

# The ROI Methodology

## A Brief Overview

**ROI** INSTITUTE™

Phone 205-678-8101

Email [info@roiinstitute.net](mailto:info@roiinstitute.net)

Web [www.roiinstitute.net](http://www.roiinstitute.net)



## The ROI Methodology – A Brief Overview

---

The ROI Methodology is a systematic approach to evaluate programs. To ensure credible, reliable results, the process includes three key components:

1. An evaluation framework which defines the various levels of evaluation and types of data.
2. A process model to provide a step-by-step procedure for developing the actual ROI calculation. Part of this process includes isolating the effects of the program from other factors.
3. A set of operating standards with a conservative philosophy that serves as guiding principles to keep the process on track to ensure reliable results. The conservative standards also build credibility with executives and administrators.

### Evaluation Framework

The evaluation framework categorizes results in a logical order. This order represents a chain of impact that occurs as people become involved in programs. The framework includes five levels of data.

1. Reaction to the program, particularly the perceived value of the program.
2. The extent of learning such as skills, competencies, knowledge, and insights in the program.
3. The extent of application and use of knowledge, skill, and insights acquired during the process.
4. The impact that the program is having on the impact data such as, sales, productivity, quality, time, and costs.
5. The ROI, the net monetary benefits compared to the cost of the program.

### The Process Model

Represented by the model in Figure 2, the ROI process has been refined and modified over many applications. The process is comprehensive, as data are developed at different times and collected from different sources to develop the six types of measures (five levels plus intangibles). Each part of the process is outlined below.

1. Planning the evaluation. The first two parts of the ROI process focus on critical planning issues. The first step is to develop appropriate objectives for the program, ranging from reaction to impact and ROI. A specific program should have multiple levels of objectives.
2. Collecting data. Data collected early in the program measures reaction and learning to ensure that adjustments are made to keep the program on track. The reaction and learning data are critical for immediate feedback to make early changes. Both hard data and soft data are collected. Data can be collected using a variety of methods.
3. Isolating the effects of the program. An often overlooked issue in most evaluations is the process of isolating the effects of a program. This step is essential because many factors will influence performance data after a program is implemented. Specific strategies in this step will pinpoint the amount of improvement directly related to the program, increasing the accuracy and credibility of the impact and ROI analysis.
4. Converting data to monetary values. To calculate the return on investment, impact data need to be converted to monetary values to compare with program costs. This suggests that a value should be placed on each unit of impact data connected with the program. If this is not possible, it is left as an intangible. A variety of methods are available to convert data to monetary values.

5. Tabulating the cost of the program. The denominator of the ROI formula is the cost of the program. This is necessary only if the ROI is calculated. The typical cost components are initial analysis and assessment, development/design cost for the program, participant/stakeholder time for the program, implementation costs, maintenance costs, administration costs, and evaluating and reporting costs. The conservative approach is to include all these costs so that the total costs are fully loaded.
6. Calculating ROI. The return on investment is calculated using benefits and costs. The BCR (benefit/cost ratio) and the ROI present the same general information but with slightly different perspectives.

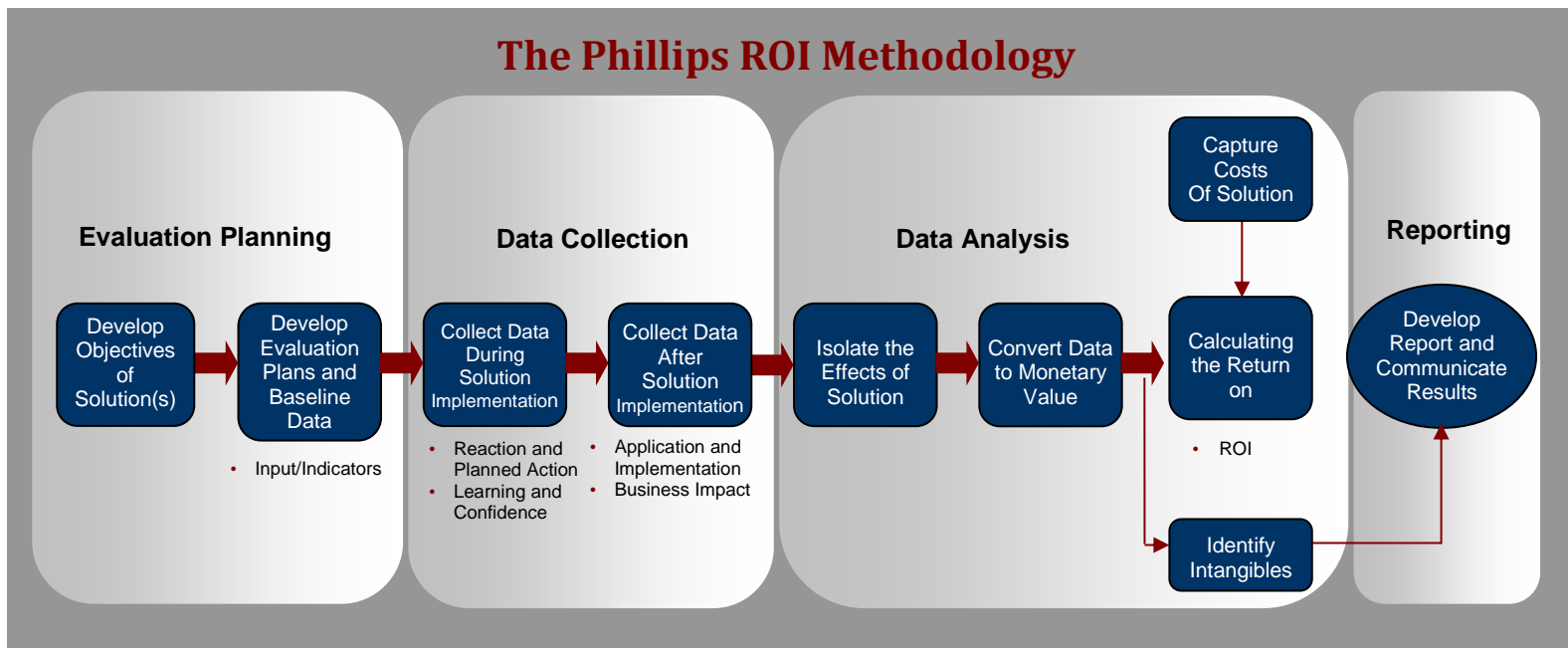


Figure 2 – The ROI Process Model

## Operating Standards

To ensure that each study is developed in the same way, consistent processes and operating standards for the measurement and evaluation process should be implemented. The following guiding principles should be used as operating standards when implementing the ROI process:

1. When conducting a higher-level evaluation, collect data at lower levels.
2. When planning a higher level evaluation, the previous level of evaluation does not have to be comprehensive.
3. When collecting and analyzing data, use only the most credible sources.
4. When analyzing data, select the most conservative alternatives for calculations.
5. Use at least one method to isolate the effects of the program.
6. If no improvement data are available for a population or from a specific source, assume that no improvement has occurred.
7. Adjust estimates of improvements for the potential error of the estimates.
8. Avoid use of extreme data items and unsupported claims when calculating ROI calculations.
9. Use only the first year of benefits in the ROI analysis of short-term programs.
10. Fully load all costs of the program when calculating ROI.
11. Include intangible benefits as measures that are purposely not converted to monetary values.
12. Communicate the results of the ROI study to all key stakeholders.

## Scope and Use of ROI

---

Over the past decade, the scope and use of the ROI Methodology has grown tremendously. The methodology had its beginnings in the learning and development area and quickly grew into quality and technology applications. The process has also expanded to all types of projects and programs in all types of organizations including non-profits, NGOs, and the public sector. The process has been fully implemented in 60 countries and the list is growing.

This process captures a balanced set of data. It is systematic and user-friendly and brings business evaluation to major programs. The process is supported by a tremendous amount of research with practical usage and application. It is estimated that 5,000 studies are conducted each year using this methodology. The conservative standards make it executive friendly. This has become the most documented evaluation system in the world with books in 38 languages and case books developed in at least a dozen countries.

### The Benefits of ROI

As listed in Figure 3, the payoffs of the ROI Methodology are numerous. This approach satisfies the desire to have a credible process and shows the contribution of important programs. Perhaps the four most important reasons are: to improve programs (process improvement versus performance evaluation for the program team is critical), gain support for the programs, build relationships with key executives and administrators (who often fund the programs) and provide funding for programs in the future.

- |   |
|---|
| <p><b>ROI Methodology: The Payoff</b></p> <ul style="list-style-type: none"><li>• Align programs to organizational needs</li><li>• Show contributions of selected programs</li><li>• Earns respect of senior management/administrators</li><li>• Build team morale</li><li>• Justify/defend budgets</li><li>• Improve support for programs</li><li>• Enhance design and implementation processes</li><li>• Identify inefficient programs that need to be redesigned or eliminated</li><li>• Identify successful programs that can be implemented in other areas</li></ul> |
|---|

Figure 3 – Benefits of Using The ROI Methodology