CALCULATING ROI

A PRACTICAL GUIDE FOR MEASURING RETURN ON HUMAN CAPITAL INVESTMENTS

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STRONG TEAMS FOR A COMPLEX WORLD

CONTENTS

CALCULATING ROI
A Practical Guide for Measuring Return on Human Capital Investments

> ### *"Okay...but how do I prove ROI?"*

WE HEAR THIS A LOT.

Human resource leaders know their leadership programs are making a difference, yet most struggle to provide the elusive financial ROI calculation upon which their executive teams insist. Senior leaders want to know if the proverbial bang is worth the buck, and they want measurements they can trust. The question becomes: "How do you practically measure whether someone is becoming a better leader... or not?"

Teamalytics' Value is Unquestioned

What really gets me going each day are fresh opportunities to help leaders realize their true potential while advancing the strategic objectives of their employers at the same time. In my view, Teamalytics provides tools and resources that help make this happen. They help us identify the gaps, or as they say, counterproductive behaviors. Perhaps the best part of it is that this renewed self-awareness, when mobilized, goes way beyond the world of 8 to 5 and also favorably impacts life relationships. In summary, it is positive, encouraging, comprehensive, and highly revealing. Teamalytics' value is unquestioned.

ROBERT J. WACKER
Vice President of Human Resources
Fortune 100 Media and Entertainment Conglomerate

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Redefining ROI for HR Professionals

It is our job as Human Resource professionals to help our organizations understand the ROI for investing in our people. Although there may not be a standard formula for calculating the impact of these investments, we can use the criteria to measure the impact on our business.

In the book Measuring Leadership Development, Phillips et al. outline five different levels of measurement of ROI for leadership development. The following examples are practical ways to measure human capital programs against all five levels. You will find that they are easy to implement and can flex to meet the needs of your organization.

Level 1	Reaction: Measures Satisfaction with the Program

LEVEL 2

LEVEL 3

LEVEL 4

LEVEL 5

Measuring program satisfaction is a valuable qualitative measure. We know that the more satisfied employees are with an experience, the more likely they will participate in future sessions, endorse our programs with peers, and mandate participation of their teams. Below are a few examples of Level 1 survey questions that we use during our engagements:

FIGURE 1: SATISFACTION SURVEY

*How would you rate this session overall?

- ○ Poor
- ○ Fair
- ○ Good
- ○ Outstanding

*How would you rate your coach overall?

- ○ Poor
- ○ Fair
- ○ Good
- ○ Outstanding

*How would you rate the relevance of the content delivered during the session?

- ○ Poor
- ○ Fair
- ○ Good
- ○ Outstanding

*Please rate your level of agreement with the following statement: "The one-on-one session was worthwhile and valuable to my development."

- ○ Strongly Disagree
- ○ Disagree
- ○ Neither Agree/Disagree
- ○ Agree
- ○ Strongly Agree

*Please Respond to the following statement: "I would find value in additional one-on-one opportunities."

- ○ Strongly Disagree
- ○ Disagree
- ○ Neither Agree/Disagree
- ○ Agree
- ○ Strongly Agree

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When designing a satisfaction survey, it's insufficient to simply ask, "Did you like this?" Someone might enjoy coaching or a training course but not find it relevant to their job. Conversely, they may find the session relevant to their life but feel that the delivery was lacking.

As such, it is important to break down satisfaction questions to thoroughly capture different aspects of the interaction. Using a rating scale rather than a simple yes or no allows you to build a baseline for measurement trends over time.

In general, HR professionals are good at measuring program satisfaction. However, high satisfaction does not answer all the questions leaders have about the programs.

• Are people utilizing what they learned?

• Are participants going to change in the way the business needs them to?

• Did it make enough of a difference in behavior to justify the cost?

The next level addresses these concerns.

| Level 2 | Learning: Measures What People are Taking Away from the Program |

In Level 2, we're looking beyond satisfaction and gathering data to determine what was learned. Building on the Level 1 questions, we now gather data on specific insights gained from the program. Below are a few sample questions we have used in our Teamalytics workshops.

Although self-assessment data on leadership growth is useful, it is equally, if not more important to receive data from our peers. Are they seeing growth in our ability to manage ourselves and positively impact others? Are we improving on identified constraints and critical leadership competencies?

Level 3 helps address those questions.

FIGURE 2: WORKSHOP CONTENT SURVEY

*Please rate your level of agreement with the following statement: "I have an increased awareness of my personal strengths and constraints from participating in this workshop."

O Strongly Disagree
O Disagree
O Neither Agree/Disagree
O Agree
O Strongly Agree

*Please rate your level of agreement with the following statement: "I have a greater insight into how my teammates perceive me."

O Strongly Disagree
O Disagree
O Neither Agree/Disagree
O Agree
O Strongly Agree

*What was your biggest "takeaway" from this virtual session?

_____

_____

_____

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Level 3 Application/Implementation: Measures Progress After the Program

We now have data on program satisfaction and self-measured leadership growth and development. In Level 3, we begin to gather data on how participants are being perceived by their colleagues.

Each participant in our process receives a personalized behavioral data report called the Teamalytics 360 Profile. From that validated data, individuals work with their coach to create a custom-made leadership development plan called a Traction Plan. After working their Traction Plan for a period of a few months, we then launch a process called the Traction Plan Check-up. During this process, each participant receives specific, focused feedback on their Traction Plan from peers, supervisors, and direct reports (if applicable).

(Below are examples of both a Traction Plan and a Traction Plan Check-up report)

FIGURE 3: SAMPLE TRACTION PLAN

Teamalytics Leader15

MY TRACTION GOAL Being my relational best at all times by being intentional, fully present, and highly engaged in every interaction.

MY STRENGTHS

| Competitive | Loyal | Faithful | Dependable | Responsible | Passionate |
| Determined | Fearless | Purposeful | Inspirational | Hard-Working | Intelligent |

MY TOP CONSTRAINTS

1. Deference (risk of being too low)
2. Need to Nurture (risk of being too low)

IMPACT STATEMENT

If I don't work on my constraints, I limit the influence I have with my team and ultimately undermine my success as a leader and the ability of my team to fully achieve the mission of the company. I can also inadvertently shut people down and stifle creativity from my team.

MY TOP CONSTRAINTS

1. Deference (risk of being too low)
- Listen better - seek to understand first. Validate and repeat back what others say. Watch my body language!
- When trying to persuade others, be sure to voice both sides of the issues, not just my side or my concerns.
- Hold my thoughts more - bring out less outspoken people in conversation. Don't always be the first to respond or fill a conversation void.

2. Need to Nurture (risk of being too low)
- Intentionally be more positive and encouraging to grow my influence as a leader.
- Connect first before jumping to content or my needs - emphasize the "Who" before the "What."
- Reach out to people more - be the initiator. More quick calls/texts/emails. Drop in more. Build more depth of connection.

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FIGURE 4: TRACTION PLAN CHECK-UP EXAMPLE 1

Constraint: Deference Too Low

Listen better - seek to understand first. Validate and repeat back what others say. Watch my body language!

Selected ratings describing your success in implementing this traction step.

Exceptional

Notable

Moderate

Limited

Lacking

Comments

You have done a better job with the body language aspect and appearing open to others' feedback by not crossing your arms.

I have seen you working hard on this. Keep it up!

FIGURE 5: TRACTION PLAN CHECK-UP EXAMPLE 2

Constraint: Deference Too Low

When trying to persuade others, be sure to voice both sides of the issues, not just my side or my concerns.

Selected ratings describing your success in implementing this traction step.

Exceptional

Notable

Moderate

Limited

Lacking

Comments

Although I have seen you make a real effort in this area, I have noticed its harder for you to do this if you feel strongly about something or if we need to make a quick decision.

I believe you remain myopic on your point of view most times and should work more consistently on this step.

I still feel you focusing on one side of issues and not voicing both sides.

Unlike typical performance review processes, Traction Plan Checkups provide real-time feedback on identified and targeted leadership gaps. Ideally, these are done 90 days after starting a program. Program participants learn the answer to, "Am I making the progress I think I am in my leadership development… or not?" Additionally, the check-up report provides the opportunity for ongoing conversations about further development opportunities.

It can provide confidence that individuals are working on the right things as well as point out areas that need further attention.

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Level 4 | Business Impact: Measures Change in Business Impact Variables/KPI's

In addition to measuring program impact on individuals, it is imperative to evaluate the impact on business results. Level 4 measurement of ROI focuses on the goals of the business. This is most effective when done in collaboration with functional leaders who are more inclined to believe the measurement if they participated in defining the parameters. What improvements do individual business units want to see? What are their specific goals for growth and improvement?

For example, you might want to evaluate a sales team that wants to move from tactical sales to a more consultative approach by measuring a change in average sales price. Or you may evaluate a customer service team that needs to reverse a recent trend of losing several high-value accounts by measuring an increase in first time resolution tickets. Ultimately, you are looking to prioritize the skills that are relevant to the business problem that needs to be solved.

> *"Functional leaders know how team dynamics are impacting their function. If you involve them in the selection of value metrics, they are more likely to accept the outcome than if you use the same general metrics across the business."*

It is important to choose functional metrics that can be impacted by the individual, not merely evaluating general performance.

Attrition Dropped from 72% to 14%, Saving $6 MM/Yr

We had developed an attrition rate for our truck drivers that was much higher than the industry average for a concrete delivery company. Our attrition rate of 72% every six months was costing us more than $6 million a year. We brought in Teamalytics to help us reduce our driver turnover. They spent time observing the daily interactions and behaviors of our drivers and managers and then prescribed new behavioral processes to increase driver engagement levels, including team and individual behavioral plans and social programs to provide additional benefits to the drivers and their families. Within just 24 months, our attrition had dropped from 72% to an industry leading 14%! The ability of Teamalytics to bring out the best in our team is just one of the many positives I can see for working with them to take your team to the next level.

DICK SCHILHAB
General Manager, Transit Mix

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Finding the right business metrics can be a challenge because there are many factors that might impact the result. As such, we recommend conducting a measurement workshop to align business leaders around the specifics of value measurement. In the appendix, you'll find a sample workshop agenda as well as a library of business metrics.

DON'T ABANDON SOFT METRICS

Remember: Dollars are not the only way to measure employees. Work satisfaction, personal fulfillment, and employee engagement are important measures to track even when using business metrics as a value driver of leadership programs. Soft metrics can still serve as leading indicators and help you improve the overall quality of your programs.

Ahead of Time and Under Budget

"

Honestly, my biggest concern was that my leaders, who average around 30 years of experience in large organizations, would feel like the process was a waste of time. Thankfully, we unanimously agree that our experience with Teamalytics has had a tremendously positive impact on our team. In terms of ROI, our team's engagement scores have gone up. Many of my team and their direct reports have noticed a big difference in the actions of their leaders as a result of our work with Teamalytics. As an example, we had coincidently undertaken a large and very complex technology implementation that required close coordination across our business lines. I could clearly see the impact of the trust and enhanced team dynamic as we implemented this initiative. The project was completed ahead of time and under budget! Perhaps most telling, though, is that all of my managers are now keen for their own business teams to go through the Teamalytics process.

ANTHONY TUTRONE

Global Head of Alternatives
Neuberger Berman

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Level 5 — Financial ROI: Measures the Monetary Benefit Gained vs Costs Incurred

In this final stage of measuring ROI on leadership development, the impact on business criteria that were agreed upon in Level 4 are measured against the overall cost to develop and run your programs.

Very few organizations are willing to put in the work it takes to do this because, quite simply, it takes a lot of time. Level 5 can be complicated because the senior-most leaders within a large organization are often several steps away from doing the actual work that impacts financial metrics. However, complicated doesn't mean impossible.

> *The ideal financial metrics that are chosen to calculate ROI are those that are under the direct control of, and can be influenced directly by, the actions of the senior leaders who are participating in your program.*

Example: Greater Accountability Leading to Revenue Growth

One of the most frequently coached leadership behaviors is lower criticality. This is true across industries and around the world. Leaders who are low on this behavior are more tolerant, positive, empathetic and trusting. Those can be positive traits. But when taken too far, they usually result in over-filtering one's candor, hesitating to stretch and challenge others, and potentially failing to establish and enforce consequences.

In one example, Teamalytics engaged with a large energy firm whose sales team was under-performing; revenue growth had stalled at $1.7 billion. During the assessment process of the leadership team we discovered that one of the contributing factors to this zero-growth was the sales leader's failure to hold the team accountable and their unwillingness to address under-performance. This lower criticality resulted in sugar-coated feedback, limited consequences for missing targets, and a lack of awareness of how to push and challenge the team to drive revenue growth. By working to raise this leader's criticality through a targeted coaching engagement, the organization saw a $200m jump in revenue over the course of 12 months.

> *There may be no easy way to measure ROI, but there are critical ways you can prove impact to the business. By rejecting rigid formulas and picking the metrics essential to your business, you can build a meaningful business case.*

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APPENDIX A: A LIBRARY OF BUSINESS METRICS

HR METRICS	► Profit/Revenue Per Employee ► Employee Turnover ► Elective Churn Rate (employees leaving voluntarily) ► Time to Fill (Recruiting) ► Time to Productivity ► The Cost of Employee Turnover ► Employee Net Promoter Score (relative positivity of employee experience) ► Job Satisfaction ► Leadership Approval ► Employee Engagement Index ► Acceptance Rate ► Cost Per Hire ► Talent Turnover Rate (turnover among your organization's high-performing employees) ► Retention Rate ► Absence Rate ► Overtime Hours ► Revenue Per Employee ► Performance and Potential ► Goal Tracking ► Training Expenses Per Employee ► Training Effectiveness ► ROI of HR Software ► Salary Competitiveness Ratio ► Internal Promotions vs External Hires
METRICS FOR IT	► Technology Performance ► IT Infrastructure ► IT Solutions and Services ► ITSM and Service Desk ► Outages (Mean time to resolve and mean time to failure) ► Network ► Security ► Service Availability ► SLA (service level agreements) Compliance Ratio (ratio between the number of incidents resolved in compliance with SLA and the total number of incidents) ► SLA Performance ► SLA Verification ► SLA Breach Rate ► Scheduling ► Risk ► User/Customer Satisfaction ► Availability of IT Service ► IT Spend vs. Plan ► % Project Spend on Customer Facing Initiatives-Defect Containment

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METRICS FOR MARKETING

- ► Average Time on Page
- ► Content Downloads
- ► Cost Per Action
- ► Dormancy Rate
- ► Customer Share by Category
- ► New Leads Generated
- ► Referral Traffic
- ► Bounce Rate (number of customers that visit your site and leave without navigating it)
- ► Sessions by Device Type
- ► Keyword Performance
- ► Goal Completion Rate
- ► Email Marketing Performance
- ► Marketing Qualified Leads
- ► Sales Qualified Leads
- ► Funnel Conversion Rates
- ► Brand Awareness
- ► Customer Engagement
- ► Marketing Spend Per Customer
- ► Lifetime Value of a Customer
- ► Customer Acquisition Cost
- ► Customer Retention
- ► Web Traffic Sources
- ► Incremental Sales
- ► Total Visits
- ► Click Through Rate

METRICS FOR SALES

- ► Market Penetration
- ► Percentage of Revenue from New vs. Existing Customers
- ► Year-Over-Year Growth
- ► Sales Expense Ratio
- ► Sales Activity Metrics (what your sales representatives are doing on a daily basis)
- ► Lead Response Time
- ► Average Contract Value
- ► Number of Sales Tools Used
- ► Percentage of Time Selling, Entering Data and Content Creation
- ► Average Days to Close-Effort (number of calls made, number of emails sent, presentations booked)
- ► Annual Recurring Revenue
- ► Average Revenue Per User
- ► Quota Attainment
- ► Win Rate
- ► Conversion Rate
- ► Sales Cycle Length
- ► Average Deal Size
- ► Average Profit Margin
- ► Deal Slippage
- ► Churn Rate
- ► Net Retention Percentage
- ► Pipeline Coverage
- ► Sales Linearity
- ► CRM Score (how long has a deal stayed in a given sales stage, whether the deal size has increased or decreased)

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GENERAL PERFORMANCE MANAGEMENT METRICS	
	▶ Training Improvement
	▶ Profit
	▶ Cost
	▶ Cost of Goods Sold
	▶ Customer Satisfaction and Retention
	▶ Number of Customers
	▶ Employee Turnover
	▶ Knowledge Achieved with Training
	▶ Percentage of High and Low Performers in the Organization
	▶ Amount of Personal Development Activity Undertaken
	▶ Frequency and Quality of Feedback Given
	▶ Employee Motivation Levels (impacted by performance reviews)
	▶ Customer Complaints
	▶ Product Defects
	▶ Number of Errors
	▶ Net Promoter Score
	▶ Number of Units Produced
	▶ Handling Time
	▶ Contact Quality
	▶ Revenue Per Employee
	▶ Absenteeism Rate
	▶ Overtime Per Employee
	▶ Quality (measured with 360 or manager feedback)
	▶ Nurturing Effectiveness
	▶ Conflict Resolution
	▶ Initiative

One Of Our Strongest Competitive Advantages

"

Identifying talent and cultural alignment are essential to success. In the same way, sorting out in advance those who will become either cultural misfits or ethical problems has been equally significant. Teamalytics has allowed us to do both well. ***They have been one of our strongest competitive advantages****. After discovering how powerful the Teamalytics models were in improving my own effectiveness and eliminating counterproductive behavior throughout our entire organization, I now believe that our key investment relationships should consider doing the same.*

BRITT HARRIS
President/CEO and Chief Investment Officer
UTIMCO ($45B+ of capital under management)

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I Can't Imagine Building Companies Without Them

"

I first encountered Teamalytics when I was a partner at a top 10 PE firm where we used them in various portfolio companies. I later became the CEO of a $1 Billion PE-owned portfolio company where Teamalytics was instrumental in accelerating my ability to get results from my team. Now, as the managing director of a new PE firm that I co-founded, my partners and I use Teamalytics in every diligence process and in all of our portfolio companies. They've become a critical part of our process and I can't imagine building companies without them.

GEORGE KOLLITIDES II

Managing Director
Alvarez & Marsal Capital Opportunities

Contact Us

If you have any questions or need additional assistance, please do not hesitate to contact us.

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