

Special Report – ROI of L&D

HR

from the other side of the fence

With HR increasingly expected to speak 'the language of business', how effective are your budget and ROI conversations with the CFO? Adrian Smith – an accountant himself – provides some insights into how to measure the ROI of your L&D initiatives

HOW MANY TIMES HAVE YOU WRESTLED with how to justify to yourself and the accountants of the world your L&D spend or even why individual programs have merit and justify the investment in them? If you are like us, the answer is probably a lot!

Well, we thought it was time to work with the enemy and sat down with our CFO to nut out how best to establish a method of calculating ROI on L&D that could assist a client in managing their considerable spend for a leadership program. The result looks like this: **Refer to Table 1**

This model was specifically developed to apply to a formal training program, but with some minor changes can apply to any other learning intervention.

It looks quite simple, which for an accountant and a spreadsheet is a novelty, but let's look at the components.

BASE DATA

This information needs to be collected prior to the commencement of the program as it is the baseline data from which changes and improvements are measured. It should be available from any reasonable HR system. If not, then careful estimates should suffice.

PROGRAM COSTS

Again, these are quite straightforward, particularly the

Table 1

BASE DATA	
• Attendees	
• Average salary	
• Annual turnover of this cohort	
PROGRAM COSTS	
• Development costs	
• Delivery and facilitation costs	
• Administration costs	
TOTAL COSTS/INVESTMENT	A
PROGRAM BENEFITS	
• Employment costs - Savings from increased retention	
• Behaviour change/improved performance in the role	
TOTAL PROGRAM BENEFITS	B
ROI	

development and program delivery costs; however, administrative support often gets forgotten, so it may require some work by the accountants to calculate these.

PROGRAM BENEFITS

It's no surprise that this area is harder to define and measure than program costs; however, our CFO is

comfortable that benefits should accrue in two distinct areas – employment costs, and some bottom line impact.

We are of the opinion that whilst there are a number of employee benefits – including improved attraction strategies and Employer of Choice opportunities, improved performance management and training efficiencies – the main measurable benefit in employment costs are generated from greater employee engagement and therefore retention. This can be measured in the longer term through statistical data from staff attending these types of programs. However, when looking at specific programs in the short term, then using employee opinion surveys and asking specific questions about intention to stay will provide useful insights and the data to inform these calculations.

In relation to behaviour change/improved performance in the role, the opportunity exists to track this by measurable performance changes against relevant KPIs. Just like hard statistics on retention data, it may take some time for these benefits to work through into hard results, but if behaviour changes are measured through some survey mechanisms (360-degree survey, manager's report, etc) it is possible to very quickly identify quantifiable benefits as the average behaviour change measured should drive equivalent value gains from each person's salary.

Now let's plug in some hypothetical data (which broadly reflects work we have been doing with our client). Refer to Table 2

Whilst this is a reasonably significant program which means that development costs are amortised over a large cohort of participants, the impact of the program is to show a very positive ROI that easily meets the investment criteria of most organisations, particularly as the return takes place in months rather than years. Also, the ROI would be even higher if subsequent years' productivity improvements were also accounted for in the calculation.

CAN I APPLY THIS TO A PLANNING DOCUMENT?

The obvious, easiest way of running these calculations is to allow time for longer-term benefits to accrue and be measured through actual retention rates and KPI improvements. In the more immediate period after the program, say 2-3 months, we are confident that well-constructed and targeted surveys will also give great insights into the measurable benefits of the program – the ROI.

It is not appropriate to seek significant L&D funds without this type of calculation and validation; however, it is not so easy to do any ROI calculations before the event as they require a number of informed assumptions.

When looking at the employee costs calculation when considering new programs it would not be unreasonable to anticipate even a modest 20% reduction in annual

Table 2

BASE DATA		
• Attendees	240	3-day program with 20 attendees per program
• Average salary	\$145,000	Including on costs
• Annual turnover	17%	Based on last 12 months' (estimated) data
PROGRAM COSTS		
• Development costs	\$48,000	
• Delivery, facilities and facilitation costs	\$355,000	
• Administration costs	\$70,000	
TOTAL COSTS/INVESTMENT	\$503,000	
PROGRAM BENEFITS		
• Employment costs – Savings from increased retention	\$354,000	Based on 20% reduction in annual turnover and replacement costs of 30% on annual salary
• Behaviour change/improved performance in the role	\$418,000	1.2% – based on the anticipated average behaviour change measured from post-program surveys which drives equivalent value gains from a person's overall salary
TOTAL PROGRAM BENEFITS	\$772,000	
ROI	53.38%	

turnover. This can then be applied to the number of people in the cohort, historical turnover rates, and a calculated (by the accountants, again) cost of replacement based on annual salary. If this cost of replacement is not available or easily attained then general research data may be required. This often comes in at about 30% of annual salary costs, and for senior staff – as in the example above – the figure could be much higher than this.

When estimating productivity improvements, it is best, if possible, to refer to similar programs run within the organisation – or if this is not available then general research data may have to be used. It is worth noting, however, that as shown in the example above, a small improvement in productivity or outputs does go a long way towards generating a very positive ROI for L&D that should satisfy even the toughest accountants!

A WORD OF WARNING

The calculations in the model are really quite simple. The very basis of the model and therefore its accuracy, usability and credibility, is the inputs to the benefits section. It will be critical to work with key stakeholders, including education providers, organisational leaders and finance staff to ensure that actual data is used wherever possible.

In reality, the first few times the model is run you may well have to rely on estimates and general market research; however, as you build up an internal database of results achieved, the accuracy and reliability of input figures will grow exponentially – again, satisfying even the most hard-nosed accountants! **HC**

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