Budgeting and ROI

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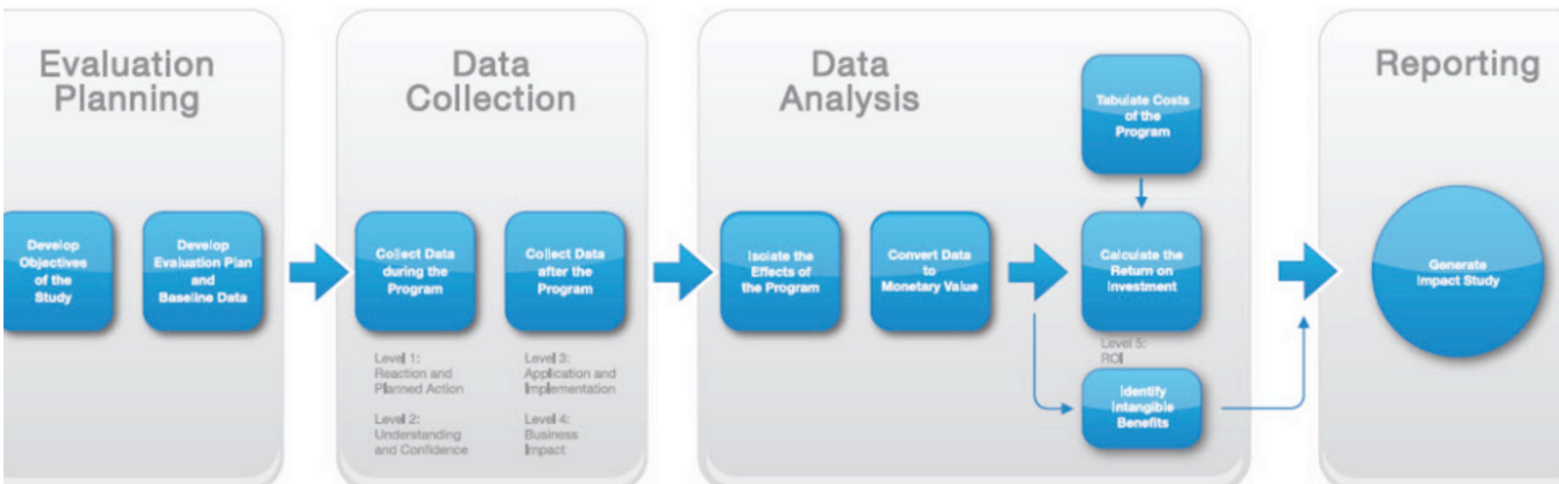

INTRODUCTION

One of the first issues that comes to mind when considering any business strategy is: What can we expect in terms of a benefit and what will it cost?

So where do the budgets for engagement come from? The answer is simple – from the traditional budgets organizations create to define their brands and establish their cultures; attract and retain customers; engage retailers and distributors; encourage employees to fulfill the brand promise; to innovate, work smarter, contribute ideas and improve wellness. Engagement is simply a more holistic, systematic approach to addressing how to maximize the chances that people will do whatever's necessary to meet and exceed their goals and the goals of the organization.

ENGAGEMENT INTEGRATES

Engagement programs are funded from budgets allocated for branding, leadership training and coaching strategies; customer, distributor and employee assessment; advertising and social media; leadership and training; corporate communications; innovation and collaboration tactics; rewards and recognition; and data analytics, because engagement integrates all of these to ensure that organizational efforts are specifically aligned to achieve specific objectives.

The fundamental premise of Engagement is that it lowers costs because it allocates resources based specifically on the desired business result and the people needed to accomplish it, not on supporting the wishes of organizational interest groups and silos promoting their own agendas.

It took decades for marketers to more strategically integrate all of their marketing programs from advertising to promotions, events, direct marketing, etc., and it will take time for organizations to better integrate their overall engagement efforts as well.

LOOK ACROSS SILOS

Another primary premise of this textbook is that business management should look across silos whenever possible to find tactics they can leverage – such as communications platforms, learning systems, collaboration programs, etc. – that might be currently managed by someone else in the organization. Perhaps there are ways to utilize those resources in a way that can easily be applied to a specific need.

Executives who understand the importance of integrating engagement efforts across the organization can facilitate this process by ensuring regular collaboration between business group leaders and a commitment to aligning efforts across the organization.

CALCULATING ROI OF ENGAGEMENT

The best known, most broadly implemented and most successful method for measuring the impact and ROI of business initiatives is the ROI Methodology™ developed in the 1970's by Dr. Jack Phillips.

By applying the principles of measurement and using the ROI Methodology™, organizations can effectively measure engagement initiatives. The key steps are as follows:

1. Determine the goals and objectives of your engagement program and ensure that they're aligned to corporate strategy and objectives. This can include goals related to improving engagement scores by a certain amount, as well as to payoff goals that are tied to ROI, such as a goal to increase customer retention by 10%.

2. Create a plan to both collect your data and evaluate it. At this stage you must also have baseline data for comparison. Before moving on, you should be able to identify: 1) the data you're collecting; 2) how you'll collect it; 3) the method(s) you'll use for analysis and evaluation; and 4) what you will compare the data to for benchmarking purposes

At this stage, the program initiatives are underway. You might, for example, be seeking an improvement in employee engagement among your consulting group. Your initiative may be manager/supervisor training for those who lead the consultants, for example. In this case you'll collect data on the managers' reaction to the training, what they believe they've learned and what they plan to do with it.

Later, as they go back to work, you'll collect data on whether they've actually applied the learning and have taken specific actions to improve engagement among their reports.

Depending on the nature of the training, you'll collect data on the application of the learning and its impact – perhaps at intervals of several months after the training. This may include the results from an employee engagement survey and its linkage to better, measurable financial goals, for example.

3. Now that you have your data, isolate for the effects of your initiatives. For example, you've measured the reaction, implementation and impact of a manager training program. Suppose an improvement of 41% has been achieved in the benchmark employee engagement survey (among consultants) over the most current survey period. That's an impressive gain, but how much of the gain should be attributed to the training? Several months may have passed between the courses and the results from the latest survey.

The easiest and most effective means of determining attribution is to ask. Ask the managers, ask a sampling of the consultants, ask senior managers and executives. Each group should be presented the summary findings and asked how much of the improvement should be attributed to the initiative. After you've received your answer, ask them one more question: "How confident are you in your estimate?" After you've consolidated your responses, a simple calculation will determine your attribution level.

For illustration purposes, suppose the individuals you canvass estimate, on average, a 55% attribution level, meaning after considering all the things that occurred between the training initiative and the improved engagement results, they would attribute 55% of the gains to the training. Then suppose they were only, on average, 65% confident in that estimate – after all, many months have passed and a lot has happened at the organization that could have impacted employee engagement.

Once you have your data to calculate attributions, it's time to convert the gains (41% better engagement scores) to actual dollars.

4. Do the conversions. Conservative estimates are critical, since converting any form of engagement results to money is imprecise and therefore subject to the skepticism of financial executives and the CEO. In this example, consider the impact of employee *dis*engagement. For example, is employee attrition higher among disengaged employees than engaged employees? What is the average cost of replacing an employee, including recruitment, onboarding, training, etc.? Are performance review results better for engaged employees versus less-engaged employees? Can you analyze several groups of employees (salespeople, for example) and calculate the difference in productivity and performance between those who are engaged versus those who are disengaged and then extrapolate throughout the organization?

Using measures such as these, it's possible to convert engagement gains into hard dollar equivalents. Suppose your organization is a professional services firm that employs 1,250 people. Among them, the consulting group is 800, with an average of $178,000 in salary
and benefits. We will also assume that each consultant generates, on average, $350,000 in annual gross revenue for the firm. Next, assume that you've suffered 50 fewer unwanted departures and benefited from 3.2% higher productivity (based on billing increases, adjusted for any changes in fees), on average, across the consulting group based on the 41% improvement in employee engagement. Now, in this highly simplified example, you're ready to calculate dollar value and attribution levels as follows:

Multiply 50 fewer departures by your organization's average cost of replacement. Common industry standards range from 100% to 150% of salary, but suppose you choose a far more conservative estimate based on hard dollar recruiting and training costs, plus loss of productivity (billings, etc.) while the position was unfilled – let's say $50,000 per person:

$50,000 x 50 = $2,500,000

Next, estimate the hard dollar impact of 3.2% better productivity for all 800 consultants:

800 x $350,000 x 3.2% = $9,000,000

The subtotal of $2,500,000 + 9,000,000 = $11,500,000.

You already know that attribution of gains is 55%, therefore:

$11,500,000 x 55% = $6,325,000

And you know the confidence level is 65%. As such, your next calculation will be as follows:

$6,325,000 x 65% = $4,111,250

After discounting, your gross Return on Investment is about $4.1 million in round numbers.

5. Calculate the entire, fully loaded costs of your initiative. For example, did you purchase the course? Was it delivered by an external trainer, or do you have to calculate total compensation divided by days spent on the training by internal instructors? What were the costs of materials, promotion and communication? Did you account for taking all of the organizations' managers away from their work for the duration of the course, the value of renting the facility (even if it was onsite in a room that would have otherwise been unused), catering costs, etc.? Try to factor in all costs, no matter how small, to determine "fully loaded" costs.

6. Calculate the ROI of the engagement initiative by subtracting the fully loaded costs from the hard dollar benefits. For the purposes of this illustration, let's say the fully loaded costs were $550,000. To arrive at an ROI then:

$4,100,000 - $550,000 = $3,550,000

$$\text{ROI} = \frac{\$3{,}550{,}000 - \$550{,}000}{550{,}000} \times 100\% = 545\%$$

The hard dollar ROI from the engagement training initiative can be calculated at 545%, a very good return based on conservative calculations, and not including all possible tangible benefits (such as reduced absenteeism, etc.) nor intangible benefits such as happier employees, who may speak better of the organization to colleagues, customers, friends and family.