

## Return on Investment

### A. Overview:

Establishing a clear ROI for Organization Development activities is difficult even though the connections are indirectly clear. Organization Development activities focus almost exclusively on the human side of organization effort and are often associated with soft factors such as work force motivation, esprit de corps, and increased performance and productivity. An organization doing the wrong things with fiscal efficiency can be worse off than an organization doing the right things with poor financial and management controls.

Both the client organization and the consulting firm have a vested interest in carefully determining Return-on-Investment in any consulting project. Often, the client must "justify" expenses for consulting efforts in financial terms, and the consulting firm must assure that it is adding value in order to retain long-term clients.

Current popular literature also provides rationale for ROI calculations. If available, articles or extracts from articles, books and journals must be sought and used to support ROI methodology. Clearly, there is no single best solution to calculating ROI, nor will the "best" method today remain the "best" method tomorrow.

There are two alternative methods available to apply to a credible Return-on-Investment calculation: The Incident Method and The Systemic Method. Both methods are used by *QWLC* to calculate ROI and both methods are explained briefly below. A third method has emerged and will likely be engaged in the near future for those clients who desire greater specificity. This third method is described as an integrated client-driven methodology. *CapacityWare*<sup>TM</sup> automatically performs the calculations on each of these methods based on ROI selections.

### B. The Incident Method:

Connecting cost savings or value added financial criteria to specific incidents is possible, though it is usually difficult to attribute fully such savings or value added to Organization Development. This is because Organization Development, as an organization development activity, performs a *catalytic* rather than a *direct* primary role. It initiates a new train of thought, shifts an attitude that opens the way to a new understanding, or sparks a dialogue that builds a new relationship and connection. Any of these could lead to cost savings or value added.

If Organization Development activities, for example, facilitate the acquisition of a \$3M new account, the victory will be claimed by those directly involved with the sale even though the event may have been facilitated. Determining the exact level of contribution of the facilitator, although apparent to those in attendance, is difficult.

When the Cultural Facilitator is an outside resource (such as *QWLC*), the difficulty increases. People internal to the organization rightfully claim credit for improvements, savings, and the like. Attributing direct financial advantages to an outside resource can become competitive and thus act counter to everyone's best interests.

In at least one heated discussion on this topic, a frustrated employee blurted out, "If the only thing that comes of this is that we're in the same room talking about important things -- it will have been worth every penny!" We certainly agree if something good happens because of those discussions, but how does one attach value to such an incident? Unfortunately, organization development resources (especially those from outside the structure, like *QWLC*) are in a weak position to follow-through to make sure something does happen. The authority to do so only resides within the structure.

It is reasonable to allow organization development influence to claim a part of the success when it is clearly recognized that a significant influence has been brought to bear *and* when the principals are willing to infer a significant value added to this influence.

### **C. The Systemic Method:**

Because organization development activities attend to the whole system and may not necessarily be evident by examining its individual parts, *QWLC* has chosen to strongly attribute Return-on-Investment measurements to systemic enhancements rather than to specific incidents. We do, however, believe it is important to document known incidents where Organization Development has been a catalyst for success, though direct achievement credit must always belong to those internal to the organization.

In determining ROI, the Unifying Human Systems (UHS) Model is used as the framework because it constitutes a whole system view. The UHS Model is used to establish a baseline status for the Organization Development project. Progress is measured over time by movement in each of ten categories. Each category lends itself to dollar-value calculations. Movement in any category can be converted to a dollar figure based on criteria agreed to by all involved. In separate documentation, we provide a general overview of each of the ten systemic elements as well as ROI criteria suggestions.

### **D. An Integrated Client-driven Method:**

When appropriate, the client and consulting firm may engage in a negotiated third option. If the client desires and the consulting firm agrees, they may negotiate an integrated option based on weighted performance in any of the ten UHS elements, but may not exclude any individual element from having a weight assigned to it. This method may be advantageous to both parties when the possibility of performance-based "profit sharing" alternatives exist.

## **Return-On-Investment in Organization Development Activity**

### **Skills**

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#### **Background:**

Item 42 on the 1997 survey indicated that Division employees, particularly technicians, had difficulty getting needed computer training because it did not specifically apply to their jobs. Computer skills, however, encumbered their use of such common items as e-mail and a myriad of other computer aids. As a result, employees were not able to make full use of the equipment available to them.

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#### **Course of Action:**

A process improvement team was chartered to further identify the problem and propose potential solutions. A needed relationship was formed with the Employee Development Office and a representative of that Branch was asked to help solve the problem. Together computer classes were scheduled and EDO provided the needed funding to assure that Division technicians attended the training.

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#### **Results:**

Nearly 100 slots were allocated for computer training that was not otherwise available. The Division also obtained over \$5,000 for the training that did not come from the existing training budget.

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#### **ROI Financials:**

\$5,000 was provided and needed training for nearly 100 people that had previously been excluded.

## Unifying Human Systems Model

The Unifying Human Systems (UHS) Model is used as a generic diagnostic tool for an organization undergoing a cultural realignment assessment. The best-case scenario and worst-case scenario are illustrated for each sub-system. Suggested ROI criteria for each element are also included.

### **1 - Leadagement (or Leadership and Management).**

An organization's leadership and management refer to the capacity of its members to lead others and follow someone (or more than just one) along appropriate courses of action. The leadership and management of an organization are critical because it integrates each of the other sub-system elements listed below:

*Best: People believe that leadership/ management get positive results that benefit all.*

*Worst: People believe that leadership/management is unresponsive to their needs and demands.*

#### **Suggested Return On Investment Criteria**

A factor of supervisory personnel compensation.

### **2 - People.**

This sub-system includes the people assigned to the organization, and those external to it having an influence upon its work. The "people" category is concerned with the quantity of individuals required to perform adequately the necessary functions for a team or work group. The "people" category is also concerned with the style and natural attributes of personality and culture that enable one to be successful in the organization.

*Best: People believe they influence each other in a positive way.*

*Worst: People believe they influence each other in a negative way.*

#### **Suggested Return On Investment Criteria**

A factor of non-supervisory personnel compensation.

### **3 - Skills.**

Skills constitute the ability of an individual to perform the tasks required of his or her position in such a way that the "standards" of the organization are met and its purpose attained. Skills are an accumulation of one's education, training, and experience.

*Best: People believe they have the skills to do a superior job.*

*Worst: People believe that they lack the skills to do an acceptable job.*

#### **Suggested Return On Investment Criteria**

A factor of the Training and Development budget.

### **4 - Organizations.**

Organization structures are defined by the formal (authority - wiring diagrams) and informal (empowered - parallel structure) relationships among individuals and groups. An organization consists of teams and work groups, large and small.

*Best: People believe their structural relationships within the organization foster synergy.*

*Worst: People work in groups that are ineffective.*

#### **Suggested Return On Investment Criteria**

A factor of all personnel compensation.

## **5 - Alignment.**

Alignment is HOW the organization goes about doing what it is designed to do. Generally, alignment includes three components: beliefs, strategy, and work regimen. It is important to note that these components are present and influence the organization even when they are not known, discussed, or recorded.

***Best: People believe they know how to make a meaningful contribution to the organization's success.***

***Worst: People believe they lack understanding of how the "whole" organization functions, and of the part they play.***

### **Suggested Return On Investment Criteria**

A factor of the projected current year annual revenue increases.

## **6. Facilities.**

This sub-system incorporates two elements. The first identifies the implications of accommodations within which workers perform their tasks -- the facility.

The second element identifies the implications of proximity to other organization elements (higher, peer, and lower in a hierarchy). Organization elements occupying separate facilities (separated by proximity) afford a unique challenge to leadership and management.

***Best: People believe their work surroundings support getting work done.***

***Worst: People believe they are inhibited in some way by their work space.***

### **Suggested Return On Investment Criteria**

A factor of the annual depreciated or equivalent value of the organization's facilities.

## **7 - Equipment.**

Equipment represents the tools and supplies needed to lever the performance of tasks. Normally, office machines, such as copiers, fax machines, and computers are considered equipment. Equipment also includes the software, and office furniture, and other intangibles that allow work to be completed.

*Best: People believe they have the proper equipment to excel in their work.*

*Worst: People believe that a lack of proper tools prevents them from doing their best work.*

### **Suggested Return On Investment Criteria**

A factor of the annual depreciated or equivalent value of the organization equipment.

## **8 - Technology.**

Typically, an organization's technology is the written "documentation" concerning "how the place runs." It might be an office job aid or SOP. It allows the members of the organization to replicate success and avoid failure by establishing situational guidelines. In its purest form, technology is created by the organization as its contribution to a well- defined body of knowledge. The technology of IBM, for example, consists of those documents having to do with computers that, if the documents were purchased, would allow the new owner to make and sell IBM computers.

*Best: People believe they have access to special organizational instructions that allow them to synergistically provide unique and superior service.*

*Worst: People believe that their routine actions are invented anew for nearly every situation.*

### **Suggested Return On Investment Criteria**

A factor of all personnel compensation plus the cost of storage and retrieval.

## **9 - Information.**

Information sub-systems include those mechanisms used to transfer/communicate thoughts AND FEELINGS among the members of the organization. Most important are the unconscious communications used to convey meaning in relationships. Again, of equal importance to what *is* being said is what *is not* being said that needs to be said. Information allows people to perform their tasks with effectiveness and efficiency. An essential ingredient to organization health is the free flow of information into the organization as a means of keeping it vibrant and responsive to the needs of its customers in the environment.

***Best: People believe they can get any information they need to do a good job, and that others can have any information they want by asking for it.***

***Worst: People believe that needed information is hard to acquire, and protect the information they have from falling into the "wrong hands."***

### **Suggested Return On Investment Criteria**

A factor of all personnel compensation.

## **10 - Environment, the Situation and Culture.**

An organization's environment consists of everything outside the organization itself, to include those items (typically resources) coming IN and those products and services going OUT. Customers are also located in an organization's environment.

***Best: People believe they impact our organization's environment in a favorable way.***

***Worst: People feel helpless to the threats in our organization's environment.***

### **Suggested Return On Investment Criteria**

Total Annual Budget.