

Measuring Return on Investment (ROI)

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Enhancing capability through organisational learning and development
ROI Specialist promoting the Phillips ROI Methodology™ in NZ

Activity does not equal impact

- Activities should have a demonstrable link to organisational success
- Senior management is increasingly demanding to be shown how proposed HR initiatives will benefit the organisation
- HR needs to be able to present a business case outlining the benefits in business terms

Questions to ask

- What is the need?
- What do you hope to achieve?
- How will your programme affect participants and other stakeholders?
- How will it impact on the business?
- How will it add value to the business?
- Can a Return on Investment (ROI) be calculated?

HR Results-Based Approach

(courtesy Dr Jack Phillips)

- New programmes initiated only after need established
- Limited to fewer programmes with greater opportunity to make an impact
- Programmes regularly reviewed and eliminated when no longer adding value
- HR viewed as an investment

For a results-based approach

- Programmes measured by their impact on the organisation
- Extensive collaboration with management
- HR staff knowledgeable about operations
- HR staff well versed in basic finance and business concepts

For a results-based approach

- Performance measures should be developed for all HR functions
- Major organisational decisions should always involve input from HR
- Whenever possible, investment in HR should be measured by improvements in productivity, cost savings and quality


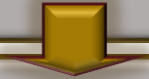

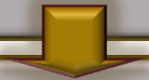

For a results-based approach

- HR programmes should never be implemented without provision for at least some type of formal method of measurement and evaluation
- Otherwise, the contribution of the programme may never be known

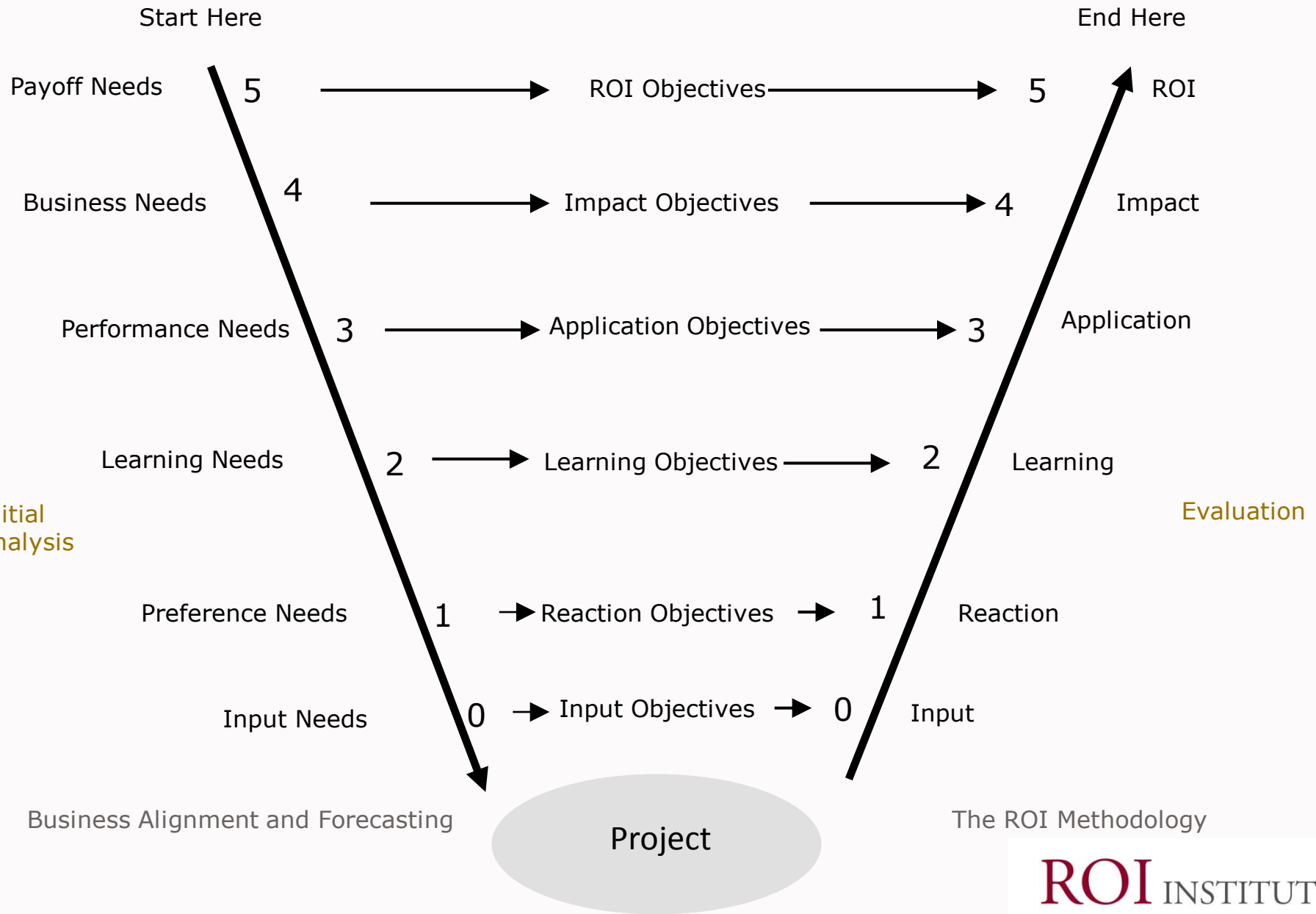
(Dr Jack J. Phillips)

Levels of Evaluation

- Level 0 - Inputs
 - Level 1 - Reaction
 - Level 2 - Learning
 - Level 3 - Implementation
 - Level 4 - Business Impact
 - Level 5 - Return on Investment
- NB: For a comprehensive HR evaluation, a Level 5 evaluation should be conducted.

Levels of Evaluation	Measurement Focus	Typical Measures
0. Inputs and Indicators	The input into the project in terms of scope, volume, efficiencies, costs	Participants, Hours, Costs, Timing
 1. Reaction & Perceived Value	Reaction to the project or programme, including the perceived value	Relevance, Importance, Usefulness, Appropriateness, Intent to use, Motivation to take action
 2. Learning & Confidence	Learning to use the content and materials, including the confidence to use what was learned	Skills, Knowledge, Capacity, Competencies, Confidence, Contacts
 3. Application & Implementation	Use of content and materials in the work environment, including progress with actual items and implementation	Extent of use, Task completion, Frequency of use, Actions completed, Success with use, Barriers to use, Enablers to use
 4. Impact and Consequences	The consequences of the use of the content and materials expressed as business impact measures	Productivity, Revenue, Quality, Time, Efficiency, Customer Satisfaction, Employee Engagement
 5. ROI	Comparison of monetary benefits from program to programme costs	Benefit-Cost Ratio (BCR), ROI%, Payback Period

Business Alignment



Only a select few programmes are evaluated to ROI. Consider the following:

- Life cycle of the programme
- Linkage of programme to operational goals and issues
- Importance of programme to strategic objectives
- Top administrator interest in the evaluation
- Cost of the programme
- Visibility of the programme
- Size of target audience
- Investment of time required

Evaluation Targets

<u>Level</u>	<u>Target</u>
Level 1 - Reaction	90-100%
Level 2 - Learning	60-80%
Level 3 - Application	30%
Level 4 - Business Impact	10-20%
Level 5 - ROI	5-10%

The ROI calculation is simple.

$$\text{BCR} = \frac{\text{Programme Benefits}}{\text{Programme Costs}}$$

$$\text{ROI} = \frac{\text{Net Programme Benefits}}{\text{Programme Costs}} \times 100$$

What Makes a Good ROI?

1. Set the value at the same level as other investments – 15%
2. Set slightly above other investments – 25%
3. Set at break even – 0%
4. Set at client expectations



THE ROI PROCESS

Calculating the Return on Investment
of a Business Performance Solution

Evaluation
Planning

Data Collection

Level 1: Reaction,
Satisfaction, and
Planned Actions

Level 3:
Application/
Implementation

Develop
Objectives of
Solution (s)

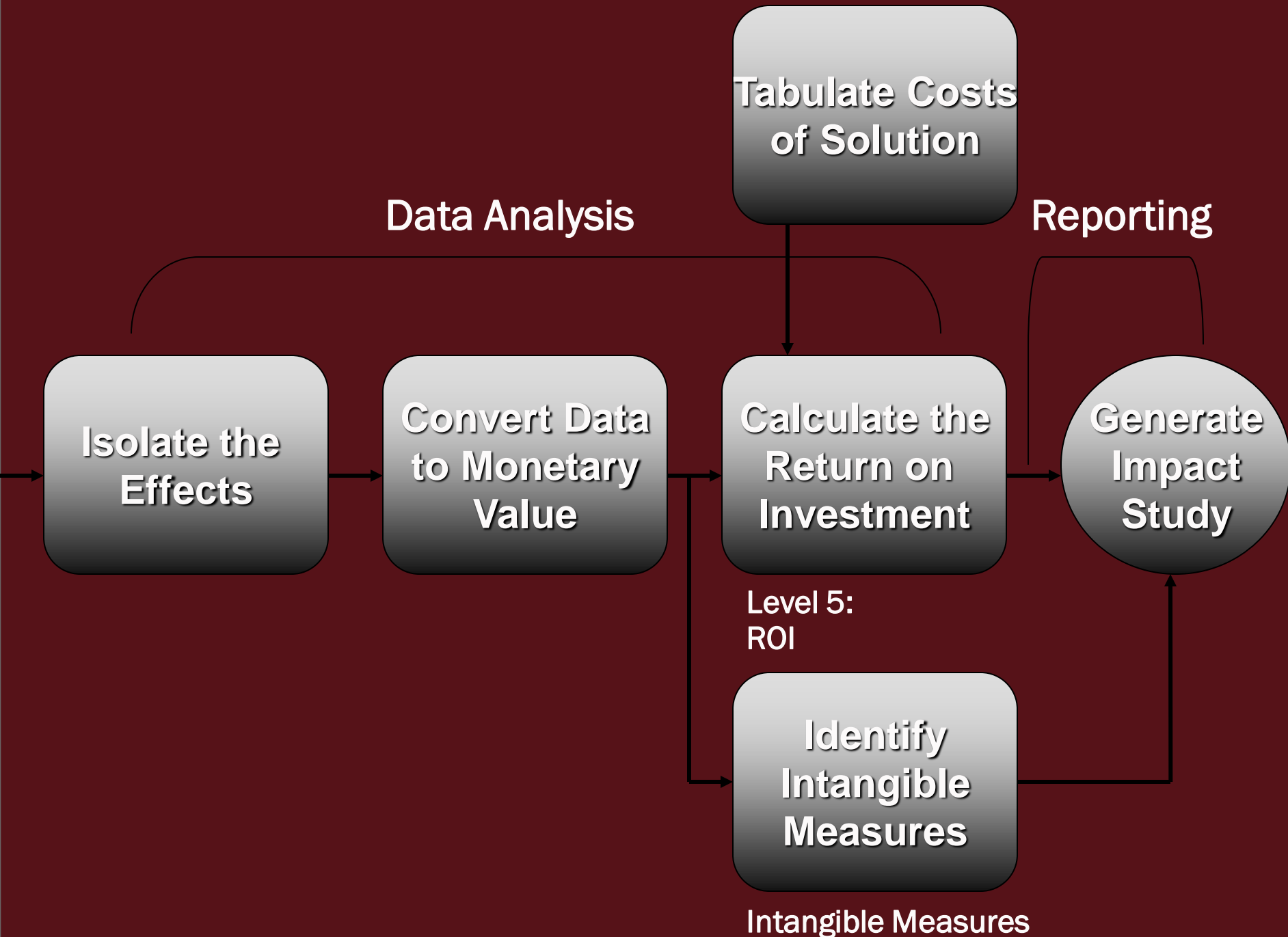
Develop
Evaluation
Plans and
Baseline Data

Collect
Data During
Solution
Implementation

Collect
Data After
Solution
Implementation

Level 2:
Learning

Level 4:
Business Impact



What you can do with ROI

- Show contributions of selected programmes
- Earn respect of senior management
- Improve support for training & development
- Enhance training & development processes
- Identify inefficient programs for redesign
- Identify successful programmes

Data Collection Methods

- Questionnaires & surveys
- Organisational climate surveys
- Interviews & focus groups
- Observation
- Monitoring performance data
- Action plans & performance contracts
- If no improvement data are available, it is assumed that little or no improvement has occurred

Hard data

- Traditional measures of organisational performance
- Objective, quantitative
- Easy to measure
- Represent output, cost, quality, time
- Easy to convert into monetary values
- High credibility with management

Soft data

- Low credibility with management
- More subjective, qualitative
- More difficult to measure
- Represent work habits, work climate, skills & competencies, development & advancement, attitudes, initiative
- Often difficult to convert into monetary values
- Behaviour oriented

Tangibles v. intangibles

- Tangibles can be converted into monetary values to show benefit; intangibles cannot
- Hard data is easy to convert; soft data is more difficult
- Some data is virtually impossible to convert into monetary values; these should be left as intangibles
- Remember, credibility is important

United Petroleum International Case Study

Measuring ROI in an e-Learning Sales Programme

from *Proving the value of HR: ROI case studies second edition* by Drs Patti & Jack Phillips (2010)

UPI's "problem"

- International sales have plummeted
- Lack of performance seen to be due to increased competition and diminishing quality of sales relations with customers/prospects
- Customer surveys have revealed specific areas of low performance

Business objective established to track 3 measures

1. Sales
2. Monthly closing ratios
3. Customer satisfaction

Baseline collected from UPI performance records showed skills and knowledge needed to be addressed. It was decided to:

1. Adopt an electronic delivery method for 117 sales engineers
2. Pay special attention to sales relationships
3. Develop the Technology Learning Competency (TLC) programme

Levels 1 & 2 Evaluation

- Level 1 online feedback questionnaire was used to assess using a 7 point scale:
 - Course content - 6.6 average
 - Usefulness of the TLC programme - 6.5 average
 - Job applicability - 6.8 average
- Level 2 data was assessed using pre- and post-testing
 - Participants averaged a 50 percent knowledge level on the pre-test and a 91 percent knowledge level on the post-test

Levels 3 & 4 Evaluation

- Level 3 – three components evaluated
 - Follow-up planning and coaching sessions
 - Self-assessment of skill application using a follow-up questionnaire
 - Managers' assessment of skill application using a follow-up questionnaire
- Level 4 – business impact data monitored by reviewing
 - quarterly customer index scores
 - monthly sales closing averages
 - profit margin of monthly sales revenue

Isolating the Effects

- Based on participant and manager estimates, only 37 percent of the increase in sales was influenced by the TLC programme.
- Other influences included:
 - Market influences
 - Manager coaching initiatives
 - Executive management
 - New monetary incentives
 - Other (market changes, new products, produce improvements, etc.)

Level 0 Evaluation (Inputs)

- Fully loaded development costs of \$354,500 included:
 - development time of project manager, five fulltime employees, and four contract consultants.
 - Costs associated with time spent in meetings and interviews with senior mgt, senior sales staff and SMEs (interviewees) and interviewer
 - Cost of travel, meals and lodging during development
- Material costs of \$68,500 included comprehensive participant workbook, tutorial CDs, additional dial-up networking software

Level 0 Evaluation cont'd.

- Equipment costs of \$91,000 included upgrades (systems, processors, video/graphics capability)
- Eight SMEs were assigned to project and paid their sales average (\$150 per day) for the 18 days spend on the module designs, video shoots, etc. totalling \$21,600 ($8 \times \150×18)
- Initial performance analysis and evaluation costs were \$71,000
- Total fully loaded costs = \$606,600

Levels 3 & 4 Evaluation

- 117 sales engineers participated
- Pre-TLC performance:
 - Averaged 14 closes/mo @ \$980 profit margin
- Post-TLC performance:
 - Averaged 16.65 closes/mo @ \$1,350 profit margin
- This showed an average increase of 2.65 closes per month and an additional \$370 profit margin on revenue

ROI Calculation

$$\text{ROI (\%)} = \frac{\text{Benefit} - \text{Costs}}{\text{Costs}} \times 100$$

ROI Calculation

- 2.65 closes x 0.37 = 0.98 factor for additional closes attributable to TLC programme
- 0.98 x \$1,350 per close = \$1,323
- \$1,323 x 12 months = \$15,876 x 117 sales engineers = \$1,857,492

$$\text{ROI (\%)} = \frac{\$1,857,492 - \$606,000}{\$606,000} \times 100$$

$$\text{ROI} = 206\%$$

Intangible Benefits

- Results from quarterly customer satisfaction surveys showed an average improvement of 23 percent from the previous year.
- Sales engineers and their managers reported additional intangible benefits, such as increased job satisfaction, better understanding of expectations, reduced turnover, and increased recruiting effectiveness of future sales engineers.

Reporting to Stakeholder Groups

- Final report provided to:
 - Each of 117 sales engineers
 - Leaders of the sales organisation
 - Subject matter experts (SMEs)
 - Executive management team

Questions?

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