Valuing Your Efforts: ROI & Beyond

When an organization spends money on a project, it's only reasonable it wants some assurance the money has been well spent and it's gotten the results it paid for. For years the most popular way of seeking that assurance has been by identifying the project's ROI—its "return on investment," calculated as a function of costs vs. bottom-line benefits. ROI is increasingly recognized, however, as a problematic calculation, especially for areas like training, where the real bottom-line impact may not be directly measurable.

In this whitepaper we will look at some of the issues involved in determining the ROI of a training project, and at alternative ways to measure its real value to the organization.

What Does ROI Really Mean?

ROI is a deceptively straightforward calculation:

$$\frac{\textbf{(total benefit - total costs)}}{\textbf{total costs}} \textbf{ x 100}$$

If you spend $1,000 in a year and collect $1,200, the ROI for the year is 20%.

In the real world, though, it quickly becomes more complicated. Defining costs and benefits means grappling with dozens of variables whose interactions are unpredictable and uncontrollable.

> *"In order for an ROI to have meaning, you must know what the starting point is and to what standard you are trying to measure,"*
>
> *CFO, MetLife*

A valid ROI calculation needs to measure outcomes that are directly attributable to the costs. This means that you have to:

- State *all* your assumptions clearly.
- Identify and account for *all* the relevant variables.
- Establish a baseline to track against.

Calculating ROI is more than just plugging numbers into an equation—it's more like a study, and it requires a solid understanding of the business.

Measuring Change

Computing the ROI of training involves four steps:

- Isolating the effects of training
- Converting these effects (benefits) into monetary values
- Calculating the costs of the training
- Comparing the value of the effects to the incurred cost

In order to isolate the effects of training and measure the incremental change, it is necessary to specifically measure employee productivity both before training and after training.

To do so thoroughly, it's important to include both hard and soft data .

Hard data are the quantitative statistics an organization collects, e.g.:

- Productivity measures (quantity)
- Quality measures (compliance)
- Labor hours/costs per unit of production
- Number of sales or dollar value of sales per customer
- Percent of market share
- Customer satisfaction rating or index

Soft data are intangible and qualitative, therefore more difficult to measure and translate into monetary terms, but they have significant impact on business performance and must not be left out of the calculation. Examples include:

- Job satisfaction

- Teamwork
- Organizational commitment

Isolating the relevant variables is essential. For instance, Motorola in the course of a year built a new factory, implemented new management styles, installed new technology, and retrained its workforce. Afterwards, productivity was significantly higher. How much of the gain was due to training alone? In a complex change process, can you even ask the question??

If you can isolate all the relevant variables, and if adequate pre and post data on all the relevant measurements exist, you may be able to assess the true value of the project.

This ideal state rarely exists in practice. What you're left with, instead, is guesswork and estimates, and the hope that no one looks too closely at the assumptions behind them.

If Not ROI, Then What?

In most cases, therefore, ROI can't be practically calculated. How then can you justify the expense of a training program?

One thing to consider is the unacceptable costs of *not* training:

- Untrained users take up to six times longer to perform the same tasks.
- Training enhances employee retention. Among employees who say their company offers poor or no training, 41% plan to leave within a year. Of those that say their company offers excellent training, only 12% say they plan to leave.
- A four-year study shows that firms who invest $1500 per employee in training compared to those that spend $125, experience on average: 24% higher gross profit margins and 218% higher income per employee!

To assess actual training effectiveness and to demonstrate its value to the organization, one approach that is being used in a growing number of organizations is to focus not on ROI, but on ROE—the return on expectations. An ROE assessment does not emphasize monetary costs and benefits, but rather how well a project meets its stated goals. To do this, you need to focus on doing a good up-front job laying out what you are trying to do, establishing consensus, and tracking that initial vision all the way through the project to measures of performance and change. Then you evaluate the project based on how close it came to the original expectations.

Why Verizon Uses ROE

"Gathering ROI data, in addition to being expensive, can be frustrating. Most of our business units don't track the data we need at the individual level, so its hard to isolate the specific effects of the training program."

Verizon Training Manager

If clear training expectations are set at the beginning of the project, it is desirable to revisit them at the end to see whether the project delivered what was promised, and whether the results are properly aligned to the initial goals.

Baseline for Future Assessment

Although approaches like ROE provide a realistic and cost-effective alternative, ROI is still the language most commonly spoken by upper management, however, so it pays to understand it. More important than the ROI figure itself is what it means, how it is interpreted and defines the next steps.

So start establishing baselines in determining employee performance, so that future training efforts can be better managed.