The Myths of Return on Expectation

There is no need for another ambiguous term that creates more confusion. Instead, focus on defining expectations and developing objectives that link to meaningful business measures. **BY JACK J. PHILLIPS AND PATTI P. PHILLIPS**

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Learning and development professionals routinely create new terms and jargon. While meaningful to them, an obscure term often is confusing to key clients and executives. The most recent addition to the vocabulary is return on expectation (ROE). Let's examine this term and relate it to what we know about current measurement systems.

WHAT IS IT?

What is ROE? Is it a number, a concept, or an objective? Some people suggest it is a number. We recently saw a report of a learning program that delivered an impressive 85.2 ROE. This gets attention, even from executives who are accustomed to the acronym, "ROE." However, business executives define ROE as return on equity, a standard accounting measure reflecting the return on shareholder investment in a company. Unfortunately, ROE in the above example was calculated as follows: Using a scale of 1 to 100, clients of the learning and development program rated their level of program satisfaction. The average score was 85.2; hence, the ROE. This was presented as business results.

In reality, this calculation of ROE represents reaction data, Level 1 in the classic evaluation frameworks offered by Kirkpatrick and Phillips. Presenting reaction data as business results is deceptive, reflecting unfavorably on learning and development. Finance and accounting staff chuckle at what they see as a misuse of the ROE acronym.

ROE could be a concept, suggesting that client expectations are being met along a variety of measures, such as usefulness, relevance, and value. Taking this measure of ROE is simply a matter of asking clients if they are satisfied with the program—a Level 1 reaction measure.

Perhaps ROE is an objective. Some suggest that ROE is based on achieving objectives or certain outcomes. If the outcome is productivity, quality, or sales, for example, the measure becomes results or impact, Level 4 under both Kirkpatrick and Phillips evaluation frameworks. If this is the case, why not call the outcome results or impact? If ROE represents an objective where the client sets an expectation about what participants should do, then the results represent behavior change or application (Level 3 in both Kirkpatrick and Phillips frameworks). If the client suggests that participants acquire certain knowledge or skills, the objective is the classic learning objective, Level 2 in both Kirkpatrick and Phillips frameworks.

Vague definitions leave decision-makers little basis for their decisions. However, definition is a minor issue when compared to how this ROE is developed.

DEVELOPING ROE

While the definition of ROE is vague and its development follows an ill-conceived path, some say the client develops the ROE entirely. This approach has two flaws. First, clients who request programs do not always know how to articulate specific measures of success. Clients may want the program to be "very effective." But what does that mean? Or "we want best-in-class managers." Again, not clear or definitive. Leaving this process entirely to the client often presents nebulous, misguided, or misunderstood expectations.

The other flaw in allowing the client to set the expectation is that the expectation may be impossible. Suppose a client says, "I want 150 percent ROI!" Now the expectation is an ROI calculation. The client may say, "We want to improve our sales by 100 percent in six months," which may not be possible. The point is that having the client set the expectation sometimes yields an unachievable target.

DON'T MESS WITH FINANCE AND ACCOUNTING

Perhaps there is no more important influence on funding for learning and development than that of the Chief Financial Officer (CFO) and the finance and accounting team. Today, the CEO expects the CFO to show the value of non-capital investments, which requires the finance and accounting team to be involved in our work. At the same time, many HR functions now are reporting up through the CFO, adding pressure to show value. Given the importance of this function, it is helpful to ensure that measures used to gauge learning's success get their approval.

The concept of ROE raises a red flag to accountants, as it references fundamental financial terms. Compounding the confusion around measures of "return" are variations of return on expectation. These include return on anticipation (ROA), return on inspiration (ROI), return on information (ROI), return on involvement (ROI), return on client expectation (ROCE), and return on event (ROE). Some professionals have even used the concept of return on objectives (ROO), suggesting this is a different process from measuring the success of objectives at different levels.

DEFINE THE REAL CLIENT?

Compounding the problems with ROE is identifying the real client for a learning and development program, often a murky issue. The client funds the program and has the option to invest in other initiatives. This client is interested in the value of learning and development as expressed in terms they understand, often leading to business impact measures and ROI.

For example, in a large, multinational organization, the centralized learning and development function develops programs used by the different business units. Each business unit has a learning and development advisor who serves as a liaison with the central L&D function.

In reality, the business unit head is the real client. If you ask that client about expectations from learning and development, you will receive a different description than the one you might get from the advisor. The difference comes from their perspectives. The learning and development advisors essentially see the programs as theirs. It follows that if a program does not deliver value, it could reflect unfavorably on the advisors. This fear of results often forces them to use a vague measure that no one understands. It presents an easy way out and avoids the risk of the program not delivering the value the business unit head desires.

FOCUS ON BUSINESS CONTRIBUTION

In a recent survey sponsored by ASTD of Fortune 500 CEOs, top executives weighed in on the types of data that matter to them. The principal measure CEOs want to see is the connection of learning and development to the business (Level 4 business impact). The gap in what CEOs want and what they receive presents a challenge. Without their commitment and funds, learning and development would not exist as a formal process. The terms, techniques, or processes used to measure success must be defined by contribution meaningful to the real client.

> Defining expectations and developing objectives that link to meaningful business measures positions any learning and development program for results that resonate with all stakeholders.

BACK TO BASICS

An easy way accomplish business alignment is to consider objectives at multiple levels. From the client perspective, learning objectives represent only learning; there are other important levels of objectives. Application objectives (Level 3) clearly define what the participants should do with what they learned. Impact objectives specify what the application will deliver in terms of business contribution. These Level 4 impact measures communicate the consequence of application, usually defined in the categories of output, cost, and time. Impact objectives connect the program to the business. In some cases, ROI objectives are set and expressed as a benefit/cost ratio, and ROI as a percent.

Defining expectations and developing objectives that link to meaningful business measures positions any learning and development program for results that resonate with all stakeholders, including the real client.

FINAL WORD

There is no need for another ambiguous term that creates more confusion. Learning leaders must step up to the challenge and avoid the temptation to grasp trendy jargon or techniques that sound appealing, but do little to demonstrate the real value of learning and development.

To read the full-length article, visit http://trainingmag.com/article/myths-return-expectation.