ROI CASE STUDIES SERIES

Proving the Value of HR

ROI Case Studies Second Edition

Measuring Return on Investment In Human Resources, Learning and Development, and Performance Improvement

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CHAPTER 9

A Strategic Approach to Retention Improvement

Southeast Corridor Bank

This study demonstrates how a retention improvement program generated an extremely high impact, including an impressive return-on-investment, using a strategic accountability approach to managing retention. By analyzing a turnover problem in branch bank operations, this case focuses on how the specific causes of turnover were determined, how the solutions were matched to the special causes, and how the calculation of the actual impact of the turnover reduction was developed. The strength of the case lies in the techniques used to ensure that the solutions were appropriate and that the turnover reduction represented a high-payoff solution.

Background

Southeast Corridor Bank (SCB), a regional bank operating in four states with 60 branches, had grown from a one-state operation to a multistate network through a progressive strategic campaign of acquisitions. As did many organizations, SCB faced merger and integration problems, including excessive employee turnover: SCB's annual turnover was 57 percent, compared with an industry average of 26 percent. The new senior vice president for human resources faced several important challenges when he joined SCB, among them the need to reduce turnover. Although management was not aware of the full impact of turnover, it knew turnover was causing operational problems, taking up much staff and supervisor time, and creating disruptive situations with customers.

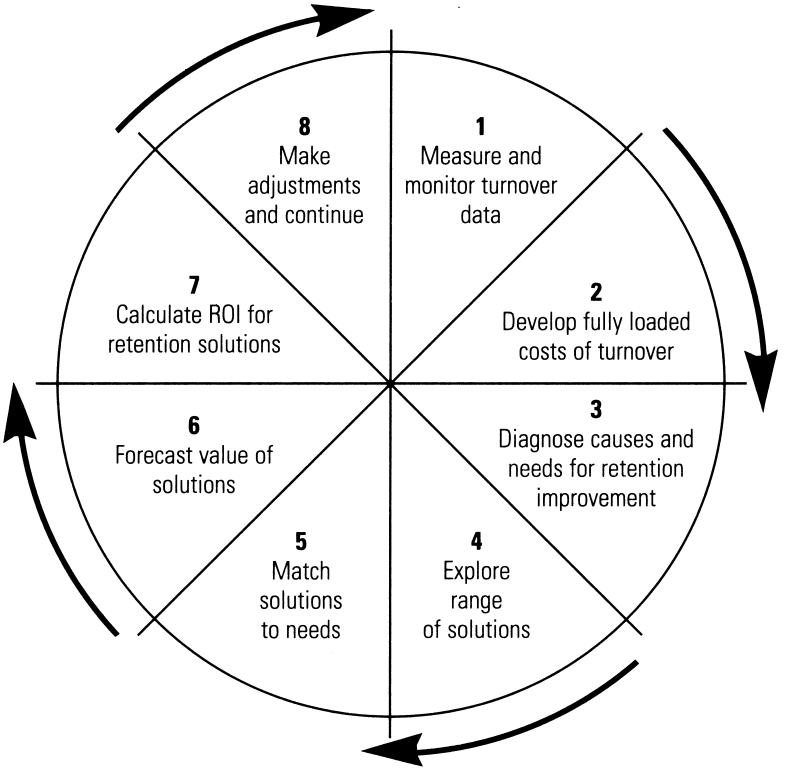
This case was prepared to serve as a basis for discussion rather than to illustrate either effective or ineffective administrative and management practices. All names, dates, places, and organizations have been disguised at the request of the author or organization.

A Strategic Accountability Approach

The strategic accountability approach outlined in figure 1 focuses on employee retention as an important part of strategy and is the basic model for this case study. As it had for many firms, retention had become a strategic issue because it can make the difference between mediocre and excellent profits. Accountability was built in throughout the process so management could fully understand the cost of the problem, the cost of the solutions, the potential impact of the solutions, and the actual impact of the solutions, all in monetary terms.

This approach moves logically from one step to another through a series of eight steps necessary to manage the process. It's easy to stay on track because, for the most part, each of the different steps has to be completed before moving to another. This approach brings structure, organization, and accountability to managing retention, and helps organizations avoid implementing solutions without analysis.

Figure 1. The strategic accountability approach to managing retention.



Step 1. Measure and Monitor Turnover

To properly monitor and measure turnover, several steps are important:

- defining turnover consistently
- reporting turnover rates by various demographics
- reporting rates by critical job groups
- including costs of turnover
- comparing turnover data with benchmarking targets
- developing trigger points that stimulate action.

Step 2: Develop a Fully Loaded Cost of Turnover

The cost of turnover is one of the most underestimated and undervalued costs in most organizations. It is often misunderstood because it is not fully loaded and does not reflect the actual costs of a turnover statistic. Also, the impact of turnover is not regularly reported to the management team, so its members don't know the actual cost. When fully loaded costs are calculated for the organization for an entire year, the actual numbers can be extremely surprising.

When exploring turnover, usually only the costs for recruiting, selecting, and training are considered. These easily calculated costs are sometimes inappropriately reported as the cost of turnover but, in reality, other costs should be included. A more comprehensive list includes 12 categories. The first seven recommended categories are investments that are lost to some degree when an employee leaves; the last five are related to the effect of turnover on conducting business:

- exit expense
- recruiting expense
- employment expense
- orientation expense
- training expense
- wage and salary expense while training
- temporary replacement expense
- lost productivity
- quality problems
- customer dissatisfaction
- loss of expertise and knowledge
- loss of management time because of turnover.

Step 3. Diagnose Causes and Needs for Retention Improvement

Some causes of turnover may be obvious, but others can be extremely elusive. Collecting appropriate data often is a challenge because of the potential for bias and the inaccuracies that can surface

during data collection. A number of diagnostic processes are available, including the following:

- demographic analysis
- diagnostic instruments
- focus groups
- probing interviews
- job satisfaction surveys
- organizational commitment surveys
- exit interviews
- exit surveys
- nominal group technique
- brainstorming
- cause-and-effect diagrams
- force field analysis
- mind mapping
- affinity diagrams.

Step 4. Explore a Range of Solutions

Many organizations are very creative in their approaches to retention problems, resulting in hundreds of excellent solutions. The critical point is to ensure that the solution is feasible for the organization. Most solutions fall into one of these categories:

- offering a competitive total compensation package, which includes salary, benefits, bonuses, incentives, awards, and recognition
- building a great place to work, which includes teamwork, work environment, supportive culture, and enabling systems
- providing growth opportunities, which includes work design, empowerment, career path development, training, and succession planning
- creating a compelling future, which includes creating a profitable organization with a competitive advantage and developing mission, vision, and values.

Step 5. Match Solutions to Needs

This step is related to the need to forecast the value of solutions, which is discussed next. These two steps should be taken together because the solutions selected are assumed to meet specific needs, making the forecast of their anticipated value imperative. When attempting to match solutions to needs, five key concerns are considered:

- avoiding mismatches
- implementing only a minimum number of solutions
- selecting a solution for a maximum return

- verifying the match early
- checking the progress of each solution.

Step 6. Forecast the Value of Solutions

Developing a forecast for a solution's value allows the team to establish priorities, work with a minimum number of solutions, and focus on solutions with the greatest return-on-investment (ROI). Difficult, challenging, and sometimes risky, forecasting is an expert estimation of what a solution should contribute. It is imperative to accumulate as much data as possible to back up the estimate and build credibility for the process. The payoff value can be developed if the percentage of expected turnover reduction can be related to it. For example, if the number-one cause of turnover is removed with a particular solution, what percentage of the turnover would actually be eliminated? Sometimes employees can provide input on this as data is collected on the causes of turnover. This step may require several "what if" decisions that may result in various assumptions about the data. Also, this step may involve building on previous experiences to the extent possible. In some cases, the experiences of other organizations can be helpful.

Step 7. Measure ROI for Retention Solutions

Another often-neglected step is the calculation of the actual financial impact of a turnover reduction strategy. This step is often omitted because it appears to be unnecessary. If accumulating a number of solutions is the only measure of success of turnover reduction or prevention, the impact of those solutions may be unimportant. But from a senior executive's point of view, accountability is not complete until impact and ROI data have been collected, at least for major solutions. The ROI methodology generates six types of data about the success of a turnover reduction strategy:

1. reaction to and satisfaction with the solution
2. skill and knowledge acquisition
3. application and implementation progress
4. business impact improvement
5. return-on-investment, expressed as an ROI formula
6. intangible measures not converted to monetary values.

This methodology also includes a technique for isolating the effects of a turnover solution. The ROI process has achieved widespread application for evaluating all types of programs and solutions (Phillips, 2002).

Step 8. Make Adjustments

The extensive set of data collected from the ROI process will provide information for making adjustments and changes in turnover reduction strategies. The information reveals the success of the turnover reduction solution at all levels, from reaction to ROI. It also examines barriers to success, identifying specifically what kept the solution from being effective, or prevented it from becoming more effective. It also identifies the processes in place that enable or support a turnover reduction solution. All of the information allows for adjusting or repositioning the solution so it can be revised, discontinued, or amplified. The next step in the process goes back to the beginning, monitoring the data to ensure that turnover levels continue to meet expectations . . . and the cycle continues.

Measuring and Monitoring Turnover

SCB monitored turnover by two categories, defining employee departures as either voluntary separations or terminations for performance. Departures due to retirement or disability were not included in the definition. A termination for performance involved an important problem that might have been rectified if the performance deficiency had been recognized or prevented early.

The turnover rate was monitored by job group, region, and branch bank. Branches had the highest turnover, averaging 71 percent in the previous year, far exceeding any expectations and industry averages of turnover acquired from other financial institutions and the American Bankers Association. Turnover was also considered excessive in a few entry-level clerical job classifications in regional and corporate offices.

Impact of Turnover

The impact of turnover was developed at the beginning of the study. External turnover studies in the banking industry had revealed that the cost of turnover for bank employees ranged from 110 percent to 125 percent of annual pay (Creery and Creery, 1988). This fully loaded cost had been published in several trade publications, using the 12 cost categories listed earlier in Step 2. When reviewing the proposed program and the proposed method for calculating the payoff, the senior executive team suggested a lower value. In essence, the senior team thought that turnover wasn't quite that expensive and suggested only 90 percent (0.9 times an employee's annual pay).

Determining the Cause of Turnover

Three basic techniques were used to pinpoint the actual cause of turnover. First, as described earlier, the analysis of individual job groups and tenure within job groups gave insight into where the turnover was occurring, the magnitude of the problem, and some indication of the cause. Much of the turnover occurred in the first six to 18 months of employment. Second, exit interviews with departing employees were examined to see if specific reasons for departure could be pinpointed. As with most exit data, accuracy was a concern: The departing employees may have been biased when reporting their reasons for leaving. The desire to avoid burning bridges could have left the data incomplete and inaccurate. Third, recognizing this problem, the HR team used the nominal group technique to determine more precisely the actual causes of turnover. This process is described next.

Nominal Group Technique

The nominal group technique was selected because it allowed unbiased input to be collected efficiently and accurately across the organization. A focus group was planned with 12 employees in each region, for a total of six groups representing all the regions. In addition, two focus groups were planned for the clerical staff in corporate headquarters. This approach provided approximately a 10 percent sample, which was considered a sufficient number to pinpoint the problem.

Participants in the focus groups, who represented areas in which turnover was highest, described why their colleagues were leaving, not why they themselves would leave. Data was taken from individuals in a carefully structured format during two-hour meetings at each location, using third-party facilitators, and was integrated and weighted so the most important reasons were clearly identified. This process had the advantages of low cost and high reliability, as well as a low degree of bias. Only two days of external facilitator time was needed to collect and summarize data for review.

The nominal group technique unfolded quickly in 10 steps:

1. The process steps were briefly described along with a statement of confidentiality. The importance of the participants' input was underscored so they understood what they must do and the consequences for the bank.
2. Participants were asked to make a list of specific reasons why they felt their colleagues had left the bank or why others might leave. It was stressed that the question dealt with the actions or potential

actions of employees other than themselves, although the bank realized that the participants' comments would probably reflect their own views (and that was what was actually needed).

3. In a round-robin format, each person revealed one reason for turnover, which was recorded on flipchart paper. At this point, no attempt was made to integrate the issues, just to record the data on paper. The lists were placed on the walls so that when this step was complete as many as 50 or 60 items were listed and visible.
4. The next step was to consolidate and integrate the list. Some of the integration was easy because the items contained the same words and meanings. In other cases, it was important to ensure that the meanings for the cause of the turnover were the same before items were consolidated. (When this process was complete the list might have contained 30 or 40 different reasons for turnover.)
5. Participants were asked to review all the items, carefully select those they considered to be the top 10 causes, and list them individually on index cards. Participants were instructed not to concern themselves about which cause was number one. (In this process, participants may become convinced that their original list was not complete or accurate or may identify other reasons for turnover.)
6. Participants ranked their top 10 items by importance, with the first item as the most important.
7. In a round-robin format, each individual revealed his or her number-one item, and 10 points were recorded on the flipchart paper next to the item. The next individual revealed his or her number-one issue and so on until the entire group had offered the top reason. Next, the number-two reason was identified, and nine points were recorded on the flip chart paper next to the item. This process continued until all reasons had been revealed and points recorded.
8. The numbers next to each item were totaled. The item with the most points was the leading cause of turnover, and the one with the second-highest number of points was the second most important cause of turnover. This continued until the top 15 causes had been captured as the weighted average causes of turnover from that group.
9. This process was completed for all six regional groups and the clerical staff groups. Trends began to emerge quickly from one group to the other.
10. The actual raw scores were then combined to integrate the results of the six regional focus groups and the clerical group.

The top 15 scores were the top 15 reasons for turnover across all the branches and clerical groups.

Specific Needs

The following list shows the 10 most important reasons for turnover in the bank branches:

1. lack of opportunity for advancement
2. lack of opportunity to learn new skills and new product knowledge
3. pay level not adequate
4. not enough responsibility and empowerment
5. lack of recognition and appreciation of work
6. lack of teamwork in the branch
7. lack of preparation for customer service problems
8. unfair and unsupportive supervisor
9. too much stress at peak times
10. not enough flexibility in work schedules.

A similar list was developed for the clerical staff, but the remainder of this case study will focus directly on the efforts to reduce turnover in the branch network. Branch turnover was the most critical issue, involving the highest turnover rates and the largest number of employees, and the focus group results provided a clear pattern of specific needs. Recognizing that not all the causes of turnover could be addressed immediately, the bank's management set out to work on the top five reasons while it considered a variety of options. Eventually, a skill-based pay system was created.

Solution: Skill-Based Pay

A skill-based pay system addressed the top five reasons for turnover. The program was designed to expand the scope of the jobs, with increases in pay for acquiring skills, and to provide a clear path for advancement and improvement. Jobs were redesigned from narrowly focused teller duties to an expanded job with a new title: The tellers all became banking representative I, II, or III. Table 1 shows the basic job duties with new initial wage rates. A branch employee would be considered a banking representative I if he or she could perform one or two simple tasks, such as processing deposits and cashing checks.

As an employee at the banking representative I level took on additional responsibilities and performed different functions, he or she would be eligible for a promotion to banking representative II. If the representative could perform all the basic functions of the branch bank, including processing consumer loan applications, a promotion to banking representative III was appropriate. Training opportunities were available to help employees develop the needed job-related skills and structured

Table 1. Proposed job levels.

Banking Representative Level	Job Duties	Hourly Wage Rate
I	Basic teller transactions (deposits, check cashing, etc.)	$6.00
II	Same as above, plus opening and closing accounts and processing CDs, savings bonds, special transactions, etc.	$7.50
III	Same as above, plus processing limited liability consumer loans, applications for all consumer loans, home equity loans, referrals for mortgage loans, etc.	$9.00

on-the-job training was provided through the branch managers, assistant managers, and supervisors. Self-study information was also available. The concept of performing multiple tasks was intended to broaden responsibilities and empower employees to perform a variety of tasks that would provide excellent customer service. Pay increases recognized skill acquisition, demonstrated accomplishment, and increased responsibility.

Although the skill-based system had some definite benefits from the employee's perspective, there were also benefits for the bank. Not only was turnover expected to lessen, but actual staffing levels were expected to be reduced in larger branches. In theory, if all employees in a branch could perform all the duties, fewer employees would be needed. Prior to this time, minimum staffing levels were required in certain critical jobs, and those employees were not always available for other duties.

In addition, the bank anticipated improved customer service. The new approach would prevent customers from having to wait in long lines for specialized services. For example, in the typical branch bank, it had not been unusual to see long lines for such special functions as opening a checking account, closing out a CD, or taking a consumer loan application, while such activities as paying bills and receiving deposits often required little or no waiting. With each employee performing all the tasks, shorter waiting lines would not

To support this new arrangement, the marketing department referred to the concept in its publicity about products and services. Included with the checking account statements was a promotional piece labeled "In our branches there are no tellers." This document described the new process and stated that all the branch employees could perform all branch functions and consequently provide faster service.

Measuring Success

Measuring the success of the new solution required collecting data at four levels. At the first level, reaction and satisfaction were measured during meetings with the employees and during regularly scheduled training sessions. This measurement provided input on employee acceptance of the new arrangement and the different elements of the program. Using brief surveys, data was collected on a five-point scale. As expected, the results were positive, averaging a 4.2 composite rating.

At the second level, learning was measured in two different ways. For each training and learning opportunity, skill acquisition and knowledge increase was measured. Informal self-assessments were taken for many of the programs. A few critical skills required actual demonstration to show that employees could perform the skill (for example, documentation, compliance, and customer services). When learning measurements revealed unacceptable performance, participants were given an opportunity to repeat training sessions or take more time to practice. In a limited number of cases, a third opportunity was provided. After one year of operation, only two employees were denied promotions based on their poor performance in training programs.

At the third level, application and implementation were measured by collecting four types of data, as shown in table 2. Actual participation in the program reflected the willingness of individuals to pursue skill acquisition through a variety of efforts. The results were impressive.

In all, 95 percent of the branch employees wanted to participate in the program. The remaining 5 percent were content with the banking representative I classification and were not interested in learning new skills. Actual requests for training and learning opportunities were a critical part of the formal process: Employees had to map out their own developmental efforts, which were approved by the branch manager. In all, some 86 requests per month were logged, almost overtaxing the system in providing training and learning opportunities. Reviews of the status and progress—to be considered for the promotion for the next level—were significant, as this review was the formal way of demonstrating the skills required for promotion. The number of

Table 2. Selected application and implementation data.

	1 Year Before	1 Year After
Participation in program	N/A	95%
Requests for training	45 per month	86 per month
Review situations	N/A	138
Actual promotions	139	257

N/A = not applicable

actual promotions increased quickly: As the table shows, actual promotions during the year before the program had been 139, increasing to 257 during the year after the program was initiated.

The categories of business-impact measures that were monitored are shown in table 3, along with their definitions. In all, nine categories of data were expected to be influenced to some degree by this project, although the first four were considered to be the primary measures.

The most important expected benefit was a reduction in turnover, the major thrust of the project. The second measure was staffing levels: With more highly skilled employees, fewer staff should be needed, at least for the larger branches. The third measure was customer service: With fewer customers waiting in line and less need to move from one line to another, customers should be more satisfied. The fourth measure was job satisfaction: Employees should be more satisfied with their work, their jobs, and career possibilities. Finally, an increase in loan volume was attributed to the project because there would be fewer customers waiting in line. Consequently, customers would visit more often or would not leave in frustration because of delays. This was expected to result in increases in the number of deposits, consumer loans, new accounts, and transactions, as well as increases in successful cross-selling. This was expected to result in some increases in the number of deposits. However, these last five categories were measures of each branch and were expected to move very little because of this project.

Isolating the Effects of the Project

In almost any situation, multiple influences affect specific business measures, so an important concern was to isolate the actual

Table 3. Business measures influenced by the project.

Business-Impact Measures	Definitions
1. Branch employee turnover (monthly)	Avoidable turnover (total number of employees leaving voluntarily and for performance reasons divided by the average number of employees in the branch for the month). This number was multiplied by 12 to develop the annual turnover rate.
2. Staffing level	The total number of employees in the branch, reported monthly.
3. Customer satisfaction	Customer reaction to the job changes (faster service, fewer lines) measured on a 1-to-5 scale.
4. Job satisfaction	Employee feedback on selected measures on the annual feedback survey process.
5. Deposits	Savings, checking, and securities deposits by type and product.
6. Loan volume	Consumer loan volume by loan type.
7. New accounts	New accounts opened for new customers.
8. Transaction volume	Number of face-to-face transactions, paying and receiving, by major category.
9. Cross-selling	New products sold to existing customers.

credibility and validity to the analysis, a specific method was used to isolate the effects of the project for each data item used in the ROI calculation. As shown in table 4, this method relied on estimates from branch managers and the branch staff. In brief group meetings, the branch staff members were provided the actual results of the turnover reduction and were asked to allocate the percentage of the reduction linked directly to the skill-based pay effort. Each branch provided this information.

As a first step in the process, branch team members discussed the other factors that could have contributed to turnover reduction (only two were identified). They were asked to discuss the linkage between each factor and the actual turnover reduction. This discussion, in a focus group format, improved the accuracy of the estimation. However, since these were estimates, an error adjustment was made: Individuals were asked to indicate the level of confidence in

ing no confidence and 100 percent meaning absolute certainty. This percentage was used as a discount for that employee's allocation. For example, if an individual allocated 60 percent of the turnover reduction to this specific project and was 80 percent confident in that allocation, the adjusted value would be 48 percent (60 percent times 80 percent). This method of isolation provided a conservative estimate for the effect of skill-based pay on turnover reduction. In this data item, the branch manager input was combined with that of the staff employees on equal weighting. Essentially, the results were averaged.

For the staffing levels item, actual improvements were judged by the branch managers. In essence, using the process described above, branch managers indicated the degree to which the new project had resulted in actual staff reductions. Because staff reductions only occurred in 30 percent of the branches (the larger ones), this estimate only involved those branch managers. No other factors seemed to have contributed to the staff reduction, so these branch managers gave credit for the entire reduction to the skill-based project.

Table 4 shows the method for isolating each measure that was a part of the planning for the study. Increases in deposits, loan volume, new accounts, transactions, and cross-selling were minimal and were influenced by many variables other than the new program. Consequently, no attempt was made to isolate the effect on these items or to use

Table 4. Business measures and planned analysis.

Data Item	Method of Isolating the Effects	Method of Converting Data
Employee turnover	Branch manager estimation Staff estimation	External studies
Staffing levels	Branch manager estimation	Company payroll records
Customer service	Customer input	N/A
Job satisfaction	Staff input	N/A
Deposits, loan volume, new accounts	Branch manager estimation	Standard value (percent margin)
Transaction volume, cross-selling	Branch manager estimation Staff estimation	Standard value (average percent margin)

N/A = not applicable

the improvements in the ROI analysis. However, they were listed as intangibles, providing evidence that they have been affected by the turnover reduction program.

Survey cards completed at the end of a transaction and deposited at the entrance to the branch provided a sample of customer reactions. The customers appreciated the new approach, liked the service delivered, and indicated that they would continue to use the branch. The annual employee job satisfaction survey showed that employees were pleased with the improvements in advancement opportunities, the chance to use skills, performance-based pay, and other related changes. Because customer service and job satisfaction measures were not isolated or converted to monetary volume, they were not used in the ROI calculation. However, these measures were very important and influential in the final evaluation and were listed as intangible benefits.

Converting Data

Table 4 also shows the method used (or planned) to convert data to monetary value. Turnover was converted to monetary value starting with a value from external studies. The specific amount was calculated using 0.9 times the annual salary as the cost of one turnover, a value considered conservative: Several studies had values ranging from 1.1 to 1.25 times annual earnings. It was important that the cost of one turnover was developed and agreed to in a meeting with the senior management prior to the actual calculation of values. The fact that the average annual salary of the branch bank staff below manager level was $18,500 meant that, collectively, the staffing reductions translated into significant savings that far exceeded expectations. For each potential employee departure that was prevented, a $16,650 ($18,500 $\times$ 0.9) average savings was realized.

Table 5 shows a turnover reduction of 174. The estimated contribution factor (the percent of the reduction linked to the solution), after the confidence error adjustment, was multiplied by the 174 to yield 120 prevented turnovers. The contribution factor and confidence estimates had been obtained in branch meetings, as described earlier. The average cost of a turnover ($16,650) was multiplied by 120 to yield an annual value of almost $2 million. At that point in data collection, the second-year value was not known, so that amount was doubled for an estimate of two-year savings.

The method for converting staffing levels to a monetary value was to use the actual salaries for the jobs that had been eliminated. Only a few branches were affected. The actual number was multiplied by the average salary of the branch staff. The value was captured for

one year and projected for another year assuming the same level. A two-year timeframe was used because it was considered to be a conservative way to evaluate (that is, one year of actual data and a forecast of one year). Although the program was expected to provide extended value, additional benefits beyond the two years were excluded. This was the conservative basis of the ROI methodology.

Analysis

The turnover reduction at the branches was significant, dropping from 71 percent to 35 percent in one year. Although some of the smaller branches had no staffing changes, the larger branches had fewer staff members. In all, 30 percent of the branches were able to have at least one fewer part-time or full-time staff member. Ten percent of the branches were able to reduce the staff by two individuals.

Table 5 shows the calculations of the total annual and projected benefits for the two-year period. Different scenarios could have been considered, such as capturing the first-year benefit only, but benefits had to be captured or projected for a two-year period, as the costs had been. The total two-year benefit was $4,625,000.

Project Cost

Table 6 shows the fully loaded cost of the skill-based pay project. The initial analysis costs were included, along with time, direct costs, and travel expenses for the focus groups because developing the program required the time and materials for these. The next two categories were the branch staff time, which represented an estimate of all the time employees had to spend away from their normal work to understand the program and learn new skills. The next category was the actual salary increases—the additional salaries in the branches as a result of earlier promotions. The total amount of first-year promotions ($977,600) was reduced by the rate of promotions in the year before the program was implemented.

The ongoing administration and operation involved the time required for the HR staff to administer the program. Finally, the evaluation costs represented the costs related to developing the study of the project's affect on the business. The total cost presented in this table includes several items that were involved only in the one-year actual cost and one-year forecast; these costs are the totals for the project in those categories. Across all categories for two years, the total cost was $1,290,396.

Table 5. Calculation of actual business results.

	Preceding Year	One Year After	Actual Difference	Contribution Factor	Confidence Estimate	Adjusted Amount	Unit Amount	First-Year Benefits	Two-Year Benefits
Turnover	336 (71%)	182 (35%)	174	84%	82%	120	$16,650	$1,998,000	$3,996,000
Staffing Levels	480 (average)	463 (end of year)	17	100%	100%	17	$18,500	$314,500	$629,000

Table 6. Fully loaded project costs.

Project Costs	Year 1	Year 2
Initial analysis	$14,000	—
Program development	2,500	—
Participant time	345,600	$195,000
Branch manager time	40,800	30,200
Salary increases	446,696	203,900
Administration/operation	4,600	4,100
Evaluation	3,000	—
	857,196	433,200

ROI and Its Meaning

The two-year monetary benefits were combined with costs to develop the benefit cost ratio (BCR) and the ROI using the following formulae:

$$BCR = \frac{\text{Solution Benefits}}{\text{Solution Cost}} = \frac{\$4{,}625{,}000}{1{,}290{,}396} = 3.58$$

$$ROI = \frac{\text{Net Solution Benefits}}{\text{Solution Cost}} = \frac{\$4{,}625{,}000 - \$1{,}290{,}396}{1{,}290{,}396} \times 100 = 258\%$$

This BCR value indicates that for every $1 invested in the project, $3.58 is returned. In terms of ROI, for every $1 invested, $2.58 is returned after the costs are captured. These results are excellent, since most ROI studies have target (expected) values in the 25-percent range. The ROI was only one measure and should be considered in conjunction with the other measures. However, because it was an estimate that was developed using a conservative approach, it probably underestimated the actual return from this project.

Communicating Results

The results were communicated to the senior management team in an executive staff meeting in which approximately 30 minutes were allocated to the project report. The communications were very important and covered three points:

1. The project was quickly reviewed, including the description of the solution.
2. The methodology used for evaluating the project was described.
3. The results were revealed one level at a time, presenting the fol-

- reaction of employees to, and satisfaction with, the skill-based pay system
- learning the system and how to use it
- application of the system
- business impact of skill-based pay
- ROI in skill-based pay
- intangible measures linked to skill-based pay.

This presentation provided a balanced profile of the project and was convincing to the senior management team. This was the first time an HR solution to a problem had been evaluated using a balanced measurement approach that included ROI. The intangible measures also were important, particularly the customer service improvement. Overall, the senior team was very pleased with the success of the project and impressed with the analysis.

Lessons Learned

Although this project arrived at the right solution, a few lessons were learned. First, because forecasting is such an important step in the strategic accountability approach to managing retention, perhaps it would have been safer to forecast the ROI at the time the solution was developed. In particular, increasing the branch salaries to the extent planned for this solution was risky: It would have been difficult to retract this program if it did not show enough value to make it worthwhile. Also, the branch managers and regional managers were not entirely convinced that skill-based pay would add value, and additional effort was needed to capture their buy-in and help them understand the full cost of turnover. They needed to see how this system could alleviate many of their problems and add monetary value to the branches. A forecasted ROI could have provided more confidence before the program was put it place, but although this was considered, it was not pursued.

Finally, the time that would have to be spent by branch managers should have been estimated at a higher level, as they had to deal with numerous requests for training and juggle schedules to ensure the staff maintained the training they needed. Also, managers had to provide additional training and spend the time necessary to confirm that the bank representatives had obtained the skills necessary for promotion.

Questions for Discussion

1. This case study illustrates how the actual causes of turnover were determined. What is your reaction to this process?
2. Why do many organizations spend so little time determining the causes of turnover?

3. Calculating the ROI of a turnover reduction program is rarely done, yet it can have tremendous benefits. Why is this step often omitted?
4. How can the data from this project be used in the future?
5. Critique the overall approach to this retention project, highlighting weaknesses and strengths.

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