

ROI in Training: How do HR Executives make investment decisions?

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Abstract — This paper intends to provide a deeper understanding about the current ROI in Training practices applied in organizations.

Although the well advanced practices on how to estimate and measure business initiatives benefits, it is still an uncommon practice to apply this knowledge and methodologies on HR initiatives, in particular, training programs. The ability to keep a business sustainable in such a current globalized world, hugely comes from the human capital in organizations, or in other words, from the dynamic competences owned by the company teams. For this reason, the investment in professional training is increasing hence the need on assuring that the right training programs are implemented and contributing to the business goals.

Knowing how to measure the ROI in Training is becoming a critical skill for HR Executives as they need to justify whether that investment was effective, or in other words, whether there was any return generated with the training programs to their organization employees and ultimately to the business goals.

This paper presents the main results from a research about the current ROI in Training practices used by organizations, where it was possible to conclude that level 1 and 2 (reaction and learning evaluation) is frequently used, however the remaining levels (Impact, Application and ROI analysis) are often neglected.

Finally, the article also points out some recommendations and directions for future research on the topic.

Keywords – Benefits, Business Case, Business Impact, Human Resources, ROI, Strategy

I. INTRODUCTION

The crisis context together with the huge speed of technology advancements, the power of social networking and market globalization are triggering organizations to invest more resources on professional training. The new business challenges leveraged by the growing market competition are demanding the development of new technical and dynamic competencies across organizations, to get well prepared and skilled teams towards the business success. On the other hand, business managers, including HR Executives, are getting pressurized to optimize their resources and deliver successful results [1].

Having this said, the Human Resources department paradigm has changed. HR mission is no longer focused on payroll, firing procedures and holidays planning, but far beyond that. HR is playing a strategic role close to the Administration Board.

Nowadays executives are no longer satisfied with qualitative results, but instead, want to clearly know the actual economic return on investment, where every monetary unit spent should enhance the business bottom line [2]. In this context where

competition is strong and resources are scarce, every project, program or initiative implemented must create value, or in other words, create more economic return: either by increasing business, reducing or avoiding costs and increasing efficiency [1].

So, knowing how to measure the ROI in Training is a growing skill required to HR Executives, which allow them to evaluate the estimated value for each training program towards the right decision-making. By knowing the estimated return and making the right training investments, HR will be able to justify the need on qualifying people, get the required budget approved and fulfil the end goal of responding to market competition and retaining talents.

Therefore, HR should be aware and knowledgeable about the following questions:

- a) Is my organization aware about the return on investment of the training provided?
- b) Are the training programmes aligned with the strategic axes?
- c) Does the training contribute positively to achieve the business goals?
- d) Are the training performance reports duly documented and formalized?

Although the increasing investment on training human capital, most organizations fail to deliver the intended results [2] [5]. Some of the causes of this return failure is due to:

- Poor definition of the business goals and lack of training alignment to strategic axes
- Lack of up-front analysis (needs deep assessment)
- Poor definition of the impacts expected
- Inappropriate training program to the purpose
- Lack of Managers involvement
- Lack of training follow-up and application evaluation
- Poor quality of the training delivered
- No methodology defined

Very often, organizations tend to lack on making a deep analysis about the current challenges faced by their employees to better understand which tasks, knowledge or behaviour are required to be trained by each person. By preparing a prior diagnosis, the area Directors together with HR will be able to determine whether the problem identified is a training issue or if it should be addressed in another way. Often, training programs are provided with the *expectation* to mitigate certain negative impacts when it ends to fail delivering those results as

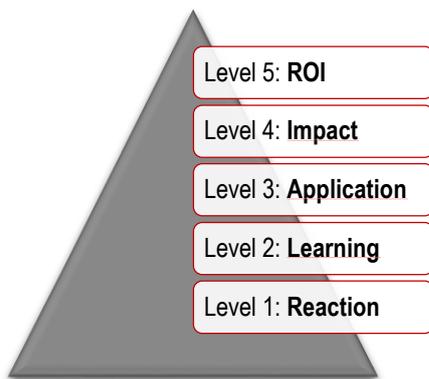
the best solution would be a non-training solution instead [such as compensation strategies, team buildings, managerial coaching, processes and workflow improvements, equipment repair or replacement, workload adjustment and others] [5].

Having this said, the need to invest resources in the right training programmes is a growing concern together with the need to avoid wasting financial capital in training sessions only due to a legal compliance.

According to Blaise Pascal: “No one is that ignorant that does not have anything to teach. No one is that wise that hasn’t got anything to learn”.

II. WHAT IS THE ROI IN TRAINING?

Figure 1- ROI Framework



ROI INSTITUTE™

Source: Adapted from Philips, Jack. 2007

The ROI Methodology is used over 5,000 organizations and considered the most used and implemented evaluation system in the world [2]. The ROI Methodology not only provides the capability to evaluate program performance, but also improves the design of programs for optimal impact.

Below are presented the intended goals for each level of the framework and some techniques suggestions for collection (which must be appropriate to the purpose under analysis) [3] [4] [6]:

- **Level 1: Reaction:** Measure participant’s reaction to the program. What did they like? What is their opinion [trainer, atmosphere, scheduling]? Did they found the training useful?
 - *Techniques:* Survey; Interviews
- **Level 2: Learning:** Measures skills, knowledge or attitude changes. [Change in attitude, skills, knowledge].
 - *Techniques:* Pre and Post-training assessments eg. Test performance, role play, pre-post test

- **Level 3: Application:** Measures changes in **behavior** on-the-job and specific application and implementation. [Doing things differently at work]
 - *Techniques:* Observation; Interview.
 - Note:* Allow time for change. This analysis should be done Pre and Post Training for comparison

- **Level 4: Impact:** Measures business impact (program benefits). Overall change to the business [i.e. decreased costs with a task; reduce nº accidents at work; increase sales; increase efficiency]
 - *Techniques:* Control Group; Trend Analysis

When defining the objectives for Level 3 and 4 it is aimed to clearly see how the training program’s outcome will actually help the organization, which are typically required by sponsors of training and development (the key clients who pay for the program and support it), so they can connect training with business-unit measures. After the training session is conducted, these goals and related metrics must be collected to compare the training benefits estimation with the actual benefits realisation.

- **Level 5: Return on Investment:** compares the program monetary benefits with the program costs, presented in a percentage. Analyse how the bottom line changed and analyse whether the benefits are greater than the cost. To determine ROI, we need to collect data through assessment and evaluation on what knowledge and skills were gained and what behaviors have changed. If there is no change on employee’s behavior, there is no impact hence no ROI [2]. In order to define the initiative’s impact, *Pereira Diamond* suggests the benefits identification within four dimensions: business growth, costs reduction, efficiency increase or legal compliance [1].

III. ROI IN TRAINING BENEFITS

To better understand the ROI contribution to Management teams, below are presented the main **benefits** [2] [5]:

- **Measure Contribution** – By following an accurate and credible process it is possible to get the specific contribution from a number of programs, or in other words, the impact of learning in quantitative terms. A ROI study will determine if the program benefits outweighed the cost, which is a key information for HR better management;
- **Establish Priorities** – By calculating ROI In different areas allows to understand which programs contributes the most and assist on choosing the highest impact programs within the organization. The most inefficient programs may be redesigned or redeployed while the ineffective ones should be discontinued;
- **Focus on Results** – This methodology is a results-based process, so it focus on the program results and requires stakeholders involved to focus on measurable objectives: what the program attempts to accomplish;
- **Earn respect of Senior Executives and Sponsor** – Senior executives seek to know the ROI of decisions, so

they will appreciate the efforts to connect training to business impacts and show the benefits monetary value;

— **Alter Management Perceptions of Learning and Development** – allows top management understanding that learning is an investment and not an expense.

IV. METHODOLOGY

Considering the increasing the need on improving the training investment practices in organizations, this research aims to obtain a deeper understanding about the ROI in Learning practices applied by HR and identify the main gaps for improvement.

For this purpose, several HR members (Directors, Managers and Coordinators) from different sectors (Banking, Construction, Energy, Retail, Health, Insurance, Telco and others) were contacted and invited to participate in a survey.

The sampling method used was a convenience sample as the researchers invited participants who were aware about the importance of this subject.

The survey was composed by six multiple choice questions based on a Likert rating scale and one open question, designed based on the ROI Methodology best practices.

From 100 surveys sent during a one week period from 4 to 9 May 2015, 53 have accepted to participate which means a success rate of 53%.

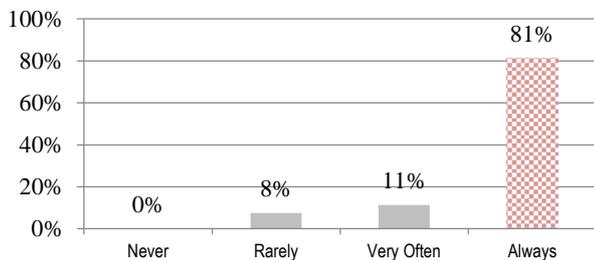
V. RESULTS

Regarding the sample profile 26% of the participants were HR Directors, 40% HR Managers and 33% HR coordinators. Concerning the organization dimension in terms of the number of employees, 11% have <10 employees, 9% between [11-49] employees, 49% between [50-250] employees and 30% with > 250 employees.

Below are presented the survey questions and the related data analysis.

Figure 2

Do you evaluate the participants **satisfaction** after each training program is completed? (eg. questionnaires)



Source: Self-constructed

This question aims to analyze the first level of the ROI Pyramid.

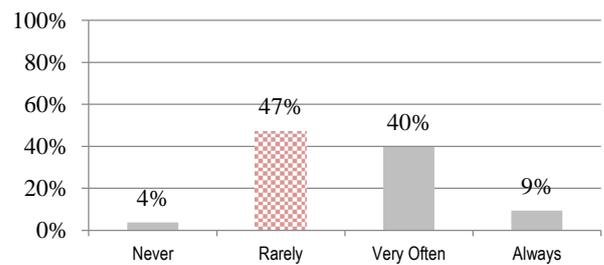
Out of the 5 levels, the participant’s reaction evaluation is the most frequent practice: 81% says that do it always, 11% very often and only 8% do it rarely.

These numbers are very positive as it shows that the reaction analysis is a common concern across the majority of organizations. However, do organizations consider the participants feedback to improve trainings quality and effectiveness? Whenever there is a negative classification to the training session, is it queried why? These are critical aspects to consider for a successful satisfaction evaluation.

However, even though the reaction towards the program may have been excellent, that will not necessarily guarantee a learning transfer (application on the job) and consequently no impact (no changes in outcomes) [4].

Figure 3

Do you evaluate the **knowledge** and competencies from participants, both prior and after the program training session?



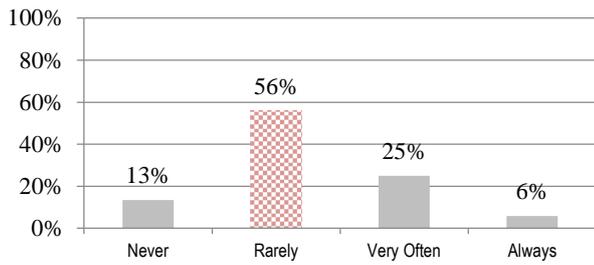
Source: Self-constructed

This question aims to analyse the second level of the ROI Pyramid: the learning progress obtained from training. At this level it is possible to observe a huge drop from the previous one. Only 9% says do it *always*, 40% *very often* and 47% *rarely*, while 4% has *never* completed this task. These numbers suggest that almost half of the organization miss the learning evaluation process straight after the training program, which does not allow them to understand how much it contributed to the target audience (knowledge or skills improvement).

In order to evaluate the third level, participants were queried whether they prepare an application plan at the end of the program and if they prepare a systematized follow-up to validate it.

Figure 4

Do you make an **application** plan for the technical competencies and tools taught in the training session?

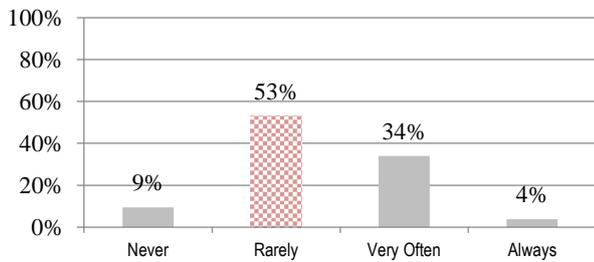


Source: Self-constructed

Regarding the preparation of an application plan, only 6% answered *Always*, 25% *very often*, against a huge proportion doing it *rarely* with 56%. 13% says they *never* do it. These numbers suggest that the majority of the companies do not make any plan at the end of the training program, specifying what, when and where will apply the new knowledge/skills acquired in their reality (daily tasks).

Figure 5

Do you make a **systematized follow-up** after training to validate the application?

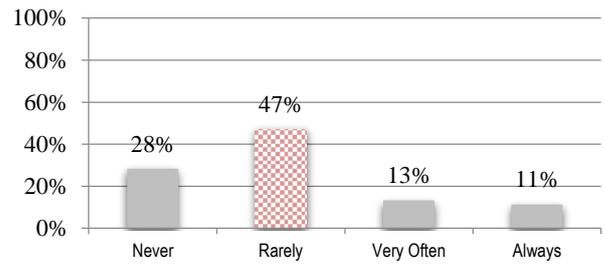


Source: Self-constructed

Similarly to the previous question, very similar results were verified: only 4% says it is always done a follow-up, 34% *very often*, 53% *rarely* and 9% *Never*. These results come as a consequence. If there is a lack of a prior application plan to what tasks/projects/processes the new techniques/skills/knowledge acquired will be applied, then validating that application in a systematized way will also be compromised. If there is no follow-up in employee's job reality, how can we measure if the training was successful? If there is no change in employee's behavior, then there is no impact, no benefits, hence no positive ROI. So it is crucial to be aware about this information, to improve management decisions. By missing this step, it will be impossible to prepare an impact analysis and measure the quantitative value of the benefits generated. In other words it will be impossible to conclude whether the investment in training brought value to the business.

Figure 6

Is the training **quantitative impact** measured during the employees activity? (eg. metrics, KPIs)



Source: Self-constructed

The numbers suggest that 4% always do an application analysis and 11% confirms a quantitative impact measurement. But is it possible to measure an impact without making a follow-up on the application? If there is no application there is no ROI, so are people consistently aware and knowledgeable about what ROI means?

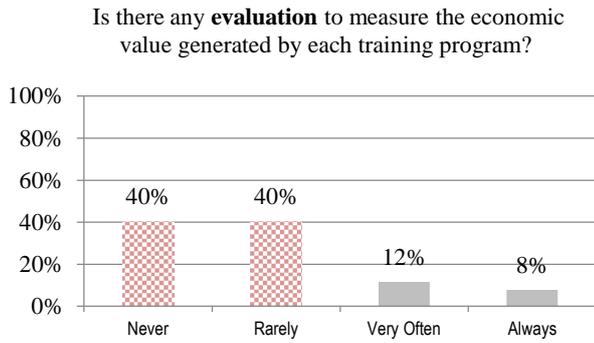
Upon the decision-making process about considering making or not the training program, HR together with the Area Director, must have collected the current problem / difficulties faced by their employees (team) and the impacts on the employees daily basis. It is critical to identify what tasks or processes have to be improved and understand their linkage to the business results, before any decision about the training program solution. Having the current scenario (prior to the training) clearly identified (i.e described with metrics), then after the training program the same metrics should be verified and evaluate whether there was any improvement and how much.

In this step we should be able to answer the following questions:

- Was the training effective?
- Did it fit the previous "pains" identified?
- How much that benefits represents in monetary terms?

To assist on getting this information, the organization should create specific metrics and *kpis* which "pictures" the current scenario (prior the training) and assure its collection once again, after the training program.

Figure 7



Source: Self-constructed

Having the training benefits identified and quantified in monetary terms, the last step aims to conclude whether the investment added value, or in other words, if the benefits leveraged (positive business impacts) were higher than the investment.

Regarding the costs, these are typically composed by fixed and variable costs. The fixed costs are the ones which remain no matter how many participants will attend the training program [4].

On the other hand, variable costs are those that change according to the participants attending, such as: training manuals, meals/coffee breaks, travelling costs, training fees and many others.

In order to understand the proportion of value added, the return on investment (ROI) indicator is recommended, which should be at least a positive number (ROI > 0 %). The ROI formula is presented below:

$$ROI (\%) = \frac{\text{Net HR Program Benefits}}{\text{HR Program Costs}} \times 100$$

These query allows to conclude that 40% do the ROI Calculation rarely and another 40% never which are concerning numbers. If organizations miss on collecting the training impacts (benefits) they will not be able to calculate ROI.

It is important to note that some kind of trainings, such as behavior related (i.e leadership, teamwork, attitude and a happier work atmosphere), can only be measured over time [4]. Very often, people change their habits straight after the training but with time they tend getting back to the old habits, therefore these benefits assessments should be done after 2-3months of the training program and repeat it at after 6 months.

Frequently, change will occur right after training, but employees get back into old habits or get back to the methods they are familiar with or may even get pressured by peers or co-workers to avoid the change. For this reason, the benefits assessments should be done 2-3 months after the training program and repeated at 6 months out.

VI. RESEARCH LIMITATIONS

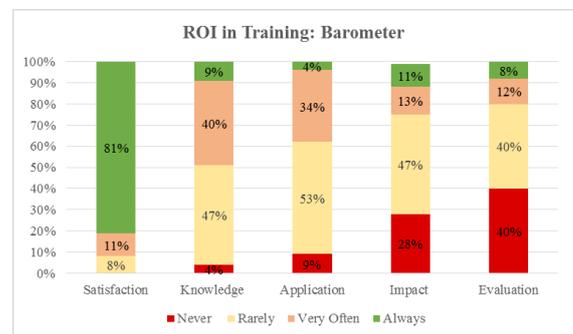
Regarding the research limitations, the sample analyzed is small and based on a convenience sampling, so for future research would be recommended to consider a larger sample as statistically, will provide more diversity and a more representative results of the population.

For a more detailed research, it would have been interesting to complete a factor analysis which could provide more insightful information (for instance, compare the results between the business sectors; business sizes; HR roles, and others).

VII. CONCLUSION

In terms of conclusion, although the well advanced practices on business cases and return on investment methodologies, HR departments still fail on completing the full process towards training programs. By making the wrong decisions, organizations not only waste resources (financial capital, time and human capital), but also compromise the achievement of business results while taking the risk on losing key talented people.

Figure 8 – ROI in Training Barometer



Source: Self-constructed

Figure 8 illustrates a Barometer within the ROI Pyramid, where according to each process frequency usage we may identify the maturity level of the process in place.

In terms of conclusion, knowing how to estimate a training program benefits and make the right decisions is a demanding key skill to Human Resources Executives who are playing a strategic role together with the top management.

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