CLO, CFO, CEO and ROI

A Closer Connection

By Jack J. Phillips, PhD, Chairman, ROI Institute

The four acronyms above are closely related, although it may not be readily apparent. Recent issues and trends bring the connection into focus.

Enter the CFO. From all indications the chief financial officer has become an integral part of the people side of the organization. Consider these developments: in a survey just released by *CFO Magazine*, the most popular magazine for the CFO and the finance and accounting team, the top 10 concerns of CFOs offered impressive insights into what's on their mind. From a company perspective, five of the top 10 involve what's normally under the control of the human resource function. With regular coverage of human resources topics and even an annual issue devoted to human capital, the magazine clearly says that human capital is too important to leave in the hands of the HR function. *The Economist* magazine has labeled 2009 the year of the CFO, declaring this person the most important executive to help manage us out of the recession. The same issue reported that EQ is out and ROI is in.

Gartner research reported that more chief human resources officers are now reporting to the CFO. At a recent conference where I delivered a keynote speech (for the National Association of Electrical Distributors), I asked for a show of hands of human resource managers who are now reporting to the CFO. Surprisingly almost 20% raised their hands. Obviously that's unscientific, but I think the same question asked three years ago would have elicited a substantially smaller number. Most learning and development functions still report to HR, putting the CFO in a position to have direct responsibility for this important area.

Now enter the CEO. Always an important executive, we now have more insights into what they consider t o be important measures. The ROI Institute has conducted one of the most significant studies of the chief executive perception of the value of the investment in learning. CEOs clearly made their point in this ASTD-sponsored survey. Ninety-six out of 451 *Fortune* 500 CEOs responded for a 21% response rate. Of those, 96% said they would like to see some measure that connects learning to business impact, yet only 8% of their L & D functions provide the data. On a similar note, 74% of the executives said they would like to see ROI developed at least for some major programs, yet only 4% said they are provided this data now. Not surprisingly, 18% of the executives say they base the amount of funding for L & D on the amount of payoff they see from this function. Clearly, the CEOs are restless when it comes to the data that we have provided to them. Unfortunately, most of the information provided has been dominated by input data (number of programs, hours, costs, and efficiencies) or reaction data. While we've always realized that CEOs want to see impact and ROI data, perhaps it's now coming into focus because of the recession.

Now enter ROI. Clearly, CEOs and CFOs want to see the value of learning and development in terms that are important to them which often means data that connects L& D to the business. In some cases this means measuring actual return on investment (ROI) for major projects or programs. For almost 200 years the concept of financial ROI has been calculated, originally for capital expenditures. In those days, capital expenditures represented buildings, equipment, and tools-then the majority of expenses in a company. Today, in most companies, those items only represent 15% of expenses. The other 85% are expenses such as marketing, human resources, some technology, quality programs, support functions, and other processes. Now, the CFO is using the concept of ROI in non-traditional

areas. It is now entrenched in marketing, quality, and technology, and yes, in human resources. Naturally, the CEO looks to the CFO to try to capture the return on the largest investment, human capital.

To many, it comes as no surprise that the CFO is now more involved than ever before, and often at the encouragement and requirement of the CEO. Together these two very important people will be eyeing our investments. This leaves some important challenges for the CLO. As we emerge from the recession, there must be a renewed effort in building a culture of measurement and accountability. We must focus on results and continue to have our teams thinking about the contributions they're making.

Evaluation must be pushed to the impact level for at least major programs, and in some cases pushed to the ROI level for very expensive and strategic projects that command this level of accountability from top executives. Some projects will have to have this level of scrutiny before they are even implemented. The issue of forecasting ROI will reach intense proportions in 2010-2011. This is what all of the experts are telling us, and we see signs of it now.

So, clearly the concepts of CLO, CFO, CEO and ROI are becoming linked. While this is uncomfortable for some CLOs, it is a welcome challenge for others. Regardless of the process used to show impact and occasionally ROI, it must pass the test of credibility with two important executives, the CEO and CFO. Otherwise two very important stakeholders will be disappointed.

Authors Note: The results of the CEO survey and other executive data are contained in ASTD's just released book, *Measuring for Success: What CEOs Really Think About Learning Investments (ASTD Press, 2010)*.