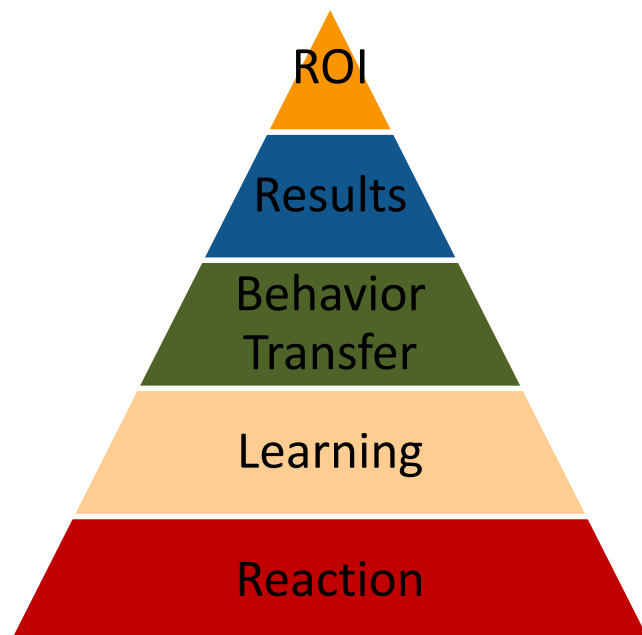


Ensuring Training Adds to the Bottom Line

There is still an incorrect perception among some HR managers that the success of training is impossible to quantify. **Yoav Chernitz** writes on how the return on investment can be calculated.

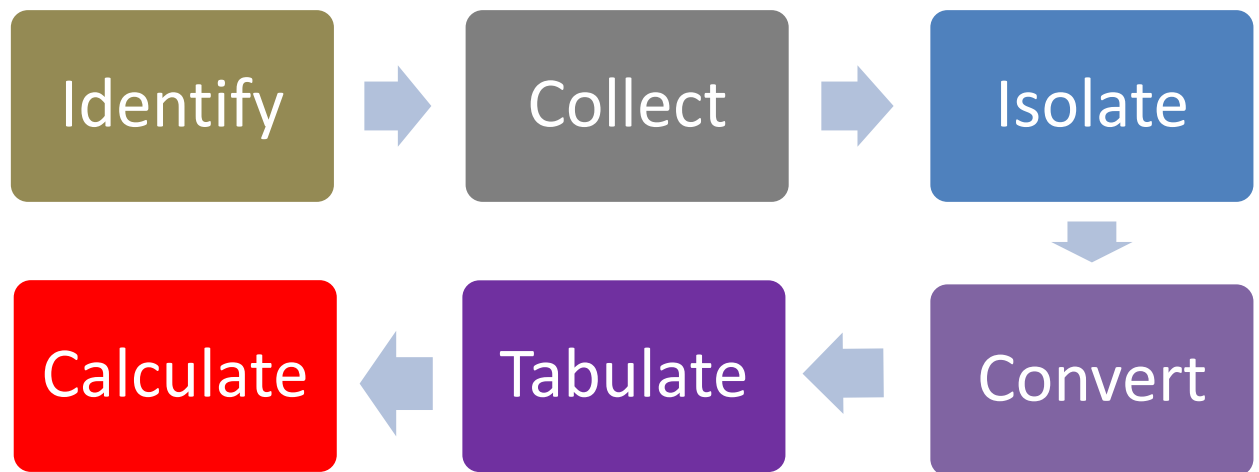
Calculating the Return on Investment (ROI) from employee training has long been a problem for businesses. But at a time when budgets face particular scrutiny, HR departments and training managers desperately need to offer something more than intangible evidence if they are to prove that training is worth the expense. In 2009, at the peak of the crisis, many businesses called a halt to their training schemes, unable to justify the outlay. In mid 2010, most reverted to regular training activities, but there is now more pressure than ever to provide an explanation for the value of training in fiscal terms.

By working to quantify the ROI, analysis can be made more precise. This allows training managers and HR departments to offer a more convincing case when presenting training proposals to the management. Douglas Kirkpatrick's Four Level model is one of the more practical approaches. The levels include (1) Evaluating the **reaction** of participants; (2) Measuring the **learning** that occurred; (3) Assessing the impact on the **job behaviour**; (4) Identifying **business results** of training. A fifth level, (5) **ROI calculation** was added later.



Computing the ROI of training at Level 5 involves six main steps: (1,2) Identify and collect the information; (3) isolate the effects of training; (4) convert these effects into monetary / fiscal

values; (5) tabulate the costs of the training; (6) calculating the ROI, which is the value of the effects to the incurred costs.



(1,2) IDENTIFY AND COLLECT

In these phases we should collect two kinds of indicators; direct costs, such as the teachers' fee, and non-direct costs, such as the time during which the employees are in training, not working. The major benefit of this process is an increased awareness of all the costs involved.

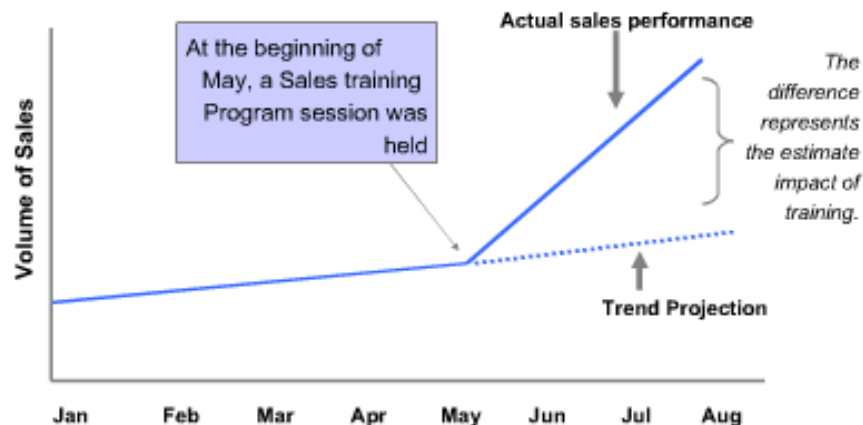
(3) ISOLATING THE EFFECTS OF TRAINING

To determine the ROI of training you must be able to measure the changes that occur as a result of training. Consequently, you must know what the performance or level of knowledge was *before* you began the training initiative. Pre-training data measurement might include frequency of errors, labor hours per unit of production or service, costs of scrap materials, number of returned or defective products, volume of lost sales, absentee rates, turnover rates, or survey ratings indicating customer dissatisfaction.

An alternative to pre- and post-training studies is comparison with a parallel control group which does not receive the training. Productivity or performance of the two groups is measured and compared. The challenge for training managers is to ensure that these two groups are as similar as possible except for the training variable.

In case a control group is not available, another method which is in some cases easy to perform is a trend lines analysis.

Trend Lines Analysis



Isolating the effects of training requires identification of all key factors that impact employee performance and business outcomes. Focus groups, questionnaires, surveys, and observations are helpful. Possible contributors include employees, senior managers, supervisors, customers, vendors, and training and HR development specialists.

(4) CONVERTING THE EFFECTS OF TRAINING INTO MONETARY VALUES

The effects of a training programme should always be converted into fiscal terms. Costs are easy to measure; benefits are harder to use since they may accrue slowly over time.

Effects can be tangible or intangible and are frequently referred to as "hard data" and "soft data." Hard data is quantitative, statistical, number oriented and easily translated into fiscal terms. Soft data is qualitative and refers to intangible benefits that are subjective and thus more difficult to measure and translate into monetary benefits.

Sample "Hard" Data for Determining the Effects of Training Data

- Productivity measures
- Quality measures (number of rejects or cost of rejects)
- Material costs (amount per unit of production or amount of waste or scrap)
- Labour hours per unit of production
- Labour costs per unit of production
- Hours of "down time" due to equipment failure, etc
- Turnover rate
- Workers' compensation claims - nature and number of injuries or illnesses, days of lost work or "light duty" work
- Number of grievances/legal claims/lawsuits
- Time required to fill vacant positions
- Number of sales
- Customer satisfaction rating or index

- Number of repeat customers

Sample "Soft Data" Effects or Benefits of Training

- Improved job satisfaction
- Improved teamwork
- Increased organisational commitment
- Improved succession planning
- Better internal communication
- Stress rate

(5) TABULATING

When calculating costs you should take into account all indirect costs such as staff time, use of existing materials, equipment and classrooms.

(6) CALCULATING THE COST OF TRAINING & COMPARING THE VALUE OF EFFECTS TO THE INCURRED COSTS

The ROI formula or equation uses the effects data and the incurred costs as follows:

$$\text{ROI \%} = \frac{\text{Net Program Benefits} \times 100}{\text{Total Incurred Costs}}$$

$$\text{Payback period} = \frac{\text{Total Cost}}{\text{Monthly benefits}}$$

This method allows detailed analysis from a business perspective, and the consequent development of more efficient and cost effective initiatives. For instance, having realized that the participating employees' time is one of the most significant costs, we can move forward to identify solutions such as scheduling training after working hours. Investing in internal marketing, and promoting the training to the employees will help this to gain acceptance, as will issuing a certificate, investing in promotions or treats. This is an integral part of Kirkpatrick's Level 1 and contributes much to the success of the learning process. All of this can change dramatically the bottom line of a training programme ROI.

Every line item within the training cost table, especially for intangible cost, could be debated in this way. Are you able to clearly show that it was the training that made the difference in a customer's satisfaction? Are you sure that the training, rather than a new manager or a change to the compensation plan, is responsible for the improvement in employee performance? Many other questions can be raised to challenge the ROI calculation, and each could lead to improved efficiency in training.

This remains the only professional way for an HR or Training Manager to present and justify training to the upper management, and it is a useful tool when comparing alternative programmes.

FURTHER SUGGESTIONS FOR IMPROVING THE ROI OF TRAINING

HR managers can further improve the actual ROI of training by utilizing the following tips:

- Align training plans with upper management's strategic business plans. Training should improve your organisation's competitive edge.
- Learn how to speak to your CFO. This will help you to get the data needed for the ROI.
- Use the experience of senior managers and employees in estimating the results of training.
- Check costs and any deviations from estimated or budgeted expenditures. Quick reactions may help to keep the project within budget.
- Secure managers' and supervisors' support for training. Effective training depends on three persons: the trainer, the trainee and the supervisor or manager. All three must agree on the goal of the training, and how and when they will be measured.
- Rely on a benchmark and research to prove the need for training.

For further reading:

Kirkpatrick, Donald, *Evaluating Programs: The Four Levels*, San Francisco: Berrett-Koehler 1998

Phillips, Jack J., *Return on Investment in Training and Performance Improvement*, Gulf Publishing, Houston Texas, 1997

Frances Lilly, *Four Steps to Computing Training ROI*, SPHR, CEBS, February 2001

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