

# Calculating Return on Investment for HRIS

By Bill Roberts

*If dollar savings are tough to find, show how a system brings less tangible benefits, such as efficiency.*

UtiliCorp United Inc., a Kansas City, Mo.-based utility holding company with more than 5,000 employees, began to install PeopleSoft enterprise software about 18 months ago. The combined information technology and HR project team calculated a return on investment (ROI) for the project's first two phases, but the company was so desperate to upgrade its payroll system and employee database that the ROI exercise was academic. The project moved ahead without much focus on the ROI calculations.

Not so with the third phase, which involved features and functions with more elusive dollar benefits: employee self service, manager self service and a data mart to extend HR report-writing features to non-HR staff. The project team needed to make a business case to sell management on these functions. "We couldn't have gotten the third phase approved on the ROI alone," says Dustin Pittman, UtiliCorp's IT manager for HR applications. "And

we couldn't have done it without ROI either."

Pittman's experience sums up the prevailing wisdom on ROI. Consultants, systems vendors, HR practitioners and HRIS managers say ROI is a useful exercise for most large system implementations, but it is not the panacea for securing budget approval for an expensive implementation. ROI is not always easy to figure for HRIS and there are even situations—albeit increasingly rare—where calculating ROI makes little or no sense.

"You have to be careful," says John Ryder, vice president of HR at Petrocon Engineering Inc. a Houston-based petrochemical plant design and engineering firm. Ryder, the new chairman of the Society for Human Resource Management's technology committee, recently won

approval for a major HR system upgrade without calculating ROI.

Ryder convinced his executive team that the new HR services they demanded could be delivered only by

installing a new HRIS, which would free HR staff for more strategic tasks. "ROI is important, but there are lots of reasons why you put in a new HRIS, and frequently they are not dominated by the fact that you will save X dollars," he says.

*ROI is not always easy to figure for HRIS and there are even situations where calculating ROI makes little or no sense.*

## Pressing HR to Justify Systems

Ryder might be in a diminishing minority. At least two forces are driving more HR executives to figure the ROI of their proposed HRIS.

First, there's a movement in corporate America to make HR more strategic. As part of this evolving role, HR executives are expected to show bottom-line returns to the organization like any other corporate executives. ➔

## HR Issues & Answers Chat Room!

Tuesday, December 28, 1999  
1:30 p.m. Eastern Time

**"Why are we so rude?"**

**Fostering a culture of civility  
in the workplace.**

*Dr. P.M. Forni*, teaches civility and Italian literature at Johns Hopkins University in Baltimore. Dr. Forni is co-founder and co-director of the Johns Hopkins Civility Project, and was co-director of Reassessing Civility: Forms and Values at the End of the Century

The HR Issues & Answers Chat Room is a forum for information that impacts the success of your company and career. Share your views and gain new insight that will help you in your role as an HR professional. Join us online:

[www.snelling.com/issues&answers](http://www.snelling.com/issues&answers)

**SNELLING.**

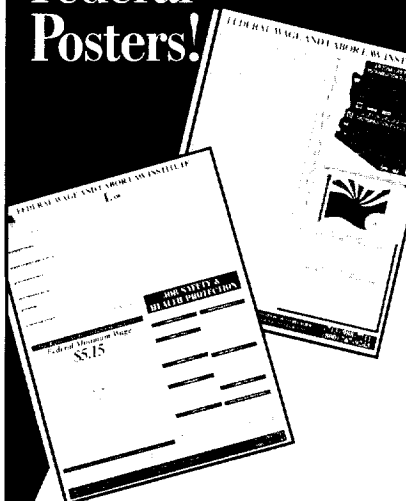
PERSONNEL SERVICES

**The Right Fit is Everything™**

Career, Temporary and Temp-to-Hire

Write 177 on Reader Service Card.

## "All In One" State & Federal Posters!



**FEDERAL WAGE  
AND LABOR LAW  
INSTITUTE**

**1-800-767-9243**

[www.fwlli.com](http://www.fwlli.com)

Write 29 on Reader Service Card.

## HR Systems | Technology Solutions

"HR departments increasingly need to add value by justifying their existence through ROI," says Bob Conlin, manager for product planning and management at Infinium Software, Inc., in Hyannis, Mass. Infinium, which develops HR systems for mid-tier companies, sees more clients using ROI. Conlin cites the fact that Infinium clients now generate more requests for proposals that focus on ROI. And questions about how to do ROI pop up more often on computer bulletin boards, he adds.

Second, in recent years the Year 2000

bug panic was motivation enough for management to approve new HR systems, consultants say. With that threat now passing, chief financial officers and management committees are getting tougher on HR executives. "With Y2K gone, the business case has to be brought to the forefront," says Aaron Cobabe, an account executive for HR and payroll systems at J.D. Edwards World Solutions Co. in Denver. "I'm seeing companies calculating an ROI for just about every case now."

UtiliCorp's Pittman believes ROI is an important aspect of any business case for a new system. But it is just one aspect. Other business reasons and new efficiencies also can play a role in gaining approval for a new HRIS.

### Core Functions: An Easier Sell

In the first phase of its PeopleSoft project, UtiliCorp installed payroll, benefits and basic HR functions. In the second phase, it added more HR functions, including salary planning, competency

management and succession planning. The two phases were presented together to the executive committee for approval. Pittman says the committee's approval was practically a done deal because the data integrity of the legacy system was at an all-time low.

Payroll efficiencies themselves were almost enough to justify the new system. There were 17 different pay cycles, which the new system allowed UtiliCorp to reduce initially to two and finally to one. No ROI needed there. And the HR department was going

*With that [Y2K] threat now passing, chief financial officers and management committees are getting tougher on HR executives.*

through a reorganization along areas of expertise. The new HRIS would support that, too. Pittman says the team ran a quick ROI exercise for the first two phases, but those calculations were not the focus of the presentation to management.

Phase three was a different story. "We had a larger emphasis on ROI because we were no longer talking about core business processes that had to be performed just for HR to survive," says Pittman. Phase three involved employee self service, manager self service and a data mart where managers and executives could run their own database reports.

The goal was to create three "service stations" on the HR home page on the corporate intranet: one for employees, one for managers and one to provide direct-report capabilities. Pittman and his team, with the help of a consultant from the Baltimore-based Hunter Group, built an extensive business case for the third phase, including a detailed ROI. ➔

**Attach Dollar Values to Time Saved**

It is fairly straightforward to calculate expenses such as new software and hardware, consulting fees and staff time. It is quite another thing to calculate the benefits side of ROI, especially for service areas like HR.

The UtiliCorp team first looked at obvious dollar savings that would result from phase three of its system implementation. For example, benefits self-service would cut the company's benefits costs. Previously, the benefits vendor would put the employee on benefits effective the first day of the month in which the new hire joined the company. If the new hire didn't join the firm until

later in the month, UtiliCorp could be paying for a few weeks of unnecessary benefits. With the employee self-service application, the enrollment form would go directly from the web site to the benefits provider, allowing the provider to put the new hire on the benefits rolls on day one of his employment and no earlier.


Pittman says his team found four or five cost savings like this—but not nearly enough to justify the project. They had to dig deeper into HR processes to determine how much they could save by using the new functions to re-engineer processes, reduce the number of people involved and reduce the steps in a transaction.

The Hunter Group's term for measuring the steps in a process that results in a product or service is activity-based costing. The work required Pittman's team to know what steps a manager or HR staffer went through in any HR process, as well as how those steps might be shortened and streamlined by the new system. "Our biggest struggle was what level of detail do you go to, to take your measurements," Pittman recalls.

The answer: a series of surveys, one for managers, one for HR staffers and one for HR's IT support staff to determine how much time they spent on each process. Pittman says the team was careful in wording these

**Can you tell which one of these men is a convicted embezzler?**

*Hint: He's the one standing next to the drug dealer.*

<p>DMV</p> <p>Credit</p> <p>Workers Compensation</p> <p>Employment Verification</p>		<p>Criminal</p> <p>Education Verification</p> <p>Professional References</p> <p>Drug Screening</p>
---	---	--



Call 800-600-9924

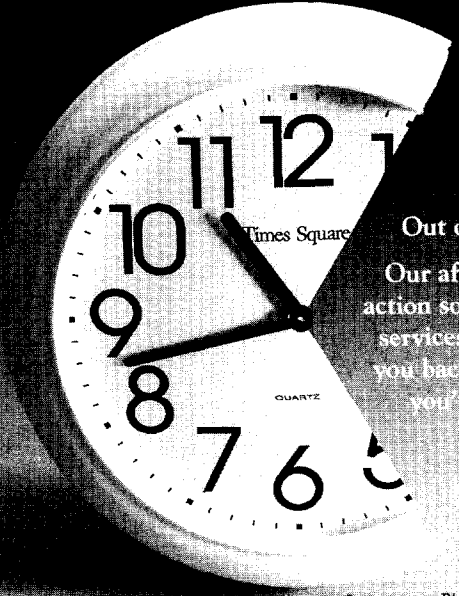
[www.certico.com](http://www.certico.com)

Records Search LLC and ISN are divisions of Certico Verification Services

**We take the guesswork out of hiring!**

Write 41 on Reader Service Card.

**Tick-**



**Out of time?**  
Our affirmative action software and services will give you back the time you've lost.

Do it yourself with **The Complete AAP™** software, its quick and easy. Or let us do it for you. Using your information, we perform all the calculations, print all the reports and deliver a finished, guaranteed AAP. We have never failed an audit! Cost-effective software and services.

For information and a free demo disk, call

**Yocom & McKee, Inc. 1-800-765-1176**

Website: <http://www.yocom-mckee.com/complete/>

Write 254 on Reader Service Card.

surveys. For example, rather than asking how much time the respondent spent on a process, the survey asked the respondent to break down the steps he went through, then to estimate the time involved in each step as well as which steps consumed the most time. As a result of the surveys, Pittman's team identified 175 processes in 13 categories. Using salary averages for the positions involved, the UtiliCorp team attached dollar amounts to each step in each process.

The survey was the easy part. Next, team members had to estimate how much they could save by re-engineering these processes with the new system. The team convened focus groups of the constituents who participate in the processes and did some brainstorming about how many steps could be eliminated and how much time saved. The team also looked at industry research.

From these two sources, Pittman's team came up with estimates of time savings ranging from 20 percent to 70 percent from re-engineering the HR processes using PeopleSoft. Pittman's team plugged the lower figure into its spreadsheet because the golden rule in any ROI effort is to be conservative.

Pittman's team built the business case, including the ROI, in five weeks. Pittman says they'll conduct the same survey, about a year after phase three is rolled out, to measure the improvements achieved. "You can't just go forward with the project without tying it back to that [ROI] number at some point," he advises.

### Don't Forget Intangibles

As important as ROI was, the UtiliCorp project was approved because of the efficiencies the ROI

*Portfolio*, a subscription service designed especially for senior-level HR executives, provides a multimedia library of audio, video and print resources—delivered right to your office. Hundreds of senior-level HR executives from around the world benefit from the ideas, and facts that *Portfolio* delivers month after month.



### COMING IN JUNE 2000!

*Portfolio* Day:  
June 26, 2000

*Portfolio* subscribers are invited to attend a full day of advanced-level programming focused to meet the needs of senior-level HR executives at the 2000 SHRM Annual Conference, to be held in Las Vegas, NV, June 25-28, 2000.

For details, call (703) 535-6120 or email:  
[jmorris@shrm.org](mailto:jmorris@shrm.org)

*Portfolio* Day is an official SHRM/ Arthur Andersen Human Capital Services event.

# HR

*Portfolio*  
FOR SENIOR HUMAN RESOURCE EXECUTIVES

*Portfolio* offers the most timely, leading-edge information on trends that are shaping today's workplace. Designed to secure up-to-the-minute information on issues affecting your strategic and long-term planning, *Portfolio* materials come in a variety of innovative formats. As part of your *Portfolio* subscription, you will receive these prestigious resources:

- **HUMAN RESOURCE MANAGEMENT JOURNAL**, the professions' most acclaimed journal publishing best practices and case studies.
- **HR NEWSSCAN**, an audio magazine series that discusses the business environment from an HR perspective. Available in audiotape or CD format.
- **SHRM'S ISSUES MANAGEMENT SURVEY PROGRAM** Read the latest results on strategic issues and industry trends shaping the profession.
- **V.P. AUDIO SERIES** Receive audiotaped presentations featuring well-known speakers and industry experts on timely HR management issues.
- **PORTFOLIO EXECUTIVE OFFICE** Visit the *Portfolio* Executive Office at SHRM's new world headquarters! Subscribers will enjoy the use of a private out-of-town office when visiting the nation's capital (reservations are required). Business services include: PC, fax, duplicating services, private phone line, e-mail and internet access.
- **REDUCED RATES** on the SHRM's highly regarded Certificate Programs. This discount is available upon request.

For *Portfolio* subscription information, call the Society for Human Resource Management Customer Service Center at (800) 283-SHRM, (703) 548-3440, or TDD (703) 548-6999. E-mail: [prodev@shrm.org](mailto:prodev@shrm.org)

**VISIT PORTFOLIO ON THE WEB:  
[WWW.SHRM.ORG/PORTFOLIO](http://WWW.SHRM.ORG/PORTFOLIO)**

Note: *Portfolio* value exceeds \$600 if products are purchased separately.

unearthed, not because of the dollar amounts Pittman's team attached to those efficiencies. Pittman says there were other benefits to going through the ROI process and involving the staff in the surveys and focus groups. He noted the importance of involving end users up front and getting their input whether you calculate an ROI or not. "You can justify a project and make it look good on paper, but if the users don't like it and don't use it, then the ROI doesn't matter," he notes.

His experience has broader implications. "It [the ROI] was a necessary step, but is it a tool you can use to justify a project such as ours on its

own? I'd say no," Pittman says. "You need a good business case wrapped around the ROI to make the full justification."

Dan Vander Hey, the Hunter Group consultant who worked with UtiliCorp, agrees: "With HR, it is hard to prove there's a hardcore benefit. If they don't buy the intangibles, they don't buy."

Because HR processes are full of intangible benefits, a Hunter Group colleague of Vander Hey is working to identify some of those intangibles and to determine how to include them in business cases or even in traditional ROI calculations.

For example, Alexia Martin, a

principal consultant in the Hunter Group's electronic workplace practice, is looking at how employee satisfaction contributes to the company's bottom line. Other areas ripe for examination include the impact of employee satisfaction on employee retention and the impact of employee performance on profitability.

"The foundation of a system's justification will always be hardcore ROI," Martin says. "But we do need to be creative in looking at other benefits, especially with new technologies." ■

*Bill Roberts, a freelance writer based in Los Altos, Calif., covers technology, business and management issues.*

You're facing a labor disruption...

Customers are counting on you...

Will you be able to maintain production and delivery schedules?

YES! WITH THE HELP OF LCG.



**LCG**  
LABOR CRISIS GROUP

One call to the Labor Crisis Group gives you access to the nation's best providers of crisis management planning, temporary personnel, security services and personnel, catering and on-site housing, and pre- and post-crisis counseling.

For information  
call Gary Sheppard,  
Managing Director,  
at 800-307-0156 our  
24-hour response line.

Write 61 on Reader Service Card.