HOW TO CALCULATE HRMS ROI

IN 5 SIMPLE STEPS

Your guide to calculating the financial impact of implementing HRMS in your business

GUIDE HIGHLIGHTS

- Building a watertight business case for a new HRMS project
- Forecasting financial returns from your HRMS
- Tips on identifying hidden project costs

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UNDERSTANDING THE VALUES AND PROPERTIES OF HRMS ROI

Why return on investment (ROI)? Well, any investment is made in the expectation of a return, preferably a substantial one. Purchasing a new HRMS is most certainly an investment – of time, money, and effort – and it's reasonable that the boss, board or shareholders that have made that investment will want to see what they got for it.

WHAT YOU NEED TO MEASURE AND WHY

In HRMS ROI terms, that return may take a number of forms; cost reduction, staff gains (either a reduction or the freeing up of HR staff to deal with more complex issues), or the more efficient handling of management information. The trick is to know exactly what benefits you expect to realise; thus allowing you to know what you need to measure and why.

So what is ROI in a nutshell? Put simply, a generic HRMS ROI exercise includes:

- Deciding what performance improvements and measurable impacts you realistically expect from your HRMS – these may include HR staffing levels, certain HR transactions, number of calls to the HR department, and so on. You should ensure that relevant stakeholders are involved in these measures, unless you want your ROI calculations to have little worth outside of the HR management team. Also, these measures should be ones for which 'pre-system' data exists, don't forget to agree who will have responsibility for making these measurements – the process may be led by HR but they won't be able to do it without company-wide cooperation.

"For your HRMS an ROI calculation is not a conclusion or an endpoint. In fact, it's part of the continuous improvement process"

- Collecting data, statistics, and any other relevant information about the agreed activities that you expect to be improved by your HRMS.
- Contrasting that information with comparable performance data from the period prior to HRMS implementation – back to the above point, if you don't have pre-HRMS data then you can't make the comparison and so can't measure the return (if your past HR data gathering has been a little sparse, then at the very least, an early part of the implementation project should be to gather information to establish a 'pre-system snapshot').

- Drawing conclusions about the value (the ‘return’) of your HRMS to date and making decisions about what further actions can be taken to maximise that value.

In other words, your HRMS ROI calculation is not a conclusion or an endpoint. In fact, it’s part of the continuous system improvement process, helping you refine and enhance the benefits that you’re seeing from your HR technology.

The basic question that your HRMS ROI exercise is seeking to answer is ‘was it worth it’?

PLANNING YOUR HRMS ROI FORECAST

The chances are, you already have an HRMS ROI forecast. After all, when you made the business case for your new HRMS – when you sold it to either the boss, the board, or even just to yourself – you promised a certain level of improvement. You promised cost savings. Or headcount reduction. Or faster HR transactions. The point is, you promised something, otherwise it wasn't a business case.

THE REFINEMENT PROCESS

That promise is your starting point. That promise is the kernel of your HRMS ROI forecast. Of course, it may need refining somewhat and that refinement process comes through deciding on the relevant measures and metrics that you'll use to see if has return has been made.

Usually, the biggest restriction on setting your HRMS ROI metrics is the absence of good benchmark data. If you're looking to compare pre- and post-HRMS costs, then it stands to reason that you need data that predates the system. This can mean you're restricted to the metrics already in use (i.e. your existing historical data) unless you introduce new metrics sufficiently in advance of HRMS go-live to gather at least a snapshot's worth of benchmark data.

"Where possible, look for ways to measure service quality, or additional projects and services that the HRMS has freed you up to deliver. Added value, that's what you're looking to prove."

Possible ROI metrics may be found in:

- The percentage of total operating costs devoted to your workforce
- More efficient recruiting – e.g. measuring the time from vacancy to post filled
- Employee engagement – measured via staff opinion survey or similar
- A percentage reduction in certain types of calls/queries to HR (depending on whatself-service functionality your HRMS offers)

Here's something to think about: most HRMS ROI exercises (in fact, most ROI exercises no matter the subject) place attention on cost reduction. This is because most leaders and organisations tend to view HR as a cost, an overhead, or even a burden.

Yet while costs will undoubtedly feature in your ROI metrics, they shouldn't dominate. After all, a less heavy burden is great news, but it's still a burden – however positive your ROI report, you'll still be saying, "We're not as much of a drain on resources as we once were." Where possible, look for ways to measure service quality, or additional projects and services that the HRMS has freed you up to deliver. Added value, that's what you're looking to prove.

A CLEAR AND MEASURABLE PICTURE

Another thought: consider risk mitigation. Part of your original HRMS business case may have included the risks of NOT purchasing an HRMS. Were those risks lessened once the HRMS was implemented? Were they avoided entirely? Can you prove that? If you can, then it's tangible element of the return on your investment.

Through correct HRMS ROI forecasting you can have a clear and measurable picture of where you expect your HRMS to take you, then can begin measuring with confidence.

CALCULATING THE COST OF YOUR HRMS INVESTMENT

As the old adage says, money isn't everything, and that's true in all avenues of life. This is also true when it comes to your HR technology investment, but money is still a significant factor and the one that people find easiest to understand. So, alongside all those service improvements, engagement improvements and so on, you do need to provide a few 'hard cash' figures. The first step is calculating exactly how much your new HRMS will cost you to purchase and implement.

So, how much did the system cost you to get up and running? This is likely to be far more than the purchase price on the vendor's ticket or the monthly licence fee, which is often less than 10% of the overall cost of the system. What we're talking about here is the total cost of ownership (TCO), and that includes a few well-hidden (or at least, not obvious and easily forgotten) cost headings.

COSTS TO CONSIDER

- **Price tag:** this is the amount you probably saw on the vendor's website when you first drew up your shortlist of possible HMRS options.
- **Installation:** what did it cost you to actually get to the go-live stage? Include any hardware costs, training costs, the fees charged by consultants, server and/or storage space in the cloud, the expense of staff time taken up by being trained, participating in focus or planning groups, being a member of the implementation project team and so on. In other words, consider all the hard work you did to get the system up and running and if you can put a price on it, do so
- **System maintenance:** these may be equipment costs; ongoing labour costs (people who spend part of their time keeping the system running – HR, IT, etc.), or even regular payments to 'rent' cloud space or expertise from the provider in line with the service level agreement.
- **System upgrades:** these won't impact every week or month, but nevertheless there is usually a cost when the system is updated and it's part of your investment.

Of course, depending on the size and nature of your business these costs will vary – some may be barely there – but for a true picture and an accurate HRMS investment calculation, you need to include everything.

Once you have an HRMS investment figure, you're ready to calculate the other half of the equation: the return.

CALCULATING YOUR HRMS RETURN

By this stage, you know the system cost to you in terms of time, money and effort and, as best as possible, you've translated all of those factors into monetary values. The next step is to collect all the relevant data about your system's performance and impact on the organization, relevant to the metrics you've used, ready to make the comparison and find out the current position of your HRMS return.

First, consider how you might collect your data. Possible methods include focus groups, interviews, performance monitoring, surveys and statistical reports or analytics produced by the system itself.

A FIRMER FOUNDATION FOR YOUR FIGURES

Next, when collecting your 'return data', you need to look beneath the surface of your identified metrics. Staff savings, HR time, system costs, and so on can all be expressed in nice, specific numbers, but what data do you actually need to collect before you can 'do the sums'? Break it down a little and look at the finer detail, that way, your figures are built on a firmer foundation and are much more defensible if challenged.

Consider the following for your HRMS return:

- Improvements to your HR productivity figures
- A per capita time saving thanks to faster self-service HR transactions.
- More streamlined processes may mean that when HR staff manage a transaction, it takes less time – put a value on the time saved.

"Attempt to put a value on the more intangible benefits that may be accrued from a first-class HRMS, relating to wider organisational issues and performance"

- Increased employee retention rates (e.g. from your new fancy social recruitment module that is finding more suitable candidates to fill posts).
- Lower dropout rates for training activities, meaning improved value for money.
- Lower employee turnover (calculate the number of recruitment campaigns you HAVEN'T run and allocate a cost value).

- Better legislative compliance. Have your system's automatic notifications reduced your penalties/ extra work due to late or incorrect filing, for example?

And, of course, there's the obvious stuff like headcount reduction – if you are genuinely providing the same or better HR service with less HR staff then a simple FTE (full-time equivalent) calculation will give you a figure to throw into your HRMS return.

Finally, attempt to put a value on the more intangible benefits that may be accrued from a first-class HRMS, relating to wider organisational issues and performance, such as brand, competitive advantage, intellectual capital, and so on. Some may be difficult to quantify, or to attribute solely to the HRMS, but if you can convince the boss, board or shareholders of this then HR can win some real credibility.

Ultimately, calculating your HRMS return is dependent on quantifying any business process efficiencies, staffing savings and any other improvements that came as a results from the HRMS implementation. Combine these calculated savings with any monetary figures you already costed and you have your HRMS return figure, now all you have to do is look at the cost of the overall HRMS investment.

ANALYZING YOUR HRMS ROI FIGURES

In a way, this final step in your HRMS ROI exercise is deceptively simple. You have a cost figure, you have a return figure. Those two figures may be subdivided into several specific metrics or they may be expressed as a single "money spent – money saved" statement but either way, they'll tell you whether you spent more than you saved.

This, however, is just the overarching 'did-we-win-or-did-we-lose' headline. Naturally, there are some 'drilling down' questions that follow an HRMS ROI analysis and the first is:

IF WE WON, WAS IT WORTH IT?

If we won, did we win by enough to have made the time, money and effort worthwhile? After all, you weren't hoping to simply save a few cents The introduction of a new HRMS should ideally facilitate a quantum leap in HR efficiency and performance.

IF WE LOST, WHAT WENT WRONG?

If the hoped-for savings and efficiencies did not transpire then this is the time to learn from the experience. Maybe the expectations were unrealistic, maybe the wrong software was selected, maybe mistakes were made at the implementation stage... the odds are, all is not lost. If you can analyse what went wrong then the system or your use of it (or perhaps simply how it was introduced to the organisation and workforce) can be recalibrated and the target savings can be made in the future.

"Often, even an initially disappointing HRMS ROI analysis can be turned around through better user engagement"

WHETHER WE WON OR LOST, NOW WHAT?

As in any evaluation exercise, the examination is of the past, but the focus is on the future. The big question is always, what next? Plan the period of use for your HRMS. Do you make further improvements, buy or activate further modules and functionality? What steps need to be taken to address any elements that did not perform to expectations? What is the perception of the HRMS amongst stakeholders (users, HR staff, c-suite, even customers) and how can that perception be improved and/or capitalised on?

With the stakeholders in mind, remember that whatever your initial reasons were for purchasing a new HRMS, it was a significant investment, but so is the ROI exercise itself. You're not only assessing the performance of the software and technology, but you also need to consider how you communicate the results of that assessment to the organisation. Often, even an initially disappointing HRMS ROI analysis can be turned around through better user engagement.

Finally, take some time to evaluate the ROI process you've just undertaken. Given that an HRMS should have a life cycle measured in years, consider the next ROI exercise. On reflection, were the chosen metrics and measures the right ones? What metrics and targets should you be measuring for the next 12 months?

"The introduction of a new HRMS should ideally facilitate a quantum leap in HR efficiency and performance"

Bear in mind that if you change the metrics too much during your HRMS ROI analysis, you won't be able to convincingly benchmark against the results of the first exercise; on the other hand, if the metrics really weren't right, the sooner you abandon them, the better.

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