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# PERFORMANCE CARE: A DIAGNOSTICALLY DRIVEN APPROACH TO EMPLOYEE DEVELOPMENT

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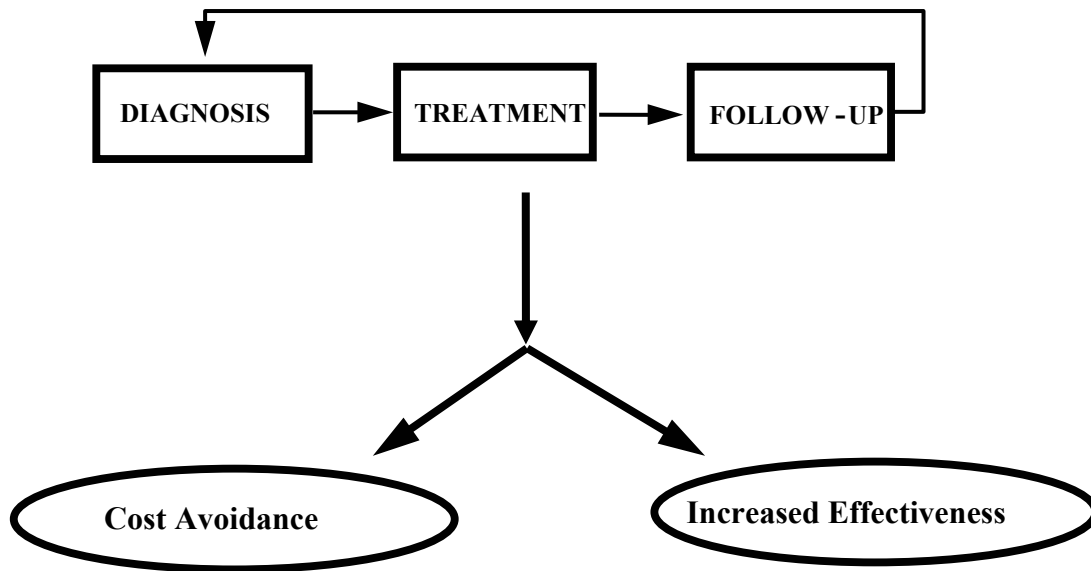
Currently, there is a climate of concern in many companies for evaluation of program effectiveness and assessment of return on investment (ROI). Moreover, some forward-thinking organizations are even beginning to realize that the "health" of employee performance on the job must be attended to with the same concern as the physical well-being of workers. This realization has paved the way for a conceptual paradigm we have devised known as *Performance Care*, which in many respects parallels more familiar health-care initiatives.

## CARING FOR PERFORMANCE

A reputable health-care professional will not make any decisions about how to treat a patient until diagnostic information is available. This information is essential for narrowing down the

possibilities so relevant, specific and effective treatments can be prescribed.

In a similar way, organizations can utilize *Performance Care* which is a diagnostically driven approach to employee development. In this process, developmental events are prescribed only on the basis of documented need. We have discovered that one of the most effective ways of documenting the need for development involves actually observing systematically what employees are or are not doing in the course of their jobs. Based on such observations, organizations can diagnose a variety of needs and prescribe specific treatments to improve the "health" of employee performance. Then, organizations can follow up with their "patients" to insure compliance and repeat diagnostic tests to further ensure desired improvements have occurred.



*The Performance Care Model*

*Performance Care* allows organizations to replace diffuse approaches to development with more focused and pointed techniques. This, in turn, increases the likelihood that treatments will be

effective and helps to minimize unwarranted expenditures for training or other developmental events.

Central to *Performance Care* is the matter of Performance Diagnosis, or the methods by which an organization can know about the state of health of its collective performance. Just as with health care, effective Performance Diagnosis is essential to timely prescription and treatment in *Performance Care*. An important question here, however, concerns the possible relation between implementation of Performance Diagnosis and bottom-line changes for an organization.

Consider the case of an organization wanting to assess the "health" of its sales operations. To accomplish this goal, the organization should conduct routine check-ups using appropriate performance diagnostic tools. The results of these tests will tell the organization where its sales operation stands, and what needs to be done to improve effectiveness, if anything.

Inevitably, the question arises as to justification for the cost of Performance Diagnosis. Is it something that itself can be expected to produce revenues? Can performance diagnosis really cause an increase in sales? Under what conditions would such a relation be expected to occur? Answers to these questions seem fundamental to a full understanding of the *Performance Care* process, as well as to the kinds of promises that can be made about outcomes which may result from it. But, to develop these answers, we must briefly consider the matter of causality.

### ABOUT CAUSALITY

Fred Dretske, a professor of philosophy from Stanford University, has offered a distinction that seems quite relevant to our present concern about the causal efficacy of Performance Diagnosis. When one considers the cause(s) of some happening in the world, let's call it Event X, there are at least two kinds of potentially relevant factors: Those that enabled it and those that triggered, or precipitated it. The *Enabling* factors set the stage or lay the groundwork for Event X, but do not produce it in and of themselves. In contrast, the *Precipitating* factors actually trigger the occurrence of Event X.

Perhaps an analogy is helpful at this point. Consider the X-ray and its relation to recovery (Event X) of a sick patient's health. In this case is the X-ray enabling or precipitating of Event X? A moment's thought indicates that the X-ray merely provides the conditions under which knowledgeable people (technicians and doctors) can prescribe and implement a proper treatment for whatever ailments is revealed by the diagnosis. Although both factors (X-ray and treatment) obviously contribute to

healing, the latter should be viewed more as precipitating (i.e., causing) the recovery. The relationship between X-ray and recovery is much too indirect to be considered causal in the usual sense. Indeed, in the hands of unskilled people, the X-ray may be quite useless or, worse yet, even harmful. Thus, the X-ray can accept neither credit nor blame for the final outcome. Only the actions taken, in light of information provided by the X-ray, were responsible for the result.

### PERFORMANCE DIAGNOSIS AS AN ENABLING EVENT

With similar logic, I wish to argue that it is neither fair nor appropriate to suggest that Performance Diagnosis itself causes (or fails to cause) an increase in sales or any other improvement in organizational performance. Clearly, like an X-ray, Performance Diagnosis is only a device that provides information to knowledgeable people who are then enabled to prescribe proper treatments. In the case of salesforce effectiveness, for example, a possible treatment, depending upon the findings, would be some type of developmental event (i.e., training) for the sales people involved. Yet, it is only when such a development strategy is (1) properly formulated, (2) successfully implemented, and (3) actually effective that bottom line results (increases in sales) may be expected to occur. Although these three precipitating steps to success may be enabled by Performance Diagnosis, they are by no means guaranteed by it. Consequently, the diagnostic process itself can accept neither glory nor shame, insofar as success of the final treatment is concerned.

### EVALUATING THE TRUE EFFECTIVENESS OF PERFORMANCE DIAGNOSIS

Does this mean that Performance Diagnosis bears no burden of accountability? On the contrary. But, its accountability does not lie in the eventual success of treatments prescribed on the basis of information it supplies. Rather, a performance-diagnostic process is accountable for the value (i.e., accuracy, specificity, and completeness) of the information it yields about employee performance. In other words, it is accountable only for its ability to support informed decision-making and treatment. So, to evaluate the success of Performance Diagnosis, one must ask: Did it enable the formulation of performance improvement strategies more effectively, more efficiently, or with less cost than would have been possible without it?

Similar questions have been asked about X-rays. The medical diagnostic limitations of this conventional technology are well known. In part, these limitations have led to more sophisticated

alternatives, such as CT scans and MRIs, each with their own cost/benefit profiles. When one thinks of justifying one or another of these health-care diagnostic alternatives, the effectiveness of eventual treatment regimens is never the central issue. Instead, concerns focus on the clarity and extent of information about the underlying problem(s) provided by the diagnostic tool. A patient with frequent headaches and blurred vision does not elect to spend hundreds or thousands of dollars on an MRI because doing so will cure the problem. The money is spent in order to provide sufficient data to determine the nature of any underlying disorder. Is there an organic problem such as a brain tumor? There is little question that having more detailed diagnostic information can enable more informed recommendations about alternative treatment options for the patient.

The role of diagnosis in *Performance Care* initiatives is subject essentially to the same considerations. The justification for conducting Performance Diagnosis is not that it will increase sales or have a direct impact on a company's bottom line. Rather, diagnostic activity should be conducted precisely in order to determine if controllable circumstances exist which, if properly treated, could result in increased outcomes. The value of Performance Diagnosis lies exclusively in the quality of the information it provides about the state of outcome-relevant performance in the company. Subsequent formulation of relevant and successful performance treatments, not to mention patient compliance, are beyond the scope of the diagnostic process itself.

**AN HYPOTHETICAL EXAMPLE**

The value of Performance Diagnosis can be best understood within the context of the real costs of employee development to an organization. In this example, let's stick with the sales context, which in our experience is a situation where effective diagnostic tools could be used but commonly are not. Suppose, for example, that an organization needs to improve its sales effectiveness in a region or subsidiary. This situation is not unlike that of a patient who has a need to improve as a result of being afflicted with some illness or disease entity. Presumably, there is a treatment for the patient (and the salesforce) that will be maximally effective in producing the desired improvement. But, what treatment should be used? And, what are the consequences of selecting the wrong treatment?

Unfortunately, prescriptions for sales force development often are made by hunch and by guess. This means that, just as often as not, the treatment either will be unnecessary or less than fully effective. Consider, the familiar prescription for many salesforce woes, a three-day training program. Logically, there are at least three possible outcomes of such a program. It may turn out to be: (1) Completely unnecessary and irrelevant to real needs of the sales force for improvement; (2) Mostly unnecessary but containing some useful elements; or (3) Highly relevant in meeting critical needs for improvement. Each of these scenarios has differing financial consequences for the organization. To explore these consequences, it is necessary to calculate how much a company invests in such a training program. The following illustrative calculations are based on intentionally conservative assumptions (shown below) that are likely to underestimate reality in most actual circumstances.

<b>ASSUMPTIONS RELEVANT TO ESTABLISHING THE COST OF TRAINING</b>	
1. Salesforce size in region/subsidiary	20 people
2. Average annual salesperson salary + benefits	\$42,000
3. Number of annual workdays	230
4. Daily salesperson salary + benefits (2)÷(3)	\$183
5. Current annual revenues of region/subsidiary	\$5,000,000
6. Daily revenue per salesperson (5) ÷ [(1)X(3)]	\$1,087
7. Potential annual revenues of region/subsidiary	\$7,500,000
8. Length of training program in days	3
9. Number of trainers present	1
10. Participants per diem expenses	\$150
11. Cost of training program development	\$60,000
12. Life of training program in training days	300
13. Amortized daily training development cost (11) ÷(12)	\$200

The total expenditure for a three-day training program is computed by determining the aggregate three-day costs for salesforce (and trainer) salary and benefits, participant expenses, lost revenues, and amortized training program development costs. Given the above assumptions, based on representative cost estimates for each of the factors in question, the breakdown for this total cost is shown here.

Obviously, the total cost of even a three-day training program represents a sizable investment in salesforce development.

The return on this investment will be based primarily on two factors: (1) the size of the potential increase in revenues that the subsidiary or regional market will bear if the salesforce becomes more effective; and (2) the percentage of that increase that will be realized by having the new skills and abilities provided by the training program. For purposes of our illustration, it has been assumed that the market in question presently will support another 2.5 million dollars in revenues in a target region or subsidiary, if the salesforce were to become maximally effective. That leaves in question the percentage of this potential increase that actually will be obtained as a result of the training.

Our experience indicates that many factors will affect the size of this percentage including the capability of the training program to actually produce the intended skills, the company's success in being able to implement appropriate follow-up activities to nurture the new abilities, and the relevance of the new skills to the existing developmental needs of the salesforce. Assuming that the training and follow-up procedures are fully effective (an arguable assumption), we are left with the issue of training relevancy.

The principal advantage of Performance Diagnosis to an organization is that it virtually guarantees training and development activities, if indicated, will fall into the category of being "highly relevant." This means that, with Performance Diagnosis, an organization can either avoid costly training that is not needed, or make sure that necessary training is

directly relevant to documented performance improvement needs. The final table on page 5 shows the financial implications of four scenarios, two with and two without the benefit of prior Performance Diagnosis. In the two cases without Performance Diagnosis (Columns 1 and 2), training was prescribed by the company on the basis of guesswork and hunches. In one of these cases, the training turned out to be completely unnecessary,

while in the other it happened to be partially relevant. For the cases with prior Performance Diagnosis (Columns 3 and 4), one involved highly relevant training because developmental needs had been clearly identified.

In the other, training was avoided altogether because, based on established needs, it was found not to be indicated.

Several additional assumptions were required for purposes of the following calculations. One is that Performance Diagnosis was conducted at a cost of \$80,000. Depending on the type of diagnostic employed, this cost could be on the high side for the salesforce size in question. Another arguable assumption, but one based on our experience, is that highly-relevant training results in at least a tenfold increase in employee effectiveness on the job, compared to the more common training scenarios depicted in the first two columns. In the following table, this increase is reflected in a larger percentage of the 2.5 million dollar potential that is likely to be realized as a result of the training experience (gross revenue gain). Net revenue gain is computed as the gross revenue gain minus development costs. Numbers in parentheses represent losses to the organization. Return on investment is net gain divided by total cost, expressed as a percentage.

The preceding example shows that training, or any other intervention for that matter, is likely to be a losing proposition for organizations (Columns 1 and 2) unless it is highly relevant to the developmental needs of participants (Column 3). Performance Diagnosis is a powerful tool to achieve such relevancy. Even at the cost shown here, the use of this tool can help to insure the profitability of training and development activities. Moreover, Performance Diagnosis can contribute to cost

TRAINING COST BREAKDOWN		
Aggregate 3-day salary + benefits for 20 people:	20 X 3 X \$183 =	\$ 10,980
Total participant expenses:	20 X 3 X \$150 =	\$ 9,000
Total lost revenues:	20 X 3 X \$1087 =	\$ 65,220
Three-day amortized training program development costs:	3 X \$200 =	\$ 600
<b>TOTAL TRAINING PROGRAM COSTS =</b>		<b>\$ 85,800</b>

## Performance Care

avoidance (Column 4) by providing a means to determine when specific developmental activities are

or are not indicated.

<b>TRAINING RELEVANCY AND RETURN ON INVESTMENT</b>				
	<b>WITHOUT PERFORMANCE DIAGNOSIS</b>		<b>WITH PERFORMANCE DIAGNOSIS</b>	
	<b>Irrelevant Training</b>	<b>Partially Relevant Training</b>	<b>Highly Relevant Training</b>	<b>Training Not Indicated</b>
Cost of 3-day training program	\$85,800	\$85,800	\$85,800	\$0
Cost of Performance Diagnosis	\$0	\$0	\$80,000	\$80,000
% Potential revenues realized	0	1	10	N/A
Gross revenue gain	\$0	\$25,000	\$250,000	\$145,800*
Net revenue gain	(\$85,800)	(\$60,800)	\$84,200	\$65,800
<b>Return on investment</b>	<b>-100%</b>	<b>-71%</b>	<b>51%</b>	<b>82%</b>

\*Note that the gross revenue gain shown in Column 4 above is based on avoidance of training development (\$60,000) and implementation (\$85,800) costs.

However, as important as Performance Diagnosis is to the goal of identifying relevant treatments, it is equally important in the *Performance Care* process to monitor the outcomes of treatments to ensure overall organizational performance “health” is

achieved and then maintained. With companies, just as with people, one cannot overemphasize the joint importance for cost-effective health-care of ongoing diagnosis, continued treatment, and regular follow-up.

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<sup>2</sup> See *Explaining Behavior: Reasons in a World of Causes*