Six Ways to Show the Value of HR Programs

By Jack J. Phillips and Patti P. Phillips, Ph.D.

In an era of tight, reduced and heavily scrutinized budgets, it is important for each organization's human resources team to show the value of the programs it creates and administers. In today's climate, many executives and administrators want to see value for money. Whether it is at the city, county, state or federal level, value factors into many decisions about operational budgeting and new program approval. This article outlines six different ways to address the critical issue of showing program value, which has become an absolute must for managing human resources in the public sector.

While several potential approaches can be taken to address the value for money issue, the first step is to identify which types of outcomes need to be measured to reveal positive or negative value. When a new HR program is implemented, it is possible to measure results at different levels, as shown in the accompanying table.

Understanding the Assessment of the Value of New HR Programs

Level	Measures	Issue
Input	Volume, Cost and Time	How many employees are involved, their time and cost?
Reaction	Relevance, Importance and Necessity	How did they react to the program?
Learning	Skills and Knowledge Acquisition	Did employees learn how to make the program successful?
Application	Extent of Use, Frequency of Use and Success with Use	Did employees implement the program?
Impact	Productivity, Quality, Cost, Time, Satisfaction, Image, Engagement and Stress	What was the impact (consequence) of the program?
Return on Investment (ROI)	Benefit Cost Ratio and ROI Expressed as a Percent	What was the payoff?

Each program can be assessed at the levels of input, reaction, learning, application, impact and ROI. Collecting and analyzing data at every level is important for judging and improving implementation. Participants' time and the organization's financial commitments are tabulated at the input level, while the outcomes of the program are described in terms of how participants reacted to the new program, what participants learned, how they actually used the program, the impact of the program on the organization and the financial ROI.

The good news is that four categories of impact data are available in every work unit. One measure is the output of the unit, with output including counts of forms processed, inspections made or licenses issued. Quality is another measure. Errors, rework and waste constitute error data. Time, a third category, reflects how long it takes to complete activities, tasks and procedures. Data for the final category of costs exists everywhere in the budget for the work unit.

Objectives are usually set for every level. At the impact level, an objective can be both tangible (as money) or intangible. The decision to consider an impact tangible rests on whether the time or resources are available to track the dollars.

Proceeding from this basic understanding of the types of data, let's focus on the different ways to show value for money. This is now being accomplished routinely.

Actual ROI Calculation

The most credible approach to demonstrating the value of an HR program involves calculating its actual ROI. Although most HR programs should not be evaluated at this level, some need to be subjected to this level of accountability to demonstrate that one or more performance measure was improved by implementing the given HR program. Calculation ROI for HR programs requires looking at performance records, operating reports and other documents that detail the work of the department or team and converting impact outcomes into dollar amounts.

One example of calculating actual ROI comes from the IRS. When the agency implemented a work-at-home program for business tax examiners, productivity in terms of cases examined per month increased. In another case, a federal information agency that offered to pay the full cost of earning a master's in information science for high-potential employees as long as participants did coursework and research on agency time saw a dramatic drop in turnover among program participants.

In our 2012 book *Proving the Value of HR: How and Why to Measure ROI*, we write about a New York State supervisor training program that yielded a positive ROI and about a large city's bus system that realized a very positive ROI from implementing a new selection system, revamping disciplinary procedures to address unplanned absences by bus drivers and taking steps to reduce bus delays. Similar examples of HR programs in cities, counties, states, and the federal government showing actual ROI occur frequently.

Successful programs have clearly defined impact objectives that participants work toward. Documenting ROI requires tracking improvement on performance measures and then isolating the effects of the program on improvement. The final step is converting the degree of improvement to monetary value and comparing that to the fully loaded cost of the program. The calculated ROI represents the value realized from spending money on the HR program.

Focus on Intangibles

Intangible impacts are powerful. By definition, however, an intangible benefit cannot credibly be assigned a monetary value with a minimum amount of resources. Many HR programs produce key intangible benefits for an organization, such as employee engagement and empowerment, collaboration within and across teams, citizen satisfaction, public perception and organizational alliances. These important intangibles often make an organization a best place to work and among the most innovative, most admired and the most sustainable organizations.

For some executives, intangible benefits represent value for the money invested in the programs that deliver the benefits. When arguing that an HR program has value for increasing engagement or something else that does not have an exact dollar value, it is important to have program participants indicate the extent to which the program influences the indicated outcome.

Meeting Expectations

Another way to judge a program's value involves assessing the extent to which the program met expectations for achieving objectives. This is often referred to as return on expectation (ROE) or return on objectives. We prefer to label this as meeting the objectives because ROE can be misleading. While the supporters of ROE suggest that this is an impact, it could be a reaction, learning or application. In fact, objectives can be set at the levels of reaction (e.g., this should be important to our agency), learning (e.g., employees must be able to use this procedure), application (e.g., employees must use the new system every time), impact (e.g., citizen complaints are reduced by 20 percent) or ROI (e.g., a 10 percent return).

The Payoff of Improved Competencies

HR programs are sometimes created with detailed learning and application objectives, with the competencies representing a significant portion of participants' jobs. As we explain in the fourth edition of our *Handbook of Training Evaluation and Measurement Methods*, it is possible to determine a program's value for improving competencies by doing a utility analysis that links competencies to salary.

Suppose that a program participant has a salary of \$50,000 and the competencies targeted for improvement represent 30 percent of the participant's job. In essence, 30 percent of the salary, or \$15,000, can be influenced by taking part in the program.

Assuming that makes it possible to determine the extent to improved competencies produce added value by comparing program participation costs to the expected gain in the participant's worth and looking at the participant's self-assessment or rating from the participant's direct manager. An improvement could be significant.

Assume a 20 percent improvement in competencies. As 20 percent of the \$15,000 in salary attributed to the targeted competencies, \$3,000 will be the maximum expected value added from the program. For the organization, excellent assessments, ratings and performance post-program indicate that the participant is worth \$3,000 more per year even if the person continues receiving \$50,000 in salary.

If the cost per participant of offering the program is \$2,700 (\$2,000 direct and \$700 indirect), the benefit cost ratio (BCR) will be

$$\frac{\text{Benefits}}{\text{Costs}} = \frac{\$3{,}000}{\$2{,}700} = 1.11$$

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and the ROI will be

$$\frac{\textit{Net Benefits}}{\text{Cost}} \; x\, 100 \quad \frac{\$3{,}000 - \$2{,}700}{\$2{,}700} \; x\, 100 \; = \; 11\%$$

Running these kinds of calculations can show executives that an HR program has improved competencies and that those improvements add value. However, not all decision makers will believe that BCR and ROI calculated this way show the impact of actually using the targeted competencies. Instead, critics will say that only the extent to which competencies are improved can be known for sure.

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Cost-Effective Approach

Another way to consider HR program value is to compare the cost of one program to the cost of similar programs. A cost-effective program delivers measurable impacts at less cost than other programs designed to achieve the same objectives.

For example, a comprehensive two-week leadership program for midlevel executives was implemented at a public sector organization based in Washington, DC. The fully loaded cost for the program was estimated to be $27,000 per participant, with direct costs including facilitation, facilities, materials, travel and lodging. Indirect, and sometimes prorated, costs included conducting a needs assessment, developing instructional resources, program coordination and administration, and participant salaries for the time they spent in the program. The high total cost reflected the program's length of two weeks, as well as expert facilitation, state-of-the-art content and travel for participants who lived beyond driving distance.

Although finding an exactly comparable program was not possible, benchmarks were identified for the direct costs for offering this kind of leadership development. For example, a two-week Harvard program costs $24,000 per participant for facilitation, materials and lodging. Another similar program at Kellogg cost $24,333 per participant for two weeks.

Travel was not included for participants in the Harvard or Kellogg programs. When air travel costs were added, the direct costs rose to about $30,000, and adding indirect costs increased the totals to around $37,000. The comparisons showed the DC-based program to be considerably less expensive than its counterparts.

Cost of Not Implementing the Program

Many HR programs in government are necessary. For example, the police force must be trained, and the pay for firefighters must be competitive to attract new recruits. Systems must be in place to ensure the safety of employees, and procedures to provide fair and unbiased workplaces need to be implemented. The value for some programs can be demonstrated by describing what would happen if they were not implemented.

For example, picturing employees who are not engaged in their work is unpleasant. This can spark investment in an HR program. Imagine, too, what would happen if employees were not fully prepared for their work; it could be disastrous, with dissatisfied employees, disengaged talent, low productivity, decreased work quality, missed deadlines, improper decisions, inadequate teamwork and ineffective relationships. In contrast, well-trained and sufficiently coached employees tend to be effective, which represents value for the money spent on HR programs.

So there you have six ways to address the value for money issue. Multiple ways should be explored, and keep in mind that when it comes to showing value for money, hope is not a strategy, luck is not a factor and doing nothing is not an option. Change is inevitable; progress is optional. The key is to understand which ways or methods are appropriate for proving value to the key decision makers in your organization.

Jack J. Phillips is chairman of ROI Institute, Inc. He provides accountability, measurement, and evaluation consulting services for Fortune 500 companies and major global organizations. You can reach him at ***jack@roiinstitute.net****.*

Patti Phillips, Ph.D. is president and CEO of ROI Institute, Inc., She also serves as principal research fellow for The Conference Board and on the faculty of the United Nations System Staff College in Turin, Italy. You can reach her at ***patti@roiinstitute.net****.* –N