An ROI Case Study

Southeast Corridor Bank (SCB)

Measuring ROI in Employee Retention

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This case was prepared to serve as a basis for discussion rather than to illustrate either effective or ineffective administrative and management practices. All names, dates, places, and organization have been disguised at the request of the author(s) or organization.

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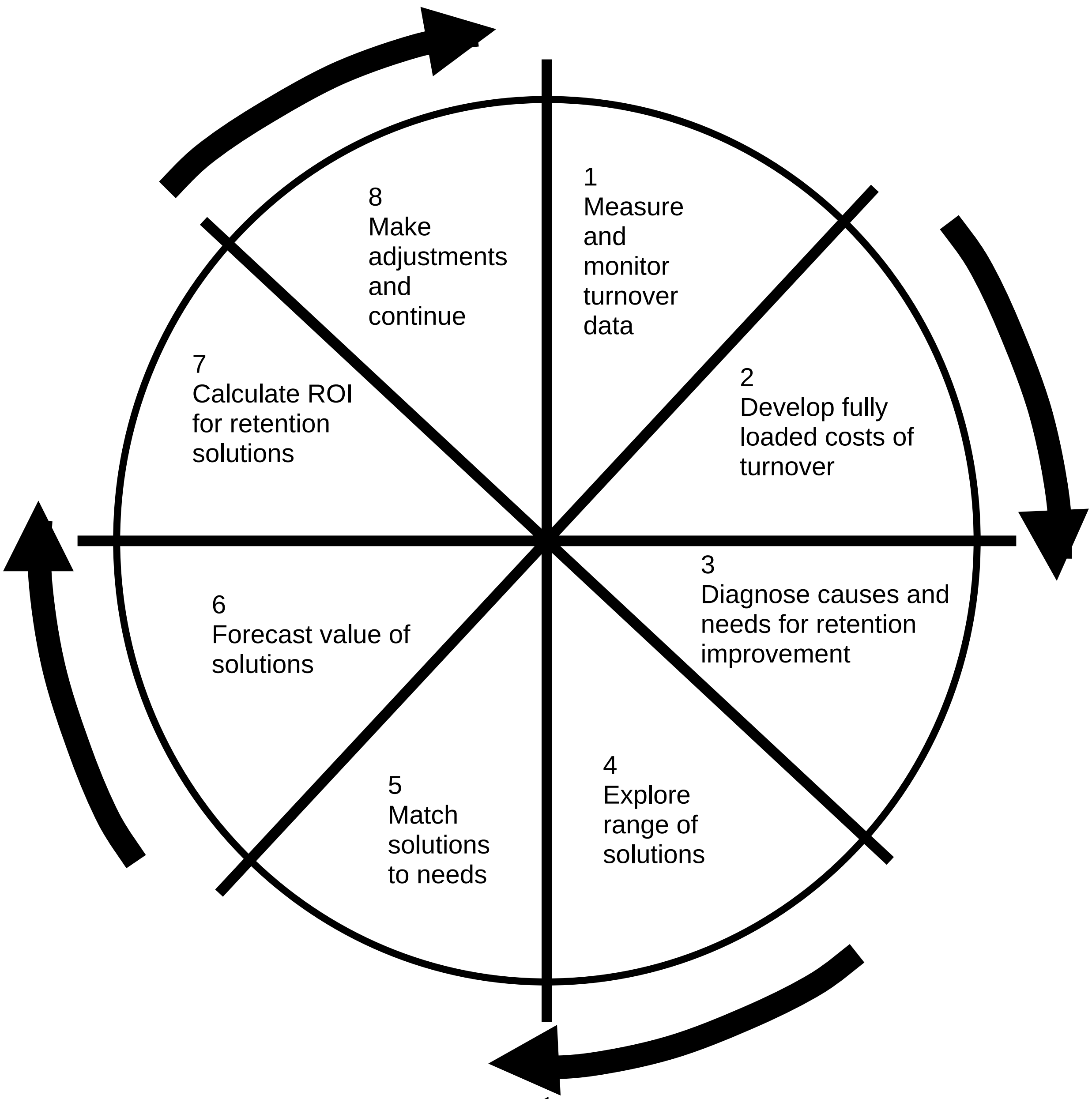
Southeast Corridor Bank (A)

Southeast Corridor Bank (SCB), a regional bank operating in four states with sixty branches, had grown from a single state operation to a multi-state network through a progressive and strategic campaign of acquisitions. As with many organizations, SCB faced merger and integration problems, including excessive employee turnover. SCB's annual turnover rate was 57%, compared to an industry average of 26%. The new senior vice president for human resources faced several important challenges when he joined SCB, among them was the need to reduce turnover. Although management was not aware of the full impact of turnover, they knew it was causing operational problems, taking up much staff and supervisor time, and creating disruptive situations with customers.

A Strategic Accountability Approach



The strategic accountability approach is the basic model for this case study. The process brings accountability to the retention issue in eight steps. The approach is strategic since it considers the retention issue to be an important part of strategy. The executive team is very involved in this issue. With many firms, retention has become a strategic issue because it's makes the difference between mediocre and excellent profits. Accountability is built in throughout the process to fully understand the cost of the problem, cost of the solutions, potential impact of the solutions, and actual impact of the solutions – all in monetary terms. The approach moves logically from one issue to another through a series of steps necessary to manage the process. It's easy to stay on track because each of the different issues has to be addressed before moving onto another issue. This approach brings structure and organization to the retention, rather than shooting from the hip or, implementing solutions without analysis.

1. *Measuring and Monitoring Turnover*

To properly monitor and measure turnover, several issues have to be considered:

- Define turnover consistently
- Report turnover rates by various demographics
- Report rates by critical job groups
- Include costs with turnover
- Compare data with benchmarking targets
- Develop trigger points for action

2. *Developing a Fully Loaded Cost of Turnover*

The impact cost of turnover is one of the most underestimated and undervalued costs in the organization. It is often misunderstood because it is not fully loaded and does not reflect the actual costs of a turnover statistic. Also, it's not regularly reported to the management team so they don't know the actual cost. In addition, it can be extremely frightening when fully loaded costs are calculated for the organization for an entire year.

When exploring turnover, usually only the costs for recruiting, selection, and training are considered. These are often easily calculated and sometimes inappropriately reported as the cost of turnover. In reality, other costs should be included. A more comprehensive listing includes twelve categories as listed in Table 1.

Turnover Costs	
Exit costs	Lost productivity
Recruiting costs	Quality problems
Employment costs	Customer dissatisfaction
Orientation costs	Loss of expertise/knowledge
Training costs	Management time for turnover
Wages and salaries while training	Temporary replacement costs

Table 1 – Recommended Categories for Accumulating Turnover Costs

3. Diagnose Causes and Needs for Retention Improvement

Determining the cause of turnover is a very critical and illusive issue. Some causes may be obvious, while others can be extremely elusive. Collecting appropriate data is often a challenge because of the potential for bias and inaccuracies that surface during the data collection process. A variety of several diagnostic processes are available. As shown in Table 2.

• Diagnostic instruments • Statistical process control • Brainstorming • Problem analysis • Cause-and-effect diagram • Force-field analysis • Mind mapping • Affinity diagrams • Simulations	• Image surveys • Records analysis • Focus groups • Probing interviews • Job satisfaction surveys • Engagement surveys • Exit interviews • Exit surveys • Nominal group technique

Table 2 – Diagnostic Tools

4. Explore a Range of Solutions

Organizations are very creative in their approach to the turnover problem, resulting in hundreds of excellent solutions. The critical issue is to ensure that the solution is feasible for the organization. Most solutions can be categorized as follows:

- **Joining the organization**, which includes image and market performance, recruitment, selection, job fit, orientation, and initial training.
- **Establishing an appropriate work environment**, which includes job satisfaction, work place design, safety, supportive culture, job security, life balance, diversity, and quality of leadership.
- **Creating equitable pay and performance processes**, which includes pay, benefits, rewards, recognitions, and job performance.
- **Building motivation and commitment,** which includes empowerment, teamwork, ethics, trust, organizational commitment, professional growth and career advancement.

5. Matching Solutions to Needs

This step goes hand in hand with the issue of forecasting the value of solutions presented next. The development of the two issues should be parallel since the solutions selected for implementation are assumed to meet specific needs, making the forecast of the anticipated value imperative. When attempting to match solutions to need, five key issues are considered:

- Avoid mismatches
- Implement only a minimum number of solutions
- Select a solution for a maximum return
- Verify the match early

- Check the progress of each solution

6. Forecast Value of Solutions

Developing a forecast for the value of a solution allows the team to establish priorities, work with a minimum number of solutions, and focus on solutions with the greatest return on investment. A difficult, challenging, and, sometimes, risky issue, forecasting is an expert estimation of what a solution should contribute. It is imperative to accumulate as much data as possible to back up the estimate and build credibility around the process. The payoff value can be developed if the percentage of expected turnover reduction can be estimated with credibility. For example, if the number one cause of turnover is addressed and removed with a solution, what percentage of the turnover would actually be eliminated? Sometimes, employees can provide input for this issue as data are collected to identify the causes of turnover. This step may require several 'what if' decisions with employees while making various assumptions about the data. Also, this step may involve building on previous experiences to the extent possible. In some cases, the experience of other organizations can be helpful.

7. Measure ROI for Retention Solutions

Another often-neglected step is the actual calculation of the impact of a turnover reduction strategy. This step is often omitted because it appears to be an add-on process that may be unnecessary. If counting solutions is the measure of success of turnover reduction or prevention, the impact to those solutions may seem to have no value. From a senior executive's point of view, accountability is not complete until impact and ROI data have been collected, at least for major solutions. The ROI methodology generates six types of data about the success of a turnover reduction strategy:

1. Reaction to and satisfaction with the solution
2. Skill and knowledge acquisition
3. Application and implementation progress
4. Business impact improvement
5. Return on investment, expressed as an ROI formula
6. Intangible measures not converted to monetary values.

This definition also includes a technique to isolate the effects of a turnover solution. The ROI process has achieved widespread applications for the evaluation of all types of programs and solutions. (Phillips, 2002)

8. Make Adjustment and Continue

The extensive set of data collected from the ROI process will provide information to make adjustments and changes in turnover reduction strategies. The information reveals success of the retention solution at all levels from reaction to ROI. It also examines barriers to success, identifying specifically what kept the solution from being effective, or preventing it from becoming more effective. It also identifies the processes in place that enable or support a turnover reduction solution. All of the information allows for adjusting and/or repositioning the solution so that it can be revised, discontinued, or amplified. The next step in the process goes back to the beginning, monitoring the data to ensure that turnover continues to meet our expectations. . . . and the cycle continues.

Questions for Discussion

1. Which Definition of employee turnover is appropriate for this case study?

2. How should the impact of turnover (turnover costs) be developed?

3. What method should be used to determine the cause of turnover?

Southeast Corridor Bank (B)

Measuring and Monitoring Turnover

SCB monitored turnover by different categories, defining them as either voluntary separations or terminations for performance. Departures due to retirement and/or disability were not included in the definition. A turnover for performance was an important issue that could be rectified if the performance deficiency could have been recognized or prevented early.

The turnover rate was monitored by job group, region, and branch. Branches had the highest turnover rate, averaging some 71% in the previous year – far exceeding any expectations and industry averages (e.g., turnover compared with other financial institutions and data from the American Bankers Association). In addition to branches, turnover was considered to be excessive in a few entry-level, clerical job classifications in regional and corporate offices.

Impact of Turnover

The impact of turnover was developed at the beginning of the study. External turnover studies in the banking industry had revealed that the cost of turnover for bank employees was 110% to 125% of annual pay (Creery and Creery 1990). Using the categories listed in Table 1, this fully loaded cost was published in several trade publications. When reviewing the proposed program and the proposed method for calculating the payoff, the senior executive team suggested a lower value. In essence, the senior team thought that turnover wasn't quite that expensive and suggested only 90% (0.9 times an annual pay).

Determining the Cause of Turnover

Three basic techniques were used to pinpoint the actual cause of turnover. First, as described briefly above, the analysis of individual job groups, and tenure within job groups gave insight into where turnover was occurring, the magnitude of the problem, and some indication of the cause. Much of the turnover occurred in the early stages of employment (e.g., in the 6-18 month category).

Second, exit interviews from departing employees were examined to see if specific reasons for departure could be pinpointed. As with most exit data, accuracy was a concern as the departing employees may have been biased when reporting the reason for leaving. The stigma of individuals not wanting to burn bridges left the data incomplete and inaccurate.

Third, recognizing this problem, the HR team used the nominal group technique to determine more precisely the actual causes of turnover. A highly structured and unbiased focus group, this process is described next.

Nominal Group Technique

The nominal group technique was selected because it allowed unbiased input to be collected efficiently and accurately across the organization. A focus group was planned with 12 employees in each region for a total of six groups representing all six regions. In addition, two focus groups were planned for the clerical staff in corporate headquarters. This approach provided approximately a 10% sample and was considered to be a sufficient number to pinpoint the problem.

Participants for focus groups represented areas where turnover was highest. They described why their colleagues were leaving – not why *they* would leave. Input was solicited from participants in a carefully structured format, using third party facilitators. The data were integrated and weighted so that the most important reasons were clearly identified. This process has the advantages of low cost, high reliability, and being unbiased. Data were captured in a two-hour meeting in each regional location. Only two days of external facilitator time was necessary to collect and summarize data for review.

The nominal group technique unfolds quickly in ten easy steps.

1. The process is briefly described along with a statement of confidentiality. The importance of participant input is underscored and participants understand what they must do and what it means to SCB.
2. On a piece of paper, participants are asked to make a list of specific reasons why they feel their colleagues have left SCB or why others may leave in the future. It is very important for the question to reflect the actions or potential actions of others, although their comments will probably reflect their own views (and that is what is actually needed).
3. In a round robin format, each person reveals one reason at a time and it is recorded on flip chart paper. At this point, no attempts are made to integrate the issues; just record the data on paper. It is important to understand the issue and fully described it on paper. The lists are placed on the walls so that when this step is complete, as many as 50 or 60 items are listed and visible.
4. The next step is to consolidate and integrate the lists. Some of the integration is easy because the items may contain the same words and meaning. For others, it is important to ensure that the meanings for the cause of the turnover are the same, before they are consolidated. When integrated, the remaining list may contain 30 or 40 different reasons for turnover.
5. Participants are asked to review all of the items, and carefully select which ten items they consider to be the most important causes and list them individually on index cards. At first, participants are not concerned about which cause is number one, but are instructed to simply list the ten most important ones on the cards. Participants usually realize that their original list was not complete or accurate, and they will pick up other issues for this list.
6. Participants sort the ten items by order of importance, the number one item being the most important, and number ten, the least important.

7. In a round robin format, each participant reveals a cause of turnover, starting from the top. Each participant reveals his or her number one item, and ten points are recorded on the flip chart paper next to the item. The next participant reveals the number one issue and so on until the entire group offers the top cause for turnover. Next, the number two reason is identified, and nine points are recorded on the flip chart paper next to the item. This process continued until all cards have been revealed and points recorded.
8. The numbers next to each item are totaled. The item with the most points becomes the number one cause of turnover. The one with the second most points becomes the second cause of turnover and so on. The top 15 causes are then captured from the group and are reported as the weighted average cause of turnover from that group.
9. This process was completed for all six regional groups and the clerical staff groups. Trends began to emerge quickly from one group to the other. The actual raw scores from each group were combined for the integration of the six regional focus groups.
10. The top 15 scores are the top 15 reasons for turnover in the branches and clerical groups.

Specific Needs

Table 3 shows the top ten reasons for employees leaving only the bank branches. A similar list was developed for the clerical staff, but the remainder of this case study will focus directly on the efforts to reduce turnover in the branch network. Branch turnover is the most critical issue with the highest turnover rates and representing the largest number of employees. The results of the focus groups developed a clear pattern of specific needs. Recognizing that not all of the causes of turnover could be addressed immediately, the bank set out to work on the top five while a variety of options for solutions were considered. Eventually, a skill based pay system was implemented.

Reasons for Turnover in the Branch Network
1. Lack of opportunity for advancement
2. Lack of opportunity to learn new skills and new product knowledge
3. Pay level not adequate
4. Not enough responsibility and empowerment
5. Lack of recognition and appreciation of work
6. Lack of teamwork in the branch
7. Lack of preparation for customer service problems
8. Unfair and unsupportive supervisor
9. Too much stress at peak times
10. Not enough flexibility in work schedules

Table 3 – Top ten reasons why branch employees leave the bank

Question for Discussion

1. Which solution(s) would you recommend?

2. Is it possible to forecast the ROI for this solution(s)? Explain

Southeast Corridor Bank (C)

Solution: Skill-Based Pay

The skill-based pay system addressed the top five issues. The program was designed to expand the scope of the jobs with increases in pay for the acquisition of skills and provide a clear path for advancement and job growth. Jobs were redesigned from narrowly focused teller duties to an expanded job, labeled Banking Representative. The teller job title was eliminated, and the tellers became Banking Representative I, II, or III. Table 4 shows the basic descriptions of the jobs with new initial wage rates. A branch employee would be considered a Banking Representative I if he or she could perform one or two simple tasks such as processing deposits and cashing checks.

Banking Representative Level	**Job Duties**	**Hourly Wage Rate**
I	Basic teller transactions (deposits, check cashing, etc.)	$6.00
II	Same as above plus opening and closing accounts, CDs, savings bonds, special transactions, etc.	$7.50
III	Same as above plus limited liability consumer loans, applications for all consumer loans, home equity loans, referrals for mortgage loans, etc.	$9.00

Table 4 – Proposed job levels

As a Banking Representative I took on additional responsibilities and performed different functions, he or she would be eligible for a promotion to Banking Representative II. If all the basic functions of the bank branch were performed, including consumer loan applications, a promotion to Banking Representative III was appropriate. Branch employees could progress as they developed job related skills. Centralized training opportunities were available to develop the needed skills while structured on-the-job training was provided through the branch manager, assistant manager, and teller supervisor. Self-study, videos, and distance learning were also available to help learn new skills. The concept of multiple tasks was aimed at broadening responsibilities and empowering employees to perform a variety of tasks needed to provide excellent customer service. Pay increases, following skill acquisition and demonstrated accomplishment, recognized accomplishments and increased responsibility.

Although the skill-based system had some definite benefits from the employee perspective, there were also some benefits for the bank. Not only was turnover expected to reduce but actual staffing levels could be reduced in larger branches. In theory, if all employees in a branch could perform all the duties, fewer employees would be needed. Previously, minimum staffing levels were required in certain critical jobs and those employees were not always available for other job duties.

In addition, improved customer service was anticipated. This new approach would prevent customers from having to wait in long lines for specialized services. For example, in the typical branch bank, it is not unusual to see long lines for special functions (i.e., opening a checking account, closing out a CD, or taking a consumer loan application) while teller functions (paying and receiving) often have little or no waiting. With each employee performing all the tasks, shorter waiting lines would not only be feasible, but expected.

To support this new arrangement, the marketing department referenced the concept in their promotion of the branch staff and products and services. Included with the checking account statements was a promotional piece labeled, "In our branches there are no tellers." This document described the process and explained that all the branch employees could perform all branch functions and consequently provide faster, efficient service.

Measuring Success

Measuring the success of the new solution required collecting data at four levels. At the first level, reaction and satisfaction is measured during meetings with the employees and during regularly scheduled training sessions. This measurement provided input on employee acceptance of the new arrangement and different elements of the program. Using brief surveys, data were collected on a five-point scale. As expected, the results were positive, averaging a 4.2 composite rating, with 5 representing exceptional.

At the second level, learning is measured in two different ways. For each training and learning opportunity, skill acquisition and knowledge increase is measured. Informal self-assessments are taken for many of the programs. A few critical skills required actual demonstration to show that employees could perform the skill (e.g., documentation, compliance, and customer services). When learning measurements revealed unacceptable performance, participants were provided an opportunity to repeat training sessions or take more time to practice. In limited cases, a third opportunity was provided. After one year of operation, only two employees were denied a promotional opportunity, due to their performance in training programs.

At the third level, application and implementation was measured by collecting four types of data as shown in Table 5. Actual participation in the program reflected the willingness for individuals to pursue skill acquisition through a variety of efforts. The results were impressive.

Application and Implementation Progress		
	1 Year Prior	*1 Year Post*
Participation in Program	N/A	95%
Requests for Training	45 per month	86 per month
Review Situations	N/A	138
Actual Promotions	139	257

Table 5 – Selected Application and Implementation Data

In all, 95% of the branch employees wanted to participate in the program. The remaining 5% were content with the Banking Representative I classification and were not interested in learning new skills. Requests for training and learning opportunities were a critical part of the formal processes. Employees had to map out their own developmental efforts, which were approved by the branch manager. In all, some 86 requests per month were logged, almost taxing the system for providing training and learning opportunities. Reviews of the status and progress – to be considered for the promotion for the next level – were significant, with a total of 138. This review was the formal way of demonstrating skills for promotion. Promotions increased quickly; as much as double that of previous promotions in the branch network. As the table shows, actual promotions one year prior to the program was 139, increasing to 257 one year after the program was initiated.

Nine categories of business impact measures were monitored and are shown in Table 6 along with the definitions. In all, nine categories of data were expected to be influenced to some degree by this project, although the first four were considered to be the primary measures.

Business Impact Measures	
1. Branch Employee Turnover (Monthly)	Avoidable turnover. Total number of employees leaving voluntarily and for performance reasons divided by the average number of employees in the branch for the month. This number is multiplied by 12 to develop the annual turnover rate.
2. Staffing Level	The total number of employees in the branch, reported monthly.
3. Customer Satisfaction	Customer reaction to the job changes (faster service, fewer lines) measured on a 1-5 scale.
4. Job Satisfaction	Employee feedback on selected measures on the annual feedback survey process.
5. Deposits	Savings, checking, and securities deposits by type and product.
6. Loan Volume	Consumer loan volume by loan type.
7. New Accounts	New accounts opened for new customers.
8. Transaction Volume	Number of face-to-face transactions, paying and receiving, by major category.
9. Cross Selling	New products sold to existing customers.

Table 6 - Business Measures Influenced by the Project

The most important expected benefit was turnover reduction, the major thrust of the project. The total avoidable turnover should be reduced. The second measure was staffing levels. With more highly skilled employees, it should take less staff, at least for the larger branches. The third measure was customer service. With fewer customers waiting in line and less need to move from one line to another, customers should be more satisfied. The fourth measure is job satisfaction; employees should be more satisfied with their work, their job, and career possibilities. Finally, there was expected increase in volume attributed to the project because there were fewer customers waiting in line. Consequently, customers would visit more often or would not leave in frustration because of delays. This should result in increases in deposits, consumer loan volume, new accounts, transaction volume, and cross selling measures. Additionally, these last five categories were operational measures of each branch and were expected to move very little because of this project.

Isolating the Effects of the Skill-Based Pay Project

An important issue was to isolate the actual impact of the skill-based pay project from other influences. In almost any type of situation, multiple influences drive specific business measures. To add credibility and validity to the analysis, a specific method was used to isolate the effects of the project for each data item used in the ROI calculation. As shown in Table 7, the method used for isolating the effect of the project on turnover reduction was to obtain estimates directly from branch managers and the branch staff. In brief group meetings, the branch staffs were provided the results of the turnover reduction and were asked to allocate the percentage linked directly to the skill based pay effort. Each branch provided this information.

Data Item	Method of Isolating the Effects	Method of Converting Data
Employee Turnover	Branch Manager Estimation Staff Estimation	External Studies
Staffing Levels	Branch Manager Estimation	Company Payroll Records
Customer Service	Customer Input	N/A
Job Satisfaction	Staff Input	N/A
Deposits, Loan Volume, New Accounts	Branch Manager Estimation	Standard Value (% Margin)
Transaction Volume Cross Selling	Branch Manager Estimation Staff Estimation	Standard (Average % Margin)

Table 7 – Business Measures and Planned Analysis

As a first step in the process, branch team members would discuss the other factors that could have contributed to turnover reduction (only two were identified). They were asked to discuss the linkage between each factor and the actual turnover reduction. This discussion, in a focus group format, improved the accuracy of this estimation. However, since it is estimation, an error adjustment was made. Individuals were asked to indicate the level of confidence in their allocation of turnover improvement to the skill-based pay project using a scale of 0 to 100%. With this scale, 0% means no confidence and 100% means absolute certainty. The confidence percentage was used as a discount for the allocation. For example, if an individual allocated 60% of the turnover reduction to this specific project and was 80% confident in that allocation, the adjusted value would be 48% (60% times 80%). When collected properly, this method of isolation provides a conservative estimate for the effect of skill-based pay on turnover reduction. In this example, the branch manager input was combined with the staff employees on equal weighting. Essentially, the results were averaged.

For staffing levels, actual improvements were adjusted with the branch manager estimation. In essence, using the process described above, branch managers indicated the degree to which the new project resulted in actual staff reduction. Staff reductions only occurred in 30% of the branches (i.e., the larger ones) and this estimate only involved those branch managers. Since no other factors contributed to this staff reduction, branch managers gave the entire reduction amount to the skill-based project.

Table 6 shows the planned method for isolation for each measure that is a part of the planning for the study. Increases in deposits, loan volume, new accounts, transactions, and cross selling were minimal and had many other variables influencing them. Consequently, no attempt was made to isolate the effect on them or use the monetary improvements in the ROI analysis. However, they are listed as intangibles, providing evidence that they have been driven with the turnover reduction program.

Survey cards completed at the end of a transaction and deposited at the entrance to the branch provided a sample of customer service reactions. The customers appreciated the new approach, liked the service delivered, and indicated that they would continue to utilize the branch. The annual employee job satisfaction survey showed improvements in advancement opportunities, a chance to use skills, pay for performance, and other related issues. Customer service and job satisfaction measures were not isolated or converted to monetary volume and consequently not used in the ROI calculation. However, these measures are very important and influential in the final evaluation and listed as intangible benefits.

Converting Data to Money

Table 7 also shows the method used (or planned) to convert data to monetary value. Turnover was converted to monetary value using a value from external studies. The specific amount was calculated using .9 times the annual salary as the cost of one turnover. This value was considered a conservative amount since several studies had values ranging from 1.1 to 1.25 times annual earnings. More importantly, the value was developed and agreed to in a meeting with the senior management prior to the actual calculation of values. The average annual salary of the branch staff below the branch manager level was $18,500. Collectively, the staffing reductions translated into significant savings far exceeding expectations. For each turnover reduction, a $16,650 (18,500 X .9) savings was realized. Table 7 shows the turnover reduction of 174. The contribution factor (the percent of the reduction linked to the solution) and confidence estimate error adjustment is multiplied by the 174 to yield 120 prevented turnovers. The contribution factor and confidence estimates were obtained in branch meetings, described earlier. The cost of a turnover ($16,650) is multiplied by 120 to yield an annual value of almost $2 million. That amount is doubled for a two-year savings. At this point in data collection, the second year value is not known and a second year forecast is needed.

The method for converting staffing levels to monetary value was to use the actual salaries for those job levels eliminated. Only a few branches were affected. The actual number was multiplied times the average salary of the branch staff. The value was captured for one year and projected for another year assuming the same level. A two-year time frame was used because it was considered a conservative way to evaluate (i.e., one year of actual data and the forecast of one year). Although the program should provide extended value, additional benefits beyond the two years were excluded. This is the conservative basis of the ROI methodology.

Analysis

The turnover reduction at the branches was significant, moving from 71% to 35% in one year. Although some of the smaller branches had no staffing changes, the larger branches had fewer staff members. In all, 30% of the branches were able to have at least one less staff member either part-time or full-time. Also, 10% of the branches were able to reduce the staff by two individuals.

Table 8 shows the calculations of the annual and projected values for the total benefits for the two-year period. Different scenarios could have been considered such as capturing the first year value only. Benefits had to be captured or projected for the same two-year period as the costs. The total two-year benefit was $4,625,000.

Actual Business Results

	Prior Year	One-Year Post	Actual Difference	Contribution Factor	Confidence Estimate	Adjusted Amount	Unit Amount	Annual Benefits	Two Year Benefits
Turnover	71% (336)	35% (182)	174	84%	82%	120	$16,650	$1,998,000	$3,996,000
Staffing Levels	480 (Average)	463 (End of Year)	17	100%	100%	17	$18,500	$314,500	$629,000

Table 8 – Calculation of Business Results

Project Cost

Table 9 shows the fully loaded project cost of the skill-based project. The initial analysis costs were included and included time, direct costs, and travel expenses for focus groups. The development of the program included the time and materials. The next two categories were the branch staff time and represented an estimate of all the time away from normal work to understand the program and learn new skills. The next category is the actual salary increases – the additional salary in the branch as a result of a potential early promotion. The total amount of first year promotions (977,600) was reduced by the rate of promotions in the year before the solution was implemented.

Project Costs	Year 1	Year 2
Initial Analysis	$ 14,000	--
Program Development	2,500	--
Participant Time	345,600	195,000
Branch Manager Time	40,800	30,200
Salary Increases	446,696	203,900
Administration/Operation	4,600	4,100
Evaluation	3,000	--
	857,196	433,200

Table 9 – Fully Loaded Project Costs

Administration and operation was ongoing and involved the time required from the HR staff to administer the program. Finally, the evaluation costs were included and represented the costs related to developing the impact study project. The total cost presented in this table contains several of the items in a one-year actual and one-year forecast while the other items are the total cost of the project. The total two-year cost was $1,290,396.

Questions for Discussion

1. Calculate the BCR and ROI? What do these values mean?

2. How should the results be communicated? Which audiences should receive the information?

Southeast Corridor Bank (D)

ROI and Its Meaning

The two-year monetary benefits are combined with costs to develop the Benefit Cost Ration (BCR) and the return on investment (ROI) using the following formulae.

$$BCR = \frac{\text{Solution Benefits}}{\text{Solution Cost}} = \frac{\$4{,}625{,}000}{1{,}290{,}396} = 3.58$$

$$ROI = \frac{\text{Net Solution Benefits}}{\text{Solution Cost}} = \frac{\$4{,}625{,}000 - \$1{,}290{,}396}{1{,}290{,}396} \text{ X } 100 = 258\%$$

This BCR value indicates that for every $1 invested in the project, $3.58 is returned. In terms of ROI, for every $1 invested, $2.58 is returned after the costs are captured. These results are excellent, since most of the ROI studies have target (expected) values in the 25% range. The ROI is only one measure and should be considered in conjunction with the other measures. It is an estimate that is developed utilizing a conservative approach. It probably underestimates the actual return from this project.

Communicating Results

The results were communicated to the senior management team in an executive staff meeting where approximately 30 minutes were allocated to the project. The communications were very critical, and three points were made:

- The project was quickly reviewed, including the description of the solution.
- The methodology used for evaluating the project was described.
- The results were revealed one level at a time presenting the following six types of data:

    1. Reaction to, and satisfaction with, the skill-based pay system
    2. Learning the system and how to use it
    3. Application/Implementation of the system
    4. Business impact of skill-based pay
    5. Return on the investment in skill-based pay
    6. Intangible measures linked to skill-based pay

This presentation provided a balanced profile of the project and was convincing to the senior management team. The intangibles were important, particularly the customer service improvement. Overall, the senior team was very pleased with the success of the project and impressed with the analysis. This was the first time that a human resources solution had been evaluated using a balanced measurement approach, including ROI.

Lessons Learned

Although this study was on track with the right solution, a few lessons were learned. Perhaps it would have been safer to forecast the ROI at the time the solution was implemented. Forecasting is an important step in the strategic accountability approach to managing retention. It was considered, but not pursued. However, increasing the branch salaries to the extent planned for this solution is a risky scheme. It would be difficult to retract this program if it did not show enough value to make it worthwhile. A forecasted ROI could provide more confidence at the time of implementation.

Also, branch managers and regional managers were not entirely convinced that skill-based pay would add value. Additional effort was needed to capture their buy-in and help them understand the full cost of turnover. They needed to see how this system could alleviate many of their problems as well as add monetary value to the branches.

Finally, branch manager time was underestimated, as they had to deal with numerous requests for training and juggle schedules to ensure the staff maintained the training they needed. Also, managers had to provide additional training, and spend the time necessary to confirm that Bank Representatives had obtained the skills necessary for promotion.

Questions for Discussion

1. This case study illustrates how the actual causes of turnover are developed. What is your reaction to this process?

2. Why do many organizations spend so little time determining the causes of turnover?

3. Calculating the return on investment of a turnover reduction program is rarely accomplished yet can have tremendous benefits. Why is this step often omitted?

4. How can the data from this project be used in the future?

5. Critique the overall approach to this retention project, highlighting weaknesses and strengths?

References

Phillips, Jack J., and Patricia P. Phillips. *Show Me The Money*, An Francisco, CA: Berrett-Koehler Publishers, Inc., 2007