The Nine Most Common ROI Mistakes

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ROI is often viewed as the "holy grail" in measurement among training and HR professionals. Creating valid and credible ROI estimates is, however, not an easy undertaking. Here are nine commonly-made errors that should be avoided:

ATTEMPTING TO MEASURE THE VALUE OF AN INTERVENTION THAT IS NOT TIED TO BUSINESS RESULTS.

If the intervention has not been linked (directly or indirectly) to a business goal, then it will be virtually impossible to determine its business value. In that case, before you even consider estimating ROI, go back to square one and clearly delineate the business results that you expect to achieve from the given intervention.

USING THE WRONG OUTCOME METRIC.

Some "outcomes" may be conveniently measured, but if they're not verifiably linked to business results, they won't help in determining ROI.

UNDERESTIMATING COSTS.

Be sure to include direct costs associated with the intervention, indirect costs (e.g., wages and benefits of employees while they participate in a learning intervention and overhead), and opportunity cost (including lost productivity and the cost of capital).

OVERSTATING BENEFITS.

When done well, any meaningful intervention to improve your organization's work and learning environment is but one component of an integrated bundle of interventions designed to improve performance. Hence, unless you isolate the impacts of the various components, you run the risk of significantly overstating the benefits of each individual intervention.

FAILING TO DISCOUNT THE FLOW OF FUTURE BENEFITS.

Your calculations must incorporate the present *discounted* value of all future benefits – because a dollar two years from now is worth less than a dollar today.

FAILING TO GAIN AGREEMENT UP FRONT WITH THE RELEVANT STAKEHOLDERS.

Be sure that everyone has agreed on what metrics will be used to measure success and what standard of evidence will be used to determine whether the intervention has been successful.

ATTEMPTING TO ACHIEVE FALSE PRECISION.

When benefits are quite specific and can easily be quantified (e.g., sales training), then more precise metrics and standards of evidence are appropriate than when benefits are extremely diffuse and/or inherently difficult to quantify (e.g., leadership development). Don't expect to be able to estimate ROI to the same degree of precision for all types of interventions.

USING ROI FOR BUDGET JUSTIFICATION.

Most fundamentally, ROI should be used as a tool for continuous improvement.

UNDERTAKING ROI WHEN IT IS THE WRONG MEASURE.

Sometimes, you simply shouldn't try to estimate ROI. Your necessary standard of evidence may be unobtainable, you may lack the appropriate outcome measures, or you may be unable to isolate the impact of your intervention. ROI isn't the best tool for all circumstances; don't force it.

McBassi is a human capital analytics firm that helps organizations improve their performance through more effective management and development of people. Our services include analytics, employee surveys, and assisting organizations in tackling other major people-related issues.

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