

Why is ROI Controversial?

Separating Fact from Fiction



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ROI INSTITUTE™

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1

Learning Objectives

- Identify the emotional and controversial issues with ROI use
- Explain the rationale for proper use of ROI in learning and development
- Select programs appropriate for impact and ROI analysis
- Explain the steps and elements involved in ROI calculations
- Identify and address barriers to the use of impact in ROI analysis

2

Source of Controversy

- Evaluation Consultants
- Learning leaders who do not fully understand ROI
- Suppliers who think ROI will harm their business

3

No Controversy Here!

- Top Executives
- CFO
- Program Owner (funder)
- Progressive learning leaders
- Proactive suppliers

4

The Consultant's Perspective

- Competition, competition, competition
- Too many models/theories
- Too many evaluation books
- Too many consultants
- False advertising

5

Learning Objectives

Measure up to six types

1. Reaction
2. Learning
3. Application
4. Impact
5. ROI

Intangible benefits always includes a technique to isolate the effects of the program

This methodology always includes a technique to isolate the effects of the program

6

The Current Climate: Do you agree with the following?

- Today there is more demand to show value for investments in all types of projects and processes
- After this recession, this demand will increase
- The CFO will drive the process to show value

7

The “New” Definition of Value

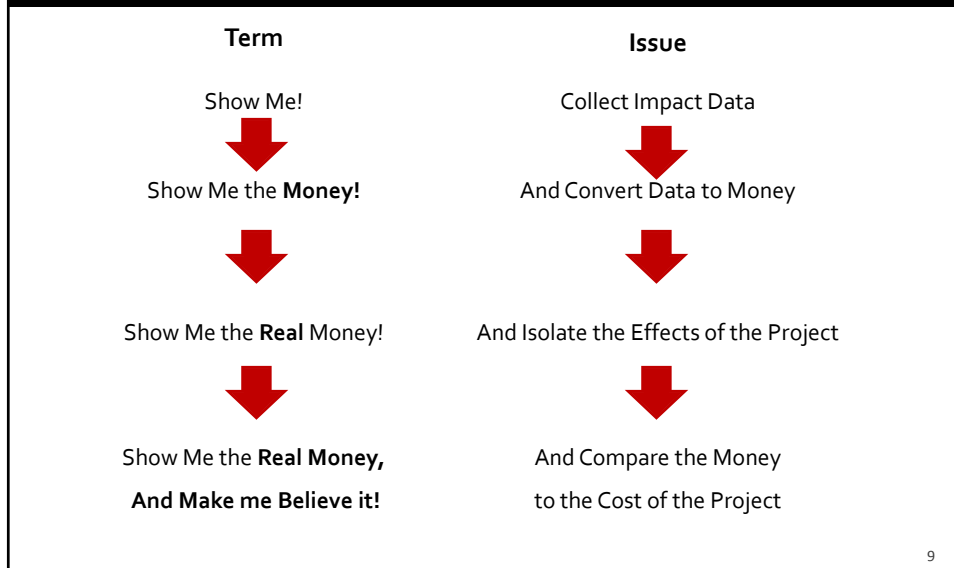
Value Must:

- Be balanced, with qualitative and quantitative data
- Contain financial and non-financial perspectives
- Reflect strategic and tactical issues
- Satisfy all key stakeholders
- Be consistent in collection and analysis
- Be grounded in conservative standards
- Come from credible sources

Can you add to the list?

8

The “Show Me” Evolution



The Executive View—2009*

Measure	We Currently Measure This	We Should Measure this in the Future	My ranking of the importance of this measure
1. Inputs: “Last year, 78,000 employees received formal learning.”	94%	85%	6
2. Efficiency: “Formal learning costs \$2.15 per hour of learning consumed.”	78%	82%	7
3. Reaction: “Employees rated our training very high, averaging 4.2 out of 5.”	53%	22%	8
4. Learning: “92% of participants increased knowledge and skills”	32%	28%	5

*CEO Survey—Fortune 500 and Large Private Company, ROI Institute N=96

The Executive View—2009*

Measure	We Currently Measure This	We Should Measure this in the Future	My ranking of the importance of this measure
5. Application: "At least 78% of employees are using the skills on the job"	11%	61%	4
6. Impact: "Our programs are driving our top 5 business measures in the organization."	8%	96%	1
7. ROI: "Five ROI studies were conducted on major programs yielding an average of 68% ROI."	4%	74%	2
8. Awards: "Our learning and development program won an award from the American Society of Training and Development"	40%	44%	3

*CEO Survey—Fortune 500 and Large Private Company, ROI Institute N=96

11

Now for a little history: Value of Capital Investments

- Buildings
- Equipment
- Tools
- Vehicles
- Companies
- Some Technology



About 15% of expenditures
ROI is the Method

12

Value of Non Capital Investments

- Marketing
- Human Resources
- Quality
- Some Technology
- Staff Support
- Processes



About 85% of expenditures
ROI is now used here

13

ROI History

In the beginning:

- 200 year history
- HBR: Dominant method to measure results
- An imprecise measure
- Never should be used alone

14

2009: The Year of the CFO – Economist Magazine

- The CFO is the most critical job
- Out with the EI, in with the ROI
- Out with talent, in with staff
- More CIOs reporting to CFO
- More CHROs reporting to CFO
- New C-suite job: CCO
- CEOs turning to CFO to measure success of other functions

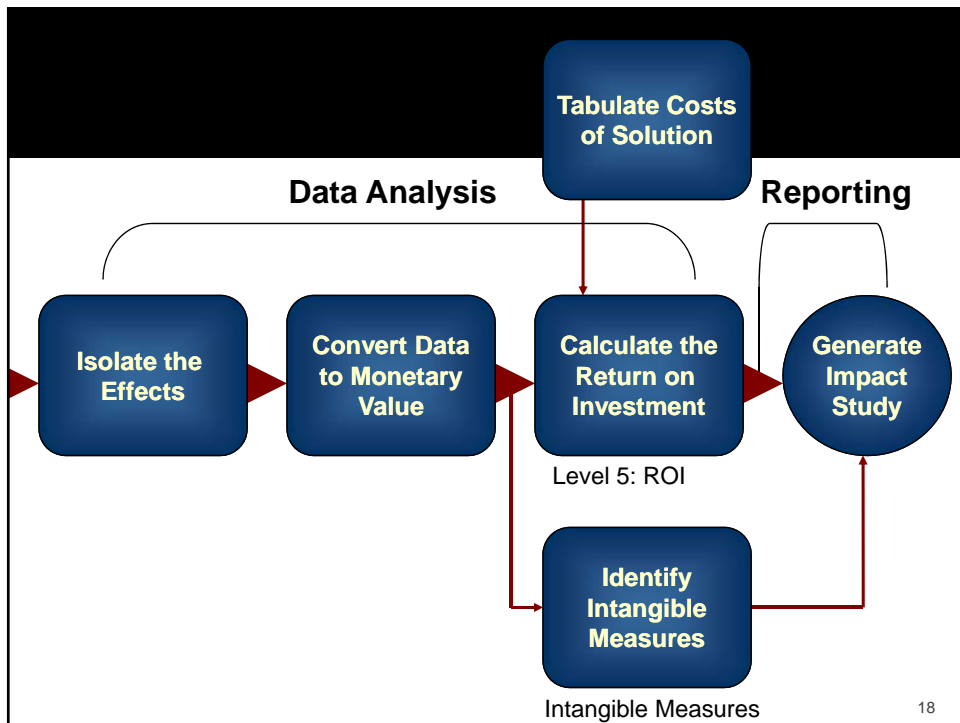
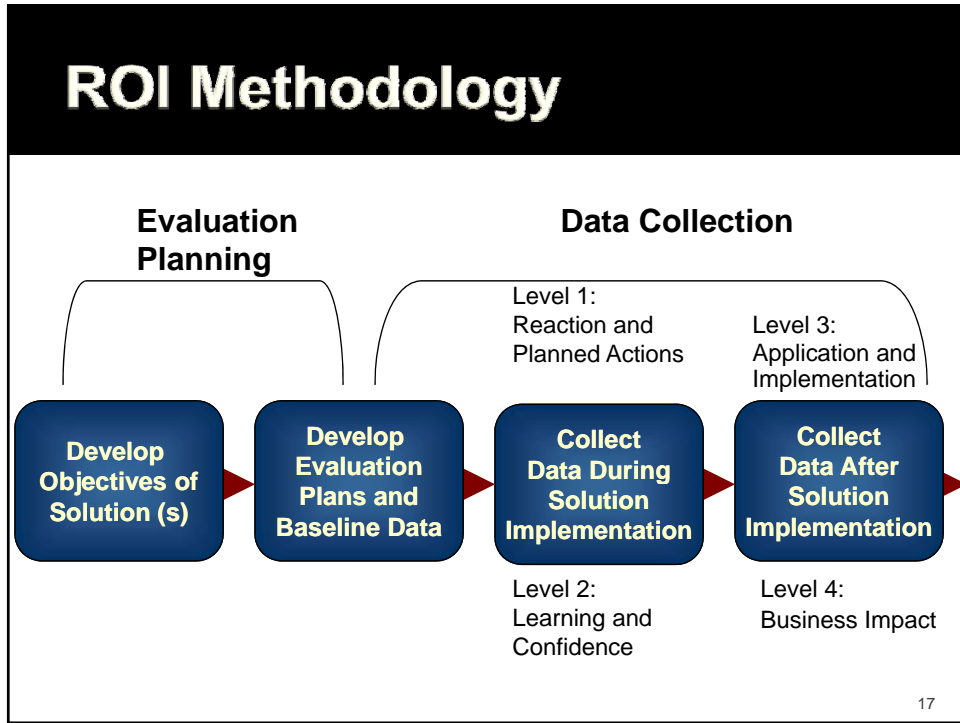
ROI for non capital investments is rapidly growing

15

CEO Concerns About Current Functional Measures

- Inconsistent from one project to another
- Not connected to the business
- Too many activity measures
- Not credible
- Claiming too much credit
- Not conservative

16



The ROI Calculation is simple

$$\text{ROI} = \frac{\text{Net Project Benefits}}{\text{Project Costs}}$$

Cost of project \$ 230,000

Benefits of project (1st year) \$430,000

19

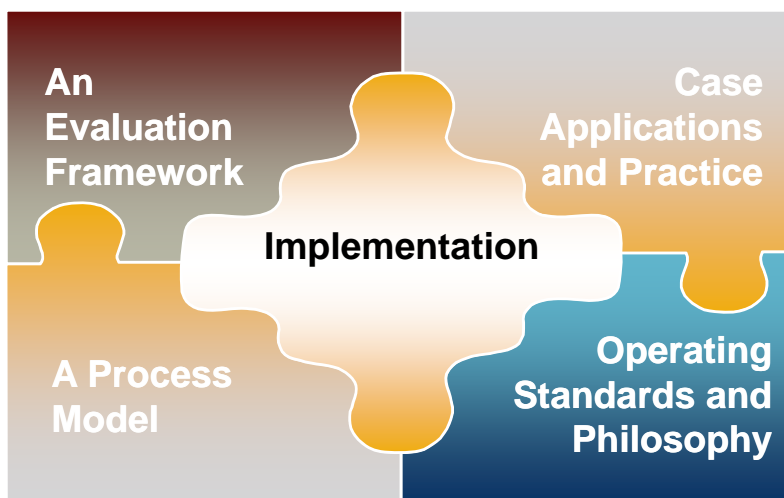
The ROI Calculation

$$\text{ROI} = \frac{\$430,000 - \$230,000}{\$230,000} = 0.87$$

$$\text{ROI} = 0.87 \times 100 = 87\%$$

20

Basic Elements



21

12 Guiding Principles

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 alternatives for calculations.
5. Use at least one method to isolate the effects of the program or project.
6. If no improvement data are available for a population or from a specific source, assume that noimprovement has occurred.

...and

22

12 Guiding Principles

7. Adjust estimates of improvements for the potential error of the estimates.
8. Avoid use of extreme data items and unsupported claims when calculating ROI calculations.
9. Use only the first year of annual benefits in the ROI analysis of short-term solutions.
10. Fully load all costs of the 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.

*Developed by the ROI Institute with input from users. The standards are used by more than 2,000 organizations in 41 countries.

23

Results-based Solutions

- Performance solutions/projects are initiated, developed and delivered with the end in mind.
- Participants understand their responsibility to obtain results with programs/solutions.
- Support groups (management, supervisors, co-workers, etc.) help to achieve results from performance solutions.

24

Results-based Solutions

- A comprehensive measurement and evaluation system is in place for each program/project.
- Variety of approaches utilized to measure contribution, representing a balanced viewpoint.
- Follow-up evaluations (Application, Impact, and ROI) are developed for targeted solutions/projects and results are reported to a variety of stakeholders.

25

ROI Methodology: The Payoff

- Align projects to business needs
- Show contributions of selected projects
- Earn respect of senior management/administrators
- Build staff morale
- Justify/defend budgets
- Improve support for projects
- Enhance design and implementation processes
- Identify inefficient projects that need to be redesigned or eliminated
- Identify successful projects that can be implemented in other areas
- Earn a “seat at the table”

26

Why does ROI Methodology Work

- Balanced set of measures
- Step-by-step process
- Bridges evaluation disciplines
- Balances research and reality
- Flexibility
- Credible
- CFO friendly

27

ROI Methodology: Scope of Use

- 3,500 organizations using the methodology
- Applies to all types of settings (business, government, non-profit, and NGOs)
- Used in 20 functional areas
- Implemented in 51 countries

28

ROI Methodology: Building Expertise

- 30 books support Methodology (38 languages)
- 300 published case studies
- 30,000 managers and specialists participated in a 2 day workshop
- 4,000 involved in ROI Certification
- 2,500 Certified ROI Professionals
- Technology supports its use

29

ROI Applications

- | | |
|-----------------------------------|-----------------------------------|
| ▪ Talent retention | ▪ Ethics/compliance |
| ▪ Consulting | ▪ Innovation |
| ▪ Learning and development | ▪ Lean Six Sigma/Quality |
| ▪ Leadership development | ▪ Technology Implementation |
| ▪ Diversity programs | ▪ Public Relations |
| ▪ Wellness/fitness initiatives | ▪ Safety and health programs |
| ▪ Recruiting strategies | ▪ Project management |
| ▪ Corporate social responsibility | ▪ Marketing and promotion |
| ▪ Green company initiatives | ▪ Meetings and events |
| | ▪ Incentives and incentive travel |

30

Barriers to ROI Evaluation

PERCEIVED BARRIERS

- It can't be done
- It's too complicated
- It's too expensive
- It takes too much time
- It's not appropriate
- No one is asking for it

REAL BARRIERS

- Fear of results
- Waiting for the request
- Lack of investment
- Not thinking about evaluation early
- It's requested; It should be add value
- Lack of preparation

31

What happens if we maintain a status Quo?

- Budget?
- Influence?
- Support?
- Other Issues?

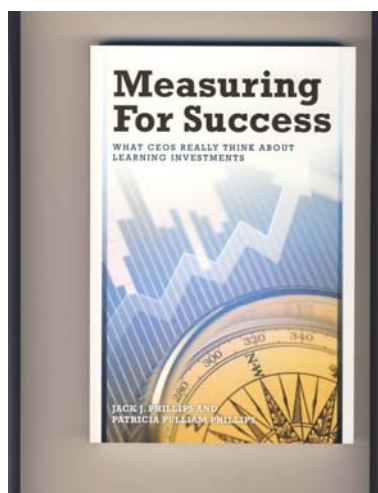
32

ROI Reality

- ROI information is desired by clients/executives
- The ROI process provides a balanced, credible approach with six types of data
- All types of organizations are routinely using impact/ROI
- The ROI process can be implemented without draining resources
- The ROI process is a long-term goal for many organizations

33

For more information



- ROI Institute
- www.roiinstitute.net

34

Questions?

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35