



## FREQUENTLY ASKED QUESTIONS ABOUT ROI



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Today's executives must show accountability for their investments. Many executives have found that actually measuring the return on investment on a few selected, significant, high-profile programs is an excellent way to show fiscal responsibility for key projects and initiatives. Our best guess is that about 30 to 40% of executives are using ROI as a tool to evaluate non-capital investments. Yet, according to the Corporate Executive Board, in their major benchmarking efforts, almost 80% of organizations want to use ROI in the future. This gap of actual use versus desired use underscores the misunderstandings and misconceptions of ROI as a legitimate part of the measurement mix for the C-Suite Executives. Since 1993, we have been assisting organizations with this important issue. In the last ten years, we have kept track of the many questions that are often asked about ROI in conferences, workshops, and consulting assignments. Here are the most frequently asked questions about ROI.

1. **How does ROI in non-capital investmentss initiatives differ from the ROI used by the financial staff?** The classic definition of return on investment is earnings divided by the investment – no matter what the application. In the context of calculating the return on investment, the earnings become the net benefits from the program (monetary benefits minus the costs), and the investment is the actual program cost. The difficulty lies in developing the actual monetary benefits in a credible way.
2. **Do I have to learn finance and accounting principles to understand the ROI Methodology®?** No! Many of the basic finance and accounting principles are not needed to develop the return on investment in non-capital investments. However, it is important to understand issues such as revenue, profit, and cost. Ultimately, the payoff of project, programs, and initiatives will be based on either direct cost savings or additional profit generated. It is helpful to understand the nature and types of costs and the different types of impact measures.
3. **Do I have to know statistics to understand ROI?** No! The very basic statistical processes are all that is necessary to develop most ROI impact studies. It is rare for statistics to be needed beyond simple averages, variance, and standard deviation. Sometimes hypothesis testing and correlations are helpful but not required. These are very simple concepts and, by design, are simplified as much as possible.
4. **Does the ROI Methodology generate just one single number?** No! How can you communicate a program's value with one number? The ROI Methodology (or the ROI process) develops six types of data, with the ROI calculation being only one of them. The six types of data are:
  - a. Reaction, satisfaction, and planned action
  - b. Learning
  - c. Application/Implementation
  - d. Business Impact
  - e. ROI
  - f. Intangibles

**5. What type of background is necessary for learning about the ROI Methodology?** It is helpful for the individual to understand the organization where ROI studies will be developed. Knowledge about operations, products, and financial information is very helpful. Also, the individual should not have a fear of numbers. Although the ROI Methodology does not involve many statistical analyses, it does involve data analysis. Excellent communication skills are needed to develop the various documents describing results and presenting those results to a variety of stakeholder groups. Finally, the ability to partner with many individuals is extremely important. This requires focus, details, collaboration with the client – this is a very client-focused methodology. Individuals must be willing to meet with the key sponsors of programs and build those relationships necessary to capture the data and communicate the data to them.

**6. Isn't ROI based on nothing but estimates?** No! Estimates are usually used in three areas:

- Sometimes the amount of improvement is estimated when records are not readily available to show the improvement or, in a forecast situation, where it is not known;
- When isolating the effects of a program;
- When converting monetary values; and
- Capturing the costs.

Estimates are used only when other methods are not readily available or become too time-consuming or expensive to obtain. When actual data are not available, using estimates is an acceptable accounting practice. When estimates are taken, they are adjusted for the error of the estimate to improve their credibility. In essence, results are understated. In every case, there are many alternatives to estimates, and they are often recommended. Estimates are used routinely in some situations because they become the preferred method and are accepted by stakeholders, or they may be the only way to obtain the data that are needed.

**7. Isn't ROI too complicated for most professionals?** No! The ROI calculation itself is a very simple ratio: benefits divided by costs. The processes needed to arrive at the benefits follow a systematic, step-by-step sequence with guiding principles used along the way. The costs are developed using guidelines and principles as well. What makes it more complicated are the many options in each step in the process. Options are needed because of the many different situations, programs, and projects that are evaluated and the different environments and settings in which they occur.

**8. Doesn't ROI cost too much?** No! The cost for a study all the way through to ROI is usually \$3,000 to \$5,000, which reflects the time involved in planning the study, collecting and analyzing data, and reporting results. This number varies considerably. For large projects, the cost is more. Also, when external consultants are used, the costs will increase. It's also important to note that in most organizations, every program is evaluated at some level. The total cost of all evaluation, including selected ROI studies, is usually in the range of 3-5% of the total budget for the function.

**9. Is it always possible to isolate the effects of my program from other factors?** Yes! This is perceived to be the most difficult and challenging issue, but it is always possible, and it's not that difficult. Some of the most credible processes involve control groups, trend line analysis, and forecasting models. Other, less sophisticated techniques are used such as expert

estimation and customer input. It's important to always strive to carve out the amount of results directly related to the program or project. When estimates are used, the data should be adjusted for the error of the estimate.

- 10. Does the ROI process reveal program weaknesses or strengths?** Yes! The ROI Methodology captures six types of data. At Levels 1, 2, and 3, data always capture deficiencies or weaknesses in the process. At Level 3, the process requires collecting data about the barriers (which inhibit success) and enablers (which help success).
- 11. Does the ROI process include recommendations for improvement?** Yes! Each impact study using the ROI Methodology contains a section for recommendations for improvement. It is essential that this methodology be utilized as a process improvement tool. Recommendations for changes are always appropriate, even when studies have reflected a very successful evaluation outcome.
- 12. Is it appropriate to conduct an ROI evaluation for every program?** No! Only a few select programs should be subjected to evaluation all the way through to the fifth level of evaluation (ROI). Ideal targets include very expensive, strategic, operationally focused, highly visible programs and those that involve large target audiences and have management attention in terms of their accountability. In most organizations using this methodology, only about 5-10% of the programs are selected for ROI analysis each year, while 10-20% are taken to the impact level. These are our recommended best practice percentages.
- 13. Who is using the ROI Methodology?** Practically all types of organizations around the world are using the ROI Methodology. To date, over 5,000 organizations have formally implemented ROI through skill-building and ROI Certification. This includes government agencies, non-profit organizations, and NGOs and over half of the Fortune 500 companies in the USA. Over 25 governments have endorsed this process, including the US Federal Government. Also, the United Nations has endorsed this methodology as well, along with 300 healthcare organizations and 150 universities. In essence, thousands of other organizations are utilizing the ROI Methodology through an informal implementation in various parts of their organization. In addition, almost 50,000 specialists and managers have taken either a one-day or two-day ROI workshop, and over 16,000 individuals have participated in a five-day comprehensive certification process.
- 14. How can I learn more about ROI?** There are many options available to learn about ROI. Dozens of books, case studies, and templates have been published, with many of them made available from the publishers. Additional resources are available at [www.roiinstitute.net](http://www.roiinstitute.net). The recommended way to learn the ROI Methodology is through a workshop, either conducted internally or in a public presentation. ROI Institute offers ROI Certification to fit almost any schedule. In total, we have five ways to participate in ROI Certification.

They are:

- Send individual and team participants to an in-person, five-day program.
- Organize an internal ROI Certification.
- Participate in live virtual ROI Certification.

- Enroll in an on-demand virtual certification.
- Use a guided self-study approach.

Participating in ROI Certification involves several different elements:

- Comprehensive learning with heavy engagement and interaction
- A detailed workbook and several reference and case study books
- Virtual support as you execute and complete your ROI study
- Feedback on your final project and approval of your final ROI project
- The designation of the Certified ROI Professional (CRP)
- Unlimited access to a portal with hundreds of tools and templates
- The right to use this methodology in your organization

To learn more about the five ways to participate in ROI Certification visit: <https://roiinstitute.net/roi-certification/>. Additionally, consulting and coaching are options to learn about ROI.

**15. What types of applications are typical for ROI analysis?** The applications vary and include:

- |                                     |                                      |
|-------------------------------------|--------------------------------------|
| • Human Resources/Human Capital     | • Organization                       |
| • Training/Learning/Development     | • Development/Consulting             |
| • Leadership/Coaching/Mentoring     | • Project Management Solutions       |
| • Knowledge Management/Transfer     | • Quality/Six Sigma/Lean Engineering |
| • Recognition/Incentives/Engagement | • Communications/Public Relations    |
| • Work Arrangement Systems          | • Public Policy/Social Programs      |
| • Change Management/Culture         | • Creativity/Innovation              |
| • Talent Management/Retention       | • Ethics/Integrity                   |
| • Policies/Procedures/Processes     | • Safety/Health/Fitness Programs     |
| • Technology/Systems/IT             | • Environment/Sustainability         |
| • Meetings/Events/Conferences       | • Healthcare Initiatives             |
| • Marketing/Advertisement/Promotion | • Schools/Colleges/Universities      |
| • Compliance/Risk Management        | • Public Sector/Nonprofits           |
|                                     | • Faith-Based Programs               |

**16. Can ROI be used in a forecasting model?** Yes! ROI forecasting is an important part of the ROI Methodology. This process uses credible data and expert input and involves estimating the improvement (projected benefits) that will occur when a program is implemented. Projected benefits are compared to projected costs to develop the forecasted ROI.

**17. How can I secure support for ROI in my organization?** Building support for the ROI Methodology is an important issue. Top executives will usually support the process when they realize the types of data that will be generated. Most of the resistance comes from those

directly involved in programs because they do not understand ROI and how it is used in the organization. When they are involved in implementing the methodology and see that the data are properly used to drive improvements, it helps to lower the resistance. The efforts to implement any major change program will apply with the implementation of the ROI Methodology.

- 18. How can I minimize staff resistance to this methodology?** Most internal staff will have some resistance to ROI unless they see the value it can bring to their work. Involvement, education, and process improvement are key issues. It is often the fear of ROI that generates resistance – a fear based on misunderstandings about the process and how the data will be used. The ROI methodology should be implemented as a process improvement tool and not as a performance evaluation tool for staff. No one wants to develop a tool that will reflect unfavorably on their performance review. Involvement in key decisions about the use of ROI will help minimize resistance. Also, resistance will be minimized when steps are taken to ensure that the data are communicated properly, improvements are generated, and the data are not abused or misused.
- 19. Should I conduct an ROI study on my program?** If possible, the person evaluating the program should be independent of the program. If that is not possible, it is important for the stakeholders to understand that the person conducting the study is objective and removed from certain parts of the study, such as the data collection and the initial analysis. Sometimes these issues can be addressed in a partnering role or limited by using outsourcing – whether data collection or analysis. In other situations, the issue must be addressed and the audience must understand that steps are taken to ensure that the data were collected objectively, analyzed, and reported in an unbiased way.
- 20. Are there any standards for ROI?** Yes! The ROI Methodology, as developed by ROI Institute and its associates, contains standards labeled “Guiding Principles.” These provide consistency for the analysis with a conservative approach. The conservative approach builds credibility with the stakeholders and conserves resources.
- 21. Does everything come down to money?** No! There are many programs that probably should not be measured at the ROI level. The ROI is calculated to show if the project, program, or initiative is worth it in terms of the money invested. Sometimes, it is important to tackle programs when the monetary impact is unknown, unavailable, or not very credible. It is still something that needs to be done. Essentially, this is stopping the evaluation with impacts that are not converted to money. These are the intangibles. Although intangibles are often soft items, they are still important, and many programs are implemented just for the intangibles. Only if we need to know if it is an efficient use of funds, do we need to go to ROI.

**22. No one else is asking for this. Why should I go down this path?** Just because no one is asking for ROI, doesn't mean they would not like to see it. The problem will arise when the funders, supporters, donors, and sponsors make this request. Almost all want to see at least an impact, if not the ROI. When they do ask for value of a program that is already conducted, it leaves you with three very serious predicaments:

1. You have a short timeline to obtain the results. That's a problem.
2. You are now on the defense, defending a program that you've already implemented. That's not a good position to be in. You want to be on the offense.
3. ROI is now on someone else's agenda. You want to keep it on your agenda.

So, the conclusion is to be proactive and tackle this before you need to. It will be a pleasant surprise for donors, funders, and sponsors.

**23. If my program is not successful at the impact level, why should I develop a report to show the results?** This is a good question. The important point is that your program should deliver business impact, and it's not. You need to know, along with everyone else, what caused the lack of success. If we don't find out, we'll never correct it. For most programs, it is not the content of the program that is the problem. It is the support, the use, and the implementation. A negative ROI does not necessarily reflect on the owner of the program. It just shows what you have to do to make it positive. It is one of the best ways to continue support, enhancing commitment, increase influence, and of course, continue funding.

**24. How do you calculate the ROI on the ROI?** It is a very good question to raise in terms of the payoff using this methodology. The important issue is the value of implementing the methodology itself. While literally hundreds of organizations are reporting the benefits and successes, it is helpful to understand the internal payoff in the organization. The improvements and changes resulting from an impact study are tallied from one study to another and compared to the actual cost of the implementation. This, in essence, can generate the return on investment for utilizing this process. This approach is recommended for most major implementations. A special paper on this issue is available from [info@roiinstitute.net](mailto:info@roiinstitute.net).