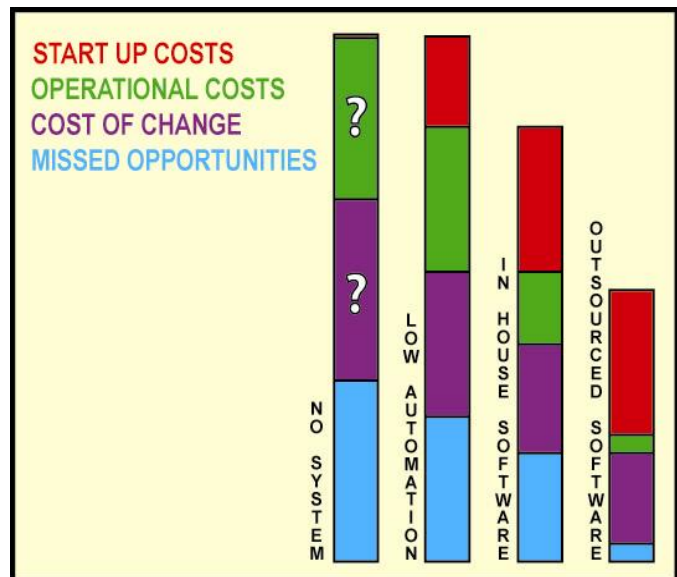
This document provides a step-by-step framework to help you sort through the sometimes overwhelming EPM software options in our constantly changing market.

Step 1: Consider your EPM software strategy and the total cost of implementation

Every organization has a choice between four basic strategies for employee performance management:

- No system
- Low automation
- In-house built software
- Outsourced software

Each strategy has a different cost profile, ranging from negligible startup costs and very high overall or indirect costs, to higher startup costs with much lower total cost of ownership.



Startup and Operational costs: Low-technology performance management avoids a one-time investment in technology, but incurs a high, recurring labor cost. To decide what's right for you, compare the cost of implementing and managing a technology-based solution to the price of ongoing time demands on your staff.

Cost of change: In-house software development can be sometimes jeopardized by unforeseen problems, especially if EPM subject matter expertise is lacking. Upgrades and improvements to the resulting software require a continuing high-level commitment and stability among key staff, and HR will have to compete for IT resources in the present and future.

Missed Opportunities: Not acting (postponing a decision, or otherwise failing to put quality performance management in place) costs dearly in lost opportunities. Studies have measured performance management productivity boosts as high as 35%, but even a 1% boost is worth \$500 annually for each \$50,000/year employee.

From a total cost perspective, a quality outsourced solution, delivered by a reliable vendor, is an attractive option. The upfront investment is offset by significant savings in all other cost categories.

Step 2: Consider the risks & benefits of each strategy

STRATEGY	BENEFITS	RISKS
No system (<i>a.k.a.</i> "do nothing")	No cash outlay, no "rocking the boat."	No investment, no return: you'll miss the proven productivity and profitability benefits that quality performance management delivers. Risk of failure to execute strategy. <i>Mitigate this risk by implementing an EPM solution.</i>
Low automation (paper, or Word/Excel based)	Minimal investment of time or money in process design or training.	Significant labor demands for users and administrators. Potential poor data quality resulting from rater fatigue and processing/transcription errors. Lack of centralized control and project status monitoring. Limited functionality and integration. Restricted capability to sort and analyze data. <i>Mitigate this risk by automating.</i>
In-house software	Possible cost savings, ability to craft a customized solution, perceived "control."	Risk of project abandonment when priorities change, cost overruns, schedule delays, and poor execution. Unpredictable costs for tech support, maintenance, upgrades. And, high indirect cost of building a system without best practice knowledge behind it. <i>Mitigate this risk by outsourcing.</i>
Outsourced software	Reliable technology from a vendor offering economies of scale, ability to integrate with HRIS and legacy systems, best practice experience and knowledge.	Risk of hidden costs. Because most vendors' sticker prices represent only about 1/4 - 1/10 of the total startup and ongoing costs, be sure to consider what else you're likely to need and how vendors charge for customization, upgrades, tech support, and administration support. <i>Mitigate this risk by considering SumTotal!</i>

On-demand or in house license?

On-demand: Also known as software-as-a-service, ASP, BPO, hosted, or subscription, on-demand software gives you fast implementation and requires minimal support from your IT area. You're basically paying a license fee to enable your users to access the software via the Internet, and renting space for your data on the vendor's servers. Along with access to the software, an on-demand vendor should offer you service, tech support, and administrative support. But make sure to define your service expectations carefully up front, or you might get hit with extra charges later.

SumTotal offers full BPO – or Business Process Outsourcing – meaning that all administrative support is provided through an accountable, single-point-of-contact Project Engineer at a fixed, upfront annual price.

On-site license: If you prefer to host EPM software behind your firewall, you can purchase a site license and install the software on your organization's servers. Licensed installations typically require an upfront charge and an annual maintenance fee that's a percent of the license fee. But keep in mind that installing the software onsite means you're on the hook for tech support, integrating with your HRIS, and other potentially costly effort. And, a vendor's data center may very likely have tighter security standards than your own, making on-demand a better and less costly choice.

SumTotal is one of the few vendors that offers a choice of on-demand or licensing. You can even start with on-demand and move the software in-house later.

Step 3: Compare vendor solutions

As you begin to compare vendor solutions, keep two main principles in mind:

Think strategically: Choose software that leaves your options open, with architecture that is easily configured, adapted, and integrated with your other systems. A low-priced, off-the-shelf product may be just the thing to suit your budget and your short-term, simplified automation needs – but in the long term its lack of flexibility can present problems as your organization changes.

Be thorough: Try to get as deep an understanding as possible of what a software package can do. You’ll make a better decision when you carefully consider differences in scalability, comprehensiveness, scope, efficiency and flexibility. In particular, when choosing among software products, factor in the differences in how each addresses the following potential costs.

Implementation	Is the cost of implementation included? Are charges billed by the hour? Are there hidden costs for unexpected problems?
Customization vs. configuration	If the software is configurable, does the vendor really mean that it can be set up as you need it – without having programmers change the software's back end? Many vendors will offer to customize software to meet your needs, but that requires costly programming changes that might not be supported in future software upgrades.
System integration	If my organization changes HRIS (or LMS, etc) systems in the future, will the EPM system still be able to integrate with the new system?
Process administration	Does the vendor charge extra for any of these administrative services? <ul style="list-style-type: none"> ■ Handling employee communication and generating reports. ■ Customizing content (adding your assessment factors, business rules, workflows, competencies and development resources). ■ Online status monitoring and reporting – and communicating status to you. ■ End-user technical support. ■ Upgrades and maintenance. ■ Updates to your EPM processes and business rules.
Reporting and analytics	Can the software integrate data from other systems (such as absence management) to generate analytics that you can really use? Do users have to log in for dashboards, or can they access these analytics through e-mail?
Offline support	Does the product provide offline support that truly gives you access to the software, rather than just checking out a document (and thus locking out other users)?
Training	Does the vendor provide training and supporting documentation? As you well know, change is difficult in any organization regardless of how simple your new tool will be to use. Your vendor should support your efforts to communicate changes with simple, easy-to-understand training materials.
Scalability	Scalability is more than just supporting more volume if your organization suddenly doubled in size. Do the software process and business rules engines support distributed processing and load balancing?
Security	Does the vendor keep your data secure with redundant backup systems? Does the vendor insist on secure file transfer for sensitive data?

To learn more about how SumTotal can work with you to help strengthen business performance, please visit our Web site at www.sumtotalsystems.com

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