

CALCULATING ROI



brainard
STRATEGY

Why do we Calculate ROI?

**TO ENSURE THAT OUR INITIATIVES
PROVIDE MEASURABLE RESULTS!**



The Problem with ROI...

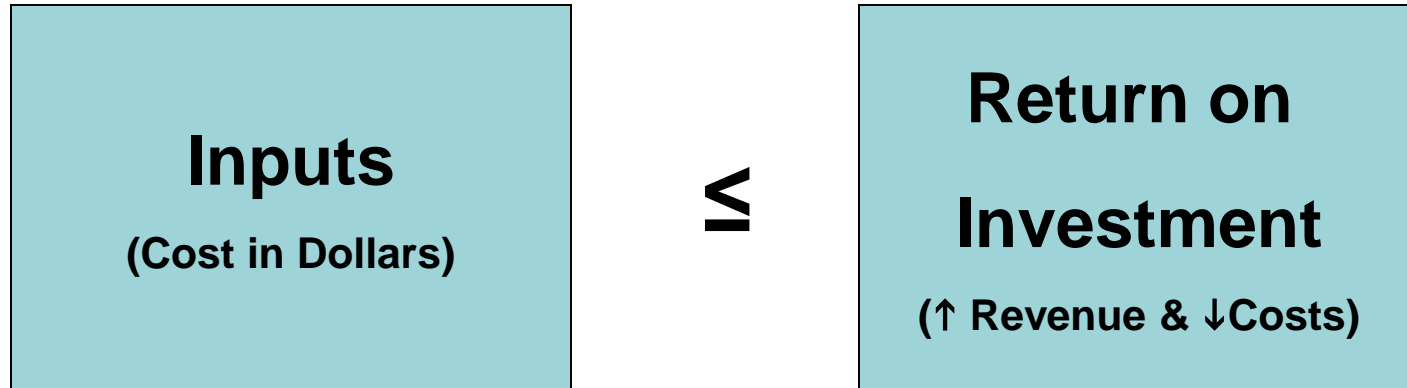
Math

- It is difficult to solve an equation with different units on each side of the equation...thus 8th grade Algebra was born

Organizational initiatives

- Often the money you invest does not directly result in hard dollar savings, nor, revenues. Rather, the OD/HR initiative impacts or influences some behavior, process, or structure; which in turn can be correlated with a hard dollar cost savings or revenue increase

The Traditional Approach to ROI



* When the units are expressed in dollars

The Traditional Approach to ROI



Basic Elements of Measurement

- Cost
- Time
- Quality
- Satisfaction (correlated with productivity)
- Performance v. Productivity
- Effects on business priority (i.e., revenue)
- TTP (Time-to-productivity)

Effects of Human Behavior on Business

U.S. companies lose:

- 1/2 their investors in 1 year
- 1/2 their employees in 4 years
- 1/2 their customers in 5 years

A 5% swing in customer retention can result in a 25% swing in earnings*

*Frederick Reichheld: The Loyalty Effect

Long Winded Statement of the Problem

For example:

The cost (input: one side of the equation) is a different unit of measurement than what is often seen as the outcomes (satisfaction, commitment, retention, etc).

We expect that if the input is in dollars, that the outcome will also be in dollars however, that is not always the case with OD/ HR initiatives.

In this case, we are not comparing like units (e.g. dollars to success metrics, rather than dollars to dollars).

Thus, it is important to understand and measure the impact/ influencer variable to ultimately see an outcome that can be expressed as a dollar value.

Measuring Effects

HR measurement

- Operational efficiency of HR
- Human capital health
- Financial valuation methods
 - ✓ Cost based approaches
 - ✓ Market-based approaches
 - ✓ Income-based approaches
- And of course...**ROI**

Challenges to Calculating ROI

Benefits/Expense (cost) = ROI

- Identifying costs
- Quantifying costs
- Identifying benefits
- Quantifying benefits

Yet, one needs to make sure that the initiatives in question impact the **BOTTOM LINE**

Recruiting Units/ Metrics

Inputs:

- Recruiting costs
- Advertising & branding costs
- Resume management

Organizational influencers/ impact variables:

- Higher retention (lower attrition rates)
- Reduce turnover, etc

Return:

- Cost per hire per level
- Revenue per employee

Selection

Inputs:

- Sourcing and hiring costs
- Job fit
- Timeline and productivity

Organizational influencers/ impact variables:

- Orientation process
- Assimilation and management

Return:

- PBT (profit before taxes) of each employee
- Productivity: individual, team, depart. (static & over time)

Training

Inputs:

- Needs assessment
- Cost of:
 - ✓ Training, development, lost work, sales, projects

Organizational influencers/ impact variables:

- Retention, technical competence
- Organizational commitment

Return:

- PBT and productivity per employee (training vs. no training)
- Prevented cost of lost opportunities and mistakes

Coaching

Inputs:

- Cost of assessments and coaching (\$20k for 10 months)
- Time away from daily work

Organizational influencers/ impact variables:

- Financial impact and benefit from behavior change in coachee
- Improved business performance, leadership, communication
- Increased moral, motivation, commitment

Return:

- Cost of employee turnover and productivity
- Satisfaction and commitment across all employee levels

Example:

- Attrition in 2004 was 15% at the director level and above
- Post-initiative attrition was 12% at director level and above
- Attrition at the director level and above costs the company \$650,000 at 15%
- After the initiative, the attrition rate at the director level and above was 3% less or \$450,000 in net cost to the company
- Thus, the initiative has an ROI of \$200,000 in net savings on a \$10,000 investment

Return on Intuition?

“Confidence – how winning streaks and losing streaks begin and end”

- Prof. Rosabeth Moss Kanter

This quote defines confidence as an expectation of a positive outcome. It's a belief that actions will result in success.

Factors that Fortune 500 Companies Measure

- Turnover costs
- Employee replacement costs
- Economic value of employee behaviors (absenteeism, smoking, etc)
- Economic benefits of developing a superior selection test
- Economic benefits of various training levels
- Economic benefits of additional recruiting
- Economic benefits of increasing job satisfaction, organizational commitment, or similar job attitudes
- Economic benefits of high, medium, and low performance on a particular job

List of Human Capital Success Metrics

- Average change in performance-appraisal rating overtime
- Climate surveys
- Customer complaints/ praise/ satisfaction/ loyalty
- Employee commitment survey scores
- Employee competency growth
- Employee development/ advancement opportunities
- Employee job involvement survey scores
- Employee satisfaction with advancement
- Employee turnover by performance level and by controllability
- Extent of cross-functional teamwork and organizational learning
- Extent of understanding of the firm's competitive strategy and operational goals