

Return on Training Investment

In proposing and implementing performance improvement initiatives, senior management asks one question most frequently: "What will the return on investment be for our training dollars?" While the question seems relatively simple to ask, answering it is a little more complicated than one would expect.

It has become something of a cliché for senior management to claim that "people are our greatest asset." Yet much to the dismay of performance improvement providers, the effort corporations put into developing this "human capital" continues to be viewed as an expense and not as an investment. Therefore, it is imperative that companies analyse their training programmes as if they were capital investments using techniques like return on investment (ROI).

At a time when there are so many exciting developments in training, including distance and online learning, corporations need to develop the capability to calculate training ROI to facilitate a change in attitude towards training. By understanding the ROI process, the corporation can guide itself towards a true understanding of the benefits associated with an effective training initiative or programme.

Evaluating Training

There are several strong arguments for evaluating your company's training investment. This evaluation can be used to:

- Validate training as a business tool
- Justify training costs
- Improve the design of training

For the evaluation to be effective and measurable, some criteria need to be determined. The following are examples that could be used to measure training success.

Numbers:

One way of measuring the success of training is the good old "bums on seats." Although by no means a true measure of training effectiveness, student numbers do reflect the fact that the training is addressing a perceived need.

Direct Costs:

These are costs that are incurred directly as a result of a training initiative such as course design and development or consultant fees. If the training initiative did not take place, these costs would not be incurred. Many companies only take direct costs into consideration when measuring training costs.

Indirect Cost:

These are costs that may or may not be directly associated with the training initiative, but would have been incurred any way, whether or not the training took place. Examples would include salaries of students and the costs of rooms and equipment. Any analysis of the true costs of training will include both direct and indirect costs.

Efficiency:

This is a measure of the amount of learning that is achieved relative to the amount of effort put in. In other words, the amount of time it takes to complete a piece of training. Efficiency has a direct relation to cost — the more efficient the training method, the less it will cost.

Income Received:

Many corporations have internal training organisations. The income they receive is a measure of their success. The more courses they run, the greater the benefit. Some internal organisations cross-charge their clients. This, however, is not considered as a benefit when assessing ROI.

Learning:

Learning can be measured objectively using tests, exams or some form of assessed exercise. If a student has to achieve a certain level of learning to receive a passing grade, then the number of “passes” may be used as an evaluation metric.

Behaviour Change:

If students have learned something from a course, hopefully this new knowledge will be reflected in their behaviour on the job. Behaviour can be measured through observation or, in some cases, through some automated means. To assess behaviour change requires that measurements be taken before and after the training through assessment testing or benchmarking exercises.

Performance Change:

If, as a result of training, students use the appropriate behaviour on the job, then it would be expected to have a positive impact on performance. A wide variety of indicators and metrics are available to measure the impact of training on performance, including increased sales, reduced costs, reduced time-to-market and increased market share.

ROI Process

ROI can be used to both justify and plan a training programme or to evaluate the extent to which the desired return was achieved.

To calculate ROI, measurements or estimates must be obtained of the costs and benefits associated with a training programme. The ROI calculation is then a relatively simple process. Cost is the first area that needs to be considered. Examples of costs to be included in the ROI calculation may vary from company to company but should, at a minimum, include:

- Course design, development and customisation costs
- Promotion and marketing costs
- Administration costs
- Material costs
- Facility costs
- Student costs

The second area that needs to be considered is benefits. Types of benefits that could be considered are:

Labour savings:

Labour savings occur where less effort is needed to achieve current levels of output. We assume that savings are realised by a reduction in the amount of labour applied to a particular job, not by utilising the newly available time to achieve further output on the same job or function.

Increases in productivity:

Productivity increases occur where additional output can be achieved with the same level of effort. If this is not the case, then it might be more appropriate to express the benefit as a cost savings or cost avoidance. Other cost savings: Examples include lower maintenance costs and lower staff turnover reflected in lower recruitment costs.

Other income generated:

It may be possible for new income or revenue to be generated as a result of training. Examples include higher success rates in winning new competitive bids and new product launches resulting in increased market share or revenue.

The ROI Calculation

The ROI calculation tells you the percentage return you have made over a specified period of time as a result of investing in a training programme. On the assumption that benefits will continue to accrue after training, then the evaluation period that is specified is critical to the ROI figure a company will obtain.

It is recommended that an evaluation period that fits well with an organisation's planning cycle, perhaps one or two years, be considered. On the other hand it might be appropriate to calculate the period to correspond to the life cycle of the benefit. What you would need to know is how long the average student stays in a position in which they can continue to apply the tools, techniques and skills being taught.

It is relatively simple to calculate ROI:

$$\text{ROI} = (\text{benefits/costs}) \times 100$$

Another way of looking at ROI is to calculate how many months it will take before the benefits of the training match the costs and the training pays for itself. This is called the payback.

$$\text{Payback period} = \text{costs} / \text{monthly benefits}$$

Payback period is a powerful measure. If the figure is relatively low, then management should be that much more encouraged to make the training investment. As a measure, it also has the advantage of not requiring an arbitrary benefit period to be specified.

Training ROI Calculation Helps to Meet Budget Goals

In the ever-changing marketplace, it is imperative for organisations to constantly evaluate what differentiates them from the competition. The training ROI exercise is one way for companies to continually evaluate their training investment dollars in order to maintain a lean operating environment. Maintaining a lean operating environment allows companies to respond more quickly to changing market activities and trends and thereby helps to meet budgeted goals.

About the Author

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