

Calculating ROI:

Ensuring that OD Initiatives Provide Measurable Results...



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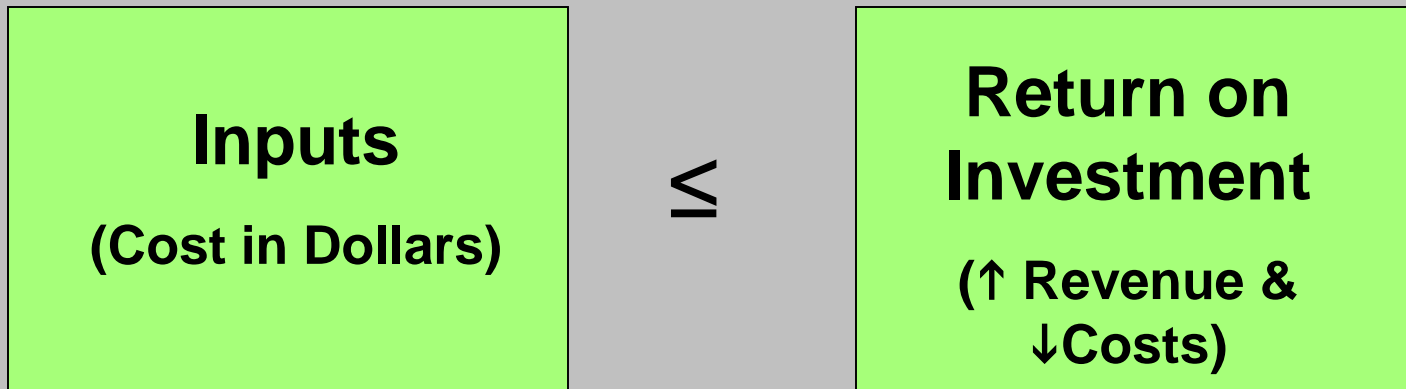


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The Problem with ROI...

- **MATH** --- *It is difficult to solve an equation with different units on each side of the equation... Thus 8th grade algebra was invented...*
- **OD 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....*

Traditional Approach to ROI



** When the units in A and B are expressed in dollars*

Our 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:

- ½ their investors in 1 year
- ½ their employees in 4 years
- ½ 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).

So then, 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 Efforts

- 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 – Calculating ROI

Benefits/Expense (cost) = ROI

- Identifying Costs ✓
- **Quantifying Costs** ✓
- Identifying Benefits ✓
- **Quantifying Benefits**!!

Yet need to ensure that initiatives impact the
Bottom Line

Recruiting Units/Metrics

- **Recruiting**
 - Inputs:
 - Recruiting costs
 - Advertising costs
 - Resume management
 - Branding
 - Organizational Influencers/ Impact Variables:
 - Higher retention (lower attrition rates)
 - Reduce turnover, etc.
 - Return:
 - Cost per hire per level
 - Revenue per employee

Selection

- **Selection**
 - Inputs:
 - Sourcing costs
 - Hiring costs
 - Person-job fit
 - Time and productivity / Time of selectors
 - Organizational Influencers/ Impact Variables:
 - Orientation process
 - Assimilation
 - Management
 - Return:
 - PBT (profit before taxes) per employee
 - Productivity: individual, team, and organizational levels
 - Productivity over time

Training

- **Training**
 - Inputs:
 - Needs assessments
 - Cost of training and development per employee
 - Cost of lost opportunities/ work
 - Cost of lost sales (for sales staff training)
 - Project management costs
 - Organizational Influencers/ Impact Variables:
 - Retention
 - Technical competence
 - Organizational commitment
 - Return:
 - PBT per employee with training vs. no training
 - Productivity per employee
 - Prevented cost of lost opportunities
 - Prevented cost of future mistakes

Coaching

- **Coaching**
 - Inputs:
 - Costs of assessments
 - Costs to do coaching (\$20,000 for 10 months)
 - Time away from daily work
 - Organizational Influencers/ Impact Variables:
 - Financial impact/ benefit because of behavioral changes in the coachee
 - Improved business performance, communication, and leadership skills
 - Motivation, employee morale, employee commitment
 - Return:
 - Cost of turnover
 - Employee productivity
 - Satisfaction and commitment of direct and non-direct reports

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

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

Factors that Fortune 500 Companies are Measuring:

- 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

General List of Human Capital Success Metrics

- Average change in performance-appraisal rating overtime
- Climate surveys
- Customer complaints/ praise
- Customer 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
- Extent of organizational learning
- Extent of understanding of the firm's competitive strategy and operational goals