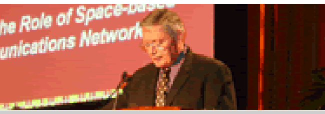

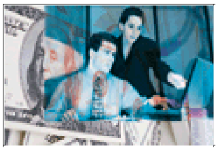

The ROI of Training
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By Margot Carmichael Lester

Corporate learning is big business in the U.S. According to figures from the American Society for Training and Development (ASTD), the average U.S. company spends between about 2 and 10 percent of total payroll on training.

ASTD's 2002 State of the Industry Report surveyed 367 American companies and found that total training expenditures average $704 per employee annually. Companies making a "dedicated commitment" to training spent more than twice that, or a whopping $1,574 per employee. Survey respondents reported they spend the most training money on technical processes and information technology skills.

For many companies, however, corporate training can be a black hole for spending.

"Billions are spent on training annually," says Tad Waddington, director of performance measurement for Accenture People Enablement, a division of the Accenture consulting company. "But they have no idea of the bottom line impact of the expenditure."

That's because for years training and development has been viewed as a nebulous place on the corporate map where fuzzy language - "soft skills", "ENTJ" and other terms - were bandied about but no one seemed to know what they meant. And often - too often experts agree - training was ineffective. Think about it. How many bad training sessions have you sat through in your corporate life?

"Squawking about ROI of training means you're looking at the wrong problem," Waddington says. "You've got to look at improving training's value."

And that value is always dependent on whether or not people in an organization use the training to solve institutional goals.

"To ensure a successful program, your training needs to support some company goal(s), have management buy-in and be resourced; e.g. - budget allocated, appropriate trainers identified and time scheduled," says Michael Miller, senior consultant with the California Manufacturing Technology Center's Burbank office.

"Training sticks when management supports what is learned," he continues. "That is, they themselves model the way by demonstrating what other participants have learned. A simple example is where a new software program is learned, but management considers themselves an exception by continuing to use the old one."

Better Training

Improving training's value is relatively straightforward, says Steve Peha of Teaching That

Makes Sense, Inc., a teaching and learning consultancy in Seattle.

"Many companies have tangible corporate goals - increasing productivity, reducing cycle times or errors - but they don't have any tangible learning goals that match up with them."

Waddington agrees, "It isn't really about courses, but how they interact and work within the context of corporate goals."

The key, then, is translating those goals into the right individual competency and getting people the right training to hit the mark.

"If you can't do that," Peha says, "it doesn't matter how good the training is, you won't make the corporate goal. It's even worse in the short-run if you factor in the time-cost of the training itself."

The first step to improving training's ROI is creating a baseline. "ROI can be measured only when current performance is benchmarked," Miller says. "Many tools are available to do this by measuring the output or current capabilities of the people involved."

There are several benchmarking resources on the Web, including the Benchmarking Exchange and Best Practices Homepage (http://66.124.245.130) and The Benchmarking Network (http//www.benchmarkingnetwork.com)

With benchmarks established, you can create the training program.

Peha suggests these steps to designing more valuable learning opportunities - and enhancing training ROI:

- Define a quantifiable organizational result: making more widgets for less or improving productivity by 5 percent
- Translate that into specific individual learning competencies: something an employee could learn (better procedures, new functions)
- Determine industry standard best practices: what would someone learn to help them develop these competencies
- Decide which employees should be trained: some employees are likely to have or develop necessary practices, or are more critical to the goal
- Create a training program to help employees acquire these practices: through internal or outsourced providers
- Establish an assessment system - make sure the practices are being taught and that the learning is being applied toward meeting the goal

Here's an example: If a software company wants to improve release cycle time from four months to three, then one thing developers might need to learn is how to reduce coding errors. The software company chooses Extreme Programming as its best practice, hires an expert to train developers, and then creates a monitoring and evaluation process to make sure employees are learning the techniques and are applying the learning to achieve the goal.

Better Evaluation

Perhaps the most important aspect in determining ROI is measuring results against the organizational goal. This provides a direct line from training budget to the balance sheet. Miller suggests using these criteria in your evaluation:

- Consequences, incentives and rewards
- Data and information
- Resources, tools and support
- Individual capability and capacity
- Motives and expectations
- Skills and knowledge

The right evaluation system will yield information crucial to creating a rock-solid cost-benefit analysis for training. Consider the evaluation model Waddington helped create at Accenture.

His model determines the benefits of the firm's investment in training programs by tracking employee "contributions". At Accenture, the contribution was billable hours. For a software developer, it might be lines of code. For a business development professional, it could be deals closed.

According to the white paper, "Running Training Like a Business: Determining the Return on Investment of Your Learning Programs", the contribution of an employee who takes advantage of corporate learning programs is higher, with a longer period of contribution. "The professional without access to these programs never reaches the same level of proficiency and will, on average, leave the company sooner."

Next, Accenture researchers reviewed more than a quarter of a million employee records looking at training, cost and bill rates, tenure and promotions. To isolate the effect of training, investigators factored out status, experience, inflation, business cycles and the hourly cost of training.

They discovered that Accenture employees in the top fiftieth percentile in terms of the amount of training:

- Are 17 percent more productive
- Perform at 20 percent higher levels relative to their peer group
- Stay with the company 14 percent longer

"Dollar figures associated with each of these statistics for a fiscal year led to the conclusion that at Accenture, the annual per person net benefit of its learning programs is $25,324," according to the report. "Multiplying that number by Accenture's approximately 50,000 consulting employees yields a companywide net benefit of training of $1.26 billion. By dividing that benefit by the cost of one year of training (approximately $358 million) researchers concluded that the ROI of learning at Accenture is 353 percent."

"Producing numbers like these are important when you're fighting for scarce resources," Waddington says. "It's all about opportunity costs. CEOs will ask, 'What will this buy me?' If training isn't prepared to go toe-to-toe it should take its pink tutu and go away."

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