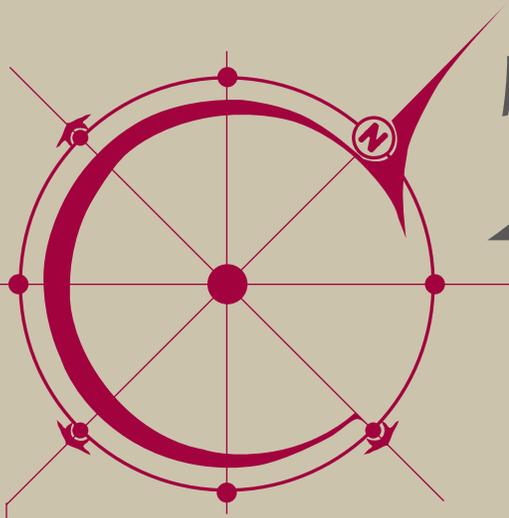


ROI INSTITUTE™



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FREQUENTLY ASKED QUESTIONS ABOUT ROI

by Jack J. Phillips and Patti P. Phillips

Today's Chief Learning Officer must show accountability for the learning investment. Many CLO's have found that actually measuring the return on investment of a few selected, significant, high-profile programs is an excellent way to show fiscal responsibility for key projects and initiatives. Our best guess is that about 30 to 40% of CLO's are using ROI as a tool. Yet, according to the Corporate Executive Board in their major benchmarking efforts, almost 80% of major learning and development organizations want to use ROI in the future. This gap of actual use versus desired use underscores the misunderstandings and misconceptions of ROI as a legitimate part of the measurement mix for the Chief Learning Officer. For almost two decades we have been assisting organizations with this important issue. In the last five years we have kept track of the many questions that are often asked about ROI in conferences, workshops, and consulting assignments. Here are the 25 most frequently asked questions about ROI.

1 How does ROI in human resources and learning initiatives differ from the ROI used by the financial staff?

The classic definition of return on investment is earnings divided by the investment – no matter what the application. In context of calculating the return on investment in learning and development or human resources, the earnings become the net benefits from the program (monetary benefits minus the costs), and the investment is the actual program cost. The difficulty lies in developing the actual monetary benefits in a credible way.

2 Do I have to learn finance and accounting principles to understand the ROI Methodology™?

No – many of the basic principles of finance and accounting don't relate to what is needed to develop the return on investment in learning and development. However, it is important to understand issues such as revenue, profit, and cost. Ultimately, the pay-off of learning and development or human resources will be based on either direct cost savings or additional profit generated. It is helpful to understand the nature and types of costs and the different types of profits and profit margins.

3 Do I have to know statistics to understand ROI?

The very basic statistical processes are all that are necessary to develop most ROI impact studies. It is rare for statistics to be needed beyond simple averages, variance, and the standard deviation. Sometimes hypothesis testing and correlations are necessary. These are very simple concepts and, by design, are simplified as much as possible.

4 Is ROI just one single number? How can you communicate a program's value with a number?

The ROI methodology (or the ROI process) develops six types of data, with the actual ROI calculation being only one of them. The six types of data are:

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| a. Reaction, satisfaction, and planned action | d. Business Impact |
| b. Learning and application | e. ROI |
| c. Implementation | f. Intangibles |

5 Aren't the levels of evaluation out of date and not applicable?

The original four levels developed by Don Kirkpatrick show how the data must be developed to generate value from the learning and development program. As shown above, the data are arranged in a chain of impact that must exist if the learning has business impact, which ultimately becomes business value. The chain of impact can be broken at any point, thus correlations do not always exist between the levels because there are barriers to success at any level. Although a few researchers take issue with the four levels, it is still the most widely used foundation for evaluation. ROI becomes the fifth level and is the consequence of the program expressed in monetary terms.

6 Isn't ROI based on nothing but estimates that can be very subjective?

Estimates are usually used in four areas:

- sometimes the amount of improvement is estimated when records are not readily available to show the improvement or, in a forecast situation, where it is not known;
- when isolating the effects of a program;
- when converting monetary values; and
- when calculating the costs (acceptable finance practice).

Estimates are used only when other methods are not readily available or become too time consuming or expensive to obtain. When estimates are taken, they are adjusted for the error of the estimate to improve their credibility. In essence, results are understated. In every case, there are many alternatives to estimates and they are often recommended. Estimates are used routinely in some situations because they become the preferred method and are accepted by stakeholders or they may be the only way to obtain the data that are needed.

7 Isn't ROI too complicated for most learning and development/HR professionals?

The ROI calculation itself is a very simple ratio: benefits divided by costs. The processes needed to arrive at the benefits follow a methodical, step-by-step sequence with guiding principles used along the way. The costs are developed using guidelines and principles as well. What makes it more complicated are the many options in each step in the process. The options are critical due to the many different situations, programs, and projects that need to be evaluated and the different environments and settings in which they occur.

8 Doesn't ROI cost too much?

The cost for a study all the way through to ROI may represent as much as 5-10% of the entire project. This number varies considerably. It's also important to note that in most organizations every program is evaluated at some level. The total cost of all evaluation, including selected ROI studies, is usually in the range of 3-5% of the total learning and development or human resources budget.

9 Is it possible to isolate the effects of my program from other factors?

This is the most difficult and challenging issue, but it is always possible, even if estimates are used. Some of the most sophisticated and credible processes involve control groups, trend line analysis, and forecasting models. Other, less sophisticated techniques are used such as expert estimation and customer input. Always strive to carve out the amount of data directly related to the program or project. When estimates are used, the data should be adjusted for the error of the estimate.

10 Is it true that the ROI process does not reveal program weaknesses or strengths?

The ROI methodology captures six types of data. At Levels 1, 2, and 3, data always captures deficiencies or weaknesses in the process. At Level 3, the process requires collecting data about the barriers (which inhibit success) and enablers (which help success).

11 Is it true that the ROI process does not result in recommendations for improvement?

Each impact study using the ROI methodology contains a section for recommendations for improvement. It is essential that this tool be utilized, first and foremost, as a process improvement tool. Recommendations for changes are always appropriate, even when studies have reflected a very successful project.

12 Is it appropriate to do ROI for every program?

Only a few select programs should be subjected to evaluation all the way through to the fifth level of evaluation (ROI). Ideal targets include programs that are very expensive, strategic, operationally focused, and highly visible and those that involve large target audiences and have management attention in terms of their accountability. In most organizations using this methodology, only about 5-10% of the programs are selected for ROI analysis each year.

13 Which programs are not suited for ROI analysis (but may still achieve a positive ROI)?

Certain programs should not be evaluated all the way through to ROI. The following programs are not appropriate for ROI: mandatory programs, compliance programs, legally-required initiatives, very specific operational job-related programs, brief programs, information-sharing programs, entry-level programs, new-to-the-job issues, and programs intended to align the individual with the organization.

14 Who is using the ROI methodology?

Practically all types of organizations in the USA and around the world are using the ROI methodology. To date, almost 2,000 private sector organizations have formally implemented ROI through skill building and ROI certification. In addition, 200 government agencies and non-profit organizations are implementing the process. In essence, thousands of organizations are utilizing ROI methodology through an informal implementation in various parts of their organization. In addition, almost 20,000 specialists and managers have taken either a one-day or two-day ROI workshop and over 2,000 individuals have participated in a five-day comprehensive certification workshop.

15 What types of applications are typical for ROI analysis?

The applications can vary, but usually include sales training, supervisory training, team building, executive development, communications, competency systems, software utilization, leadership development, diversity, orientation systems, compensation and benefits, reward systems, skill-based pay, career management, major projects, and wellness initiatives. These topics make excellent applications and have been documented with case studies in the literature.

16 How can I learn more about ROI? How can I learn more about ROI?

There are many options available to learn about ROI. Several books, case studies, and templates have been published, with many of them being published or made available from ASTD (www.astd.org). Additional resources are available through Amazon.com and roiinstitute.net. The recommended way to learn the ROI methodology is through a workshop either conducted internally or in a public presentation. ASTD offers one- and two-day workshops. The ROI Institute offers the five-day certification workshop about 20 times a year. Additionally, on-site consulting and coaching is an option.

17 Can ROI be used on the front end of the project in a forecasting mode?

ROI forecasting is an important part of the ROI methodology. This process uses credible data and expert input and involves estimating the improvement (projected benefits) that will occur when a program is implemented. Projected benefits are compared to projected costs to develop the forecasted ROI.

18 How does ROI compare to a balanced scorecard?

The ROI process generates six types of data (reaction, learning, application/impact, business impact, ROI, intangibles) which, in itself, is a scorecard. The balanced scorecard process developed by Kaplan and Norton (1996) suggests four categories of data (learning and growth, internal business processes, financial, and customer). The data generated with the ROI methodology may be grouped into one of these four categories. In addition, the ROI process adds two additional capabilities not normally contained in balanced scorecard methodology: it provides a technique to isolate the effects of a program; and it shows the costs vs. benefits of a particular program or initiative. Thus, the ROI methodology will complement the balanced scorecard process.

19 How can I secure support for ROI in my organization?

Building support for the ROI methodology is an important issue. Top executives will usually support the process when they realize the types of data that will be generated. Most of the resistance comes from those directly involved in programs because they do not understand ROI and how it is used in the organization. When they are involved in implementing the methodology and the data are properly used to drive improvements, it helps to lower the resistance. The efforts to implement any major change program will apply with the implementation of the ROI methodology.

20 How can I minimize staff resistance to this methodology?

Most learning and development and HR staff will have some resistance to ROI unless they see the value it can bring to their work. Involvement, education, and process improvement are key issues. It is often the fear of ROI that generates resistance – a fear based on misunderstandings about the process and how the data will be used. The ROI methodology should be implemented as a process improvement tool and not as a performance evaluation tool for the HR or learning and development staff. No one wants to develop a tool that will reflect unfavorably on their performance review. Improvement in key decisions about the use of ROI will help minimize resistance. Also, resistance will be minimized when steps are taken to ensure that the data are communicated properly, improvements are generated, and the data are not abused or misused.

21 Should I conduct an ROI study on my own program?

If possible, the person evaluating the program should be independent of the program. It is important for the stakeholders to understand that the person conducting the study is objective and removed from certain parts of the study, such as the data collection and the initial analysis. Sometimes these issues can be addressed in a partnering role or limited in outsourcing opportunities – whether data collection or analysis. In other situations, the issue must be addressed and the audience must understand that steps are taken to ensure that the data were collected objectively, analyzed, and reported completely.

22 Are there any standards for ROI?

The ROI methodology, as developed by Jack and Patti Phillips and their associates, contains standards labeled “Guiding Principles.” These provide consistency for the analysis with a conservative approach. The conservative approach builds credibility with the stakeholders. Additional standards are under development and will be made available in the near future.

23 What type of background is necessary for learning the ROI methodology?

It is helpful for the individual to understand the business in which the studies will be developed. Knowledge about operations, products, and financial information are very helpful. Also, the individual should not have a fear of numbers. Although the ROI methodology does not involve much statistical analyses, it does involve data analysis. Excellent communication skills are needed to develop the various documents describing results and presenting those results to a variety of stakeholder groups. Finally, the ability to partner with many individuals is extremely important. This requires much focus, contact, collaboration with the client – this is a very client-focused methodology. The individual must be willing to meet with the key sponsors of programs and build those relationships necessary to capture the data and communicate the data to them.

24 How is the ROI on e-learning developed?

Applying the ROI methodology to e-learning is the same as any other process, program, or solution. The monetary value of the benefits from the e-learning are compared to the cost of the e-learning. Many individuals assume that the benefits of training remain the same in that only the costs to provide training changes. What makes e-learning studies somewhat different is that these individuals assume that the e-learning is more cost effective on a larger scale. An ROI study should be conducted to show the actual value of the training. When an instructor-led program is compared to an e-learning program, the effectiveness of the training, when comparing the impact data (impact data from both programs) is compared with the respective costs for each of the programs. A higher ROI shows a more successful program in terms of providing value that exceeds costs.

25 How do you calculate the ROI on the ROI?

It is a very good question to raise in terms of the payoff using this methodology. The important issue is the value of implementing the methodology itself. While literally hundreds of organizations are reporting the benefits and successes, it is helpful to understand the internal payoff in the organization. The improvements and changes resulting from an impact study are tallied from one study to another and compared to the actual cost of the implementation. This, in essence, can generate the return on investment for utilizing this process. This approach is recommended for most major implementations.