ROI Best Practices

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For years, there has been debate about the appropriateness of return on investment (ROI) as a measurement tool for learning and development (L&D). Today, the debate has shifted to the ways in which ROI can be integrated into other measurement processes. Much of the use of ROI has come from pressure from senior executives requesting value and, in some cases, outright demanding ROI for certain programs – or face the consequences of budget cuts. These requirements have led the L&D function to face reality: ROI is an issue that will not go away.

Over 1,000 organizations have taken the initiative to implement ROI, based on the number of organizations participating in a comprehensive certification process designed to help individuals and teams to implement the ROI methodology. With the acceptance of ROI, much of the focus has now turned to best practices for ROI implementation. The following 11 best practices represent the state of the art with those organizations that have successfully implemented ROI.

1. **The ROI methodology is implemented as a process improvement tool and not a performance evaluation tool for the L&D staff.**
   L&D staff acceptance is critical for the implementation of this process. No individual or group is willing to create a tool that will ultimately be used to evaluate his or her performance. Consequently, many organizations recognize that ROI is a process improvement tool and communicate this posture early. The ROI methodology shows not only the success of a particular project, program, or solution, but also provides detail into how the project can be revised to add additional value. Barriers and enablers to success are always identified.

2. **The ROI methodology generates a micro level scorecard with six types of data.**
   As Figure 1 shows, the data represents a scorecard of performance, representing both qualitative and quantitative data, often taken at different time frames and from various sources. This approach builds on the Kirkpatrick four levels. The methodology generates a balanced, micro level scorecard for that particular program.

Level	Measurement Focus
1. Reaction and Planned Action	Measures participant satisfaction with the program and captures planned actions.
2. Learning	Measures changes in knowledge, skills, and attitudes.
3. Application	Measures changes in on-the-job behavior
4. Business Impact	Measures changes in business impact variables
5. ROI	Compares program benefits to the costs
Intangibles	Measures that are purposely not converted to monetary value.

Figure 1: ROI Data

3. **ROI methodology data are being integrated to create a macro scorecard for the learning and development function.**

As more and more studies are conducted, data are rolled up to create a macro level scorecard, showing the value of the function. As shown in Figure 2, the individual micro scorecard evaluation data are integrated into the overall macro level scorecard. This approach requires a few similar questions to be asked each time that are integrated, using technology to create the L&D macro level scorecard. In essence, as each program is evaluated (every program is evaluated at level 1) data are generated from a few questions at each level that can ultimately be developed in a scorecard format.

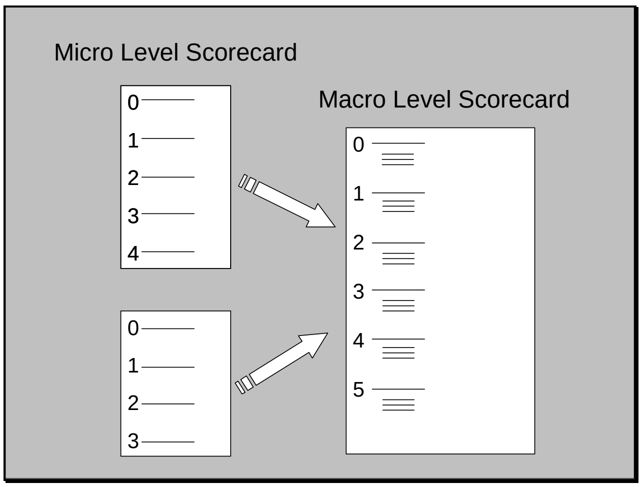

Figure 2: Micro- to Macro-Level Scorecard

4. **ROI impact studies are conducted very selectively, usually involving 5-10% of all programs and solutions.**
Usually, the programs that are targeted for levels 4 & 5 are those that are strategically focused, expensive, high profile, controversial, and certainly those that have generated management's interest. This does not mean that other programs are not evaluated. It is recommended that all programs be evaluated at level 1 and the vast majority at level 2, but only a few select programs are taken to levels 3, 4, and 5. More important, those involving the actual ROI calculation – taken to the 5th level – are evaluated at all five levels.

5. ROI evaluation targets are developed, showing the percent of programs evaluated at each level.
Organizations are targeting the desired number of programs to evaluate at each level, expressed as a percent. Figure 3 shows a typical profile of a best practice organization, targeting a percent of programs at each level. Target levels are developed reflecting the resources available and the feasibility of evaluation at each level. Targets usually begin at 100% of programs at level 1 and conclude with 5-10% of programs at level 5.

RECOMMENDED TARGETS

Evaluation Level	Target*
Level 1 – Reaction	100%
Level 2 – Learning	60%
Level 3 – Application	30%
Level 4 – Business Impact	10%
Level 5 – ROI	5%

*% of programs evaluated at that level

Figure 3: ROI Evaluation Targets

6. **A variety of data collection methods are used in ROI analysis.**
ROI evaluation is not restricted to a particular type of data collection method such as monitoring of business data. Instead, questionnaires, built-in action plans, focus groups, and observations are used in developing the complete profile of six types of data in the ROI methodology.

7. **For a specific ROI evaluation, the effects of L&D are isolated from other factors.**
Although a difficult issue, best practice

organizations realize that to make a business linkage to a specific L&D effort, there must be some method in place to show the direct contribution of the L&D program. Using a variety of techniques ranging from control group analysis to expert estimation, best practice organizations are tackling this difficult issue with each impact study. Some argue that this is too difficult or impossible. In reality, it *must* be done for executives to understand the relative contribution of L&D. Otherwise, there's a temptation to slash the budgets of major programs because there's no clear connection between the program and the business value.

8. **Business impact data are converted to monetary values.**
   These days, it may not be enough to show the actual outcome from a L&D program expressed in numbers such as quality improvement, cycle time reduction, turnover reduction, or enhancement in customer loyalty or job satisfaction. The actual value in monetary terms is needed. Best practice organizations are tackling this with a full array of approaches to develop the monetary value. This is absolutely essential in developing ROI because an ROI calculation compares the monetary value with the cost of the program.

9. **The ROI methodology is being implemented for about 3-5% of the L&D budget.**
   One of the common fears of ROI implementation is the excessive cost in both time and direct funds. Best practice firms report that they can implement the ROI methodology for roughly 3-5% of the total budget, using targets set in Figure 3. Using a variety of cost savings approaches keep the cost and time commitment at a minimum. Some of the most common cost savings approaches are:

   - Plan for evaluation early in the process
   - Build evaluation into the training process
   - Share the responsibilities for evaluation
   - Require participants to conduct major steps
   - Use short-cut methods for major steps
   - Use sampling to select the most appropriate programs for ROI analysis
   - Use estimates in the collection and analysis of data
   - Develop internal capability to implement the ROI process
   - Utilize web-based software to reduce time
   - Streamline the reporting process

   When implementing ROI, many organizations have migrated from a very low level of investment (around 1% or less) to the 3-5% level by a process of gradual budget enhancements. These enhancements sometimes come directly from the cost savings generated from the use of the ROI methodology.

10. **ROI forecasting is being implemented routinely.**
    Senior executives are sometimes asking for a forecast of ROI before a project is developed and implemented. Consequently, ROI forecasting is being used routinely in best practice organizations to enhance the decision making process. Recognizing the shortcomings of forecasting, conservative adjustments are made and steps taken to ensure that the best expert inputs are secured to develop the forecast.

11. **The ROI methodology is used as a tool to strengthen/ improve the L&D process**. One of the important payoffs of the use of ROI over a period of time is that it transforms the role of L&D in the organization. The process focuses more attention on alignment with business needs, improves the efficiency of design, development, and delivery, and enhances the value of learning and development in the organization. More important, it builds the respect, support, and commitment from a variety of groups, including the senior executives and major program sponsors.

Collectively, these best practices are evolving as hundreds of organizations are using ROI each year. The best practices underscore the progress in the evolution of ROI application and use.

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