Getting the measure

HR professionals know that many of their initiatives add value, but how do they prove it? They need to be able to present a business case outlining programme benefits in business terms, says Beryl Oldham. She recommends building ROI evaluation into programmes from the get-go.

Many human resources, organisational development, and learning and development professionals talk about needing to adopt a more business-like approach. Yet very few are able to prove the value of the programmes they implement, or predict their value in advance. Therefore, in a world where business leaders are increasingly focused on their bottom line, most HR professionals struggle to prove the return on investment (ROI) of their initiatives.

Intuitively we know that many HR programmes add value. But if we don't measure whether change has taken place, how do we know this, let alone prove it? No change equals no benefit, so unless you can prove your programme will make a difference, you are unlikely to get the support you need.

Senior management is increasingly demanding to be shown how proposed HR initiatives will benefit the organisation. HR needs to be able to present a business case outlining its programme benefits in business terms.

For an HR results-based approach, the following questions should be asked:

- What is the need?

While organisations may find it difficult to determine programme benefits, the business impact of any programme must be measured before its ROI can be calculated.

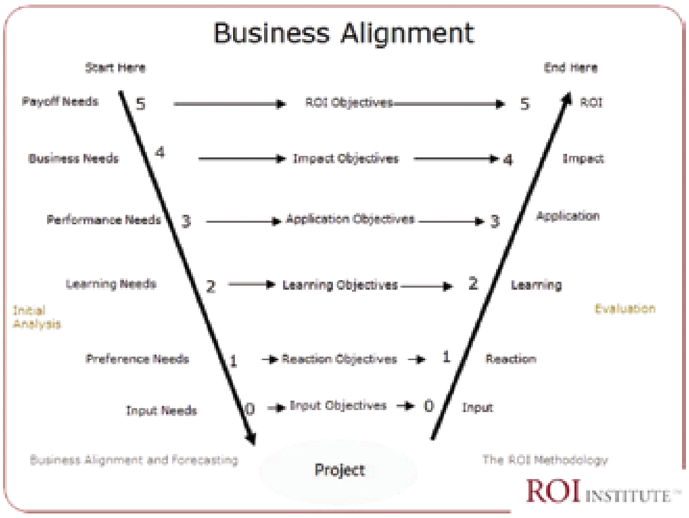

Table 1. Phillips's ROI Methodology business alignment model.

- What do you hope to achieve?
- How will your programme affect participants and other stakeholders?
- How will it impact on the business?
- How will it add value to the business?
- Can ROI be calculated?

Before any project or programme is started, a needs analysis is required. The Business Alignment Model in Table 1 shows what should be considered before any programme is initiated, which needs are addressed by each level of evaluation, and where to start. Most people are unlikely to start with payoff needs in mind, so start with business (or performance) needs as a minimum to ensure a results-based approach.

Only a few select programmes are evaluated to ROI. Consider the life-cycle of the programme, the linkage of the programme to operational goals and issues, the importance of the programme to strategic objectives, top management interest in the evaluation, the cost of the programme, the visibility of the programme, the size of the target audience, and the investment of time required. See Table 2 as a guide for setting evaluation targets.

The ROI Methdology developed by Drs Jack and Patti Phillips of the ROI Institute is a comprehensive measurement and evaluation process that collects six types of measures. These six measures are reaction and planned action (Level 1), learning and confidence (Level 2), application and implementation (Level 3), business impact (Level 4), ROI (Level 5), and intangibles. In addition, the process ensures that programme costs are also captured (Level 0).

Programme or input costs must be collected as net benefit (benefit less programme costs) as part of the ROI calculation.

Table 2 — Evaluation targets

Level	Target
Level 1 — Reaction	90-100%
Level 2 — Learning	60-80%
Level 3 — Application	30%
Level 4 — Business Impact	10-20%
Level 5 — ROI	5-10%

The ROI calculation itself is simple:

$$\text{ROI (\%)} = \frac{\text{Net Programme Benefits}}{\text{Programme Costs}} \times 100$$

Here is an example where costs of programme were $230,000 and programme benefits were $430,000:

$$\text{ROI} = \frac{\$430{,}000 - 230{,}000}{\$230{,}000} = .87 \times 100 = 87\%$$

The tricky bit is working out the business impact and then converting the data into monetary value, which is necessary before ROI can be calculated. The Phillips's framework built on Kirkpatrick's four levels of evaluation developed back in 1959. A comparison between the levels in each model is shown in Table 3.

One difficulty experienced with Level 4 evaluation is the inability to isolate programme effects from other influences; therefore, an evaluation at this level must always include at least one or more strategies to isolate the effects of the HR programme. It is not uncommon to come up with quite a large ROI. (This should not be surprising if you believe you are adding value.) Isolating techniques to prove the real contribution of your programme may include the use of control groups, trend analysis, forecasting methods, using experts/previous studies, estimating the impact of other factors, customer input, and measuring the estimate of impact as a percentage with participants, supervisors and managers.

Participant impact estimates are particularly useful in estimating what percentage of performance improvement can be attributed to the programme being evaluated and help to ensure credibility. The last thing the evaluator wants is to be caught out claiming credit for something that cannot be attributed to the subject programme. Should this occur, your credibility will go out the window.

To ensure credibility, always make sure you use the most conservative ROI. This is worth mentioning because if you use different isolation techniques, you may obtain different ROIs. Remember that while it is OK to mention all your results, you should always report the most conservative as the 'official' ROI you claim.

It pays to include participant impact questions in any evaluation survey you conduct. Basically they are used to bring your calculated ROI down to a more credible percentage by ensuring that you don't

Table 3 – Characteristics of evaluation levels in Kirkpatrick and Phillips evaluation frameworks

Kirkpatrick's levels of evaluation	Phillips's levels of evaluation	Brief description
	Level 0	Measures the input or programme costs (required to work out the net benefit for the ROI calculation)
Level 1	Level 1	Measures participants' reaction to the HR programme or initiative
Level 2	Level 2	Measures skills, knowledge or attitude changes
Level 3	Level 3	Measures changes in behaviour on the job and specific applications of the HR programme or initiative
Level 4	Level 4	Measures the business impact of the HR programme or initiative
	Level 5	Compares the monetary value of the results with the costs for the HR programme or initiative and is usually expressed as a percentage

claim more credit for your programme than you should. Conducting a participant impact estimate is relatively simple and can be collected with other survey data. Best practice is to ask two questions: first, what percentage of improvement can be attributed to the programme, and second, as a percentage, how confident are you in the estimate you have just provided? You end up with two percentages which can be used to bring down your ROI to a more realistic number.

Here is a simple example: suppose you ended up with a huge ROI of 406 percent. Impact estimates can bring it down to a much more believable and therefore credible result. If the average response from your survey said that participants attributed 50 percent of improvement to the programme and were 80 percent confident in their answer, the 406 percent would be multiplied by .5 and then by .8 to give you a more credible ROI of 162.4 percent. Never claim all the credit for improvement unless you can prove it was all due to your programme.

Because the development of ROI requires the two additional steps of converting Level 4 business impact measures to monetary benefits and capturing the actual programme cost, it is recommended that Level 5 ROI be used to measure only a very small number of programmes. A common target for organisations is 5 to 10 percent of all programmes offered annually.

With such a low number of programmes being chosen for ROI, the criteria needed to select the programmes becomes extremely important and should be developed only with input from senior managers. Programmes should only be selected for Level 5 ROI when they represent major investments, involve large audiences, or have high visibility. Often, the criteria used to select programmes for Level 3 and Level 4 evaluation also apply to Level 5 ROI, and is usually reserved for programmes closely linked to the organisation's operational and strategic objectives.

Results that impact on the business may include increased production, improved quality, decreased costs, reduced frequency and/or severity of accidents, reduced absenteeism, reduced turnover, customer satisfaction and higher profit margins. And anything that saves time can be easily monetised; the old saying that "time is money" is true. It is important to realise that results like these are the reason for implementing many programmes, and that the final objective of the programme should be stated in these terms. While organisations may find it difficult to determine programme benefits, the business impact of any programme must be measured before its ROI can be calculated.

ROI evaluation is often perceived as a difficult and expensive process. One method of easing the process is to build ROI evaluation into the programme at all design and development stages, right from the beginning needs assessment to the follow-up data collection. Data collection is easier if it is part of the planning process and collected throughout the process. Valuable data can be lost if its collection is left until after programme implementation.

It is also important to conduct evaluation at all levels when an ROI evaluation is planned. This is because if a positive ROI is not obtained, the reasons can usually be found in data collected at the lower levels. Eliminating ineffective programmes is another way of adding value to your organisation. et

Beryl Oldham is currently Manager People Capability, which is a senior HR business partnering role at Housing New Zealand, in addition to being the NZ business associate of Drs Jack & Patti Phillips of the ROI Institute.