Sleezer, C. M. & Swanson, R. A. (1994). Measuring the effects of an organization development program. In J. Phillips (Ed.), Measuring Return On Investment . Alexandria: ASTD Press, pp. 223-234.

Measuring the Effects of an Organization Development Program

Metropolitan Health Maintenance Organization

Catherine M. Sleezer and Richard A. Swanson

One of the difficulties in measuring the effects of an organization development program is estimating the value of performance improvements. Although this is a subjective process, the following case presents a specific model for making these estimates, describing the financial results of an organization development program.

Background

This case outlines the research process used in a health maintenance organization (HMO) to compare the forecasted and actual financial benefits of a multifaceted organization development (OD) program.

Organization Profile

Metropolitan Health Maintenance Organization (MHMO), which is located in a major metropolitan market, offered its members preventive health-care services on a prepaid basis. The organization had enjoyed the competitive advantage of being first in its metropolitan area to develop this market niche successfully. MHMO offered three types of membership: group, family, and individual. Most prepaid memberships were purchased by various organizations as part of their employee benefits packages, but a small percentage were purchased by families or individuals. At the time of the study, MHMO had grown to serve more than 215,000 members at 22 centers

All names, dates, places, and organizations have been disguised at the request of the case author or organization.

located throughout the metropolitan area. Although specific services varied slightly from location to location, all centers offered a general health maintenance program.

The health-care industry is both complex and competitive. Forty percent of the health-care market in this metropolitan area had been captured by HMOs, and competition among them was vigorous and escalating. MHMO's executives were concerned, because the increased competition coupled with public perceptions of insensitive treatment by MHMO health-care professionals was resulting in loss of memberships.

The Organization Development Program

To improve customer services, MHMO's manager of human resource development (HRD) implemented a top-to-bottom OD program designed to change the way employees interacted with members. The OD program was targeted to all employees and was implemented over a two-year period. It included:

- a series of group meetings for employees to establish and facilitate a patient services team
- a program for all managers that focused on team building, sensitization to patient service, and building patient services awareness
- hiring and training 12 patient services specialists
- implementing the recommendations of the patient services working team.

The efforts of the patient services working team resulted in the following:

- job standards and accountability measures for clerical, nursing, x-ray, laboratory, and pharmacy employees
- phone standards for staff when working with patients
- a new telephone system
- a commitment that all patients who wanted same-day appointments would receive them
- a biannual award given to clinics for high performance in meeting the new standards
- remodeling of a number of clinics
- expanded clinic hours
- improved signs in the clinics
- training for all employees who were involved in direct patient services.

Character Profiles

The HRD manager wanted to implement a project to measure HRD's financial results. His objectives were (a) to demonstrate to individuals in the organization HRD's role in contributing to the organization's financial goals, (b) to use experts from outside the organization to evaluate an HRD project, and (c) to establish working links with academia. The external evaluators selected by the HRD manager were experienced in evaluating HRD efforts and worked in academia.

The HRD manager and the evaluators selected the OD program as the project to be evaluated. They determined that the evaluation would consist of comparing MHMO decision makers' projections of the financial benefits to be gained from the OD program with the financial benefits actually realized. This program was perceived as important to the organization's strategic goals and sufficiently complex to warrant the use of external evaluators. The HRD manager also considered the politics of evaluating the program. He had originally recommended it and had coordinated its implementation, and he recognized that the program's financial contribution to the organization could have political consequences for him. He believed, however, that the political risks associated with evaluating this program were low, that the potential benefits were high, and that he would grow professionally regardless of the results. After selecting the program to be evaluated, he and the evaluators explained the evaluation project to MHMO's executives. The executives approved the project and agreed to provide the necessary information on actual performance.

Description of the Forecasting Financial Benefits Model

The forecasting financial benefits (FFB) model (Swanson and Gradous, 1988; Swanson, 1992) is a tool for forecasting and evaluating the performance values, costs, and benefits of HRD programs. The first step in using the model is to identify reasonable program options. The next steps are to predict or assign the costs and to calculate the performance value to be gained for each option. The financial benefit for each HRD option is calculated by subtracting that option's costs from the gain in performance value. Then the financial benefits of all program options are compared to identify the one that offers the greatest financial return.

The FFB model includes worksheets for calculating the performance values, the costs, and the financial benefits. Figure 1 shows the Performance Value Worksheet, Figure 2 shows the Cost Analysis Worksheet, and Figure 3 shows the Benefit Analysis Worksheet. Readers wishing specific instruction in using the FFB should refer to *Forecasting*

Figure 1. Performance Value Worksheet.

Note that performance units and time units for all options must remain consistent throughout the forecast.

Program _____ **Analyst** _____ **Date** _____

	Option name	1 _____	2 _____
Data required for calculations:			
(a)	What unit of work performance are you measuring?	_____ unit name	_____ unit name
(b)	What is the performance goal per worker/work group at the end of the HRD program?	____ no. ____ / ____ units / time	____ no. ____ / ____ units / time
(c)	What is the performance per worker/work group at the beginning of the HRD program?	____ no. ____ / ____ units / time	____ no. ____ / ____ units / time
(d)	What dollar value is assigned to each performance unit?	$ _____ /unit	$ _____ /unit
(e)	What is the development time required to reach the expected performance level?	____ no. _____ time	____ no. _____ time
(f)	What is the evaluation period? (Enter the longest time (e) of all options being considered.)	____ no. _____ time	____ no. _____ time
(g)	How many workers/work groups will participate in the HRD program?	_____ no. workers/groups	_____ no. workers/groups

Financial Benefits of Human Resource Development (Swanson and Gradous, 1988). A computer program (J.A. Sleezer, 1988) that supplements the book functions as a job aid in recording, calculating, and printing financial analyses.

Evaluation Phases

The evaluation project included three major phases of activities: decision making, gathering data on actual performance, and analyzing the data. This section provides an overview of the actions involved in each phase. (For a detailed description of the implementation process, see Swanson and Sleezer, 1988, 1989).

Figure 2. Cost Analysis Worksheet.

Calculation to determine net performance value:		
(h) Will worker/work group produce usable units during the HRD program? If no, enter -0-. If yes, enter known performance rate or calculate average performance rate. [(b + c)/2]	_____ no. _____ units	_____ no. _____ units
(i) What total units per worker/work group will be produced during the development time? (h x e)	_____ no. of units	_____ no. of units
(j) How many units will be produced per worker/work group during the evaluation period? {[(f - e) x b] + i}	_____ no. of units	_____ no. of units
(k) What will be the value of the worker's/work group's performance during the evaluation period? (j x d)	$_____	$_____
(l) What is the performance value gain per worker/work group? [k - (c x d x f)]	$_____	$_____
(m) What is the total performance value gain for all workers/work groups? (l x g)	$_____ (Option 1)	$_____ (Option 2)

Figure 3. Benefit Analysis Worksheet.

Program _____ **Analyst** _____ **Date** _____

Option	1 _____	2 _____
Performance value	$_____	$_____
−Cost _____	_____	_____
Benefit	$_____	$_____

Note. Circle your choice of option.

The project's first phase, decision making, focused on gathering all the data the decision makers would need to develop their predictions, choosing three people to serve as decision makers, instructing them in use of the FFB model and tools, and charging the decision makers to apply the method independently. The HRD manager chose the corporate training specialist, the manager of member services, and a clinic manager to be the three decision makers. An evaluator met with each of them to provide information about the FFB, the factors affecting MHMO at the time the OD program was implemented, and the OD program that was proposed in response to those conditions. The decision makers were asked to use the information that had been available when the OD program was implemented to forecast the financial benefits of the program. Each decision maker was asked to use the FFB tools independently to predict the performance values, costs, and benefits for two options and to choose the best option. Option 1 was to initiate the proposed OD program, and Option 2 was to continue with no OD program. Each decision maker had some misgivings about making the projections and had some difficulty in determining the unit for measuring performance, but they all completed the task. In making the projections, each decision maker relied on his or her own perspectives of the OD program and the organization.

The decision makers' projections are summarized in Table 1. The decision makers all chose Option 1, the OD program, as offering the greater financial benefit, even though they varied in their estimates of costs and performance values. The forecasted financial benefits for the OD program ranged from $127,800 to $3,900,000, and the forecasted financial benefits of having no OD program ranged from a loss of $1,773,000 to a gain of $807,500.

Table 1. Decision makers' forecasts of performance value, costs, and benefits (in dollars).

	1		2		3	
Forecast	**OD**	**No OD**	**OD**	**No OD**	**OD**	**No OD**
Performance value	155,500	62,400	2,812,500	−750,000	22,500,000	812,500
Costs	27,700*	14,000*	211,500	1,023,000	18,600,000	5,000
Benefits	127,800	48,400	2,601,000	−1,773,000	3,900,000	807,500

*Does not include salaries.

The second phase, gathering data on actual performance, included calculating the actual costs associated with the OD program and establishing the value that the organization placed on the performance resulting from the program. The HRD manager used the Cost Analysis Worksheet (see Figure 2) to determine the actual costs of the OD program. This amount included salaries, benefits, and training for patient services specialists and all the development activities of the OD program. The total came to $455,590.

Two MHMO executives, the manager of marketing and the vice-president of operations, had agreed earlier in the process to provide the data on actual performance, but they were reluctant to do so. They had reservations about the ability to measure the financial returns of an HRD program, were irritated about the time needed to gather and provide the information in light of more immediate time commitments, were unwilling to reveal the proprietary numbers used to calculate the performance measures, and had concerns about how the evaluation results would influence future MHMO budget allocations. To address these issues, the evaluator explained the FFB model and how to value HRD performance, agreed to meet with the executives at their convenience, provided information about the OD program and the organization, and pointed out that the total performance value could be disclosed without revealing the numerical values used in assigning performance value. The evaluator also suggested that the financial effects of the OD program should influence future MHMO budget decisions, because one assumption in funding the effort was that it would result in financial benefits for the organization. After these issues were addressed, the executives agreed to provide the data.

Both executives used MHMO memberships as the basis for their calculations. The vice-president of operations indicated that he was influenced by a recent customer survey reporting that a large percentage of members felt service and care had improved. Using this survey information, he estimated that without the OD program 14,000 members would have been lost over two years. He felt that the OD program had no effect on new memberships, so they were not included in his calculation of performance value. The manager of marketing determined the effect of the OD program on membership by estimating the percentage of change in both lapsed and new memberships. Using the most recent marketing figures, he estimated that because of the OD program, 11,984 members did not leave and 8,716 new members joined MHMO. MHMO's marginal revenue per member per year was $360. The performance values assigned by the vice-president of operations

Table 2. Actual performance value, costs, and benefits of the OD program (in dollars).

Component	Vice-president of operations	Manager of marketing
Actual performance value*	5,040,000	7,452,000
Actual costs	455,590	455,590
Actual benefits	4,584,410	6,996,410

*Based on marginal revenue of $360 per member per year.

and the manager of marketing for preventing lapsed memberships were $5,040,000 and $4,314,240, respectively; the manager of marketing assigned new memberships a performance value of $3,137,760.

The costs were subtracted from the total performance value of the OD program to yield the financial benefits (see Table 2). The vice-president of operations determined the actual benefits to be $4,584,410, and the manager of marketing determined them to be $6,996,410.

The third phase, data analysis, consisted of comparing the forecasts made by the decision makers with the actual performance data provided by the executives. This phase also included the external evaluators' report of the evaluation results to the HRD manager. The decision makers' projections using the FFB model led each to select the financially sound option of implementing the OD program, although the FFB model failed to lead the decision makers to estimate correctly the magnitude of the actual benefit, as determined jointly by the vice-president of operations and the manager of marketing.

Issues and Events

Three major issues in implementing the evaluation project were the decision makers' concern about measuring financial returns of a multifaceted HRD program, their difficulty in determining the appropriate unit of measurement, and the challenge of gaining access to the actual performance data for measuring the program. Successfully completing the evaluation project hinged on addressing all these issues.

Although the HMO decision makers frequently had calculated financial returns of capital investments, they were uneasy about measuring the financial returns of an HRD investment. In any measurement activity, numerous assumptions must be made. Word problems in grade-

school math teach people that every problem has a "correct" answer. In business and industry, however, there are no predetermined, correct answers—only calculations based on assumptions. The decision makers knew what assumptions were culturally acceptable within MHMO for making capital investment decisions, but because the organization had no publicly agreed upon assumptions for making HRD investment decisions, making projections in this area was riskier. Therefore, measuring the outputs of capital investments seemed easier and was more familiar than measuring the outputs resulting from HRD efforts. To address the decision makers' lack of familiarity with publicly valuing human resource programs, the evaluator explained that performance values and costs were assumed when decision makers made determinations about how many people to send to a meeting and which training sessions to endorse. These decisions were based on implicit rather than explicitly and publicly examined assumptions. The decision makers understood this explanation and agreed to use the FFB model.

The next issue to be addressed was the difficulty that decision makers had in determining the unit of measurement. They did not understand the relationships between individual behaviors, individual performance, and organizational performance. They tended to focus on the individual behavioral changes that they could see rather than on measures of organizational performance that were invisible to them. For example, one decision maker began by trying to use the number of customer complaints as the unit of performance. Only after a lengthy process did she decide that minimizing customer complaints was not financially valuable in and of itself. Instead, customer complaints had value because they influenced the performance unit, memberships. The FFB model was helpful in addressing this issue because of the inherent difficulty in determining the financial value of behavior (e.g., customer complaints) that is not closely connected to organizational performance.

The third issue to be addressed was gaining access to the HMO's bottom-line information. In this evaluation, the executives based their determinations of actual value on information that was available only to them. This information, which came from multiple sources, was "held close to the vest" by the people in power. It was viewed as a corporate secret because it portrayed the organization's competitive position. The other decision makers within the organization were not aware that this information was available. Further, they did not realize that although they had access to numerous surrogate measures of behavior, they did not have access to the corporate bottom-line measures of performance

that really counted for valuing HRD programs. To resolve this issue, the executives used the bottom-line measures to value performance without giving the evaluators the actual figures and reports they used in making their determinations.

Conclusions and Implications

Using the FFB model provided an organized method for making forecasts about the financial benefits of a human resource program and for determining the actual costs and benefits of the program. The option selected by the decision makers on the basis of their forecasts was financially sound, as determined by the actual program benefits. Implementing the FFB model and comparing the forecasts with the actual program benefits revealed three issues that had to be addressed: the decision makers' concern about measuring financial returns of a multifaceted HRD program, their difficulty in determining the appropriate unit of measurement, and the challenge of gaining access to the corporate bottom-line information needed to measure the program's benefits.

These issues have been examined here from the perspective of one organization, but can also be viewed from a more general perspective. As measuring the effectiveness of HRD programs becomes more routine, valuing programs designed to improve individual and organizational performance could become as common as valuing capital improvements. Books such as this one help make public the various assumptions that organizations and individuals use in valuing human performance and also play a useful role in describing the relationships between human resource programs, individual behaviors, individual performance, and organizational performance.

The issue of gaining access to an organization's bottom-line measures for performance presents a more difficult challenge. The paradox at MHMO was that, although top management wanted HRD to contribute to the organization's strategic position and to the bottom-line financial goals, the HRD manager did not have easy access to the information needed to value HRD. The lack of access to bottom-line measures limited the HRD manager's ability to be an effective strategic decision maker. Decision makers within an organization are responsible for determining which HRD solutions will be implemented, making choices about allocating resources to address organizational performance needs, and judging the effectiveness of the solutions (C.M. Sleezer, 1993). The HRD manager who makes such decisions without a thorough understanding of the organization's bottom-line performance

measures and operating assumptions is taking a risk. Further, without this bottom-line information, it is difficult for the HRD manager to question the implicit assumptions that other people use in valuing HRD programs. Gaining access to such strategic information is a political challenge that must be overcome if HRD is to become a strategic player in an organization. Forecasting the financial benefits of HRD programs is a first step in this process, and conducting follow-up financial assessments provides important confirmation.

Questions for Discussion

1. What is the relative strategic worth of forecasting financial benefits of proposed HRD interventions versus conducting follow-up financial analyses of the actual effects?
2. What are the strengths and weaknesses of the FFB model?
3. How do HRD professionals address the subjectiveness of performance value?
4. What can HRD professionals do to improve management's response to the evaluation process?
5. What techniques can HRD professionals use to gain access to bottom-line corporate financial measures?

The Authors

Catherine M. Sleezer is an assistant professor at Oklahoma State University. Sleezer's research and consulting interests include needs assessment, employee training, organization development, and economic evaluation of investments in human resource development. Sleezer has authored and coauthored articles on various topics in the field, including performance analysis for training, and evaluat-ing and managing human resource programs. She is the editor of the theory-to-practice monograph titled *Improving Human Resource Development Through Measurement* (American Society for Training and Development, 1989). Sleezer can be contacted at the following address: Oklahoma State University, 413 Classroom Building, Stillwater, OK 74076.

Richard A. Swanson is professor and director of the Human Resource Development Research Center, University of Minnesota. Swanson's research interests include employee training and organization development, analysis and evaluation of work behavior, and economic evaluation of investments in human resource development. He has authored and coauthored more than 150 publications on the subject of education for work. He is the founding editor of *Human Resource*

Development Quarterly. With Deane Gradous, he coauthored *Performance at Work: A Systematic Program for Analyzing Work Behavior* (Wiley, 1986) and *Forecasting Financial Benefits of Human Resource Development* (Jossey-Bass, 1988). His new book is titled *Analysis for Improving Performance: Tools for Diagnosing Organizations and Documenting Workplace Expertise* (Barrett-Koehler, 1994).

References

Sleezer, C.M. (1993). Training needs assessment at work: A dynamic process. *Human Resource Development Quarterly, 3*(4), 44-83.

Sleezer, J.A. (1988). *Forecasting financial benefits of human resource development* [computer program]. San Francisco: Jossey-Bass.

Swanson, R.A. (1992). Demonstrating financial benefits to clients. In H.D. Stolovitch and E.J. Keeps (eds.), *Handbook of human performance* (pp. 602-618). San Francisco: Jossey-Bass.

Swanson, R.A., and Gradous, D.B. (1988). *Forecasting financial benefits of human resource development.* San Francisco: Jossey-Bass.

Swanson, R.A., and Sleezer, C.M. (1988). Organization development: What's it worth? *Organization Development Journal, 6*(1), 37-42.

Swanson, R.A., and Sleezer, C.M. (1989). Determining financial benefits of an organization development program. *Performance Improvement Quarterly, 2*(1), 55-65.