Book Return on Investment in Training and Performance Improvement Programs

Jack J. Phillips
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Recommendation

Companies want their training and development programs to succeed in coaching employees and enhancing their career advancement, as well as in contributing to the bottom line, but training's results can be difficult to quantify. If you're a training officer, and demonstrating unshakable ROI is at the top of your to-do list, Jack J. Phillips's calculations can help you prove your programs' worth. His book is by no means a quick read, but it is a useful one, densely packed with details, instructions, calculations, analyses and case studies – including one highly detailed case history. *BooksInShort* recommends this study on returns to training and development managers and to executives who want to authenticate the fiscal impact of their training and development budget.

Take-Aways

- Most businesses need to demonstrate a quantifiable return on investment (ROI) in their training and development programs.
- This ROI appraisal must cover "five evaluation levels" to succeed.
- Barriers to a successful ROI include training managers' inexperience and unfamiliarity with the process.
- You can measure all aspects of training and development, including "soft data."
- First, "isolate the effects of training." Measure only training's results and nothing else.
- You can use a variety of methods to "convert data," including data about intangibles, to show their inherent "monetary value."
- To calculate training's ROI, divide the "net program benefits" by the "program costs" and multiply the result by 100.
- Your ROI percentage may be large, or it may even be negative.
- Communicate your ROI results effectively; do not keep them under wraps.
- You must have buy-in from all levels of your company to achieve a solid assessment of return on investment.

Summary

The How and Why of ROI

A quantifiable approach to measuring return on investment (ROI) first emerged in the 1970s in the field of manufacturing. Since then, ROI gauges have spread to various functions in multiple industries, including service, health care, education and nonprofit. An increased desire for "accountability" has made ROI popular. Nearly everyone in business now feels the need to quantify the contributions their departments make to their companies. Most significantly, securing ROI has emerged as a primary goal of high-level executives. Bosses concerned about expanding budgets are pressuring divisions beneath them to demonstrate compelling ROI.

> "Return on investment is characterized as flawed and inappropriate by some, while others describe it as the only answer to their accountability concerns. The truth probably lies somewhere in between."

Most companies want to prove that their employee training programs contribute to profitability. However, while almost 80% of firms surveyed noted the importance of ROI in assessing their training programs' efficacy, only 11% of them actually measure training ROI.

Training and Development ROI

A thorough ROI effort for training and development programs covers the following "five evaluation levels":

1. **"Reaction and planned action"** – Calculate workers' satisfaction with your program and propose an implementation approach.
2. **"Learning"** – Assess your workers' "skills, knowledge or attitude changes."
3. **"Application and implementation"** – Measure how training has altered and improved worker performance on the job.
4. **"Business impact"** – Denote training's effect on productivity, expenses and value.
5. **"Return on investment"** – Calculate a percentage that indicates "the monetary value of the results" in light of "the costs for the program."

> "Frustration comes from the lack of evidence to show that the process is really working. While the payoffs are assumed to exist and training appears to be needed, more evidence is needed, or training funds may not be allocated in the future."

Your approach to ROI must be uncomplicated, believable and trouble-free to execute. You need a structure with a good past-performance record that is based on "an acceptable ROI formula," such as a cost and benefit ratio generally indicated as a percentage. It should follow "generally accepted practices," accommodate various kinds of data, and account for program expenses and outside influences when calculating results. Make sure your ROI methodology works with a range of training and development programs, and that you can use it both before and after program activities.

> "ROI applications have increased because of the growing interest in a variety of organizational improvement, quality and change programs, which have dominated in organizations, particularly in North America, Europe and Asia."

ROI initiatives face some obstacles, including cost and time. The need for trained HR staffers is perhaps the most daunting. You need disciplined people who know how to plan and manage an effective ROI program. They should not let incorrect speculation about the impact of an ROI effort or "fear of failure or fear of the unknown" hold them back. Your training and development program will, in fact, reap ample benefits from ROI measures, so overcoming these roadblocks is worthwhile. ROI can show how and what your work contributes to the firm and can help you "set priorities," create a "results orientation," earn senior management's regard and change how people in the firm see training and development.

Step 1 – "Collecting Data"

The first stage of your ROI program involves careful planning, which will spare you time and trouble later. Then, choose the timespan the assessment will cover and decide how to gather the material you need. Depending on your program and resources, your data collection tools include:

- **"Questionnaires and surveys"** – These are the most popular ways of gathering data. Ask questions, including "open-ended, two-way" and "multiple-choice."
- **"Tests"** – Administer exams that "compare participants with each other or to other groups"; that employ a preordained "cut-off score"; or that require learners to demonstrate a talent that a training and development program has nurtured.
- **"Focus groups" and "interviews"** – Conducted properly, group sessions and individual conversations can provide detailed reactions to your program.
- **"On-the-job observation"** – Monitor participants and document their progress.
- **"Business performance monitoring"** – Gauging performance lets you quantify program results "in terms of output, quality, costs and time."
- **"Action planning and follow-up assignments"** – Give staffers detailed goals based on their training and then check their progress.
- **"Performance contracts"** – Use a "written agreement" to confirm learners' promises to improve their job execution.

Step 2 – "Isolating the Effects of Training"

Measure only the outcomes of training programs; do not calibrate extraneous variables. That means you must find ways to identify and measure any outside influences. Whichever tactics you select, apply them "early in the process" to achieve maximum effect. To be sure that you are studying only what you wish to study, use these methods:

- **"Control groups"** – One cluster of participants receives training, the other doesn't.
- **"Trend line analysis"** – Follow a past benchmark to predict future performance.
- **"Forecasting"** – Compare current and future performance.
- **Gathering input** – Seek survey or focus-group feedback from training participants, supervisors, upper management and clients.
- **"Internal or external experts"** – Experienced people can make informed estimates and help you make sure your results are sufficiently specific.

Step 3 – "Converting Data to Monetary Benefits"

You've gathered information and amassed a lot of intriguing data, but how does that add to your firm's bottom line? To show value, you must convert data in a meaningful way. First, decide on a unit of improvement, for example, a time measure showing how quickly your company fulfills specific client needs. Then determine a value for that unit and try to measure whether work on that unit changed for the better after training. To express your data in terms of financial benefits to the company, you can choose among these 10 conversion methods:

1. **"Converting output data to contribution"** – This is an easy way to determine if your training program has increased productivity: It'll be in your records.
2. **"Calculating the cost of quality"** – Ask your HR professionals to "place a value on...improvement in certain quality measures." For instance, this might look at savings accrued by teaching workers how to prevent costly mistakes.
3. **"Converting employee time"** – Help your workers accomplish more, faster.
4. **"Using historical costs"** – If you had an earlier training program, what were the results back then?
5. **"Using internal and external experts' input"** – Experienced professionals can help you assess the value of "soft data" that can be tough to measure like "customer loyalty" or "employee complaints."
6. **"Using values from external databases"** – Also for soft data, explore information from outside references and research sources.
7. **"Using estimates from participants"** – Your employees may be the best source of information about the impact of training on performance.

8. **"Using estimates from supervisors and managers"** – If employees work in silos, managers may have a better overall picture.
9. **"Linking with other measures"** – For example, if your employee satisfaction scores are low, are your turnover rates high?
10. **"Using...staff estimates"** – Since your human resource development (HRD) staffers have a vested interest in favorable estimates, use their input as a cross-check.

Cost and Other Issues

To determine the ROI of your training and development programs, you must know how much you spend on them. Today, many firns feel compelled to calculate and reveal their "fully loaded costs" – that is, every penny they spend to train. Be careful that whenever you disclose training's cost, you also simultaneously disclose its benefits. Otherwise, your executives will wonder if you are applying the firm's resources responsibly.

"It is promising to note the tremendous success of ROI. Its use is expanding. Its payoff is huge."

Take the monetary value that you've calculated and pair it with your programs' expenses to demonstrate ROI. The most efficient equation for ROI is to first calculate "net program benefits," that is, "program benefits minus program costs." Then divide the net program benefits by the program costs and multiply the results by 100. This will yield your ROI as a percentage. Your ROI number can be big; it's common for initiatives that groom leaders and build teams to show a value of more than 100%. However, your ROI value may be in negative territory. If so, use it as a pivotal "opportunity for learning" what obstacles are still impeding your success.

"Communicating results is as important as achieving them."

Any ROI formulation presumes that everything is quantifiable, even soft data such as "employee satisfaction, organizational commitment, grievances" and "innovation." To determine whether an intangible can translate to an ROI value, ask:

- Is there an "acceptable, standard monetary value...for the measure"?
- If not, do you have any way to translate the measure into a cash value?
- If so, can you accomplish that translation easily?
- If so, can you explain that translation fluidly to your bosses and get them to support it in a matter of minutes? If you can't, use that measure by listing it "as an intangible."

"Managers usually will not support activities or processes that they do not fully understand."

Just as you can demonstrate ROI in the present, you can predict ROI in the future. You have several good reasons for wanting to take that step: It allows you to reduce uncertainty, justify future expenditures, show cost savings and provide a context for actual "post data." In some cases, predicting ROI enables you to conform to company rules, since many firms now require ROI forecasting before initiating training and development. Base your ROI forecast on "a pilot program, reaction data, learning data" or "skills and competencies."

"How To Communicate Results"

Ensure that the right people receive your ROI results so that they can use the data to direct the firm's actions. A good ROI presentation can boost the way your company's decision makers see your work. To announce ROI accomplishments for maximum impact:

- Do not delay; share results when they are fresh.
- Aim for specific audiences.
- Choose your vehicles of communication wisely.
- Communicate in a straightforward, impartial fashion.
- Be "consistent with past practices."
- Include "testimonials" from participants.

"Implementation Issues"

No matter how well you understand ROI, your efforts to achieve it will hit a wall if your entire firm, and particularly your top executives, are not completely on board. Opposition is a reality even in the most progressive of companies. If you encounter objections to ROI's cost or its duration, your best defense is to rely on these "building blocks":

- **"Identify a champion"** – Pick an "internal leader" for the process.
- **"Tap into a network"** – Assemble a group of colleagues who support the effort.
- **"Prepare the HRD staff"** – The are responsible for the ROI process, so you must empower them.
- **"Prepare the management team"** – They are critical to implementation because they manage both up and down.
- **Constantly observe and communicate your ROI results** – You must have a comprehensive, ongoing "communications plan" that keeps everyone in the loop and that encourages their ownership of the measurable, positive return on investment in training and development.

"Although much progress has been made, the ROI process is not without its share of problems and concerns."

About the Author

Jack J. Phillips has a PhD in human resources management. The Jack Phillips Center for Research provides HR advice to companies in the US and worldwide.