Thought Piece

# MEASURING RETURN ON PEOPLE INVESTMENTS



## Proving the return on training, coaching and other intangibles

**By Clive Johnson**

Proving the real returns of soft skills programmes has long proved a luckless task for L&D and HR specialists, especially when a range of influences *other* than the training course or change project in focus can come into play.

"The financial benefits of training cannot be measured in terms of student reactions, nor the amount of learning that has been achieved, nor the extent to which behaviour has been changed."

Even where it is possible to actually measure benefits in financial or other tangible terms, the time and complexity needed to do so is often just not worth the effort.

For many, good feeling and perception is enough to justify on-going investments - after all, everyone *knows* that coaching helps individuals exploit their potential, don't they?

But in times of budget squeezes and extra funding scrutiny, good feelings on their own aren't enough. Even where it's clear that performance has improved since embarking on a new initiative, it's still important to know whether the initiative alone has made the difference and whether what are believed to be the crucial influencing factors actually have been responsible for the change.

For L&D and HR specialists, knowing what's really being delivered is not just helpful for keeping sponsors happy, but for pinning down what is and isn't working too.

Understanding the effectiveness of a training programme, coaching investment or other 'people project' is part and parcel of understanding its investment return.

Of course popular evaluation frameworks such as Kirkpatrick analysis offer useful input, but as learning specialist Clive Shepherd observes, "the financial benefits of training cannot be measured in terms of student reactions, nor the amount of learning that has been achieved, nor the extent to which behaviour has been changed. The real benefits come from improved performance" [1]. This is level 4 in the Kirkpatrick model – the level which usually proves the most elusive to attain.

What then can be done to crack the return on investment (ROI) 'Holy Grail', and without having to justify the ROI for doing so in the process?

This difficulty became apparent to me during a study of coaching implementations. Of 70 organisations consulted, very few interviewees could put their hand on heart and say what their coaching programmes were really delivering. Those who could had generally set very specific objectives for coaching at the outset, and also tended to have access to a wealth of performance data - contact centres, mystery shopper surveys, sales team performance and the like. Only one fell outside these categories.

This finding was striking - where coaching is concerned, funding had been sustained largely because top team executives had usually been convinced of the value of coaching by having a coach themselves.

## looming questions

But given the substantial time and money many have invested in coaching staff, could there soon come a time when questions about the real value will be asked? This has to be a real possibility, and one that L&D and HR specialists might want to be ready to answer.

Of course, this likely questioning applies to training and other people investments as well. Senior executives might want to focus on strategic fit, external reputation or competitiveness; business managers would emphasise performance, profit, productivity and levels of customer satisfaction; whilst finance managers would want to feel assured that the money being spent was given to activities which delivered a quantifiable return for the organisation.

My attention then turned to finding a simple but compelling way to offer help. Any response would need to keep sponsors happy - and put information in very simple terms too - but not reduce analysis of returns to financial-speak. It would also have to give senior managers the same kind of 'I'm sold!' response many feel for coaching. Ideally also, it would offer a simple way to examine the impacts of a whole range of initiatives together, even a Training or HR department's entire portfolio.

Quite apart from financial returns, 'ROI' may refer in a more general sense to the recognised benefits which have resulted from a course of action – the 'soft' benefits such as improved staff morale as well as the 'hard'.

Soft benefits are usually difficult or impossible to measure in precise terms, however this doesn't detract from the value of trying nor from the value of obtaining significant evidence to understand what is actually happening and why it is succeeding (or otherwise).

Sometimes, measuring pure financial ROI is readily achievable, however, as *Workforce* writer Gillian Flynn comments, "the idea of an absolute number that shows the exact value returned for an exact value invested in training is a seductive idea. In some cases, it's quite attainable. In others, it may simply be a seductive idea" [2].

Inspiration for finding an answer to measuring any programme's return came from not just reviewing current thinking on ROI (or rather 'ROP', Return on People) assessment, but from considering one popular antidote to traditional empirical methods - combining anecdotal with other data analysis.

## telling tales

Anecdotes are very important for gaining understanding, and for telling the 'story' of a programme.

In talking to L&D specialists about the feedback they received some time from delegates sometime after they were trained, it was the small handful which could relate 2 or 3 stories which impressed me most.

What was impressive about these was not just that they powerfully illustrated the consequence of training, but that they made clear why the coaching, rather than something else, had made the difference.

Many academics have traditionally derided anecdotal evidence as not fitting with what they see as being 'the scientific method'. But scientists have always been split on this matter - and necessarily so - since the disciplines of some don't always lend themselves to neat, empirical analysis. Human psychology and animal ethology provide examples.

For many, the plural of an anecdote is data, and this is often more powerful than 'data' points gathered in a controlled study. "Often all we have is anecdotes", comments Peter Klein, Associate Professor of Social Sciences at the University of Missouri, "[and] a well informed anecdote is better than quantitative data that proxy only very

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**Gillian Flynn**

## ROI, ROP or ROE?

Given the usual difficulty of calculating pure ROI, setting a *minimum ROI threshold* avoids the need to precisely quantify benefits in financial terms. The investment is judged to have given a positive return if a particular targeted benefit is achieved or if the cost of benefits has exceeded the costs of the investment.

*Opportunity Cost,* the true cost of what's given up in order to achieve something else, might also be examined.

However, one further measure of return should not be overlooked. *Return on expectations* or ROE (not to be confused with another 'ROE', return on equity) refers to the extent to which an investment has delivered what those sponsoring it or others expected of it.

With ROE, the sponsors or others involved in the initiative usually decide at the outset what they want to achieve from it (or at least will have a view of expected benefits if asked at another time). The decision to invest or continue funding an existing project is satisfied if the ROE targets are achieved.

crudely for the underlying phenomenon of interest" [3].

The ethologist Marc Bekoff comments that "anecdotes and stories drive much of science although they are not enough on their own. But to claim they aren't a useful heuristic flies in the face of how hard science and soft science are conducted" [4].

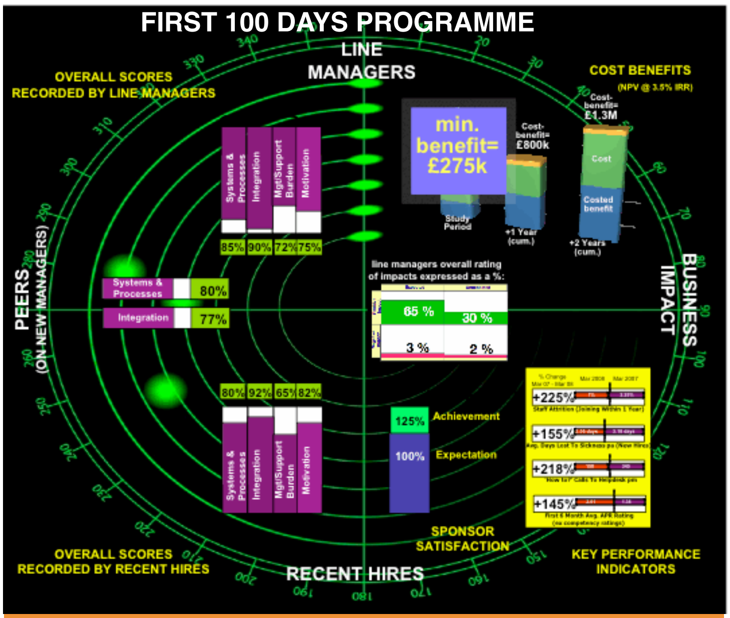
But odd anecdotes on their own aren't enough to prove the overall impact of a programme or group of initiatives. Stories are all well and good, but of course it's also important to know whether they are isolated examples or reveal general impacts. Of course in some cases, individual stories can tell 'the story' of the whole programme (in the same way as a personal tale used in a Charity campaign can represent the wider cause). But getting to the *why?* changes in mindset, behaviour, attitude or skill have happened is the key to understanding ROP - and then the big question - *why* this matters for the business.

I therefore needed to find a way of analysing and relating a collection of seemingly isolated comments and experiences, as well as being able to mix in any available data from staff surveys, performance reviews and the like.

Adapting a popular model used in management consultancy and adding in a few costing techniques from the programme manager's kit-bag provided the answer - a simple, quick to follow method which produces compelling, logical insight into the theme of study.

Current thinking on ROI assessment is playing down the significance of finding a 'magic number' and putting emphasis on the importance of really knowing where differences are being felt. Cost and savings thresholds can usually be assessed relatively simply, without hours of number crunching and complex analysis.

This gets back to thinking about what sponsors really want to hear. As L&D specialist Daniel Tobin remarks "When [an organisation's] leaders stand up and say 'We had a really good year, meeting [or exceeding] our business goals', then I know that the training has been successful" [5]. Jay Cross continues, "The *R* is no longer the famous bottom line and the *I* is more likely a subscription fee rather than a one-time payment" [6]. And in their recent book *What Happy Companies*




Bringing together a range of data sources

*Know*, citing a wide of recent research, Dan Baker, Cathy Greenberg and Collins Hemingway observe that in looking at return on people, what matters "is that the choice is not between people and high profits. Being good to people *causes* high profits" [7].

Happily, we've reached a time when sufficient proof of people investments have convinced many CFO's and investors of the bottom line value of such initiatives, even if the benefits only become apparent over a relatively long time. This adds credibility to the worth of analysis in addition to traditional 'number crunching'.

## compelling evidence

ROI is always context sensitive. Whilst it can be applied to measuring the financial value of changed behaviour, the impact on the business is what matters most. The key concern for stakeholders is - *does this equate to business sense?* This is as relevant for those in the public and development sectors who may be concerned for value for money and performance achievement as much as it is for commercial managers concerned with profitability and shareholder value.

Using a structured means for analysing anecdotes requires human intervention and clear thinking. This is the real 'nuts and bolts' of an ROP exercise.

Where the analysis can be combined with correlations with other data sources such as 180° surveys, costed data and performance metrics, the insights drawn are doubly powerful and convincing - the 'case for the defence' can rest safely in the knowledge that any critic will be hard-pressed to offer an alternative argument.

By hooking into some inspiring current thinking on ROI appraisal, L&D and HR specialists can put themselves in pole position for the next departmental budget round and perhaps win a few friends in high places in the process◆

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## References


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