

The Business Case for ROI: Measuring the Return on Investment in Human Resources

By Jack J. Phillips and Patti P. Phillips

Much debate has occurred on the issue of measuring the return on investment (ROI) in human resources. Rarely does a topic stir up emotions to the degree the ROI issue does. Some individuals characterize ROI as inappropriate. Others passionately characterize ROI as the answer to their accountability concerns. The truth lies somewhere in between these two extreme viewpoints. Understanding the drivers for the ROI process and the inherent weaknesses and advantages of ROI makes it possible to take a rational approach to the issue and implement an appropriate mix of evaluation strategies.

One thing is certain--ROI is not a fad. The concept of ROI has been used for centuries. The 75th anniversary issue of *Harvard Business Review* (HBR) traced the tools used to measure results in organizations.¹ During the 1920s, ROI was the emerging tool to place a value on the payoff of investments. In recent years, the application of the concept has been expanded to all types of investments including human resources, training and education, change initiatives, and technology. Today, hundreds of organizations are developing ROI calculations for many of these programs. Three casebooks have been developed to show specific applications.^{2,3} Another is being developed for the public sector, sponsored in part by the International Personnel Management Association.⁴ As long as there is a need for accountability of expenditures and the concept of an investment payoff is desired, the ROI will be used to evaluate major investments, including HR.

Approaches to HR Accountability

Fortunately, the HR profession has made much progress with measurement and evaluation. Since the 1960s, several measurement schemes have been used and the approaches have changed over time. Figure 1 illustrates the approximate timeline for different measurement approaches. Few would argue that the human resources function should not be measured, but determining the right approach is a significant challenge. Twelve different approaches are identified and briefly described next. While each one is presented separately, there is often overlap in the techniques, processes, and focus of some approaches.

Early Approaches to Measurement

The early approaches have been refined over the years and usually focus on subjective measures or easy to implement strategies. While still being used by many organizations, other approaches are also being incorporated into the measurement mix as organizations continue to improve measurement processes.

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HR Management by Objectives (MBO). Measuring progress toward HR performance objectives gained popularity in the 1960s because of the widespread use of management by objectives (MBO).⁵ With this approach, the HR department develops specific objectives and evaluates performance against those objectives. Objectives are based on what management wants accomplished or what is perceived to be necessary to achieve an adequate level of performance, including budget performance.

Employee Attitude Surveys. Employee attitude surveys often evaluate the effectiveness of the HR function. Surveys measure employee satisfaction with several critical HR issues. In recent years, surveys have been expanded to include key measures of organization commitment and to explore linkage to organizational performance. While surveys are important, the approach is often used in conjunction with other methodologies.

HR Case Studies. In a case study format, HR success is documented for selected audiences. For example, an organization may report the success of a labor-management program in a successful case study communicated to all employees. Case studies have significant value and can be presented with little cost. They are developed using data on HR performance, reaction from individuals, or interviews with participants involved in HR programs or services.

HR Auditing. A human resources audit is an investigative, analytical, and comparative process that attempts to reflect the effectiveness of the HR function. It undertakes a systematic search to collect, compile, and analyze data with formal and informal reports. HR auditing is an extension of traditional auditing, which, until recent years, was limited to the financial practices of the organization. HR auditing is an important process that can help improve the efficiency of the HR function. However, it falls short of a valid approach to measuring the contribution of the HR function.

Solid, Value-Added Approaches

The four techniques illustrated in the center group of the timeline are considered very sound approaches to bringing accountability to the HR function. These approaches are being utilized regularly by most progressive organizations.

HR Key Indicators. Key measures, developed to reflect the major efforts of the HR function, consist of a set of quantitative measures such as accident frequency rate, absenteeism rate, turnover rate, and average time to fill requisitions. Key indicators are developed for recruitment and staffing, compensation, compliance, education and training, and employee relations.

HR Cost Monitoring. While most executives are aware of the total cost of employee compensation, they do not understand that changes in HR practices can result in a tremendous increase in costs. One approach to evaluate HR performance is to develop HR costs and use them in comparisons with benchmark cost data. Examples are costs per new hire, training costs, absenteeism costs, and turnover costs.

HR reputation. Some HR professionals suggest that the effectiveness of the HR function should be judged by the feedback from those it is designed to serve, often referred to as constituencies or

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clients. Constituencies depend on, or exert control over, the HR function. Proponents of this approach argue that effectiveness is a value judgment. Even objective criteria are only one step removed from subjectivity.⁶ Someone has to determine what level of objective performance is considered effective and what level is considered ineffective. With the continuing focus on customer satisfaction, it is important to measure the perception of the HR function in the mind of its customers.

Competitive HR Benchmarking. A few organizations develop key measures that represent the output of the HR function and compare them to organizations that are regarded as having best practices. Competitive benchmarking began as an important development in the quality movement, but, despite a surge of interest, few HR departments undertake a benchmarking study. Some see the process as merely a comparison of processes to ensure functional similarity. Others take the process more seriously and view it as a learning process that can help improve overall HR effectiveness.

Leading Edge Approaches

The last four techniques are often considered to be the leading edge approaches. Although some organizations have made progress with these techniques, they are still in a developmental stage with the majority of organizations.

HR Profit Center. According to some researchers and practitioners, the ultimate approach to evaluation is the profit-center approach. This concept requires a shift from the traditional view of the HR department as an expense center in which costs are accumulated to a view of HR as an investment that can achieve a bottom-line contribution and, in some cases, actually operate as a profit center. The underlying premise of this approach is that user departments in the organization are charged for services of the HR department. Managers have the option of using external services in lieu of those offered by the HR department. In effect, the HR department makes a profit, breaks even, or experiences a loss. Assuming the services are priced on a competitive basis the profit, the profit represents a financial return on the investment allocated to the HR function. While the profit center approach is the ultimate goal of many HR departments, the actual application and success has been sparse.

HR Effectiveness Index. A few organizations have attempted to develop a single composite index of effectiveness for the HR function. One of the first examples of such an index was developed and used by the General Electric Company in the 1950s.⁷ This Employee Relations Index (ERI) was based on eight indicators selected from a detailed study of employee behavior. Among the indicators were absenteeism, initial dispensary visits, terminations, grievances, and work stoppages.

The development continues. One of the most comprehensive studies involved 71 organizations from eight industry segments. The index represented a composite of the six measures; significant correlations were developed with revenue/employees (productivity) and operating income/employee costs (profit). An index is appealing because it is simple to compute and easy to understand. It should be useful for comparing one organization with another and can be used for internal control and goal setting. However, index development is still in the research phase.⁸

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Human Capital Measurement. In the early 1960s and 70s, a novel approach to evaluation was taken, Human Resources Accounting (HRA). Interest in this approach seemed to diminish in the early 1980s. However, HRA has recently obtained renewed emphasis. This concept, currently labeled Human Capital Measurement (HCM) attempts to place a value on employee capabilities and attributes. Improvements or changes in these values are monitored. Sometimes the measures are converted to values using accounting principles. Employees are viewed as assets and HR programs are considered investments by the organization. Because of the importance of knowledge and intellectual capital as a competitive advantage, HCM is becoming a very important measurement issue.

Return on Investment. Probably the most convincing approach to HR evaluation is to compare the cost of HR programs to the monetary benefits derived from them. In most cases, the cost of HR programs can be easily developed or monitored. The difficulty lies in determining program benefits in monetary terms. In some cases, analytical techniques are utilized to determine the monetary benefits, with high degrees of accuracy. In other cases, expert input is used to assign monetary values to benefits derived from programs, particularly for those benefits that are intangible in nature. Consequently, this approach is sometimes avoided as an evaluation tool. However, reliable techniques to generate accurate estimates are available.⁹

The ROI process is seeing tremendous success in the HR arena in both public and private sectors. The process is built around the basic financial equation, earnings divided by investment, or net benefits divided by costs. As compared to the other leading approaches, the ROI approach seems to have the greatest promise as an evaluation methodology for today's organizations.

Selection of Approaches

While there are a variety of approaches to increasing accountability, any HR functions still have difficulty achieving success with current approaches. Unfortunately, not enough success stories about comprehensive HR evaluation exist. Most evaluation approaches have been unable to deliver what top management and even HR practitioners want them to deliver: objective data showing the contribution of the HR function to organizational effectiveness.

The twelve approaches presented in Table 1 provide an array of useful tools to help the HR department develop a comprehensive strategy to show its contribution. Table 1 is a comparison of these approaches, which collect both qualitative and quantitative data from different sources. The difficult task is to select the appropriate mix of measurement and evaluation approaches that best fit the organization. For most situations, five influences will drive the decision to select the appropriate mix:

1. **The needs of the senior management group.** This is an important issue as any measurement and evaluation system for a critical function such as Human Resources, should meet the needs of the senior management team. Their desires and input can be developed in a variety of ways, often in formal meetings or through special sessions focusing directly on the strategic role of HR.

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2. **The specific drivers for increased measurement in the organization.** Several influences are causing increased accountability to be developed for Human Resources. Within an organization these drivers influence the actual measures taken and the different types of data presented to stakeholders.
3. **The measurement culture within the organization.** Some organizations thrive on data and measurement – others have very little measurement. The types of data collection systems, the need for data-based decisions, the willingness to provide input, and the data collection instruments utilized are all factors that define the measurement culture of the organization. A high measurement culture will demand more measurement from the HR than a low measurement culture.

Table 1: Comparison of approaches to Measure the HR Contribution

Approach	Measurement Focus	Relative Cost	Relative Value of Information
1. HR Management by Objectives	Goal Setting for HR Performance Measures	Low	Moderate
2. Surveys	Attitudes/Perceptions	Moderate	Moderate
3. HR Case Studies	Qualitative Description with Data	Low	Low
4. HR Auditing	Efficiency/Existence of Practices	Low	Low
5. HR Key Indicators	Program/Function Performance Measures	Moderate	Moderate
6. HR Cost Monitoring	Program/Function	Low	Low
7. HR Reputation	Attitudes/Perceptions	Moderate	Moderate
8. Competitive Benchmarking	Performance Measures/Practices	High	High
9. ROI	Benefits vs. Costs	High	High
10. HR Effectiveness Index	Multiple Key Indicators	High	High
11. Human Capital/ HR Accounting	Value of Skills/ Capabilities/ Performance of Employees	High	Moderate
12. HR Profit Centers	Profit Contribution of Programs/Services	High	High

4. **The specific resources available to capture the data.** Measurement and evaluation adds time and costs – resources that may not be available. A balance must be struck between the need to have the data and the ability to provide (i.e., the

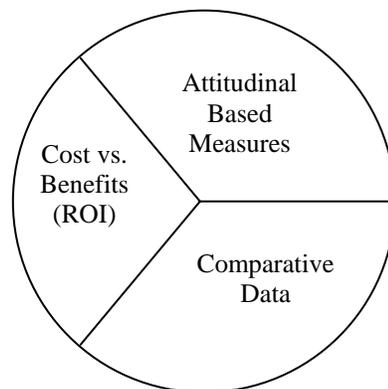
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additional resources necessary to provide it). Some organizations will have a measurement staff member or even a group. For others, it is a part-time responsibility for one staff member.

5. **The desire for the organization to be leading edge.** Some HR staff members and management groups want to be in the leading edge category, highlighting the contribution of HR in terms that managers understand. They want the reputation of having a business-minded organization, pushing the envelope in measurement and evaluation to a higher level.

Given the approaches and the rationale for the developing approaches, it would be appropriate to recommend a basic core group of measurement categories. Examining the possibilities, three types of data, shown in Figure 2 are strongly recommended for any organization.

Figure 2: Minimum Recommended Categories of Data



1. **Attitudinal data.** Data collected directly from employees and other HR stakeholders are critical. Reaction to, and satisfaction with, programs and a measure of their commitment to the organization are critical issues to monitor routinely and take action when necessary.
2. **Comparative data.** Information on key indicators, such as HR costs, turnover, absenteeism, and other important HR practices should be compared to other organizations in some way. Whether a standard benchmarking service is utilized or a specially designed benchmarking project is developed with best practice organizations, comparative data is critical to show how the organization compares to other organizations, especially the most admired and best practice firms.
3. **A cost/benefit comparison.** For selected programs, an ultimate level of accountability is needed. Clients and senior managers (as well as other stakeholders) should be able to understand the payoff of programs, especially the ones that are mission critical, strategic, and consume many resources. A cost benefit analysis, such as ROI, is recommended, to be used in a very selective way.

The ROI process, a balanced approach to measuring the bottom-line impact of HR initiatives, is being utilized by organizations around the world and can be implemented within the budget and resource constraints of most organizations. It holds the most promise for showing the contribution of specific HR programs. The following sections explore critical issues about ROI and present the business case for implementing the ROI process within an organization.

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Why ROI?

Developing a balanced set of measures, including measuring the ROI, has earned a place among the critical issues in the HR field. The topic routinely appears on conference agendas and at professional meetings. Journals and newsletters embrace the concept with increasing print space. HR consultants are recommending ROI calculations be conducted for specific programs and initiatives. Even top executives have increased their interest in ROI information.

Although the interest in ROI has heightened and progress is being made, it is still an issue that challenges even the most sophisticated and progressive organizations. Some argue that it is not possible to calculate the ROI in HR programs while other quietly and deliberately proceed to develop measures and ROI calculations. Regardless of the position taken on the issue, the reasons for measuring the ROI remain. Most HR staff members share a concern that they must eventually show a payoff for their programs. Otherwise, resource may be reduced, or the function may lose credibility within the organization.

Rationale for Developing ROI

Although the rationale for focusing on ROI may be obvious, it helps to explore the various reasons why now is the time to pursue the actual calculations for the ROI. The HR function has existed for many years and is a core activity of most medium-sized and large organizations. Several issues frame in explanation as to why now is the time to measure HR programs and initiatives more aggressively than ever.

Client demands. Today, more clients--those funding the HR initiative--are requesting evaluation data, up to and including measuring the actual ROI. Clients commonly ask the key question at the beginning of most programs: "How do I know if this will pay off for us, and will this be a good return on my investment?" Although the accountability issue has always been present, it has never existed at today's heightened level. When the client demands a process, it must be explored and implemented, and the process must be credible enough for the client to believe the results. Client questions must be addressed in a simple, rational way. Avoiding the issue will create distrust between the client and the HR staff and may ultimately cause the program to get off track.

Resource allocation. Perhaps one of the most important reasons to pursue a comprehensive measurement and evaluation process, including ROI, is to meet or beat the competition for scarce resources. Many HR functions are beginning to develop the ROI around initiatives and programs to stay competitive, or perhaps ahead, of other functions competing for internal resources and funding. It is imperative to address the issue in a proactive manner with a comprehensive approach to developing ROI for HR programs.

Increased budgets. When HR can show the actual contribution of an initiative in monetary terms, an excellent case can be made for additional budget. Some organizations are even using ROI to drive additional funding and increased budgets, for example, by placing annual budgets at risk by basing them on a threshold ROI. If the minimum ROI is met for key HR programs, the budget will remain

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level. Exceeding the threshold can result in increased budget; falling below the threshold can cause a reduction of budget.

Desire to be leading edge. Individuals engaged in professional HR assignments want to know that their efforts make a difference. HR staff members need to see they are making a contribution in terms that managers respect and appreciate. Showing the ROI may be one of the most self-satisfying parts of an excellent HR project. Not only do things go well in terms of schedule, budget, and client feedback, but the actual value added in monetary terms with an impressive ROI adds the final touch to a major project. This provides additional evidence that the HR function makes a difference and positions HR as a leading edge organization.

Consequences of ineffective HR practices. Many HR interventions have not lived up to their promises or expectations. They do not deliver the results the client expects—at least not in the terms management understands. As more and more HR projects are undertaken, consuming precious resources, the results have simply not materialized. When the results are reported, skepticism and concern often surround the credibility of the data, the objectivity of data, and the thoroughness of the analysis. This causes executive management to rethink the role of HR, as well as the accountability of HR, and place more restraints and demands on the HR function. In many cases, the consequences of ineffective HR practices lead to the restructuring of the HR function, eliminating processes, and sometimes displacing HR staff members.

The need for balanced measures. A debate has ensued for years about what should or should not be measured and how. Some HR staff members prefer soft data obtained directly from the client or consumers. Others prefer hard data focused on key issues of output, quality, cost, and time. Still others argue for a balanced set of measures, and the latter camp seems to be winning. There exists a critical need to examine data from a variety of groups at different time frames and for different purposes. This mixture of data, often referred to as a balanced approach, is driving additional need for the ROI process.

Top executive requirement for HR contribution. ROI is now enjoying increased interest from the executive suite. Top executives who have watched their HR budgets grow without the appropriate accountability measures are becoming frustrated and, in an attempt to respond to the situation, are demanding a return on investment for HR programs. Measuring the ROI of HR programs is becoming a global issue because executives from around the world are concerned about accountability. Whether the economy is mature or developing, the economic pressures of running a global enterprise make the accountability of HR an issue.

Linkage of HR to strategic initiatives. Organizations are placing a greater emphasis on linking processes in all functions to the strategic direction of the company. The HR function is not being left out. Programs are being scrutinized to determine what value they bring to the overall strategy. How do they fit? How will they help the organization achieve its goal? Are the “right” programs being offered, and if so, how do we know? These concerns and the desire to link program objectives to the overall organization strategy bring a greater interest in the accountability of the HR function.

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A Credible Approach to ROI

For an ROI process to be effective, it must balance many issues, including feasibility, simplicity, credibility, and soundness. The ROI methodology described here meets these challenges. More specifically, three major target audiences have accepted the process. First, the HR staff members who routinely use ROI must have an easy-to-understand approach. Otherwise, the process may appear confusing and complex, causing many HR staff members to give up in a fit of frustration, assuming that the ROI cannot be developed or that it is too expensive for most applications.

Second, an ROI process that will meet the unique requirements of the clients is needed. The clients, who request HR programs and approve projects, need a process that will provide quantitative and qualitative results. They need a process that will develop a calculation similar to the ROI formula applied to other types of investments. The ROI methodology reflects their point of reference, background, and level of understanding. Instead, they need a process that they can identify—one that is sound and realistic enough to earn their confidence.

Finally, researchers in measurement and evaluation need a process that they can support—one that holds up under their close examination. Researchers want to use models, formulas, assumptions, and theories that are sound and based on commonly accepted practices. Also, they want a process that produces accurate values and consistent outcomes. They want a process that can be replicated from one situation to another, a reliable process that will result in the same measurements if two different practitioners are evaluating the same HR program.

As shown in Figure 3, these three critical groups have accepted the ROI Process. This is no easy task, as their requirements are often conflicting and their needs are often very different. The ROI Process, developed and refined over a 20-year period has been implemented by hundreds of organizations. Over 900 practitioners have been certified to implement the process internally. Over 10,000 individuals have attended a one- or two-day workshop. Hundreds of case studies are routinely presented to clients and senior managers and the feedback is extremely favorable. Researchers and evaluators are continually asked to review and scrutinize the process. Some are invited to attend the ROI certification process. The reaction has been excellent and they cite important contributions of this process to the measurement and evaluation field.

Meeting the critical challenges of these groups requires an ROI process that meets certain criteria. Eleven criteria, listed in Table 2, are developed based on input from HR managers and specialists.

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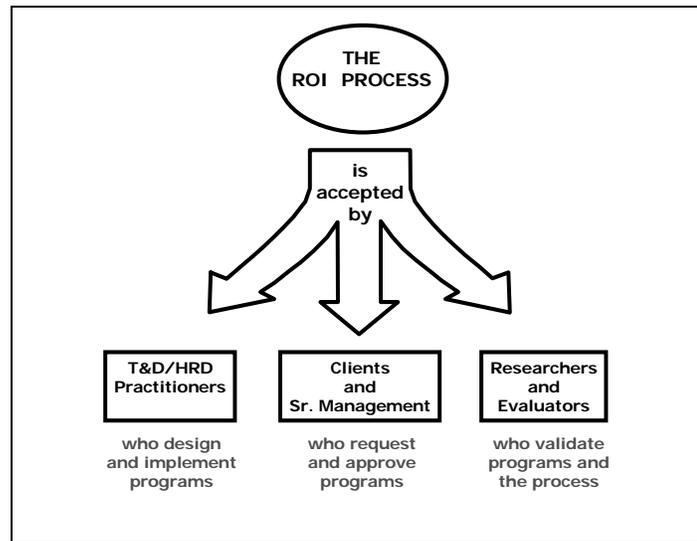
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Figure 3: Three Important Groups Satisfied with ROI



Simple. The ROI Methodology must be simple, void of complex formulas, lengthy equations, and complicated methodologies. Most ROI models have failed with this requirement. In an attempt to obtain statistical perfection and use too many theories, several ROI models and processes have become too complex to understand and use. Consequently, they have not been implemented.

Economical. The ROI Methodology must be economical, with the ability to be implemented easily. The process should have the capability to become a routine part of HR without requiring significant additional resources. Sampling for ROI calculations and early planning for ROI are often necessary to make progress without adding new staff.

Credible. The assumptions, methodology, and outcomes must be credible. Logical, methodical steps are needed to earn the respect of practitioners, senior managers, and researchers. This requires a very practical approach to the process.

Theoretically Sound. From a research perspective, the ROI Methodology must be theoretically sound and based on generally accepted practices. Unfortunately, this requirement can lead to an extensive, complicated process. Ideally, the process must strike a balance between maintaining a practical and sensible approach and a sound and theoretical basis for the procedures. This is perhaps one of the greatest challenges to those who have developed models for ROI.

Table 2: Criteria for a Successful ROI Methodology

Criteria for ROI Methodology	
Simple	Flexible
Economical	Applicable
Credible	Costs
Theoretically Sound	Appropriate Formula

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Account for Other Factors
Appropriate

Successful Track Record

Account for Other Factors. An ROI Methodology must account for other factors that influence output variables. One of the most often overlooked issues, isolating the influence of an HR program is necessary to build credibility and accuracy within the process. The ROI process should pinpoint the contribution of the HR program when compared to other influences.

Appropriate. The ROI Methodology must be appropriate with a variety of HR programs. Some models apply to only a small number of programs such as productivity improvements. Ideally, the process must be applicable to all types of HR programs as well as other programs, such as career development, organization development, and major change initiatives.

Flexible. The ROI Methodology must have the flexibility to be applied on a pre-program basis as well as a post program basis. In some situations, an estimate of the ROI is required before the program is developed. Ideally, the methodology should have the capability to adjust to a range of potential time frames for calculating the ROI.

Applicable. The ROI Methodology must be applicable with all types of data, including hard data, typically represented as output, quality, costs, and time; and soft data, which include job and customer satisfaction.

Costs. The ROI Methodology must include the costs of the HR program. The ultimate level of evaluation compares the benefits with costs. Although the term ROI has been loosely used to express any benefit of HR, an acceptable ROI formula includes costs. Omitting or understating costs will destroy the credibility of the ROI values.

Appropriate Formula. The ROI Methodology should utilize the correct formula for calculating return on investment, using accepted finance and accounting definition – earnings divided by investment. In the context of HR programs, earnings are net program benefits and program costs are the investment. The correct formula is needed to build the support from, and confidence of, the finance and accounting staff, including the chief financial officer. Other measures such as return on expectations (ROE), return on client expectations (ROCE), return on people (ROP), and return on resources (ROR), are often confusing to the finance and accounting staff. Using an accepted formula is one of the best ways to build a productive working relationship with this important group in the organization.

Successful Track Record. Finally, the ROI Methodology must have a successful track record with a variety of settings. In far too many situations, models are created but never successfully applied. An effective ROI Methodology should withstand the wear and tear of implementation and prove valuable to all types of users.

Because these criteria are considered essential, an ROI process should meet the vast majority, if not all criteria. The bad news is that most ROI processes do not meet these criteria.

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Terminology

Before beginning presentation of the ROI Process, it is helpful to review specific definitions. The following terms are used throughout this publication to reflect Human Resources issues.

1. **Human Resources Department** – The organizational unit within the organization charged with the responsibility for administering the Human Resources function. Department expenses typically include HR staff salaries as well as direct expenditures involved in administering the HR Department.
2. **HR Function** – The process of administering the Human Resources practices and policies within the organization. Principally, the HR department administers the HR function, but other individuals and groups may have specific HR functional duties. Some managers may have some HR functional duties.
3. **HR Services** – Much of the output of the Human Resources function offered to the organization. In most cases, a specific product is not developed, but a service is rendered. Some HR services are required – others may be optional.
4. **HR Initiative** – A new policy, service, or project to provide, enhance, or administer the HR function. An HR initiative is something new and it's developed and initiated by the Human Resources staff. As part of the initiative, specific procedures are developed and policies are sometimes created indicating how a particular part of the function is managed or administered.
5. **HR Program** – A specific initiative designed to provide a service or improve the Human Resources function. An HR program is used primarily to describe HR initiatives. For example, a training program, a compensation program, or a recruiting program often refers to those specific procedures, policies, and issues about a particular part of the Human Resources function.
6. **HR Solutions** – A more appropriate and acceptable substitute for HR program. An HR solution attempts to solve a Human Resources problem such as excessive turnover or excessive absenteeism.

The terms HR program, HR solution, HR services, and HR initiatives are sometimes used interchangeably. The important point is to fit the particular terminology to the organization as the ROI issues are presented and explained.

Developing the ROI Process

To develop a credible approach for calculating the ROI in HR, several pieces of an evaluation puzzle must be developed and integrated. Figure 2 shows the major elements of this important puzzle. First, an evaluation framework is needed to define the various levels of evaluation. Evaluation levels show how data are captured at different times from different sources.

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Next, a process model must be developed to provide a step-by-step procedure for developing the actual ROI calculation. Inherent in this process is the isolation of the effects of the program from other factors and actually showing the monetary payoff compared with the cost of the HR project. A process model with many options and sequential steps helps ensure that data collection and processing is consistent.

A set of operating guidelines or standards with a conservative philosophy is needed. These standards and philosophy, known as guiding principles, keep the process on track to enhance the likelihood of replication (i.e., if two individuals conduct the same study, the same results will be obtained). Also, the operating standards build credibility in the process by taking a very conservative approach.

The necessary resources should be devoted to implementation issues to ensure that the ROI Process becomes operational in the organization. Implementation addresses issues such as responsibilities, policies, procedures, guidelines, goals, and internal skill building.

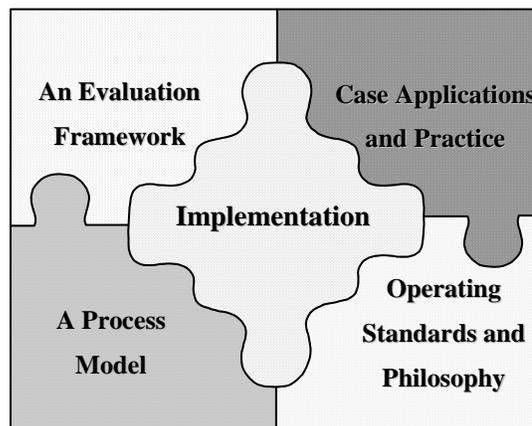
Finally, successful case applications are needed to build experience with ROI to show how it actually works in the organization. Users of the ROI Process are encouraged to develop a case study - quickly.

Together, these five pieces of the puzzle are necessary to develop a comprehensive evaluation system that contains a balanced set of measures, has credibility with the various stakeholders involved, and can be easily replicated.

The Evaluation Framework

The ROI process adds a fifth level to the four levels of evaluation developed for the training profession almost forty years ago by Kirkpatrick.¹⁰ The concept of different levels of evaluation is both helpful and instructive in understanding how the return on investment is calculated. Table 3 shows a modified version of Kirkpatrick's four-level framework – a fifth level (ROI) is added to include cost/benefit comparison. At Level 1, Reaction and Satisfaction, reaction from participants (HR stakeholders) is measured, along with input on a variety of issues.

Figure 4: The Evaluation Puzzle



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Table 3: Characteristics of Evaluation Levels

Level	Brief Description
1. Reaction and Satisfaction	Measures participants' reaction to the initiative and stakeholder satisfaction with the project and planned implementation.
2. Learning	Measures skills, knowledge, or attitude changes related to the initiative and implementation.
3. Application and Implementation	Measures changes in behavior on the job and specific application and implementation of the HR initiative.
4. Business Impact	Measures business impact changes related to the HR initiative.
5. Return on Investment	Compares the monetary value of the business impact with the costs for the initiative; usually expressed as a percentage.

Almost all HR functions evaluate programs at Level 1 in one way or another, usually with generic questionnaires and surveys. Although this level of evaluation is important as a customer satisfaction measure from program participants, a favorable reaction does not ensure that participants have learned to implement the HR program.

At Level 2, Learning, measurements focus on what participants learned during the HR intervention. A learning check is helpful to ensure that participants absorb new skills, knowledge, and know how to make the HR program successful. However, a positive measure at this level is no guarantee that the program will be successfully implemented.

At Level 3, Application and Implementation, data are collected to determine if participants implement the program successfully. The frequency and use of skills are important measures at Level 3. In addition, this measure includes all the steps, actions, tasks, and processes involved in the implementation of the program. Although Level 3 evaluation is important to gauge the success of the program's implementation, it still does not guarantee a positive business impact on the organization.

At Level 4, Business Impact, the measurement focuses on the actual business results achieved directly from the HR program. Typical Level 4 measures include output, quality, costs, time, and customer satisfaction. Although the HR program may produce a measurable business impact, there is still a concern that the costs for the HR program may be too high.

At Level 5 – the ultimate level of evaluation – Return on Investment, the HR program's monetary benefits are compared with the costs. Although ROI can be expressed in several ways, it is usually presented as a percentage or benefit/cost ratio. The evaluation cycle is not complete until the Level 5 evaluation is conducted.

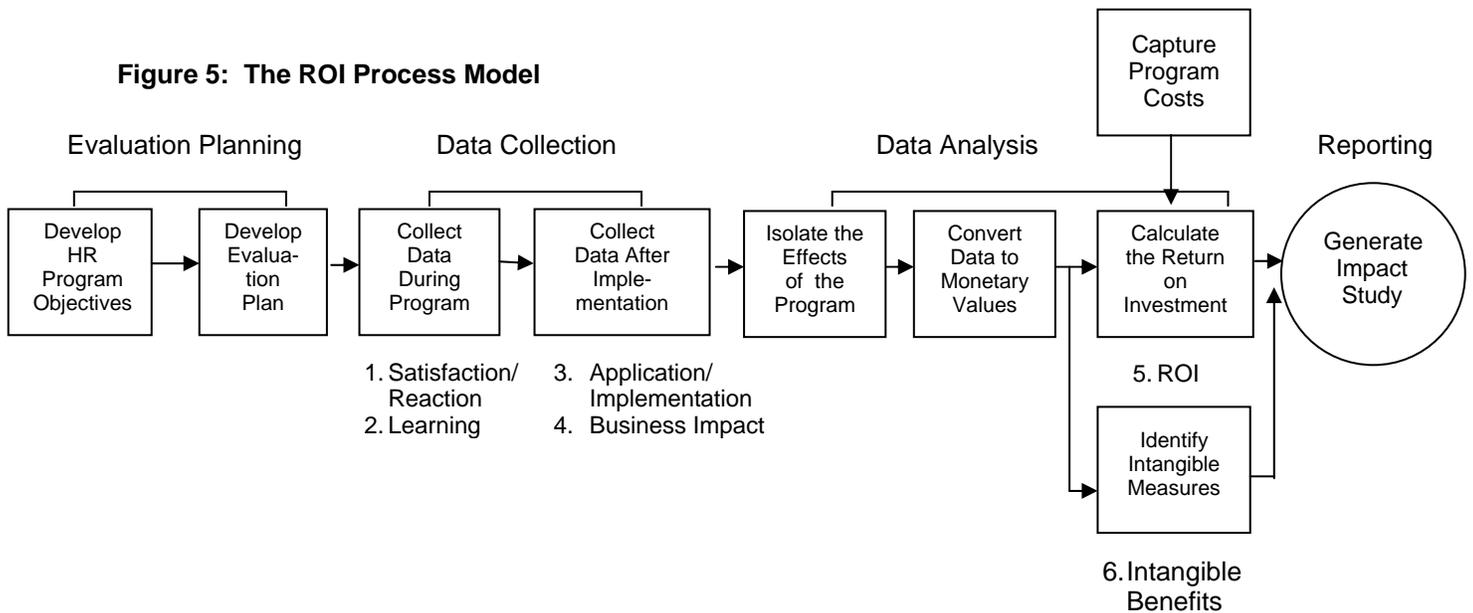
Although almost all HR staff groups conduct evaluations to measure satisfaction, few actually conduct evaluations at the ROI level. Perhaps the best explanation for this is that ROI evaluation is often characterized as a difficult and expensive process. When business impact and ROI are developed, it

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is important to evaluate at other levels. A chain of impact should occur through the levels as the skills and knowledge learned (Level 2) during the program are applied on the job as implementation takes place (Level 3) to produce business impact (Level 4). If measurements are not taken at each level, it is difficult to conclude that the results achieved were actually produced by the HR program. Because of this, it is recommended that evaluation be conducted at all levels when an ROI evaluation is planned.

The ROI Process Model

Represented by the model in Figure 5, the ROI process has been refined and modified over many applications. As the figure illustrates, the process is comprehensive as data are developed at different times and gathered from different sources to develop a scorecard of six types of measures. To date, there have been thousands of studies developed utilizing the ROI process, and the number is growing rapidly. Each part of the process is briefly mentioned below.



Evaluation planning. The first two parts of the ROI process focus on two critical planning issues. The first step is to develop appropriate objectives for the HR initiatives. These are often referred to as the ultimate objectives of the HR solution. These range from developing objectives for satisfaction to developing an objective for the ROI. Table 4 shows how typical HR objectives are framed using the concept of levels of evaluation. A specific program should have multiple levels of objectives.

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Table 4: Program Objectives Taken from a Variety of HR Programs

HR Program Objective	Objective Level
1. Improve work group productivity by 10%	(4) Business Impact
2. Increase the use of counseling discussion skills in 90% of situations where work habits are unacceptable.	(3) Application/Implementation
3. Achieve a 2:1 benefit-to-cost ratio one year after the new gainsharing program is implemented.	(5) Return on Investment
4. Increase external customer satisfaction index by 25% in 3 months.	(4) Business Impact
5. Handle customer complaints with the 5-step process in 95% of complaint situations.	(3) Application/Implementation
6. Achieve a leadership simulation score average of 75 out of a possible 100.	(2) Learning
7. Conduct a performance review meeting with direct reports within 30 days to establish performance improvement goals.	(3) Application/Implementation
8. Decrease the time to recruit new engineers from 35 days to 20 days.	(4) Business Impact
9. Achieve an overall employee job satisfaction rating of 4.2 out of 5.	(4) Business Impact
10. At least 10% of employees participate in the employee suggestion program.	(3) Application/Implementation

With the objectives in hand, the next step is to develop a detailed evaluation plan. This involves two important documents. A data collection plan indicates the type of data collected, the method for data collection, data sources, the timing of collection, and the various responsibilities for collection. Figure 6 shows a completed data collection plan. The next document, the ROI analysis plan, details how the HR initiative is isolated from other influences, how data are converted to monetary values, the appropriate cost categories, the expected intangible measures, and the anticipated target audience for communication. Figure 7 presents an ROI analysis plan for the same HR program described in Figure 6. These planning documents are necessary for proper implementation.

Collecting data. Data collected during the launch or the HR program measures reaction, satisfaction, and learning to ensure that adjustments are made to keep the program on track. The reaction and satisfaction, and learning data are critical for immediate feedback to make early changes. Post-program data are collected and compared with pre-program data, and expectations. Both hard data and soft data, including work habits, work climate, and attitudes are collected. Data are collected using a variety of methods such as:

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- Follow-up surveys to measure satisfaction from stakeholders.
- Follow-up questionnaires to measure reaction and uncover specific application issues with HR programs.
- On-the-job observation to capture actual application and use.
- Tests and assessments to measure the extent of learning (knowledge gained or skills enhanced).
- Interviews to measure reaction and determine the extent to which the program has been implemented.
- Focus groups to determine the degree of application of the HR program in job situations.
- Action plans to show progress with implementation on the job and the impact obtained.
- Performance contracts to detail specific outcomes expected or obtained from the HR program.
- Business performance monitoring to show improvement in various performance records and operational data.

The important challenge in data collection is selecting the method or methods appropriate for the setting and the specific HR program, within the time and budget constraints.

Isolating the effects of the HR program. An often-overlooked issue in most evaluations is the process of isolating the effects of an HR program. In this step of the process, specific strategies are explored, which determine the amount of performance improvement directly related to the program. This step is essential because many factors will influence performance data after an HR program is implemented. Specific strategies in this step will pinpoint the amount of improvement directly related to the HR program. The result is increased accuracy and credibility of the ROI calculation. The following strategies have been used to address this important issue:

- A pilot group of participants in an HR program is compared with a comparison (control) group not participating in the program to isolate program impact.
- Trendlines are used to project the values of business impact data, and projections are compared with the actual data after an HR program.
- A forecasting model projects business impact data using a mathematical relationship representing the influence of other factors. The forecast is compared to actual measures. Mathematical relationships between input and output variables must be known for this approach to work.
- Participants/stakeholders estimate the amount of improvement related to an HR program.
- Supervisors and managers estimate the impact of an HR program on the output measures.
- External studies or previous research provide input about the impact of an HR program.
- Independent experts provide estimates of the impact of an HR program on the performance variable.
- When feasible, other influencing factors are identified, and the impact is estimated or calculated, leaving the remaining unexplained improvement attributable to the HR program.
- Customers provide input about the extent to which the HR program has influenced their decisions to use a product or service.

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Collectively, these strategies provide a comprehensive variety of strategies to tackle the critical issue of isolating the effects of an HR program.

Converting data to monetary values. To calculate the return on investment, business impact data are converted to monetary values and compared with HR program costs. This requires a value to be placed on each unit of data connected with the HR program. The list below shows most of the key strategies available to convert data to monetary values. The specific strategy selected usually depends on the type of data and the situation:

- Output data such as an additional product or service provided, are converted to profit contribution (or cost savings) and reported as a standard value.
- The cost of a quality measure, such as a customer complaint, is calculated and reported as a standard value.
- Employee time saved is converted to fully loaded compensation.
- Historical costs or value of a measure, such as preventing a lost-time accident, are used when available.
- Internal and external experts estimate a value of a measure, such as an employee complaint.
- External databases contain an approximate value or cost of a measure, such as employee turnover.
- The measure is linked to other measures for which the costs are easily developed (e.g. employee satisfaction linked to turnover).
- Participants estimate the cost or value of the data item, such as work group conflict.
- Supervisors or managers estimates of costs or values when they are capable of providing an estimate (e.g. an unscheduled absence).
- The HR staff estimates a value of a data item, such as a sexual harassment complaint.

This step in the ROI process is critical and is absolutely necessary for determining the monetary benefits from an HR program or solution. The process is challenging, particularly with soft data, but can be methodically accomplished using one or more of these strategies.

Tabulating the cost of the HR program. The denominator of the ROI formula is the cost of the HR program. Tabulating the cost involves monitoring or developing the cost related to the HR program. A fully loaded cost profile is recommended where all direct and indirect costs are tabulated. The following cost components should be included:

- Initial analysis and assessment, possibly prorated over the expected life of the HR program.
- Purchase/acquisition cost, if applicable.
- Development/design cost for the HR program (prorated if necessary).
- Participant/stakeholder time for the HR program using fully loaded compensation costs.
- Materials and supplies for the HR program.
- Application and implementation costs of the HR program.
- Maintenance and monitoring costs.

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- Administration and overhead costs for the HR program, allocated in a convenient way.
- Evaluating and reporting costs.

The conservative approach is to include all these costs so that the total is fully loaded.

Calculating the return on investment. The return on investment is calculated using benefits and costs. The benefit/cost ratio is the monetary benefits of the HR program or intervention divided by the costs. In formula form, it is:

$$\text{BCR} = \frac{\text{HR Program Monetary Benefits}}{\text{HR Program Costs}}$$

Sometimes this ratio is stated as a cost/benefit ratio, although the formula is the same as BCR. The return on investment uses the net benefits divided by costs. The net benefits are the program benefits minus the costs. In formula form, the ROI becomes:

$$\text{RC} \frac{\text{Net HR Program Benefits}}{\text{HR Program Costs}}$$

This is the same basic formula used in evaluating other investments where the ROI is traditionally reported as earnings divided by investment.

The BCR and the ROI present the same general information but with slightly different perspectives. An example illustrates the use of these formulas. An absenteeism reduction program produced savings of \$581,000, with a cost of \$229,000. Therefore, the benefit/cost ratio is:

$$\text{E} \frac{\$ 581,000}{\$ 229,000} \text{ (or 2.5:1)}$$

As this calculation shows, for every \$1 invested, \$2.50 in monetary benefits is returned. In this example, net benefits are \$581,000 - \$229,000=\$352,000. Thus, the ROI would be:

$$\frac{\$ 352,000}{\$ 229,000} \quad \%$$

This means each \$1 invested in the program returns \$1.50 in *net* benefits, after costs are covered. The benefits are usually expressed as annual benefits for short-term programs, representing the amount saved or gained for a complete year after the program has been implemented. Although the benefits may continue after the first year, the impact usually diminishes and is omitted from calculations in short-term situations. For long-term projects, the benefits are spread over several years. The timing of the benefits stream should be determined before the impact study begins, as part of the planning process.

Identifying intangible benefits. In addition to tangible, monetary benefits, most HR programs will drive intangible, non-monetary benefits. During data analysis, every attempt is made to convert all data to monetary values. For example, hard data--such as output, quality, and time--are always converted to monetary values while soft data conversion is attempted. However, if the conversion process is too subjective or inaccurate and the resulting values lose credibility in the process, the

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data are listed as intangible benefits with the appropriate explanation. For some programs, intangible, non-monetary benefits have extreme value, often commanding as much attention and influence as the hard data items. Intangible benefits may include items such as:

- Improved public image
- Increased job satisfaction
- Increased organizational commitment
- Enhanced technology leadership
- Reduced stress
- Improved teamwork
- Improved customer service
- Reduced customer-response time

Reporting with an impact study. A final operational step of the ROI process is to generate an impact study to document the results achieved by the HR program and communicate them to various target audiences. As shown in Table 5, the impact study presents the basic process used to generate the six measures of data. The methodology, assumptions, key concepts, and guiding principles are all outlined before the actual results are presented. Next, the six categories of data, beginning with reaction and satisfaction and moving through ROI and intangible measures, are presented in a rational, logical process, showing the building blocks to success for the study. Conclusions and recommendations are always a part of the study. This study becomes the historical document that presents the complete assessment of the success of the program. Its length ranges from 20-30 pages for a small project to 200-300 pages for a substantial, long-term impact study.

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Table 5: Key Issues Addressed in an Impact Study

Sample Table of Contents	
ROI Impact Study	
Part I The Challenge and The Approach	
Section 1:	Introduction
Section 2:	The Program
Section 3:	Model for Impact Study
Section 4:	Data Collection Strategy and Plan
Section 5:	ROI Analysis Strategy and Plan
Part II The Results	
Section 6:	Reaction and Satisfaction
Section 7:	Learning
Section 8:	Application and Implementation
Section 9:	Business Impact
Section 10:	Program costs
Section 11:	ROI and its Meaning
Section 12:	Intangible Benefits
Part III Recommendations	
Section 13:	Barriers and Enablers
Section 14:	Suggestions for Improvement
Section 15:	Conclusions
Section 16:	Recommendations

Because a variety of target audiences need information, different reports may need to be generated. All the stakeholders involved will need some communication about the success of the program, including executives who may not be interested in knowing the full details. A general interest report may be appropriate for stakeholders who are involved but not directly responsible for the project. Still other stakeholder reports may be necessary for different target audiences. As shown in Table 6, a variety of different reports and formats are used to disseminate the information, ranging from the complete impact study described above to a one-page summary for clients who understand the process. The key issue in this step of the ROI process is to analyze the target audiences detailed during the evaluation planning and develop the appropriate report to meet their specific needs.

Communication Document	Communication Target	Distribution Method
Complete report (100 pages)	<ul style="list-style-type: none"> • Client team • Training staff 	Special meeting
Executive Summary (8 pages)	<ul style="list-style-type: none"> • Senior management 	Routine meeting
General interest overview and summary without the actual ROI calculation (10 pages)	<ul style="list-style-type: none"> • Participants 	Mail with letter
General interest article (1 page)	<ul style="list-style-type: none"> • All employees 	Company publication

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One-page summary	• Key Managers	E-mail
Brochure highlighting project, objectives, and specific results	• Team leaders • Other clients	Marketing materials

The Operating Standards: Guiding Principles

To ensure that each study is developed under the same steps, consistent processes, and conservative philosophy, operating standards for the measurement and evaluation process should be implemented. These guiding principles have been developed for the ROI process and should be used as operating standards when implementing the process.

1. When an evaluation is planned for a higher level, the previous level does not have to be comprehensive.
2. When a higher-level evaluation is conducted, data must be collected at lower levels.
3. When collecting and analyzing data, use the most credible sources.
4. When analyzing data, choose the most conservative approach among alternatives.
5. At least one method must be used to isolate the effects of the program.
6. If no improvement data are available for the performing group, it is assumed that little or no improvement has occurred.
7. Estimates of improvement should be adjusted for the potential error of the estimate.
8. Extreme data items and unsupported claims should not be used in ROI calculations.
9. The first year of benefits (annual) should be used in the ROI analysis of short-term programs.
10. Program costs should be fully loaded for ROI analysis.

Principle one refers to the need to report the complete story and show the chain of impact. While data at lower levels may not be perceived as valuable as higher levels, they do provide important information that may be helpful in making adjustments for future implementation of an HR program.

Principle two represents a way to conserve important resources. Shortcuts can perhaps be taken on lower-level evaluations, whereas more emphasis is regularly placed on higher levels. This is important when the client is interested in business impact. In those cases, shortcuts and low cost approaches can be taken at Levels 2 and 3 (Learning and Application/Implementation).

Principle three enhances credibility with the analysis. Using the most credible source (which is sometimes the participant), enhances the perception of the quality and accuracy of the data analysis and results.

Principle four is at the heart of the conservative approach. Given options, the path taken should be the one that lowers the ROI. While this approach understates the ROI value, it builds needed credibility with the target audience.

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Principle five adds to the credibility and accuracy of the process. Without some method to isolate the effects of the HR program, the studies are considered highly inaccurate and overstated in their results.

Principle six addresses missing data from individuals involved in programs. If the participants are not on the job or no longer performing the work, it is assumed that little or no improvement has occurred. This is an ultra-conservative approach.

Principles seven and eight build on the conservative approach to data analysis. When possible, estimates on the benefits side of the formula, should be discounted for the amount of potential error. Also, extreme and unsupported items only detract from credibility and must be omitted from the analysis.

Principle nine focuses on the timing of the actual stream of benefits from an HR program. A conservative approach is recommended, capturing one year of benefits for short-term HR programs but multiple years for a more extensive HR program where the implementation spans a year or more.

The last principle focuses on the issue of fully loaded costs, ensuring that all direct and indirect costs of the program are included.

Following the guiding principles will ensure that the proper conservative approach is taken and the impact study can be replicated and compared with others. More importantly, the principles build credibility with, and support from, clients and senior managers who review and scrutinize results.

Implementation of the Process

The best tool, technique, or model will not be successful unless it is properly utilized and becomes a routine part of the HR function. As with any change, it will be resisted by the HR staff and other stakeholders. Some of the resistance will be based on realistic barriers, while part of it will be based on misunderstandings and perceived problems that may be mythical. In both cases, specific steps must be taken to overcome the resistance by carefully and methodically implementing the ROI process.

Implementation involves many issues, including assigning responsibilities, building the necessary skills, and developing the plans and goals around the process. It also involves preparing the environment, individuals, and support teams for this type of comprehensive analysis. The organizations experiencing the most success with the ROI process have devoted adequate resources for implementation and deliberately planned for transition from their current state to where they desire the organization to be in terms of accountability.

Case Applications: The Progress

As part of implementation, it is very important to develop successful case studies on the ROI process in the organization. Although a significant number of case applications have been developed, the status of ROI among HR practitioners is difficult to pinpoint. Senior executives and HR staff members

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are often reluctant to disclose internal practices, and even in the most progressive organizations, they confess that too little progress has been made. Recognizing this void, the American Society for Training and Development (ASTD) undertook an ambitious project to develop a collection of cases that illustrate real-world examples of measuring the return on investment in a variety of training and HR programs. The result was the publication of *In Action: Measuring Return on Investment, Vol. 1*, published in 1994, *Vol. 2*, published in 1997², and *Vol. 3* published in 2001³. A special volume for the public sector, sponsored by the International Personnel Management Association, will be published in 2002⁴. *The Consultant's Scorecard: Tracking Results and Bottom-Line Impact of Consulting Projects*¹¹, and the *Human Resources Scorecard: Measuring the Return on Investment*¹² offer case studies about the ROI process in HR.

One of the most interesting signs of progress with measurement and evaluation comes from industry publications developed for HR practitioners, managers, executives, and independent consultants. These publications routinely report case studies about measuring HR programs, often using qualitative data mixed with some quantitative data, including ROI.

ROI Challenges and Issues

Barriers to the ROI Process

Although progress is being made in the implementation of ROI, barriers can inhibit implementation of the concept. Some of these barriers are realistic, while others are actually myths based on false perceptions. The most obstructive barriers are presented.

Costs and time. The ROI process will add additional costs and time to the HR program, although the added amount should not be excessive. A comprehensive ROI process will probably add no more than 4-5% to the total direct HR budget. The additional investment in ROI should be offset by the results achieved from implementation (e.g., the elimination or prevention of unproductive or unprofitable HR programs). This barrier alone stops many ROI implementations early in the process.

Lack of skills and orientation for HR staff. Many HR staff members neither understand ROI, nor do they have the basic skills necessary to apply the process within their scope of responsibilities. Also, the typical HR program does not focus on results, but more on qualitative feedback data. Consequently, changes are needed in the skills of HR staff members. They must develop and implementation results based HR programs.

Faulty initial analysis. Many HR programs do not have an adequate initial analysis and assessment. Some HR programs have been implemented for the wrong reasons and are based on management requests or efforts to chase a popular fad or trend in the industry. If a program is not needed or not based on business needs, it may not produce enough benefits to overcome the costs. An ROI calculation for an unnecessary HR program will likely yield a negative ROI value. This is a realistic barrier for many interventions.

Fear. Some HR staff members do not pursue ROI because of fear of failure or fear of the unknown. Fear of failure appears in several ways. Some are concerned about the consequences of a negative

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ROI. They perceive the ROI process as an individual performance evaluation process instead of a process improvement tool. For others, a comprehensive measurement process can stir up the traditional fear of change and all of the unknown it brings. Although often based on unrealistic assumptions and a lack of knowledge of the process, fear is so strong that it becomes a real barrier to many ROI implementations.

Discipline and planning. A successful ROI implementation requires significant planning and a disciplined approach to keep the process on track. Implementation schedules, transition plans, evaluation targets, ROI analysis plans, measurement and evaluation policies, and follow-up schedules are required. The practitioner may not have the discipline and determination to stay the course. This becomes a barrier, particularly when no immediate pressures to measure the return exist. If clients or other executives are not requiring ROI, the HR staff may not allocate precious time for planning and coordination. Also, other pressures and priorities often eat into the time necessary for ROI implementation. Only carefully planned and executed implementations will succeed.

False assumptions. Many professionals have false assumptions about the ROI process that keep them from attempting ROI. Typical false assumptions include:

- ROI can be applied to only a few narrowly focused HR programs.
- Senior managers do not want to see the results of HR programs expressed in monetary values.
- If clients do not ask for ROI, it should not be pursued.
- If the CEO does not ask for ROI, then he or she does not expect it.

These assumptions are usually based on incorrect information or misunderstandings. However, they form realistic barriers that impede the progress of ROI implementation.

Benefits of the ROI Process

Although the benefits of adopting a comprehensive measurement and evaluation process (including ROI) may be obvious, several important benefits can be derived from the routine use of this process. Collectively, they add enough value to develop a positive ROI on the implementation of the ROI process.

Show the Contribution of Selected HR Programs. With the ROI process, the HR staff and the client will know the specific contribution of an HR program with data not previously developed nor in a language understood by the client. The ROI will show the actual benefits versus the cost, elevating the evaluation data to the ultimate level of accountability. This process presents indisputable evidence of HR program success. When an HR program is successful, perhaps the same type of program can be applied to other areas. Thus, if one division has a successful program and another division has the same needs, the program may add the same value and enhance the overall success and replication of all HR programs.

Earn the respect of senior management. Measuring the ROI of training and performance improvement programs is one of the most convincing ways to earn the respect and support of the

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senior management team—not only for a particular program, but also for other projects as well. Managers will respect processes that add bottom-line value presented in terms they understand. The result of this analysis is comprehensive, and when applied consistently to several programs, it can convince management that the training and performance improvement function is an important investment . . . not just an expense. Middle-level managers will see that the training and performance improvement function is making a viable contribution to their immediate objectives. This is a critical step toward building an appropriate partnership with the senior management team.

Gain the confidence of clients. The client, who requests and authorizes a program, will have a complete set of data to show the overall success of the process. Not hampered by a lack of qualitative or quantitative data, this balanced profile provides coverage from different sources, at different time frames, and with different types of data. The ROI process provides the information needed to validate the initial decision to move forward with a program.

Improve the training and performance improvement processes. Because a variety of feedback data are collected during a program, the comprehensive analysis provides data to drive changes in training and performance improvement processes and make adjustments during program implementation. It also provides data that help improve future programs when certain processes are revealed as non-productive while others add value. Thus, the ROI process becomes an important process improvement tool.

Develop a results-focused approach. Throughout the program design and implementation cycle, the entire team of stakeholders focus on results. Ranging from detailed planning to communication of data at different time frames, every team member has a responsibility to achieve success. This focus often enhances the results that can be achieved because the ultimate outcomes are clearly in mind. In essence, the process begins with the end in mind with very specific measures. All the processes, activities, and steps are clearly focused on the ultimate outcomes. As the program shows initial success, confidence in using the process grows, which enhances the results of future programs and initiatives.

Alter or eliminate programs. This benefit is twofold. First, if a program is not going properly, and the results are not materializing, the ROI process will prompt changes or modifications to move the program back on track. On rare occasions, the program may have to be halted if it is not adding the appropriate value. Although stopping the program will take courage, this action will reap important long-term benefits with the client if it is clearly evident that the program will not produce results.

ROI on the ROI process. The need for a balanced approach to accountability is significant. Most organizations spend less than one percent of their direct budgets on measurement and evaluation processes. This figure only considers the post-program analysis or comprehensive review process. Interjecting accountability throughout a program would require an expenditure closer to 4-5 percent of the total training and performance improvement budget. As listed above, the ROI process will generate specific measurable savings to offset the 4-5% of budget. Among these are:

- Preventing unnecessary or unneeded programs (after an evaluation of a pilot indicated that it will not add value).

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- Alter or redesign existing programs to make them more efficient (and less expensive).
- Eliminate unproductive and ineffective programs (and save the costs).
- Expand the implementation of successful programs (adding value to other divisions, regions, etc.)

Some organizations keep a tally of the monetary benefits derived from the implementation of the ROI process. About 2 years of data should be appropriate to develop the “ROI on the ROI”.

Which Organizations Should Be Using the ROI Process

Accountability in training and performance improvement, including the ROI process, is not intended for any particular type of organization. Bringing accountability to any program or process is a concern for organizations regardless of their product, service, mission, or scope. Accountability issues exist in organizations during favorable as well as unfavorable economic times. In good economic times, expenditures increase and organizational leaders are concerned that investments are applied properly. In tough economic times, programs and processes that yield the best results are most likely to survive reorganization and restructuring efforts. A comprehensive evaluation can often help pinpoint the areas in which to place available funding.

The Typical Organization

While there is no limit as to the type or size of an organization to implement the ROI process, there are some similar characteristics of those organizations currently implementing the ROI process as part of their training and performance improvement evaluation process. Typical characteristics include:

1. **The size and visibility of the organization.** Typically, the organization is large. Whether in the public or private sector, a large organization has a variety of programs that are delivered to a diverse target audience—usually throughout a vast geographical area. Large organizations also have the budget to develop comprehensive evaluation approaches. However, ROI can and should be built in the accountability process in smaller organizations, as well. Using several cost savings approaches, small organizations (and larger organizations with limited budgets) can implement the ROI process, producing credible results.
2. **The size and visibility of the training and performance improvement budget.** The budget is usually large and has the attention of the senior management team. Regardless of how it is measured, as total budget, expenditure per employee, percentage of payroll, or percentage of revenue, a large training and performance improvement budget will bring appropriate focus to additional measurement and evaluation. Executives will demand increased accountability for large expenditures.
3. **The focus on measurement.** Organizations using the ROI Process have a focus on establishing a variety of measures. In some cases where a measurement culture is developing, most processes, activities, tasks, and outcomes are measured precisely. This type of environment enhances the application of the ROI process for the training and performance improvement function.
4. **Key drivers requiring additional accountability.** One or more key drivers are in place to bring additional focus to accountability. These drivers, presented earlier, create the need to

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change current practices. In most situations, multiple drivers create interest in ROI accountability.

5. **The level of change taking place.** Organizations using the ROI Process are usually undergoing significant change. As it adjusts to competitive pressures it is transforming, restructuring, and reorganizing. This change often increases interest in bottom-line issues, resulting in a need for greater accountability.

Symptoms of the Need for ROI

Several revealing symptoms indicate that an organization is ready to implement ROI for the training and performance improvement function. Many of these symptoms reflect the key drivers causing pressure to pursue ROI, discussed earlier.

1. There is some pressure from senior management to measure results. This pressure can be a direct requirement to measure program effectiveness, or a very subtle expression of concern about the accountability of training and performance improvement programs.

2. An extremely low investment in measurement and evaluation exists. As indicated earlier, most organizations spend about one percent of their direct training and performance improvement budget on measurement and evaluation processes. Investments significantly lower than this amount may indicate a need for greater accountability. Ideally, the expenditure should be in the four to five percent range.

3. One or more disasters with training and performance improvement programs have occurred in recent years. Every organization has had one or more situations where a major program was implemented with no success. When there are usually multiple influences leading to program failure, the training and performance improvement function often bears direct responsibility—or at least blame. These failures may prompt the implementation of the measurement and evaluation process to quickly determine the impact or, more appropriately, forecast ROI prior to implementation.

4. A new director or leader of the training and performance improvement function is also a sign that it is time to bring new focus on accountability to the function. A new leader often serves as a catalyst to change and may initiate a review process of the success of previous programs. These individuals do not have the stigma of ownership or attachment to old programs and are willing to take an objective view.

5. Some managers desire to build leading-edge training and performance improvement functions. These managers include comprehensive measurement and evaluation processes into their overall strategy. They often set the pace for measurement and evaluation by highlighting the fact that they are serious about bringing accountability to their function. These functions have formal policies and guidelines around their measurement process and build evaluation into the program development function. They often begin with thorough needs assessment to determine the best solution (i.e., reward systems, recruiting practices, training, etc.) then monitor the progress of the program and determine the business impact.

6. The image of the training and performance improvement function has suffered over a

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period of time to the point that management does not support the effort. While the unsatisfactory image may be caused by a number of factors, increased accountability often focuses on improving systems and processes and shoring up the image.

Final Thoughts

A brief overview of the ROI process has been provided underscoring the urgency of the challenge to develop a comprehensive measurement and evaluation process. Various forces are creating this important need for increased accountability. An evaluation framework, the ROI process model, operating standards and philosophy, implementation, and case application are all necessary to develop a reliable, credible process that can be replicated from one training and performance improvement program to another. This process is not without its concerns and barriers, but many of them can be overcome with simplified, economical methods and a disciplined approach. A brief profile of organizations currently implementing the ROI process has been provided along with symptoms that indicate the time is right to begin implementation of the ROI process.

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