ROI INSTITUTE®

Introduction to
The ROI Methodology®

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The ROI Process Model

The challenge for many program leaders is to collect a variety of data along a chain of impact that shows the program's value. The ROI Process model is at the heart of the ROI Methodology. The figure below displays the sequential steps that lead to data categorized by the five levels of outcome data using the design thinking concepts. This figure shows the ROI Methodology, a step-by-step process to design for, deliver, and measure the success of any type of HR or human-capital project, program, or initiative. This model is based on the principle of design thinking, and it follows a classic logic model. It has evolved and been refined over the past three decades, and it is now the most used evaluation system in the world.

This system delivers five levels of outcomes–reaction to the program, learning what is necessary to make the program successful, application of what is necessary to make the program successful, impact of that application, and the return on investment (ROI) expressed as a benefit-cost ratio and a percent. For impact measures, this system determines whether the impact is tangible (converted to money) or intangible (not converted to money because the conversion was too difficult or not credible). This process is user-friendly, reliable, valid, and meets the needs of top executives, including the Chief Financial Officer (CFO). The following material is taken from the book, *Value for Money: How to Show the Value for Money for All Types of Projects and Programs In Governments, Nongovernmental Institutions, Nonprofits, and Businesses* (Wiley, 2020).
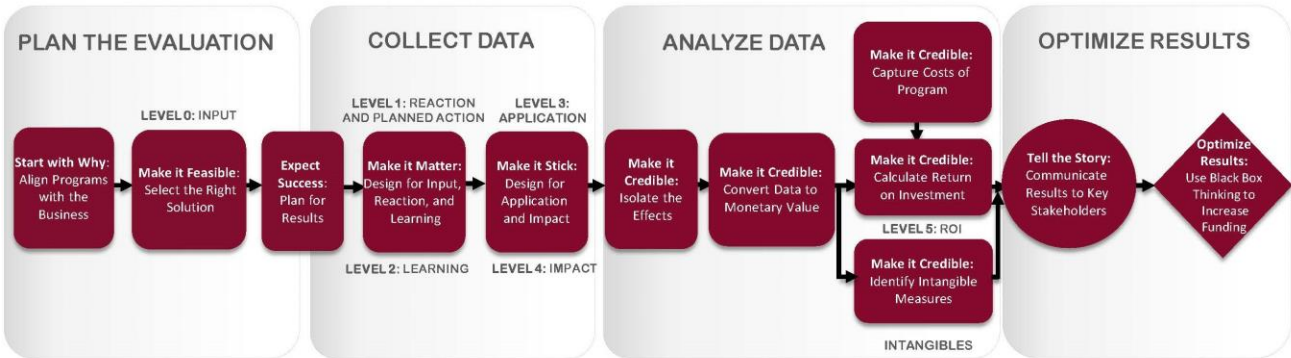
Plan the Evaluation

The first step of the ROI Methodology is connecting the program to important measures. The next step is to select the proper solution to improve the impact measure. The third step involves the actions to define and plan for success. It involves defining success, setting objectives, and clarifying roles of the stakeholders to deliver success. This phase also involves several procedures, including understanding the purpose of the evaluation, confirming the

feasibility of the planned approach, planning data collection and analysis, and outlining the details of the project.

#1 - Start with Why: Align Programs with the Business

In this step, the design thinking principle is to use a problem-solving approach at the systems level. The first step is defining clearly why we're pursuing the program, and this is usually one or more impact measures, described earlier. For many proposed programs, the impact is clearly known. For the public sector, a homeless program is reducing the number of homeless, a jobs program is creating jobs, a drug awareness program is reducing incidents of drug addiction, and a recidivism program is reducing incidents of returning to prison. Inside an organization, a marketing program may be securing new clients, a quality program may be reducing rework or waste, and a safety program may be reducing lost time accidents.

In some programs where new issues are tackled, the impact may not be clearly known, but the general categories of impact should certainly be identifiable. Essentially, this requires the program evaluator to ask the question: is it a problem we're trying to solve, or an opportunity we want to pursue? For example, the creators of Uber wanted a lower cost, more convenient, and efficient way to catch a ride from one place to another. The problem was that it was costing too much and taking too long for the ride. Taxis are inefficient and expensive. At the same time, they saw a great opportunity to build loyal customers, provide a great experience, and not only solve the problem of time and costs, but for comfort and experience. In this step, it's important to have as many specific measures identified as possible.

#2 - Make it Feasible: Select the Right Solution

In this step, the design thinking principle is a mindset for curiosity and inquiry. This means the way in which the program unfolds is identified. If you want to reduce domestic violence in Kazakhstan, what is the most feasible solution? Is legislation needed? Is a communication program needed? What is the right solution to get there? This defines what people will be experiencing and accomplishing as they are involved in the process. If it's tackling an existing process, is there a clear indication that what we're doing now is not working? Or, are we not doing something now that would make the impact measure improve? For example, if victims are not reporting incidents of domestic violence in Kazakhstan, what is needed to make that happen? The solution may be to create a law to make domestic violence illegal and require reporting incidents to the local police.

#3 - Expect Success: Design for Results

Four issues are addressed here. First, this step requires the success definition to be developed, particularly for the participants in the program, and this is usually at the impact level. The second issue is to make sure objectives are set for the program along the levels of outcomes mentioned in the previous data categories. The objectives at the application and impact level indicate what the individuals involved in the program will be doing to make the program successful and the impact that should be realized. The third issue is that this definition of success is provided to all the designers, developers, and other team members who are

supporting the program. All of these stakeholders can clearly see what will be achieved and their role in making it successful. They will also design for the outcome. Lastly, the fourth issue is to complete the planning documents: the data collection plan, the ROI analysis plan, and the project plan.

Collect Data

Data collection is central to the ROI Methodology. Two steps are involved to verify success at various levels. Both hard data (representing output, quality, cost, and time) and soft data (including satisfaction, happiness, and image) are collected. Data are collected using a variety of methods, including:

- Surveys
- Questionnaires
- Tests
- Observations
- Interviews
- Focus groups
- Action plans
- Performance contracts
- Business performance monitoring

The important challenge in data collection is to select the method or methods appropriate for the setting and the specific program, within the time and budget constraints of the organization.

#4 - Make it Matter: Design for Input, Reaction, and Learning

In this step, the design thinking principle is a way to take on design challenges by applying empathy. Here, all members of the team are placing themselves in the position of the people who will use and support the program. In the Uber example, this requires the designers and developers working on the technology to think about the driver and how this technology can be used without being distracting and without any delays.

Also, thinking about the customer, the customer experience must be designed from their perspective. They may be in a hurry, they may be at a location not easy to find, and they need to know not only an accurate description of when someone will be there, but where they are now and the progress they're making to pick them up. This step is focusing on making sure that the program will be relevant, important to the parties involved, and it's something that is action-oriented. It's something that they will do to make this work.

#5 - Make it Stick: Design for Application and Impact

The design thinking principle applied here is to create a culture that fosters exploration and experimentation. In this process, the designers and developers must do what's necessary to

achieve success. They're following through on the plans, they're taking the steps, and there is action to achieve what needs to be accomplished to meet the end goal, the impact. They are exploring what works and does not work. This is essentially transferring what needs to be done into the environment where it is actually being done now; transferring it to the workplace, community, patient, or organization. This requires data collection to make sure the program is operating smoothly, and built-in tools are available to measure, drive, and influence the success at the application and impact levels.

Analyze Data

In this series of five steps, the design thinking principle is using a fixed process and a toolkit, which are the steps in the ROI Methodology. These steps produce data that is important to all stakeholders, but particularly those who fund the program. These steps show the actual business results achieved with the program and the calculated financial ROI of this investment in the program.

#6 - Make it Credible: Isolate the Effects of the Program

An often-overlooked issue in evaluation is the process of isolating the effects of the program. In the next step, specific strategies are explored to determine the amount of outcome performance directly related to the project. This step is essential because many factors can influence performance data. The specific strategies of this step pinpoint the amount of improvement directly related to the program, resulting in increased accuracy and credibility of ROI calculations. The following techniques have been used by program evaluators to tackle this important issue:

- Control group analysis
- Trend line analysis
- Mathematical modeling
- Participant estimates
- Manager or significant other estimates
- Senior management estimates
- Experts' input
- Customer input

Collectively, these techniques provide a comprehensive set of tools to handle the important and critical issue of isolating the effects of the program.

#7 - Make it Credible: Convert Data to Monetary Value

To calculate the return on investment, impact data are converted to monetary values and compared with program costs. This requires a value be placed on each unit of impact data connected with the program. Many techniques are available to convert data to monetary values. The specific technique selected depends on the type of data and the situation. The techniques include:

- Use the value add of output data as standard values
- Use the cost of quality as a standard value
- Convert time savings to wage and team member benefits (standard value)
- Calculate the value using an analysis of historical costs
- Use internal and external experts to provide value
- Search external databases for the value
- Use participant estimates
- Use manager estimates
- Locate soft measures mathematically linked to easy to value measures

This step in the ROI model is absolutely necessary to determine the monetary benefits of a program. The process is challenging, particularly with soft data, but can be methodically accomplished using one or more of these strategies.

#8 - Make it Credible: Identify Intangible Measures

In addition to tangible, monetary benefits, the intangible benefits—those not converted to money—are identified for most programs. Intangible benefits include items such as:

- Enhanced work-life balance
- Improved image
- Less stress
- Increased engagement
- Improved quality of life
- Increased brand awareness
- Improved health status
- Improved networking
- Enhanced patient satisfaction
- Improved service
- Fewer complaints
- Reduced conflict

During data analysis, every attempt is made to convert all data to monetary values. All hard data—such as output, quality, and time—are converted to monetary values. The conversion of soft data is also attempted for each data item. However, if the process used for conversion is too subjective or inaccurate, and the resulting values lose credibility in the process, then the data are listed as intangible benefits with the appropriate explanation. For some programs, intangible, nonmonetary benefits are extremely valuable, and often carry as much influence as the hard data items.

#9 - Make it Credible: Capture Costs of Program

An important part of the ROI equation is the denominator, the calculation of program costs. Tabulating the costs involves monitoring or developing all the related costs of the program targeted for the ROI calculation. Among the cost components to be included are:

- Initial analysis costs
- Cost to design and develop the program
- Cost of program materials
- Costs for the program team
- Cost of the facilities for the program
- Travel, lodging, and meal costs for the participants and team members
- Participants' salaries (including team member benefits)
- Facilitator costs, if appropriate
- Administrative and overhead costs, allocated in some convenient way
- Evaluation costs

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

#10 - Make it Credible: Calculate the Return on Investment

The return on investment is calculated using the program benefits and costs. The benefits-costs ratio (BCR) is calculated as the program benefits divided by the program costs. In formula form:

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

The return on investment is based on the net benefits divided by program costs. The net benefits are calculated as the program benefits minus the program costs. In formula form, the ROI becomes:

$$\text{ROI (\%)} = \frac{\text{Program Benefits} - \text{Program Costs}}{\text{Program Costs}} \times 100$$

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

Optimize Results

The next category in the ROI Methodology is reporting and optimizing, with two critical steps that are often deficient in the degree of attention and planning required to ensure success. The reporting step involves developing appropriate information in impact studies and other brief reports. In most ROI studies, several audiences are interested in and need the results. Improvements are made in the program which lead to optimization. This section also includes the process of using the results to increase funding for the program in the future.

#11 - Tell the Story: Communicate Results to Key Stakeholders

In this step, the design thinking principle is the use of storytelling. Even with results in hand, the efforts are not finished. The results must be communicated to all the stakeholders as quickly as possible to let them know the success of the program. In case of a lack of success, the data will show what needs to improve to make it better. Storytelling will inspire senior executives and other key stakeholders. Audiences love stories, and now the story can be told with different levels of data, a total of six types. It makes a more powerful story when they can clearly see that the dramatic events, the interesting anecdotes, and the insightful comments are backed up with proof that this program has made a difference.

#12 - Optimize the Results: Use Black Box Thinking to Increase Funding

The design principle used is a new competitive logic of business strategy. The key concept is to make sure that programs are properly supported and funded. The next step is to use a concept of black box thinking to analyze the results and use them to increase funding. This can be accomplished when improvements are made, especially if there's a lack of improvement. Black box thinking focuses on serious process improvement when a failure is identified. Even with success, improvements are made to make it deliver even more value. Ultimately, the ROI is optimized, and this optimization leads to the allocation of more funds. This builds the case for more investment (instead of less investment) in this program because there is a positive return on the investment. This series of events are powerful: design for the needed results, capture data to tell a compelling story, use data to improve the program and optimize ROI, and then make the case for more funding. It's a novel way to think about the power of an innovation technique (design thinking) to show the value for money.

Operating Standards and Philosophy

To ensure consistency and replication of impact studies, operating standards must be applied as the process model is used to develop ROI studies. The results of the study must stand alone and must not vary with the individual who is conducting the study. The operating standards detail how steps and issues of the process will be handled.

The guiding principles serve not only to consistently address each step, but also to provide a much-needed conservative approach to the analysis. A conservative approach may lower the actual ROI calculation, but it will build credibility and secure buy in and support from the target audience.

1. When conducting a higher-level evaluation, collect data at lower levels.
2. When planning a higher-level evaluation, the previous level of evaluation is not required to be comprehensive.
3. When collecting and analyzing data, use only the most credible sources.
4. When analyzing data, select the most conservative alternative for calculations.
5. Use at least one method to isolate the effects of a project.

6. If no improvement data are available for a population or from a specific source, assume that little or no improvement has occurred.
7. Adjust estimates of improvement for potential errors of estimation.
8. Avoid use of extreme data items and unsupported claims when calculating ROI.
9. Use only the first year of annual benefits in ROI analysis of short-term solutions.
10. Fully load all costs of a solution, project, or program when analyzing ROI.
11. Intangible measures are defined as measures that are purposely not converted to monetary values.
12. Communicate the results of the ROI Methodology to all key stakeholders.

Implementing and Sustaining the Process

A variety of environmental issues and events will influence the successful implementation of the ROI process. These issues must be addressed early to ensure its success. Specific topics or actions include:

- A policy statement concerning results-based programs and projects
- Procedures and guidelines for different elements and techniques of the evaluation process
- Formal meetings to develop staff skills with the ROI process
- Strategies to improve management commitment to and sup-port for the ROI process
- Mechanisms to provide technical support for questionnaire design, data analysis, and evaluation strategy
- Specific techniques to place more attention on results

The ROI Methodology can fail or succeed based on these implementation issues.

The ROI Methodology should undergo periodic review by the organization. An annual review is recommended to determine the extent to which the process is adding value. This final element involves securing feedback from the process and determining how well it is understood and applied.

Benefits of This Approach

The methodology presented in this book has been used consistently and routinely by thousands of organizations worldwide over the past 25 years. In some fields and industries, it is more prominent than in others. Much has been learned about the success of this methodology, and the benefits it can bring to organizations.

Aligning with Business

The ROI Methodology ensures alignment with business impact, enforced in three steps. First, even before the program is initiated, the methodology ensures that alignment is achieved upfront, at the time the program is validated as the appropriate solution. Second, by requiring specific, clearly defined objectives at the impact level, the program focuses on the ultimate outcomes, in essence driving the business measure by its design, delivery, and implementation.

Third, in the follow-up data, when the business measures may have changed or improved, a method is used to isolate the effects of the program on that data, consequently proving the connection to that business measure (i.e., showing the amount of improvement directly connected to the program and ensuring there is business alignment).

Validating the Value Proposition
Most programs are undertaken to deliver value. The definition of value may be unclear, or may not be what a program's various sponsors, organizers, and stakeholders desire. Consequently, shifts in value often occur. When the values are finalized, the program's value proposition is detailed. The ROI Methodology can forecast the value in advance; and if the value has been delivered, it verifies the value proposition agreed to by the appropriate parties.

Improving Processes
The ROI Methodology is a process improvement tool, by design and by practice. It collects data to evaluate how things are, or are not, working. When things are not where they should be—as when programs are not proceeding as effectively as expected—data are available to indicate what must be changed to make the program more effective. When things are working well, data are available to show what else could be done to make them better.

As a program is conducted, the results are collected, and feedback is provided to the various stakeholders for specific actions for improvement. These changes drive the program to better results, which are then measured while the process continues. This continuous feedback cycle is critical to process improvement and is inherent in the ROI Methodology approach. In essence, the process uses design thinking principles to design for the results needed.

Enhancing the Image and Building Respect
Many functions, and even entire professions, are criticized for being unable to deliver what is expected. Consequently, their public image suffers. The ROI Methodology is one way to help build the respect a function or profession needs. The ROI Methodology can make a difference in any function, and not just those under scrutiny. Many executives have used ROI to show the value of a program, perhaps changing the perception of a program from one based on activity to one that credibly adds value.

This methodology shows a connection to the bottom line, and shows the value delivered to stakeholders. It removes issues about value and a supposed lack of contribution to the organization. Consequently, this methodology is an important part of the process of changing the image of the organization, externally in the community, and building respect for various programs.

Improving Support
Securing support for programs and projects is critical, particularly with organizations. Many programs enjoy the support of the top-level executives who allocated the resources to make the programs viable. Unfortunately, some middle-level managers and administrators may not

support certain programs because they do not see the value the programs deliver in terms these managers appreciate and understand. For nonprofits, support is needed from significant others who can have tremendous influence on participants.

Having a methodology that shows how a program is connected to important business goals and objectives can change this support level. When middle managers and significant others understand that a program is helping them meet specific performance indicators, they will usually support the process, or will at least resist it less. In this way, the ROI Methodology can improve needed support.

This is more important when many individuals are involved in program activities. For example, as program implementation becomes a part of everyone's job, the support level needs to move from "we are involved in program implementation activities when we have time" to "program implementation is our top priority."

Justifying or Enhancing Budgets

Some organizations have used the ROI Methodology to protect current budgets or support proposed budgets. Because the methodology shows the impact or ROI expected or achieved with specific programs, the data can often be leveraged into budget requests. When a particular program is budgeted, the amount budgeted is often in direct proportion to the value that the program adds. If little or no credible data support the contribution, the budgets are often trimmed—or at least not enhanced. Bringing accountability to this level is one of the best ways to secure future funding.

Building Productive Partnerships

Almost every organization attempts to partner with partners and other key managers in the organization or community. Unfortunately, some managers may not want to be partners. They may not want to waste time and effort on a relationship that does not help them succeed. They want to partner only with groups and individuals who can add value and help them in meaningful ways. Showing the program results will enhance the likelihood of building these partnerships, with the results providing the initial impetus for making the partnerships work.

Final Thoughts

This document introduced the ROI Methodology that underlies the Value for Money approach. It briefly presented the different elements and 12 steps in the ROI Methodology, and the standards necessary to understand how the ROI Methodology works in practice. The document concluded with the benefits of using this approach. It serves as a quick reference guide to the ROI Methodology and may be useful for clients, sponsors, or donors.