PROVE IT!

Making sense of the Return on investment (ROI) from developing people

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WAY AHEAD SERIES NO: 2

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Executive Summary

This **Way Ahead Series No 2** report updates previous explorations of how some companies determine the value of developing their people.

Those arguing that a development intervention will benefit a business may increasingly be expected to “prove it!” to the satisfaction of key decision makers.

We explain the background to a Return on Investment (ROI) calculation and offer various examples, plus some useful sources that explore the ROI issue in more depth.

The report questions whether a simple ROI is always as useful as some experts claim and offers alternative ways developers may try to “prove it!”

It suggests that there are currently two mainstream approaches: the short term behavioural goal method that may occur over a few months, and the longer term one that focuses specifically on business results that may need to cover a longer period of months or even years.

The paper invites readers to engage with us to discuss the issue of ROI development in your own company and how you might prove it”.

IN a challenging economic climate, the decision by companies to continue investing in their people needs careful consideration to ensure the benefits really do outweigh the costs.

Those who deliver behavioural solutions must be able to convincingly answer two essential questions: “What will your development do for me?” And “How do you know that what you do works?”

In short, those arguing that a development intervention will benefit a business may increasingly be expected to “prove it!” to the satisfaction of key decision makers.

CONTINUING THE STORY

This ***Way Ahead Series No 2*** report continues our work on Return on Investment (ROI) and quantifying the costs and benefits of developing of people.

We add further thoughts on this traditionally challenging area for policy makers and those concerned with justifying development expenditure.

THE BASICS

Although evaluation is a complex area with many layers of detail we see three essential challenges facing professionals and managers concerned with proving the effectiveness of learning and development.

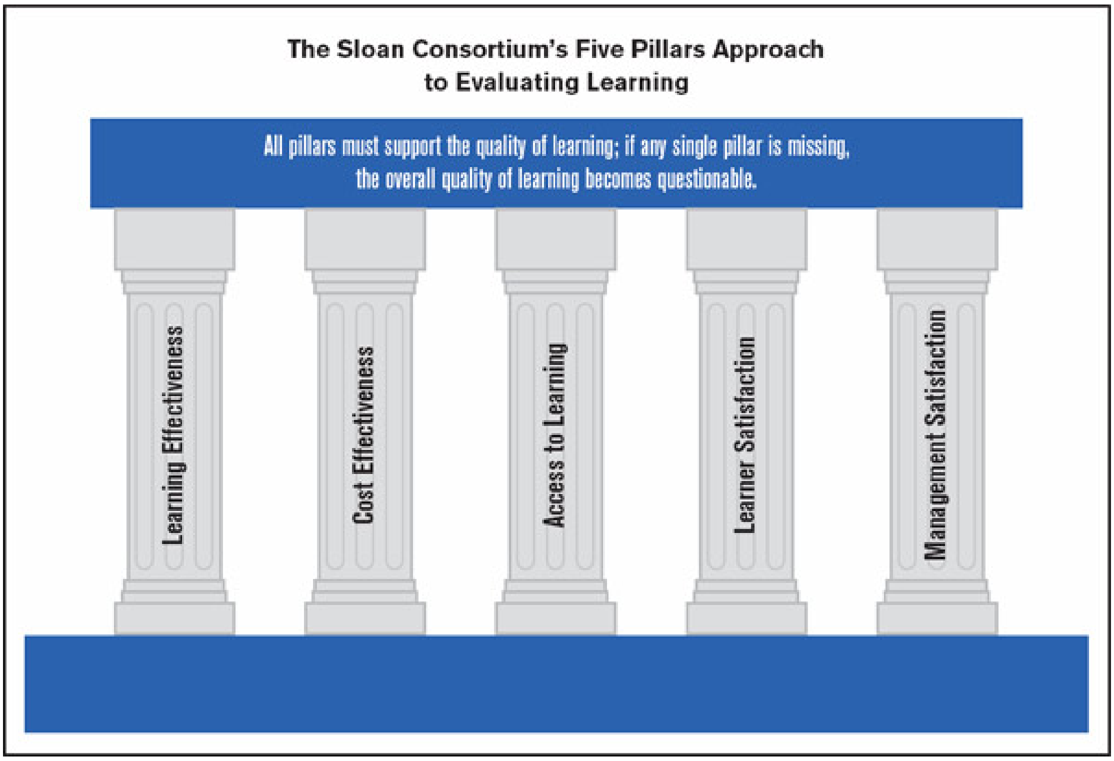
Strategic

The first challenge is strategic and concerns the overall effectiveness of learning within the organisation.

This means trying to answer the question: “How effective is learning in our organisation and what value does it add?” This fundamental question attempts to make sense of the quality of organisational learning.

Here some professionals have been using a 5-Pillar model developed under the sponsorship of the Sloan Consortium and adapted by companies such as Johnson & Johnson and Amway. [1]

The five pillars determine the overall quality of organisational learning and no one pillar is more important than any other. [2]



While these are mainly self explanatory here is a brief summary:

- **Learning effectiveness** requires indicators of the impact of learning on the organisation's strategic direction.
- **Cost effectiveness** requires results on the how much is accomplished with the given resources and budget.
- **Access to learning** requires data on what is the reach of the learning opportunities across the organisation.
- **Learner satisfaction** requires information on learners satisfaction with their learning and personal growth opportunities
- **Management Satisfaction** requires indicators that reveal management satisfaction with the investment in learning that is happening across the entire organisation

Another approach is the Newbury Index rating (NIR) system which indicates how well an organisation is managing to capitalise on the value of its people.

NIR asks questions such as: Who is your dedicated Human Capital Management (HCM) strategist and does that person have a full seat at board-level? Can you demonstrate a value-added, performance improvement from all of your employees over the past 12 months? Does all of your training expenditure produce an acceptable rate of return on investment?

Like the Sloan Consortium Five Pillars method for assessing the overall benefits of the development investment the NIR approach remains complex to achieve in practice.

Any overall evaluation involving the strategic impact of the learning and development investment might require some or all of these:

- Assessment tests used at the start of a programme to determine the current situation and identify development gaps.

- Review progress towards goal attainment and give goals a financial value either calculated or attributed.

- Employee/Staff Opinion Survey repeated at regular intervals.

- Participants and/or their line managers to describe new adopted behaviour(s), their frequency and so on. Others too feedback news and results. A financial “worth” is attributed to the specific behaviours in action

- Participants and/or their line managers to identify factors contributing to the effectiveness, or otherwise, of the programme.

- Participants and/or line managers to identify tangible business benefits from a development activity.

- Participants and/or line managers to identify other factors contributing to business results.

- Participants and/or line managers to estimate the annual monetary value of the business results—for example from the completion of a specific project.

The sheer scope of this approach to ROI should be a warning to practitioners of the effort and likely cost implications of launching a full scale statistical study. It is likely that by the time you get the results they will probably be out of date.

Individual interventions

The second challenge concerns trying to make sense of the value achieved from any one particular learning intervention. These might involve a single skilled-based learning event, or a whole multi module development programme.

Attempts at this kind of evaluation mainly began in 1975 with the work of Kirkpatrick who described four levels of development outcomes: reaction, learning, behaviour and results.

His system was designed for examining the effectiveness of individual training programmes within a manufacturing context. It was not designed for measuring overall organisational learning (see above).

The Intangibles

The third challenge concerns how to deal with the intangibles that occur in trying to "prove" the effectiveness of a learning experience.

While it can be hard converting intangibles into money they remain important when deciding the success or otherwise of a particular intervention.

Examples of intangibles include trying to assess the impact of accountability, branding, communication, engagement, employee attitude, image, leadership, networking, reputation, stress, team effectiveness, timeliness and so on. [3]

WHY BOTHER?

Given the present economic and financial climate we are probably back in an era where ROI in some form, whether at the strategic or individual intervention level once again demands renewed attention. Yet something important has changed since earlier concerns with ROI.

There is now much wider awareness and indeed research to show that when times are tough this is precisely when it pays to invest in people, even if, in many situations there are now less of them.

Few companies make large capital expenditures without undertaking a reasonable degree of analysis to support the decision. So why would investing in people be any different? Yet evaluating development remains the exception, rather than the rule.

A leading UK retail bank we recently encountered justifies its continuing investment in graduate development with a return on its investment of 11:1 in terms of revenue generation. That is, for every one UK pound the bank spends on graduate development it reaps a profitable £11 return.

Trainers, internal HR professionals and external suppliers tend to urge employers to treat the development effort as an investment rather than a cost. Yet few can demonstrate this convincingly as happens in the above mentioned retail bank.

Such expenditure is often regarded as an overhead, ripe for culling when times are tough. If pushed to seek cost savings reducing development can seem an easy option, quickly reversible once the economic climate improves.

There is nothing new about such an attitude, it has haunted development interventions for decades. With each swing of the business cycle the corporate commitment to systematically invest in people—the company's "greatest asset"--encounters varying degrees of questioning and demands for convincing evidence of a profitable return on expenditure.

And while there are now more sophisticated ways of producing viable and credible measures of ROI the Kirkpatrick method remains widely respected. [4] For example, as part of the tender requirements for a new client contract, we recently encountered a specific requirement to achieve his level 3 result.

Today, Kirkpatrick's fourth level is usually the starting point for devising an ROI calculation for an individual learning intervention we can define as:

> ***A measure of the monetary benefits gained by an organisation in return for a given investment in a development programme.***

More prosaically, an ROI helps developers "prove" the extent to which the benefits or outputs from a particular development exceed the costs or inputs, over an agreed time period. This most basic approach is similar to what ROI expert Paul Kearns calls The Baseline Evaluation System (BES) that focuses on just two variables simultaneously, to make a clear, causal connection between individual performance and organizational value.

In a recessionary climate straightforward ROI yardsticks may no longer entirely make sense. For instance, previously acceptable incremental improvements may not be enough to satisfy those holding the purse strings. The demand may now be for far more radical or substantial outputs that are more difficult to demonstrate convincingly.

Or an ROI measure that reduces everything to the lowest common denominator of a bottom line financial return without taking into account the intangibles may fall apart when managers for example, look further ahead to the less quantifiable yet equally worthwhile gains.

TOWARDS A CREDIBLE MEASURE OF ROI

Taking actual business results as a starting point, a credible ROI metric requires

- **Clear business objectives: what business outcome is the investment meant to achieve?**
- **Validation: how will we know the investment has achieved what it set out to achieve?**
- **Performance information: what data will we need and how will we collect it?**

Clear objectives

Managers of business units want to know if a development effort is worth it. Using elaborate ROI language to them will not cut much ice when all they need are the actual business benefits from a development investment. As one leading ROI expert puts it: "Very rarely does anyone see ROI as a positive, constructive, learning-enabling, experience." [5]

For all the complexity associated with ROI measures, the gains often come down to either cost reductions or straightforward revenue generation. Thus the tangibles might include increase in sales, cost reductions, efficiency improvements, higher levels of customer satisfaction, reduced staff turnover, desirable business projects completed on time and so on.

Establishing these clear aims remains the Achilles heel of many development efforts. There is also often uncertainty about the intangibles, (see above), though it could be argued that, "If it exists, it can be measured." [6]

In practice, the first step towards creating a credible ROI is establishing a causal link between some skill, knowledge or attitude gap and a particular business outcome. To find this means persuading the owner of the problem to work with this logic and agree how the end results will be measured, that is, how developers will successfully "prove it!"

Those selling-in development programmes to companies, whether internally or as outside suppliers, therefore need to know how to make a convincing business case for their proposed investment.

The ideal business case will show expected cash flow consequences of the action over time, and most importantly, also include the methods and rationale used for quantifying benefits and costs. Creating such a scenario is invariably a partnership between developers and business managers who will reap the benefits.

Validation

This is often confused with the above task of nailing down expected business results. Any successful development intervention involves outcome criteria such as achieving desired behavioural change, creation of new attitudes such as less resistance to change, establishing more effective relationships leading to lower levels of conflict, better team working and so on. Validation simply requires evidence of actually achieving expected learning or change outcomes.

In our experience, particularly in respect of behavioural change, this is what clients most urgently want feedback about. They want assurance that action plans to which people have committed themselves, have indeed been realized and that others in the company will feed back stories and facts about their people doing things differently.

In search of validation, development suppliers need to build into the design the aim of providing detailed reviews and reports that help supply the evidence needed.

Performance information

"What do we collect?" is therefore one of the first questions to be answered in the evaluation effort, having decided on the overall business goals of the development investment.

There are many possibilities for defining business success criteria and validation outcomes. Since information about business may be expressed in various ways making sense of the data sources is an essential part of creating a viable ROI measure.

Because the business case for development usually demands financial metrics such as ROI, Internal Rate of Return, Discounted Cash Flow, and so on, it is easy to regard them as more important than they are. Because they seem precise and apparently scientific it is tempting to conclude they alone can "prove it."

Yet validation information for example, can be equally important in building the case for a credible ROI calculation.

ATTRIBUTING, OR MEASURING THE RETURNS

HR professionals may understandably feel daunted by the challenge of producing a credible development ROI. CIPD research highlights at least four main possibilities: measures of learning efficiency, key performance indicators and benchmark measures, return on investment measures and return on expectation measures.[7]

However in practice we mainly encounter only two basic viable approaches to measuring value:

- ***Short-term behavioural goals:*** These might be achieved over a limited period such as a nine-week cycle during which formal and informal feedback provides reassuring evidence that the development investment is working.

- ***Longer-term goals usually focused more on financial returns:*** These are collected after, say, six months or longer and need a different approach and collection instrument.

Short term behavioural goals

Short-term behavioural goals provide merely an approximation of the likely return on investment, often relying on validation information. For many people though, this is enough and as long as there is some credible evidence, such as specific new behaviours, completion of projects, planned feedback and so on, this may indeed “prove it.”

For example, Focus groups can provide important soft data that in effect provides convincing evidence of achieved short term behavioural goals, even when these do not have a specific financial return attached to them. Appendix 1 and 2 for example, show the results of an actual client’s two separate types of Focus Group, some months after Maynard Leigh ran a communication workshop.

Other ways adopted by clients to tackle this short term demand for ROI evidence include: stretch assignments, Goldfish cards and progress monitoring systems.

Stretch assignments resulting from a development intervention place an agreed financial value on achieving some desired project result, and pushes internal talent to stretch the boundaries of their current roles. For example business benefits might include: the successful negotiation of more flexible working hours, the development of a new product or service, a price increase extracted from for top loss making customers and so on.

A financial services client we have worked has evolved Goldfish cards which in effect publicly commit the individual to achieve certain personal or business goals prior to the development initiative. These goals are open knowledge—hence the idea of the goldfish bowl—and after the development intervention the individual must report on his or her success in reaching the desired changes.

Our own on-line Progessit ® System [8] is another way to systematically trap information on what the development investment actually achieves over a relatively short period. Participants begin reporting on their progress towards agreed behavioural goals immediately after their learning event and continue doing so over a nine-week period. After nine weeks, a detailed Business Benefits Report describes what they have actually put into practise in the business because of their learning.

It is possible to impute a "price" or value for reaching chosen behavioural goals. Alternatively, the completion of a project may rate a certain financial value. For example, as an absolute minimum each behavioural goal achieved or partially achieved might be realistically valued at say three times the the cost of the initial development investment in that person. From here it becomes feasible to calculate a credible numerical ROI.

Longer-term goals focus more on financial returns. For these the ROI needs to be highly specific with an emphasis on numerical and financial evidence. The ROI will normally show the percentage return made over a specified period as a consequence of investing in a development programme.

Calculating

A basic ROI calculation is deceptively simple:

% ROI = gross benefits less the costs/ costs x 100.

However as we have seen, the devil is in the detail of collecting and quantifying the actual benefits and costs. For instance, simply using gross benefits may be misleading since extra sales for example, are not a true return unless you look at the profitability of those sales. Likewise opportunity cost—the loss experienced by not doing something else instead of the chosen action—may also distort the true return.

Here for example are just some of variables that may need to be taken into account in the ROI calculation

Duration of training	33 hrs
Estimated student numbers	750
Period over which benefits are calculated	12 months
Costs	
Design and development	£40,930
Promotion	£4,744
Administration	£12,713
Faculty	£86,250
Materials	£15,000
Facilities	£40,500
Students	£553,156
Evaluation	£872
Total cost	£754,165
Benefits	
Labour savings	£241,071
Productivity increases	£675,000
Other cost savings	£161,250
Other income generation	£0
Total benefits	£1,077,321
Return on investment	143%
Payback period	8 months

Source: Assessing the ROI of training, by Clive Shepherd

The actual period chosen for calculating an ROI figure can be critical, since the benefits from a development investment often continue beyond the actual intervention itself. One approach is to specify a period that fits the organisation's planning cycle – perhaps a year or two years.

Alternatively, it may be better to calculate a payback period to correspond to the lifetime of the benefit, which requires information on the how long the average participant stays in a position during which they continue to apply the knowledge and skills being taught.

With the payback period you calculate how many months it will take before the benefits of the development match the costs of the investment. Payback period is a powerful metric. If the figure is relatively low – perhaps only a few months – then business managers will accordingly be more encouraged to make the development investment. As a measure, it also has the advantage of not requiring an arbitrary benefit period to be specified.

Useful though the ROI may be, it is essentially backward looking, yielding few insights into how to improve business results in the future. This may help to explain why so many companies decide the work of producing an ROI is rarely worth the effort and why business managers seldom get excited at the prospect of seeing an ROI. Most senior executives simply have more faith in gut feeling than in numbers.

A worked example of an ROI for coaching appears in Appendix 2.

CONCLUSION

An ROI on development investment proves challenging for all companies, regardless of size and experience. The essential route to defining a credible ROI is through first establishing the business goals which a particular development is designed to support.

It is also helpful to clarify the timescale for any ROI calculation. A straightforward payback period for the development investment can simplify the search for a credible ROI. It is also important to distinguish between short term behavioural changes which may be enough to satisfy policy makers from the desirable yet harder to obtain bottom line business benefits data.

As part of planning the ROI calculation the causal link between a development intervention and the business benefit also needs to be teased out.

As with so much activity concerned with developing people there are multiple ways to "prove" the benefits, rather than a single and possibly misleading metric. The starting point is a willingness to define learning outputs and linking them to expected business returns, no matter how these may eventually be calculated.

Given the challenge of producing credible ROI data the focus of HR professionals need to be on the strategic contribution of development, rather than trying to prove the merits of specific learning interventions.

We welcome working in partnership with our clients to explore creative ways to establish credible ROIs on their development investment. We invite you to continue the debate with us and to share your own working examples of how you "prove it."

ALSO IN THIS SERIES:

Way Ahead: No 1: SUSTAINING CULTURE CHANGE

Awarded “Outstanding Paper of the Year” by The Editorial Board of Training and Management Development Journal Published in volume 21 January 2007

Way Ahead: No 3: CONNECTING WITH CLIENTS

How to win business by creating and sustaining client relationships.

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Appendix 1: Qualitative Assessment
Written Communications Skills Workshop
Focus Group: Evaluation 3 months on

Recalling the course and its content

There was a good recall of what was in the course and its style. Recollections included:

- 4 people recalling concept of **Splurging**
- 6 people recalling importance of really thinking about the **target** audience/reader and types of communication
- 2 people highlighted the **danger of jargon**
- 4 people recalled **tone**
- 4 people recalled messages around email and how they can be **mis-interpreted** and how it might be useful for somebody to check over your email, if you have concerns.

Other elements recalled were:

- Most relevant information at the top of your communication
- Bullet points are helpful
- Format of communications
- Content
- Editing
- Concise communications
- Formatting a written argument
- Selling an idea
- The method Maynard Leigh used to set people to introduce themselves
- The animated conversation about existing communications

What is different as a result of the workshop?

- Today's (19 Jan) email about patching – aimed exactly at the audience More able (because of splurge concept) to get ideas down initially and then end up with something better
- People behaving differently in terms of written communications: more snappy, more to the point, still have to be careful of upsetting people. Think twice before clicking send button
- Reinforced communications: culture of charity means much more thought is required for tone. Can be frustrating, sometimes over the top
- Should and has raised standards generally
- Need to be more aware now part of Communications & Information
- Communications have improved and some make sense Support from Leadership Team
- Formalised approach to written communications

- People thinking about the subject line of the email more (something really eyecatching)
- Change statistics powerpoint presentation very well received
- Splurge nothing new – but it now has a name, formalised a concept
- Good to know colleagues are on same wavelength
- Historically groups not receiving soft skills well

Suggestions for stickability

- Are there any 'comms' experts in Comms and Info
- Get Maynard Leigh in to do refresher every 6/12 months
- Put some of the models and tools up so they are visible reminders
- Refresh the comms principles
- More recognition of good comms
- Laminated memory prompts/aides memoir
- Co-facilitation of workshops with Maynard Leigh
- Role-modelling
- Online guide to effective communications
- Team
- Reinforce good practice with internal communications
- Communications & Awareness Day
- Communications quiz
- Successful communications written into monthly reports – official praise
- Communications mentors/champions
- Share the case study – with Finance and Communications & Information directorate

Appendix 2: ROI for Coaching

Here is a worked ROI example demonstrating that executive coaching achieved a lasting impact.

1) At the start of the coaching programme, use assessment test(s) to determine current situation and identify development gap
2) Establish SMART goal(s)
3) Review progress towards goal attainment throughout programme
4) If applicable, use assessment test(s) upon completion of the programme to establish progress and determine whether it has closed the development gap. Have participants:

    - Rate how effectively they had achieved these goals
    - Describe the new behaviour(s) they had adopted
    - Indicate how frequently they currently now use new behaviour(s)
    - Identify factors that contributed to the effectiveness or ineffectiveness of the coaching programme
    - Identify tangible benefits to the business that resulted from the coaching progress
    - Identify other factors that could have contributed to the effectiveness and consequent business results
    - Provide an estimate of the annual monetary value of the business results
    - Identify intangible benefits arising from the programme

Ask participants to quantify the business impacts they had already identified. Participants may use their own calculation methods which they need to describe. Alternatively, they may need help calculating a monetary value for the savings or gains made because of the coaching.

After providing their estimates, ask participants for their confidence level in their estimate. To eliminate extremes put an upper limit on high-end estimates to render these conservative and isolate the ROI component attributable to the coaching, as distinct from other factors.

$$\textbf{ROI (\%)} = \frac{\textbf{Adjusted ROI* – Programme costs}}{\textbf{Programme costs}} \times \mathbf{100}$$

*** To calculate the Adjusted ROI**

- **To isolate the effects of coaching**, ROI estimates are to be multiplied by the percent of the improvement that the executive attributes to the coaching

- **To adjust for potential errors in estimation**:

    - The ROI estimates are multiplied by the executive's confidence level in isolation factor
    - The ROI estimates are multiplied by the executive's confidence level in their ROI estimates

Examples of Tangible Business Impacts

- Productivity
- Quality
- Organisational strength
- Customer service
- Reduced complaints
- Own retention
- Cost reductions
- Bottom line profitability
- Top line revenue
- Reduced staff turnover

Intangible Business Impacts

- Improved relationship: reports
- Improved relationship: stakeholders
- Improved relationship: peers
- Improved relationship: clients
- Improved teamwork
- Improved job satisfaction
- Reduced conflict
- Increased Organisational climate
- Increased Organisational commitment

The above example in its entirety would prove demanding to replicate within any company.

USEFUL SOURCES

Conner, Marcia L. "How do I measure return on investment (ROI) for my learning program?" Training & Learning FAQs. Learnativity.com. April 5, 2002.
http://www.learnativity.com/roi-learning.html

ROInet

ROInet is an interest group for HR/HRD professionals for evaluating and measuring human capital investment, the effectiveness and return on investment (ROI) of learning and HR/HRD efforts and interventions. See http://finance.groups.yahoo.com/group/roinet/
To subscribe, send a message to roinet-subscribe@yahoogroups.com.

General resource for ROI information including: publications and web sites, books, discussion forums, calculators and spreadsheet templates, performance support, online learning & training, usability & user-centered design, intranets
http://www.pcd-innovations.com/calculating_roi.htm

A Fresh look at ROI by Jay Cross
http://www.internettime.com/itimegroup/ROI%20White%20Paper.pdf

Newbury Index

Supporters claim it is the first universal framework for measuring the value of staff.
see http://www.thenewburyindex.com/2nd_page.htm

Training Evaluation and ROI: How to Develop Value-based Training. (Paperback)
by Paul Kearns, Chartered Institute of Personnel and Development (1 Mar 2005)
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[8] See for example: http://www.maynardleigh.co.uk/our-services/on-line-services/progressit/