

## Determining Financial Benefits of an Organization Development Program

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### ABSTRACT

In this study corporate decision-makers used the Benefit Forecasting Method (BFM) to determine the expected financial benefits of a human resource development program. The decision-makers' projections were com-

pared to the actual benefit that resulted from an organization development program yielding between 11.1 to one and 16.4 to one return on investment in a two-year period.

Most business strategies of the 1980s contain elements that relate to the human capital of the firm. The desire to efficiently and effectively manage the human resources of the organization has become one of the major concerns of managers. Unfortunately, managerial interest outstrips the tools available for making sound decisions about financial investments in human resource development. Add to this the fact that financial results-oriented evaluations are what gain managerial support (Kusy, 1986) and you have a dilemma.

The majority of financial analysis methods for investing in human capital are less than adequate (Mosier, 1986). They take a broad economic view and rarely have much to contribute to the process of making individual human resource development (HRD) program decisions. It is also important to recognize that the program decisions made by HRD personnel are usually costly and can have dramatic financial consequences—both positive and negative—on the bottom line. An HRD program costing \$20,000 to implement that will not improve the

performance of the organization is a tremendous burden. However, a \$20,000 HRD program investment that is aimed at an organization irritant can easily recapture the investment and more through increased productivity.

Clearly, not enough is known about the costs and benefits associated with individual human resource development programs (Parker, 1986; Swanson, 1982). Even less is known about making decisions based on the expected financial benefits of investments in human resources development. The ability to make accurate decisions based on the projected return-on-investment would assist human resource managers in their goal to strategically align their function with the mission of the firm. The missing financial tool has been a problem for human resource managers.

The *benefit forecasting method* (BFM) (Swanson & Geroy, 1987; Swanson & Gradous, 1988) is just such a tool. It helps managers make decisions about the economic benefits of human resource development programs. We set out to study whether the benefit forecasting method could

be used to make decisions about the economic benefits of an organization development (OD) program in a health organization.

The first step in using the BFM is to identify reasonable program options. The next step is to determine the cost and the expected performance value gain for each option. The performance value gain is the economic worth that results from implementing an option. The financial benefit for each HRD option is calcu-

lated by subtracting the costs of the option from the performance value of the option. The financial benefits of all program options are then compared so that the program offering the greatest financial return can be identified.

Although several studies have been conducted to validate the use of the BFM for employee training (Geroy & Swanson, 1984; Prifrel, Swanson, & Geroy, 1985), this is the first attempt to validate the usefulness of the tool for making decisions about an organization development program.

### **Organization and Program**

The location of the study is a health organization serving over 215,000 members at 22 medical and dental centers located throughout a large metropolitan area. Although services at given locations vary slightly, each center offers a general health

maintenance program. The health organization provides services to members on a prepaid basis. Memberships (individual, group, or family) can be purchased either by individuals or by companies as part of an employee benefit package.

The focus of the research was a 1983 top-to-bottom OD program implemented by the HRD department. The purpose was to maintain membership through improved customer service. The OD program oc-

curred over a two-year period and included: (a) holding a series of employee group meetings to establish and facilitate a patient services team; (b) instituting an organiza-

tion development program that involved all managers and focused on team building, sensitization to patient service, and building patient services awareness; (c) hiring and training twelve patient services specialists; and (d) implementing recommendations of the patient services working team including staff-patient relationship training for all staff.

Patient service specialist positions were created at each clinic as a result of the OD program. The patient services specialists were expected to provide information to patients and to provide the organization with information about patient concerns.

After the patient services specialists were hired, they began three

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weeks of training. The training was designed so they spent part of the time at an assigned clinic gaining on-the-job experience and part of the time in classroom training sessions.

### **Research Method**

The three major phases of research activities were (a) decision-making using the BFM, (b) gathering actual performance data, and (c) data analysis.<sup>1</sup>

The *decision-making* phase involved gathering all the data the decision-makers would need to develop their predications, identifying people to serve as decision-makers, instructing them in the methodology of the BFM, and charging the decision-makers independently to apply the method.

The gathering of *actual performance data* focused on establishing the value that the organization placed on the performance that resulted from the program and on calculating the actual costs associated with the programs under investigation.

*Data analysis*, the third phase, constituted a comparison of actual performance data versus performance projections generated by decision-makers using the BFM.

### **Decision-Making Using the BFM**

The three decision-makers chosen by the HRD manager to use the BFM were the corporate training specialist, the manager of member services, and a clinic manager.

### **Making Decisions About Costs, Performance Values, and Benefits**

Prior to the exercise, a researcher met with each decision-maker indi-

vidually to provide information about the factors affecting the health organization in 1983, the OD program proposed in response to those conditions, and the use of the BFM.

Each decision-maker was expected to work alone in using the method as a tool for choosing between two program options. Option one was to initiate the proposed OD program. Option two was to continue with no program intervention. After receiving the basic information, each decision-maker used the *Performance Value Calculation Work Sheet* (see Figure 1) to determine the expected performance value of options one and two, and the *Cost Analysis Work Sheet* (see Figure 2) to predict the costs for each of the options.

In gathering information to make their investment decision, the decision-makers used their own perspectives of the OD program, including the performance value, the costs, and the benefits.

All the decision-makers were able to project the costs of the options using the *Cost Analysis Work Sheets*. Two decision-makers, who were unfamiliar with the training sequence outlined, sought additional information from the HRD manager about the activities that were expected to occur at each training step.

Each decision-maker worked independently to (a) compute the benefits for both options, (b) compare them, and (c) choose the option that offered the greatest financial benefit to the organization. A comparison of benefits determined by the decision-makers is summarized in Table 1.

The decision-makers calculated benefits for the OD option that ranged from \$138,800 to \$3,900,000. The benefits for the no OD option

## PERFORMANCE VALUE CALCULATION WORK SHEET

### *Data Required for Calculations*

- (a) What is the desired performance as a result of worker training?
- (b) What unit(s) of measure will be used to describe the performance?
- (c) What is the dollar value that will be assigned to each unit of measure?
- (d) What is the estimated training time to reach the goal?
- (e) What is the current level of worker performance?
- (f) How many workers will participate in the training?

### *Calculations to Determine Performance Value*

- (g) What is the estimated performance level during training?  
Will trainee produce during training?  
No = 0                      Yes =  $a + e/2$
- (h) What is the length of the period being evaluated (at a minimum this will be the longest "d" of all options under consideration)?
- (i) What is the estimate of the total number of units (b) that will be achieved during training? [ $d \times g$ ]
- (j) What is the estimate of the total individual performance for the evaluation period?  
[[ $(h - d) \times a$ ] + i]
- (k) What is the value for the total performance for the evaluation period? [ $c \times j$ ]
- (l) What is the performance value gain? [ $k - (e \times c \times h)$ ]
- (m) Do you want to calculate the total performance value of all trainees?  
Yes =  $l \times f$   
No = Performance Value of one trainee which is value of "l"

**Figure 1. Performance Value Calculation Work Sheet**

ranged from \$-1,773,000 to \$807,000. All decision-makers chose option one (the OD program) over option two (continuing as is). Each of the decision-makers expected an investment in the OD program to return a financial benefit to the health organization. The next step is to compare the projected benefit with the actual benefit that resulted from implementing the OD program.

### **Actual Performance Data**

The actual performance data were acquired from two top managers in

the health organization who were not directly involved in the human resource development function, the manager of marketing, and the vice-president of operations. Their focus was on the effect of the OD program in preventing membership lapses.

The manager of marketing estimated that, in the first year, the OD program actually accounted for 6% of the change in new memberships and 8% of the change in lapsed memberships. For the second year, he estimated that the program accounted for 10% of the change in new member-

### COST ANALYSIS WORK SHEET

Decision-maker \_\_\_\_\_ Date \_\_\_\_\_

1. Needs analysis/planning		
Staff		_____
External consultant costs		_____
Materials		_____
_____		
_____	Subtotal: \$	_____
2. Work behavior analysis		
Staff		_____
External consultant costs		_____
Materials		_____
	Subtotal	_____
3. Design		
Staff		_____
External consultant costs		_____
Materials		_____
External support costs		_____
	Subtotal	_____
4. Development		
Staff		_____
External consultant costs		_____
Materials		_____
	Subtotal	_____
5. Implementation		
Trainee		_____
Facilities		_____
Tuition/fees		_____
Staff		_____
Materials		_____
	Subtotal	_____
6. Evaluation		
Staff		_____
External consultant costs		_____
	Subtotal	_____
7. Total Costs	Total	_____
(sum of all subtotals)		

**Figure 2. Cost Analysis Work Sheet**

**Table 1  
Comparison of Individual Benefit Projections**

Decision-maker	A		B		C	
	OD	NoOD	OD	NoOD	OD	NoOD
Projected Performance Value	\$155,500	\$62,400	\$2,812,500	\$-750,000	\$22,500,000	\$812,500
Projected Cost	\$27,700*	\$14,000*	\$211,500	\$1,023,000	\$18,600,000	\$5,000
Projected Benefit	\$138,800	\$48,400	\$2,601,000	\$-1,773,000	\$3,900,000	\$807,000

\*excludes salary cost

ships and 14% of the change in lapsed memberships. He calculated the total new memberships attributable to the OD program and the total memberships saved (not lapsed) during the two-year period. These totals were multiplied by the marginal revenue per member per year to find performance values gained were \$3,137,760 for the new memberships and \$4,314,240 for memberships saved as the result of the OD program (see Table 2).

The vice-president of operations also agreed to calculate the actual performance value of the OD program. He reported that he was influenced by a recent customer survey indicating that a large percentage of the health organization's members felt that the service and care had improved. He thought the improvement had come as a result of recent changes in organization. Based on this survey information, he estimated that a total of 14,000 members would have been lost over the two years if the OD program had

not occurred. The performance value of these memberships saved was \$5,040,000. He also felt that the OD program had no impact on new memberships and therefore did not include them in his performance values (see Table 2).

**Determining the Actual Costs of the OD Program**

The HRD manager used the *Cost Analysis Work Sheet* to determine the actual costs of the OD program. The actual costs for training the patient service specialists were \$24,365. Their salaries and benefits for two years were \$384,100. The actual costs for the group-process portion of the program totaled \$47,125. The total actual cost of the OD program, including the salaries of the patient service specialists, was \$455,590.

**Data Analysis**

When comparing the OD program option with the option of maintaining the existing quality of customer

**Table 2**  
**Performance Values of the OD Program**

	VP of operations		Manager of marketing	
	Issues	Lapses	Issues	Lapses
Members by category	0	14,000	8,716	11,984
Net members from OD program	14,000		20,700	
Marginal revenue per member per year	360	360	360	360
Subtotal	0	\$5,040,000	\$3,137,760	\$4,314,240
Performance value of OD program	\$5,040,000		\$7,452,000	

service, all decision-makers preferred the OD program, based on their projected benefits. Their human resource investment decisions, which were based on financial projections, were identical to the decisions a reasonable manager would make given the actual performance value, cost, and benefit data.

An analysis of the actual data showed that the performance values of the OD program's impact on membership lapses as determined by the vice-president of operations and the manager of marketing were consistent. The impact of the OD program

on performance value of membership lapses was determined to be \$5,040,000 and \$4,314,240, respectively. Beyond these values, the manager of marketing also valued the OD program's impact on new memberships issued at \$3,137,760. The average performance value from these two perspectives for the two-year period was \$6,246,000. The cost of the program, \$455,590, is subtracted from the total performance value of the OD program (membership lapses plus issues) to yield the financial benefits of \$4,584,410 and \$6,996,410 (see Table 3).

**Table 3**  
**Actual Benefits of OD Program**

	VP of operations	Manager of marketing
Total value assigned to OD program	\$5,040,000	\$7,452,000
Actual Cost	\$455,590	\$455,590
Benefit	\$4,584,410	\$6,996,410

Using the BFM led decision-makers to choose the financially sound option of implementing the OD program. The BFM failed to lead the decision-makers to estimate the magnitude of the benefit, as determined by the vice-president of operations and the manager of marketing, because of the decision-makers' conservative estimates of the performance value and program costs. The decision-makers used figures that they perceived to be reasonable. They were careful to not over-value either option. Such conservative estimates are consistent with earlier BFM validation studies that determined the benefits of training.

In applying the BFM, all of the decision-makers analyzed the OD program option by using factors and knowledge consistent with their background and their roles in the organization. For example, the decision-maker with a background in sociology applied knowledge of the organization's internal and external forces to determine the expected performance value. The decision-maker who dispersed benefit payments as part of her job assigned a high cost to the option of continuing the existing circumstances, since she recognized the additional costs for medical care would be paid as a result of poor communications between the health organization's staff and members.

The managers who determined the *actual* impact and performance value of the OD program option following its implementation used information that was available only to them.

In applying the BFM, all decision-makers and valuers used different methods to determine information, and they used different amounts of information. Their styles included constructing tables, mentally calculating the actual OD program's impact, using a calculator to determine the value difference, and constructing complex formulas. Higher level managers

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used more sources of information to determine the performance value of the OD program. All decision-makers and ex post facto valuers conferred with other individuals in the organization for supplemental information. For example, the manager of marketing obtained information about the output of the OD program from the vice-president of operations, the HRD manager, and the researcher. The vice-president of operations asked a member of his staff about the number of member complaints during specific periods of time.

The researcher observed that as the decision-makers determined the financial value of the OD program, they all expected their calculated values to fall within some range.



When their calculated performance values did not fall in the expected range, the individuals each reviewed their assumptions and recalculated their numbers. In some cases, they made adjustments. In others they determined that their original range had been too low. As was noted earlier, in all cases their expectations were less than the actual return. At the completion of the data analysis phase, the HRD manager shared a written report of the research findings with the president of the health organization.

### **Summary and Advantages**

The BFM is a strategic human resource management decision-making tool. This research compared the benefits from an organization development program in a health organization against the benefits that would have occurred with no program. Based on actual costs and the portion of benefits attributed to the OD program, it was determined that there was between an 11:1 to 16:1 return for each dollar invested in the OD program. This evidence is in line with literature reporting a range of 8:1 to 12:1 return on investment for organizationally responsive human resource development programs (Cullen, Sawzin, Sisson, & Swanson, 1976; Meissner, 1975; Rosentreter, 1978; Thomas, Moxham, & Jones, 1969). This research provides further evidence that the BFM is a valid decision-making method and that there is a good return-on-investment for human resource development expenditures aimed at organizational needs. This research also supports the use of the BFM for determining the expected performance value of changes in a service industry

and goes beyond the manufacturing perspective that seems to pervade the thinking of both the production and services sectors of the economy.

The additional advantages of using this human resource financial decision-making tool at the health organization include: (a) requiring the decision-makers to be oriented to the organization's outputs, which could be impacted by the OD program; (b) requiring the decision-makers to assess the variables associated with the OD program; and (c) giving decision-makers a vehicle for comparing their perceptions of output variables with others in the organization.

Each of these advantages constitutes a significant change from the typical perception of the human resource function being on the peripheral of the firm with only a minor role to play in the planning and success of the organization. Using the BFM, including the involvement of key personnel, and focusing on benefits resulting from programs causes important changes in perceptions of the role and contribution of human resource management to the firm.

### **Implications for Human Resource Managers**

The research demonstrates that the BFM provides an organized method for comparing and choosing between HRD program options. It can be used by human resource managers to economically value their individual HRD programs. The implication of this research is that the human resource function can be expressed in terms of financial risks and gains. A simple four-cell matrix of high-low risks and high-low gains

helps visualize the situation (see figure 3).

The ideal state for a human resource manager is to have a low risk/high gain position (cell 1). Unfortunately for the profession, the risk/gain formula is often interpreted in terms of the manager's personal risks and gains rather than in terms of the risks to the organization. This per-

sonal perspective too often restricts the human resource manager to the low risk side of the matrix. The strategic or winning slice of matrix for the enhancement of the organization is the high gains portion. The higher the risk, the more important it is for HRD professionals to use financial analysis tools.

		Risks	
		Low	High
Gains	High	1	2
	Low	3	4

**Figure 3. Risks-Gains Matrix**

#### Footnote

<sup>1</sup>Readers wishing specific instruction in using the BFM should refer to "Forecasting the Financial Benefits of Human Resource Development" by Swanson and Gradous (1988).

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