MEASURING THE FINANCIAL RETURN OF TRAINING

None of us would dare buy a piece of land, build a new apartment community or acquire an existing property without first conducting an extensive study to ensure we're getting something in return for our investment. To do otherwise would be bad business. But in the area of training, it happens all the time. There is no other workplace issue on which so much money is spent with as little accountability as training.

We've all heard the following claims:

- "Companies that invest in training programs are more profitable than those that don't."
- "Companies investing in employee development enjoy significantly higher market value than their industry peers."
- "Untrained employees take up to six times longer to perform the same tasks than those who are properly trained."
- "Training enhances employee retention."
- "Just a 2% increase in productivity has been shown to net a 100% return on investment in training."
- "We earn $30 for every $1 invested in training."

All of these claims are true and have studies to support them. However, just because training works in one industry or one company doesn't necessarily mean it will have the same positive affect in your company. Many companies have not measured the benefits and related them to the cost of training in a way that reveals the rate of return on the firm's investment.

The amount organizations spend annually on formal training is estimated to be more than $60 billion in the United States alone. It should come as no surprise that business leaders are increasingly demanding not only accountability for these outlays, but also greater articulation of how training initiatives benefit their organizations.

There's little debate that companies should invest in their people by offering training and other educational opportunities, but, in today's competitive and volatile market, managers can no longer approve spending without substantial justification to support their spending decisions. They are asking human resources managers to provide proof that their training programs are resulting in positive returns or face budget cuts.

With this increased pressure to justify their training expenditures, human resources managers are looking for ways to justify their expenses for programs. However, it is difficult to show a direct correlation between training and changes in sales volume, productivity and other profit measures because there are many other factors that have an affect on the changes.

Organizations that are committed to putting forth the time, money and effort required to ensure that training results are connected to a business need and result in monetary benefit can employ several methods for doing this. In 1959, Donald Kirkpatrick created what is today the most widely used model for training evaluation. Kirkpatrick identified four levels of training evaluation data: Reactions and Planned Action; Learning; Job Applications; and Business Results. The four level framework developed by Kirkpatrick does not focus directly on the ROI issue. The highest level of measurement only links results to

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training. These results could take the form of reduced absenteeism or turnover, increased productivity or cost reduction. However, this level does not require a specific monetary value (cost saving) to be determined. In order to develop a true evaluation the data must be converted to monetary values and compared to the cost of the program to represent the return on training investment. Thus, in order to obtain the true value of training we have added a fifth level of evaluation - Return on Investment.

Evaluation levels 1 to 4 are obtained through questionnaires, focus groups, observations and statistical sampling. They are important in establishing the overall relevance of training programs. However, measuring the return-on-investment (ROI) of training programs is the best way to show business leaders the value of training in financial terms. Used in the strictest sense, ROI answers the question, "For every dollar invested in training, how many dollars does the employer get back?" The strict definition of ROI is that it is a percentage derived from the benefits of a particular program — dollars made or saved — divided by the program's cost.

Just as there are numerous training evaluation methods, there are also numerous methods of gathering information and measuring training ROI. As with any evaluation, the training ROI can be made as difficult and in-depth as necessary. However, it can become so cumbersome that the cost savings can be reduced because of the amount of time devoted to gathering and analyzing the data. In some companies we call this "paralysis by analysis". Based on the assumption that companies need to keep the analysis as "simple as possible, yet gather and measure the critical data", we have listed five steps for measuring training ROI.

1. Establish a measurable goal for the training:

- Reduce employee turnover 1% within 12 months.
- Increase employee satisfaction scores by 10%.
- Increase resident satisfaction scores by 5%.
- Decrease employee relations complaints by 10%.
- Decrease maintenance work order response time by 20%.

2. Attach a monetary value to obtaining the goal:

- Reducing employee turnover 1% results in a savings of $50,000 per year in the cost of recruiting, training and orientation.
- Increasing employee satisfaction scores by 10% results in a reduction in employee turnover of .5% (cost savings $75,000) and an increase in productivity of 1% (cost savings of $125,000).
- Increasing resident satisfaction scores by 5% results in an increase in resident retention of 20% or a $225,000 increase in rental revenue.
- Decreasing employee relations complaints by 10% results in a decrease in employment-related legal expenses of $50,000.
- Decreasing maintenance work order response time by 20% results in an

CEL & Associates, Inc. 12121 Wilshire Blvd., Suite 204 Los Angeles, CA 90025
tel.:310.571.3113 fax:310.571.3117 email:cel@celassociates.com

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increase in resident retention of 10% or a $112,500 increase in rental revenue.

3. Tabulate the costs of the training program:

- Internal trainers (salaries, benefits, taxes and overhead).
- External trainers (fees, travel, expenses). Supplies (training manuals, pens and writing pads).
- Meals for participants.
- Travel, lodging and meals for out of town participants.
- Facilities used for training.
- The value of the cost of taking people away from their jobs for the training (salary, benefits and overhead).
- Opportunity costs: Unrealized opportunities as a result of people being away from their jobs.

4. Calculate the return on investment: Divide the net benefits by the costs times 100.

$$\text{ROI (\%)} = \frac{\text{Benefits-Costs}}{\text{Costs}} \times 100$$

5. Evaluate the results of training within an applicable time frame to see if actual goals are accomplished:

- Monitor turnover on a monthly basis. At the end of 12 months verify that your turnover has been reduced by 1%. Also, review your costs for recruiting, training and employee orientation and verify that your costs have decreased by $50,000.
- Conduct an employee satisfaction survey and verify that your scores have increased by 5%. Also,monitor your monthly turnover reports to verify that your turnover has decreased by .5% and thus your costs for recruiting, training and employee orientation have decreased by $75,000. A little more difficult, but monitor your productivity, by department or region, and verify that it has increased 1% and there is a cost savings of $125,000.
- Conduct a resident satisfaction survey and verify that your scores have increased by 5%. Verify that your resident retention has increased by 20%, which resulted in a $225,000 increase in rental revenues.
- Monitor employee relations claims to verify a 10% decrease. Review employment related legal expenses to verify that they have been reduced by $50,000.
- Monitor maintenance work order turnaround to verify that the time has been reduced by 20%.
- Monitor resident retention to verify that it has increased by 20% and verify that rental revenue has increased by $112,500.

As you monitor these critical business statistics, which are vitally necessary in operating your business, you can clearly realize whether or not your training is cost effective. When performed properly, studies of returns on investment can provide substantive information upon which to base training support.

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It's not always easy to quantify, track, capture, calculate and report every cost and benefit of training. However, when asked to spend dollars for training why wouldn't you ask the same questions you would ask if someone was trying to sell you a piece of land?

This article was written by Joe McFadin, a Strategic Resource Partner of CEL & Associates, Inc.

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For more information on how CEL & Associates, Inc. can assist your organization in maximizing its training dollars, please call (310) 571-3113 or e-mail us at cel@celassociates.com

CEL & Associates, Inc. 12121 Wilshire Blvd., Suite 204 Los Angeles, CA 90025
tel.:310.571.3113 fax:310.571.3117 email:cel@celassociates.com