Proving the Value of HR

How and Why to Measure ROI

Jack J. Phillips, Ph.D.
and Patricia Pulliam Phillips, Ph.D

Chapter 2. The ROI Methodology

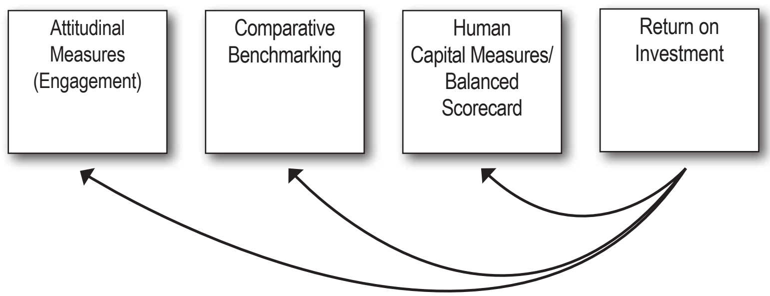
The previous chapter set the stage for increased investment in HR measurement and evaluation, and this chapter now makes the business case for using ROI as a part of the measurement process. You will also have the opportunity to learn more about the rationale for the use of ROI Methodology and about ROI's fundamental components. We will also present the ROI standards, which are essential for building the methodology's credibility and respect as a viable tool for the HR department.

The Essential Measurement Mix

The previous chapter described several approaches to HR measurement; pursuing all of them would be impossible and highly undesirable. The challenge is to select the appropriate mix for the organization given its needs, culture, resources, skills, and goals. The selection process usually involves a few measurement strategies that meet various needs of the stakeholders.

The measurement mix shown in Figure 2.1 is recommended as an appropriate mixture of measures that represent both qualitative and quantitative data taken from different sources at different times for different purposes. The first category is **attitudinal data**. In today's organizations, having a finger on the pulse of employees is essential in understanding not only what satisfies them on the job but also what motivates them and builds their commitment. Whether the issue is job satisfaction, organizational commitment, or employee engagement, employee feedback is routinely needed as a source of data.

Figure 2.1 The Recommended HR Measurement Mix



The second category in the HR measurement mix is **comparative data**. Many organizations rely on benchmarking as a measurement tool, and it is also important for the HR function to be involved in major benchmarking efforts. These benchmarking studies may include comparing specific output measures (for example, turnover, absenteeism, or accidents) or process steps (for example, time to recruit a new employee), or particular cost items (such as cost per hire or training costs per employee). Although benchmarking shows executives the current level of commitment and progress when compared to other organizations, it does not provide insight into what is needed or the success of current HR strategies. Benchmarking merely compares the current organization with others that may represent best practices.

The third category is **human capital measures**. These are the important people-related indicators, initially tracked in the 1980s as key indicators and enhanced considerably for the twenty-first century. Sometimes these measures are grouped into balanced scorecards that represent both qualitative and quantitative data. Critical to the success of the organization, the measures represent a variety of issues, such as productivity, leadership effectiveness, and innovation. For many high-growth and innovative organizations, human capital measures are significant indicators to monitor.

The fourth category is the **ROI Methodology**, which compares the benefits of HR programs to the costs of those programs. Although other types of analyses show the general relationship between investing in human resources and such outcomes as profits and productivity, most

HR managers need a tool to show the impact of a particular program. The ROI Methodology generates the data needed to convince a senior management team about human resource's contribution. ROI is a new addition to the HR manager's measurement toolkit and is essential for showing managers the connection of human resources to the bottom line and the impact of specific programs. As shown in Figure 2.1, this category links to the others. The ROI Methodology is used to show the impact of a program or solution designed to elevate or maintain a specific human capital measure, a benchmarking statistic, or attitudinal data, such as organizational commitment.

Why ROI?

Several features of the ROI Methodology make it an effectual measure for HR managers:

- *ROI is the ultimate measure.* In the range of measurement possibilities, ROI represents the ultimate: a comparison of the actual cost of an HR program to its monetary benefits by using the same standard ratio accountants have used for years to show the ROI for equipment and buildings.
- *ROI has been the elusive measure.* Many HR managers have long assumed that measuring the return on investments in human resources is impossible. Recognizing that investment is essential and that human potential is an unlimited power, many HR leaders argued that ROI could and should not be applied to human resources. The concept of ROI, therefore, has been surrounded by misconceptions, myths, and mysteries that have prevented many HR executives from pursuing it. Because of the increase in evidence showing otherwise, ROI is no longer an elusive measure.
- *ROI has a rich history of application.* The ROI Methodology is not a fad passing through the organization. It is a measure of accountability that has been in place for centuries. Wherever there is a significant expenditure, there is a need to know the financial impact of the expenditure. ROI will continue to be an economic measure in the future.
- *Operating managers understand and relate to ROI.* Most managers in an organization have special training on how to manage the business.

Some have business or management degrees or even master's degrees in business administration. These managers understand ROI and routinely use it to value other investments. They have a desire to have ROI data for major programs. They know how to use it, appreciate it, and support it.

- *ROI builds excitement among stakeholders.* One of the most visible sources of pride and satisfaction comes when the HR department organizes, implements, or operates an HR program that results in a positive ROI calculation. No other measure can generate the amount of energy, excitement, and enthusiasm as ROI can, particularly when the ROI value exceeds expectations. Most stakeholders involved in HR programs intuitively believe that the programs add value, but ROI, as a measurement tool, confirms this intuition using a credible, validated process.
- *ROI is a top executive requirement.* Thanks in part to the popular press and media attention to ROI as an evaluation tool, executives are suggesting, asking, requiring, and sometimes demanding that ROI be calculated for certain HR programs. Previously, executives assumed that ROI could not be developed, given the logical and persuasive arguments they heard from the HR staff. Now, these executives see many examples in which ROI is becoming a justifiable part of the measurement mix. The global recession has intensified this issue to the point that executives now suggest that ROI should be required for HR expenditures. Human resources is treated the same as other business functions, and the HR department, like other departments, must produce value. Gone are the days of blindly increasing HR investments with no clue as to their financial payoff.

These six factors sway many HR leaders to pursue ROI. It is the ultimate level of evaluation that is not only needed but is being required by some key stakeholders. More important, ROI provides different stakeholder groups with valuable, balanced information about the success of an HR program.

Types of Data for ROI Methodology

At the heart of the ROI Methodology are the varieties of data collected throughout the process and reported at different intervals. Some of the types of data are labeled levels because they reflect a successive effect in which one level affects the next.

The concept of levels has been used for some time. There are very logical steps of succession in any particular project or program. Their use in a sequence can be traced back a few centuries. For example, John Quincy Adams once wrote, "If your actions inspire others to dream more, learn more, do more, and become more, you are a leader." This quote easily breaks into logical steps and levels of outcomes, as shown in Fiure 2.2.

Figure 2.2 The Evaluation Steps or Levels

1)	DREAM MORE,	Reaction
2)	LEARN MORE,	Learning
3)	DO MORE,	Application
4)	AND BECOME MORE.	Impact

The good news is that ROI works extremely well in all types of environments and programs, particularly in HR programs. A human resources program would likely be unsuccessful if an adverse reaction occurred, so the first level is critical. Also, people must understand what they can do to make a project successful; thus, an element of learning is required in new HR programs. Regardless of the type of HR initiative, from a new ethics program to a new recruiting strategy, to a pay-for-performance program, the individuals involved must know their exact roles and activities. Of course, some programs, such as a talent development program, require many skills. However, even the proper learning does not guarantee success. Follow-up is needed to ensure that the people involved are using the program appropriately.

Application and implementation are critical for success; failure in these areas is typically what causes a program to break down. The stakeholders involved simply do not meet expectations.

This is not enough, however, for executives; they characterize application as being busy. The most pertinent data set for those who fund programs is the impact, the consequence of application, often expressed in business terms as output, quality, costs, and time. For a few executives, showing the impact of a program is not enough, though; they want to know the ROI. This demand pushes evaluation to the ultimate level of accountability and return on investment. The ROI is the amount of the improvement at the impact level (attributed to the program), converted to money and compared to the cost of the program.

Table 2.1 lists and describes seven types of data that can be used to measure the overall success of HR programs. As the evaluation moves to the higher levels, the value ascribed to the data by the client increases. However the degree of effort and the cost of capturing the data for the higher levels of evaluation generally increase as well. With proper program planning and design, costs can be minimized. The following sections describe the various qualitative and quantitative measures listed in the table that are basic to the ROI Methodology described in this book.

Table 2.1 Types and Levels of Evaluation Data

Level/Type	Measurement Focus
0. Costs	Measures the fully loaded costs of the HR program
1. Reaction	Measures participant reaction to the HR program and captures planned actions, if appropriate
2. Learning	Measures changes in knowledge, skills, and attitudes related to the HR program
3. Application/Implementation	Measures changes in behavior or actions as the HR program is applied, implemented, or utilized
4. Business Impact	Measures changes in business impact variables
5. Return on Investment	Compares monetary benefits to the costs of the HR program
6. Intangible Data	Impact measures that are not converted to monetary values

HR Program Cost Data

Program cost data reveal the actual cost of the HR solution or program and actually represent a fully loaded cost profile. This data reflect all the direct costs (for example, the cost of photocopying materials for that program) and indirect costs (for example, the support needed from the accounting department to support the program) of the specific HR function, project, solution, or program.

Reaction Data

The first category of outcome data from an HR program is basic reaction data (level 1 evaluation). These data represent an immediate reaction to the program from a variety of key stakeholders, particularly those who are charged with the responsibility to make it work. At this level a variety of basic satisfaction and reaction measures are taken, often representing 5 to 15 separate measures to gain insight into the reception and enthusiasm or disappointment with the HR initiative.

Learning Data

As employees become involved in an HR initiative, they must acquire information, absorb new knowledge, or learn new skills. In some cases as they attempt new skills, employees must gain confidence in using those skills in the workplace setting. This level of measurement (level 2) focuses on the changes in knowledge and skill acquisition and details what employees have learned to make the HR program successful. Some HR solutions have a high learning component, such as those involved in competencies, skill development, compliance, education, and learning. Others may have a low learning component, such as policy changes, reward systems, compensation, and new benefits. In these situations, the learning involves understanding how processes work and what tasks or steps must be taken to make the program successful.

Application and Implementation Data

Application and implementation are key measures that show the extent to which employees have changed their behavior or implemented the HR program (level 3). These data reflect how employees take actions, make adjustments, apply new skills, change habits, implement specific steps, and initiate processes as a result of the HR program.

This is one of the most powerful categories of data because it not only uncovers the extent to which the HR program is implemented but also details the reasons for lack of implementation in some cases. At this level, barriers and enablers to application and implementation are detailed, and a complete profile of success at the various steps of implementation is provided.

Business Impact Data

Every behavior change achieved or action taken in application and implementation has a consequence. This consequence can be described in one or more measures representing an impact on the employee's own work environment, as an impact directly on his or her team or as an impact in other parts of the organization.

This level of data (level 4) reflects the specific business impact and may include measures such as output, quality, costs, time, job satisfaction, and customer satisfaction that have been influenced by the application and implementation of the program. A direct link between business impact and the program must be established for the HR program to drive business value. At this level of analysis, a technique must be used to isolate the effects of the HR program from other influences that may be driving the same measure. Answering the following question is imperative for the HR department: how do you know your HR program caused the improvement and not something else?

Return-on-Investment Data

This level of measure compares the monetary value of the business impact measures to the actual cost of the HR program. Return on investment is the ultimate level of accountability and represents the financial impact directly linked with the program, expressed as a benefit/cost ratio or return-on-investment percentage. HR practitioners often refer to this measure as the "fifth level of evaluation."

Intangible Data

The intangible benefits consist of measures that are intentionally not converted to monetary value. To develop the ROI, you must convert business impact measures to monetary value. In some cases, however, converting certain measures to monetary values simply is not credible. In these situations, the data are listed as an intangible only if linked to the HR program.

Figure 2.3 shows five of the seven types of data arranged as levels in a chain of impact that is necessary if the HR program is to drive business value. Reaction leads to learning, which leads to application, which leads to business impact, and ultimately to ROI. At the business impact level, the effects of the HR program must be isolated from other influences. Also, business impact data must be converted to monetary value and compared to the cost of the HR program to develop the ROI. Intangible benefits are often the business impact data that cannot be credibly converted to monetary value. All stakeholders should understand this chain of impact. It is a novel, yet pragmatic, way to show the consequences of HR programs.

Figure 2.3 Chain of Impact of an HR Program

Participants react favorably to the HR program.

↓

Participants learn new skills and knowledge needed to implement the HR program.

↓

Participants apply new skills or take actions to implement the HR program.

↓

The consequences of application are captured as business impact measures.

↓

A return on investment is calculated as HR program costs are compared to monetary benefits.

An Example

The following example helps explain how the chain of impact works by describing the different type of data and their importance. Table 2.2 shows data collected from an evaluation of an employee suggestion system in a large electric utility. This new HR program represents a typical employee suggestion system design in which employees are rewarded with cash payments if a suggestion is accepted or implemented, resulting in cost savings. The table reflects how the data are developed through the chain of impact. At level 4 (business impact), the results look very promising as $1.52 million in benefits has been achieved in a two-year time frame.

However, the ROI reveals a negative value because the operational costs ($2.1 million) exceed the monetary benefits during the same two-year period. ROI presents the ultimate accountability as the monetary benefits ($1.52 million) are compared to the cost ($2.1 million):

$$\text{ROI} = \frac{\$1.52 \text{ million} - \$2.1 \text{ million}}{\$2.1 \text{ million}} \times 100\% = -28\% \text{ ROI}$$

This evaluation underscores the importance of taking the analysis all the way to ROI for certain programs. If the evaluation had stopped at business impact, level 4, only the business impact of the suggestion system, not the financial value, would be developed.

As shown above, the employee suggestion system results in a negative ROI (-28 percent). Nevertheless, a negative ROI does not always result in an adverse consequence. Some benefit is derived from this program as behavior is changed and the intangibles are linked with the program. The intangible benefits include important measures such as increased cooperation, organizational commitment, pride of ownership, employee satisfaction, and job engagement. In these cases, a negative ROI may be acceptable. However, if a positive ROI was expected, then a negative ROI is unacceptable.

Table 2.2. Example of Types and Levels of Data

Employee Suggestion System				
Type of Data	**Data Collection Method**	**Data Source**	**Timing**	**Results**
Reaction (Level 1)	Questionnaire	Employees	At the end of the announcement meeting	4.3 out of 5 rating on motivational, satisfaction, and engaging
Learning (Level 2)	Questionnaire	Employees	At the end of the announcement meeting	4.1 out of 5 rating on understanding the procedures, case documentation, award determination, and notification
Application and Implementation (Level 3)	Monitor Records	Employee Suggestion System	Annually	10.4% participation rate
Business Impact (Level 4)	Monitor Business Performance	Employee Suggestion System	Annually	$1.52 million in 2 years
Cost	Monitor Records	Cost Statements	Annually	$2.1 million cost in 2 years
ROI (Level 5)	—	—	—	-28%
Intangibles	Questionnaire	Sample of Employees	Annually	Increased cooperation, commitment to the organization, pride of ownership, and employee satisfaction

The ROI Methodology

The ROI model encompasses the seven types of data in a consistent and systematic way. Figure 2.4 shows the systematic approach for capturing data, processing and analyzing data, and reporting results.

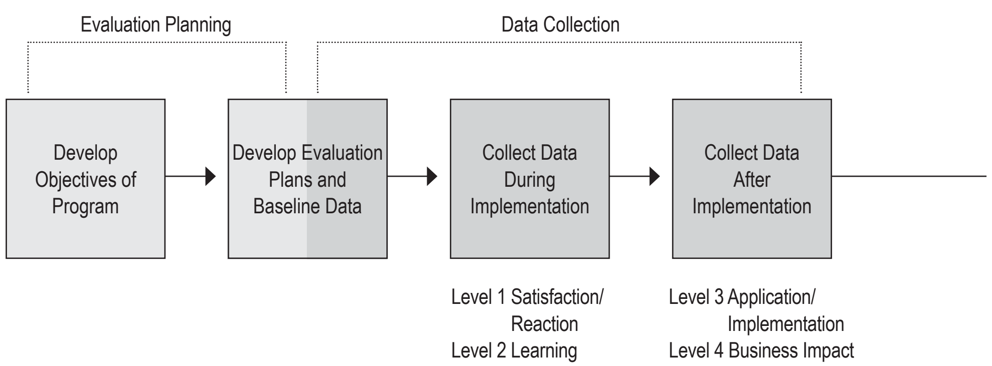
As can be seen in the figure, the activities comprising the ROI Methodology are divided into four basic categories:

- evaluation planning
- data collection
- data analysis
- reporting

Planning for Evaluation

The first step in planning is to develop objectives that reflect all the various types of data. Ideally, for major programs, objectives should be set at each level and linked to baseline data, if available. The challenge is to push the objectives to higher levels beyond reaction and learning objectives to include application, impact, and even ROI. Objectives provide the necessary focus for program designers and the direction needed for program organizers. In addition, objectives show the participants, usually employees, what specifically should be accomplished with the HR program. Higher levels of

Figure 2.4 The ROI Methodology

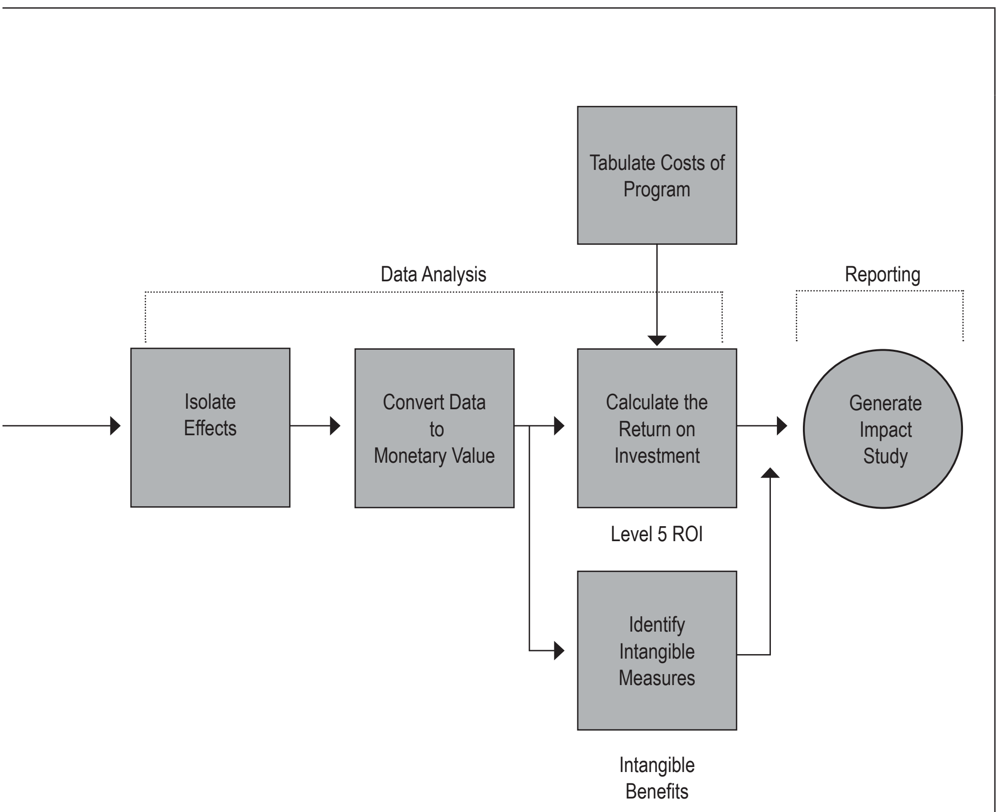


objectives also provide program sponsors with meaningful data needed to judge the feasibility and initial effectiveness of the HR program.

The second part of the planning process involves developing the planning documents. Three documents are recommended, although they can be combined into a single plan. The three documents include a data collection plan, ROI analysis plan, and a communication and implementation plan. Additional detail on evaluation planning is presented in Chapter 3.

Data Collection

As Figure 2.4 reveals, data collection involves four different types of data that reflect the first four levels of evaluation (see Table 2.1). Reaction, satisfaction, and learning data are collected during the implementation of the program. After the program is executed, application, implementation, and business impact data are captured on a follow-up basis. Data collection



methods used to capture the first four levels of data include questionnaires, observations, interviews, focus groups, and business performance monitoring. These common data collection methods capture a variety of qualitative and quantitative data. Additional information on data collection is presented in Chapter 4.

Data Analysis

Analyzing the collected data requires isolating the effects of the HR program, converting the data to monetary values, integrating HR costs, calculating ROI, and identifying intangible measures. Each step is described briefly here.

Isolating the effects of the HR program. Although difficult, determining the business contribution of the HR program is imperative. Fortunately, the determination can be accomplished in many ways. The typical methods used to isolate the effects of the HR program from other factors include the use of control groups, time series analysis, and expert estimation. Some of these techniques are research focused, whereas others are more subjective but nonetheless valuable. These techniques are described in more detail in Chapter 5.

Converting data to monetary values. Another challenge is converting business data to monetary value. If the actual ROI is needed, either hard or soft data must be converted to monetary value. A variety of techniques are available to make this conversion, including the use of standard values, which are almost always available, as well as the use of records, expert input, external databases, and estimations.

For short-term programs, only the first year's benefits are used to represent one year of improvement. For long-term programs, longer time periods are used. The important challenge is to use the most conservative approach, even one that is more conservative than that used by the chief financial officer. Chapter 6 offers more details.

Representing HR costs. Monitoring the cost of the HR program is essential and must be represented by a fully loaded cost profile. Fully loaded costs should represent both direct and indirect categories, including costs for analysis and development, implementation, the time for employees involved in the program, and overhead. You can access cost data using cost statements, cost guidelines, benchmark data, and estimations. More details on costs are included in Chapter 7.

Calculating ROI. The ROI may be calculated using either the benefit/cost ratio or the ROI formula. The benefit/cost ratio (BCR) is defined as the total monetary benefits for the period of time selected divided by the fully loaded costs of the HR program:

$$\text{Benefit/Cost Ratio (BCR)} = \frac{\text{HR Program Benefits}}{\text{HR Program Costs}}$$

The ROI, although similar to the BCR, uses net benefits divided by costs. (The net benefits are the program benefits minus program costs.) In formula form, the ROI is:

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

or

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

This is the same basic formula used for evaluating capital investments, where the ROI is traditionally reported as earnings divided by investment. In the context of human resources, earnings equate to net HR program benefits (in monetary benefits), and investment equates to the fully loaded HR program costs.

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

$$\text{BCR} = \frac{\$581{,}000}{\$229{,}000} = 2.54 \text{ (or 2.5:1)}$$

As this calculation shows, for every $1.00 invested, $2.54 in benefits is returned. In this example, net benefits are $581,000 - $229,000 = $352,000. Thus, the ROI is calculated as follows:

$$\text{ROI}(\%) = \frac{\$352{,}000}{\$229{,}000} \times 100\% = 154\%$$

This result means that each $1.00 invested in the HR program returns $1.50 in net benefits after accounting for costs. The benefits are usually expressed as annual benefits for short-term programs, representing the amount saved or gained for a complete year after the HR 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. This conservative approach is used throughout the application of the ROI Methodology described in this book. Additional information on ROI calculations is presented in Chapter 7.

Identifying intangible measures. Intangibles are measures directly linked to the program and are developed at different timeframes. Although intangible benefits are not converted to monetary value, they represent meaningful data, often having as much perceived value as the tangible ROI calculation. Typical intangible data include job satisfaction, organizational commitment, teamwork, customer service, conflicts, and stress. This list is not meant to imply these measures cannot be converted to monetary value. In most organizations, these items are not converted because the conversion cannot be accomplished credibly. Additional details on intangibles are presented in Chapter 8.

Reporting Results

The final step in the ROI Methodology entails reporting the data to the many stakeholders who need HR success data. The challenge at this step is to determine the appropriate target audience, the information that is needed, the communication media that fit the situation, and the timing of presentation. Collectively, you must address these issues to have a systematic process for reporting data. Chapter 9 presents additional detail on reporting.

ROI Standards

Every process or model must have operating standards to be reproducible, accurate, credible, and sustainable. The operating standards for this process show how data are developed, processed, utilized, and reported using very conservative principles. The conservative approach builds respect, credibility, and buy-in from the management group. The operating standards for the ROI Methodology are labeled guiding principles, which support decision-making and replication of the ROI Methodology. The 12 ROI guiding principles are listed below:

- *When a higher-level evaluation is conducted, data must be collected at lower levels.* A balanced data set is needed that represents all seven types of data and that provides a complete profile of success using both qualitative and quantitative data. Some data represent lower levels of evaluation, and others represent higher levels. Lower-level data are needed to understand the dynamics of the process and to provide insight into problem areas and opportunities. For example, an adverse reaction at the first level can cause the program to fail from the beginning, but this situation will not be discovered unless an adequate amount of reaction data is collected. Also, many HR projects have a tendency to deteriorate during application and implementation. Collecting data at this level exposes the barriers and enablers so that adjustments can be made.
- *When an evaluation is planned for a higher level, the previous level of evaluation does not have to be comprehensive.* This resource-saving principle is designed to keep costs at a minimum. No organization has unlimited resources for funding measurement and evaluation projects. Shortcuts must be used; costs must be controlled; and steps must be taken to keep time commitments to a minimum. When shortcuts are taken, as a general rule, taking them at the lower levels is best. The corollary to this principle is to use the most comprehensive analysis at the highest level of evaluation pursued.

- *When collecting and analyzing data, use only the most credible sources.* Credibility is a substantial concern in HR measurement and evaluation data. When data are presented, credibility will be a primary issue that must be addressed to build respect and support for an impact study. One critical determinant of credibility is the source of the data. Sources must be identified that are the most credible for the particular issue, and this level of credibility can vary with studies and with groups. In some studies the management team is very credible; in others, it is not as suitable for a particular item. The point is to evaluate each data item and determine the most credible source for that particular item.
- *When analyzing data, choose the most conservative method among alternatives.* Some cases present more than one way to conduct a specific analysis. For example, when isolating the effects of an HR program, more than one method may be used. In these cases, the most conservative method (the one that generates the lowest ROI) is recommended. This principle assumes that both processes are equally credible. The net effect of this principle is to eliminate doubt and error by understating rather than overstating results.
- *At least one method must be used to isolate the effects of the HR program.* This principle represents a critical challenge with HR projects. The amount of the improvement in a specific data item related to the project must be isolated from other influences. Although a variety of techniques can measure isolation, at least one technique must always be used. Otherwise, the impact study is not credible because it lacks direct linkage between the program and impact. The default method for isolation is the use of estimates from individuals who know the process best. When all else fails, estimation is used, and it may be the method used in the majority of settings.
- *If no improvement data are available for a particular population or from a specific source, the assumption must be that little or no improvement has occurred.* No data equals no improvement. This guiding principle is perhaps the most conservative. If participants do not respond to questionnaires, surveys, action plans, or other data collection methods, the assumption is that they have achieved no value with the HR pro-

gram. Also, if the participants are no longer in their job assignments or in the organization, the supposition is that they did not achieve success with the HR program. Realistically, some value may have been developed by the nonrespondents, particularly if they are still on the job, or when employees depart, they may have been successful before leaving the organization. This guiding principle exerts much pressure to obtain as much data as possible from credible sources, a factor that is at the heart of the implementation of the ROI Methodology.

- *Estimates of improvement should be adjusted (discounted) for the potential error of the estimate.* Sometimes estimates will have error. The amount of error is eliminated in the analysis. By using the concept of confidence estimates, an error range is created, and the low side of the error range is used, thus compensating for any doubt or error associated with the estimate. This guiding principle builds credibility because the results are understated instead of overstated.
- *Extreme data items and unsupported claims should not be used in ROI calculations.* Occasionally, extreme data items (sometimes called outliers) appear to be connected to the program or, in some cases, may be directly connected. Because they are extreme, they are omitted from the ROI analysis. Protecting the integrity of the ROI calculation is paramount, and key stakeholders must understand that the payoff is not generated on extreme values. Extreme data items are reported in other parts of an impact study but not in the ROI calculation. Also, unsupported claims are not used in the ROI analysis. For example, if participants do not show the source of data or how they developed monetary value, the claim is omitted from the ROI calculation, although it may be included in the impact study in another section. This guiding principle adds credibility to the analysis.
- *Only the first year of benefits (annual) should be used in the analysis of short-term HR programs and solutions.* The concept of ROI is an annual concept, so one year's worth of benefits is always needed. To be conservative, only the first year is used for HR programs that are short term in their implementation. "Term" is defined as the length of time it takes to implement the program with a particular individual or group. If implementing new sales training takes 5 days, then it is

a short-term program, and the ROI should be developed based on one-year benefits. However, a two-year continuous mentoring and coaching process is a long-term solution, and a longer analysis period is needed. The point is to be conservative by using the number of years that is fair and at the same time as short as possible. This number should be established before the study is initiated and with input from the finance and accounting staff, if possible.

- *Use fully loaded HR program costs for the ROI analysis.* Costs represent the denominator of the ROI calculation. Both direct and indirect costs should be included. Indirect costs are not normally used by some stakeholders. For example, the chief financial officer may argue that the use of meeting room space for meetings connected with an HR program implementation should not be charged because the meeting room is a fixed cost. However, a conservative approach is to account for all expenditures even on an allocated or prorated basis. Including this cost in the analysis may not materially affect the ROI calculation, but it is a significant gesture that may be necessary to gain additional respect for the methodology.
- *Intangible benefits are measures that are purposely not converted to monetary values.* An important issue that can affect the ROI calculation and the credibility of an ROI study is the issue of converting data to monetary values. Some data are considered to be soft (or intangible) and cannot (or should not) be converted to monetary value. If the conversion cannot be made on a credible basis in the specific setting with a reasonable amount of resources, the data item is left as an intangible benefit. The principle issue is the method used to make the conversion. Specific rules are developed to help two different researchers or evaluators decide when a measure should be converted to monetary value or when it should be left as an intangible.
- *Communicate the results of the ROI analysis to all key stakeholders.* Communicating data to the appropriate audience groups is critical. The first step in this process is to identify the stakeholders who need the information and then ensure that these and other groups receive the desired information using the most effective medium at the right time with the appropriate content. You should include

four stakeholder groups in your communications: (1) the individual participants who are charged with implementing the HR program, (2) the immediate managers of the participants, (3) the key client or sponsor of the HR program, and (4) other HR team members.

These macro-level guiding principles ensure that the ROI Methodology is consistent, routine, and standardized. At the same time, they keep costs low and credibility high. They are essential to obtain the appropriate buy-in and support needed for the ROI Methodology. The guiding principles are explained in more detail throughout the book.

Final Thoughts

This chapter began with the reasons for implementing ROI Methodology. Next, we explained the different types and levels of data, which provide the framework for the ROI analysis. Step-by-step, the ROI Methodology was explored, showing how the seven types of data are generated, analyzed, and communicated. Finally, the guiding principles of ROI were described, showing how consistency and standardization are used to make the process realistic, replicable, and credible. The next chapter focuses on the planning and preparation needed to conduct an ROI study.