

# Advice to HR professionals:

## Start thinking like a COO

Many HR and L&D professionals wish they could demonstrate how their efforts contribute financially to an organisation's success, but don't know how to do it. As a result, these roles can become vulnerable to cutbacks because they are seen as overheads rather than direct contributors to the bottom-line. It also makes it less likely that people in these roles will gain a place at the top table.

Furthermore, businesses can miss out on efficiency gain opportunities by failing to recognise the degree to which a role, project or programme can contribute to financial performance.

Few HR and L&D people can prove the value of the programmes they implement, or predict their value in advance, so many organisations over-invest in initiatives that sound good without ever considering what impact they will have on the business or whether they will truly add value.

### Five top tips for measuring HR and L&D's return on investment

Demonstrating how a programme, project – or even a role – provides a good-value return on the company's investment requires thinking like a chief operating officer, rather than an HR or L&D manager. Here are some steps for conducting a successful evaluation to measure an initiative's effectiveness and bottom-line contribution.

**1. Conduct a needs analysis before doing anything.** Project objectives should be developed based on needs. Start by asking strategic questions such as:

- › What is the business need?
- › What do you hope to achieve and what will be different as a result?

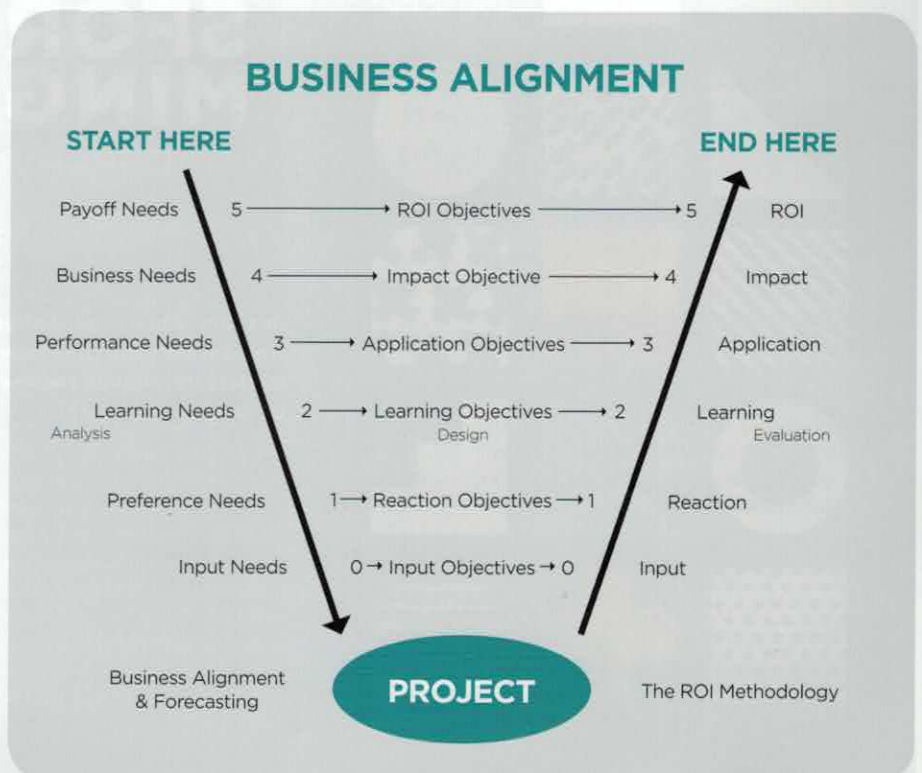
- › To what degree will the programme align with and support the organisation's vision, mission, values, and business and operational objectives?
- › How will your programme affect participants and other stakeholders?
- › How likely is the leadership team to be interested - or invested - in knowing its return on investment?
- › Can a return on investment (ROI) be calculated?

If the programme is already under way then consider where it is in its life cycle. It is

much harder to measure ROI on initiatives that are already well progressed, so the value of doing so needs to be considered in the light of the anticipated time and resource of undertaking the evaluation.

See the business alignment model below for an overview of what should be considered before any programme is initiated, which needs are addressed by each level of evaluation, and where to start.

Most people are unlikely to start with payoff needs in mind, so start with business or performance needs as







a minimum to ensure a results-based approach. However, if you start by identifying performance needs, you will then need to identify what the business impact will be if these performance needs are met. It is also best practice to estimate the expected ROI upfront.

**2. Build ROI evaluation into initiatives at every stage - from the outset, to the conclusion.** Collect data throughout the planning and implementation phases. Valuable information can be lost if its collection is left until after the initiative's implementation.

**3. Quantify as much as possible** using the following six types of measures:

- › Reaction and planned action
- › Learning and confidence
- › Application and implementation
- › Business impact
- › Return on investment (ROI)
- › Intangible measures (or project benefits that are not converted to monetary value)

It is time-consuming to calculate ROI so only select initiatives for this level of evaluation if they represent major investments, involve large audiences, or have high visibility.

Aim to conduct ROI evaluations on only five to 10 percent of all programmes offered annually. With such a low number of programmes being chosen for ROI, the criteria needed to select the programmes becomes extremely important and should be developed only with input from senior managers.

**4. Be sure to isolate the programme's effects from other influences.** Isolation techniques may include control groups, trend analysis, forecasting methodology and experts' estimates of the impact of other

factors. Also ask participants, supervisors and/or managers about the extent to which they attribute any improvements to the initiative.

Isolation techniques are very important for helping to ensure the data is credible by reducing the likelihood that credit is mistakenly claimed for something that cannot be attributed to that programme. At least one isolation technique must always be used.

Participant impact estimates are a particularly useful technique for estimating what percentage of performance improvement should be attributed to the initiative being evaluated. They are reasonably easy to collect, so it is good to always include them either on their own, or as a back-up to other isolation techniques.

Ask two questions when conducting a participant impact survey: firstly, what percentage of improvement can be attributed to the programme; and secondly, as a percentage, how confident are you in the estimate you have just provided?

This results in two percentages, which can be used to bring down the ROI to a more realistic number and eliminate credit being claimed for non-programme influences. For example, initial ROI calculations may suggest a huge (and not necessarily believable) 1000 percent return. If a participant survey found that they attributed an average of 50 percent of improvement to the programme and were 80 percent confident in their answer, then 1000 percent would be multiplied by 0.5 and then by 0.8 to give a more credible ROI of 400 percent.

Be aware that different isolation techniques may produce different ROIs. Reporting the most conservative result will ensure credibility, but also include the other ROI results to provide context.

**5. Translate tangible benefits into monetary values.** Monetary benefits can be developed from impact measures linked to the project. Standard values are available for most output and quality measures. Output data can be converted to profit contribution or cost savings, based on their unit contribution to cost savings, and quality improvements can be directly converted to cost savings. Fortunately, standard values for these items are available in most organisations.

Taking before and after measures of the difference in standard values can usually be converted to monetary benefits.

The return-on-investment (ROI) calculation itself is straightforward:  $ROI (\%) = \text{Net programme benefits} / \text{Programme costs} \times 100$ . Here is an example where costs of programme were \$230,000 and programme benefits were \$430,000:  $ROI = (\$430,000 - 230,000) / 230,000 = .87 \times 100 = 87\%$ .

The good news is that calculating the ROI is easy. The challenge lies in working out the business impact and then converting the data into monetary value, which is necessary before ROI can be calculated.

Evaluation begins with the objectives of the programme, project or solution. A comprehensive evaluation must include the following levels of evaluation, which measure the following:

**Level 0:** Input or programme costs (required to work out the net benefit for the ROI calculation)

**Level 1:** Participants' reactions to the HR programme or initiative

**Level 2:** Skills, knowledge or attitude changes

**Level 3:** Changes in behaviour

**Level 4:** The programme's or initiative's business impact (e.g. increased production, improved quality, decreased costs, reduced frequency and/or severity of accidents, reduced absenteeism, reduced turnover, customer satisfaction and higher profit margins)

**Level 5:** The results' monetary value compared with the HR programme or initiative's costs (this is usually expressed as a percentage).

Remember; anything that saves time or resources can be easily monetised to determine a bottom-line value.

Determining the financial contribution of 'overhead' roles has often incorrectly been dismissed as being too difficult. Understanding how, and being able to demonstrate, the organisation's return on its investment in any initiative – whether that be training, change projects or programmes – will benefit the employee who leads the initiative, the HR and L&D professions, and the business as a whole. **HR**



*Beryl Oldham is a L&D specialist at Complete Learning Solutions. Complete Learning Solutions assists organisations with all aspects of organisational learning and development planning, implementation and strategy, recruitment, and calculating ROI. [www.completelearning.co.nz](http://www.completelearning.co.nz)*