

Measuring the Return on Learning

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I. INTRODUCTION

A recent report by Skilling Today found that 77% of Indian companies are investing heavily in upskilling their employees – far more than any other country (Mint, 2021). Despite this fact, it's crucial to know how many learning officers and organizations are into evaluating return on investment (ROI) on learning and development (L&D) programs. McKinsey once reported that only 8 percent of companies are into evaluating the value of L&D programs (Palmer 2010).

Post pandemic, companies are investing huge rounds of money in L&D, but they are also keeping a close eye on how the training programs are benefiting them. This has put additional responsibility on L&D professionals. Tracking ROI with only participant feedback forms or smiley sheets is no longer enough. Upper management is asking for concrete evidence to justify the investment going into the learning programs.

And when the axe of cost-cutting is swayed, the budget of L&D programs is often slashed and sometimes they are even uprooted. This happens mostly with leadership development programs, where intangible skills such as developing a strong work ethic, having integrity, and being kind are focused. These development programs don't give instant results, it takes time for the results to show up. And even if the company is satisfied with the result today, they might change their mind tomorrow.



No doubt L&D professionals are creating high-quality learning content that is helping companies to promote and retain their employees and even skyrocket the stock value, but evaluating ROI remains a continuous barrier. To help L&D professionals to cross the barrier and measure the ROI of the learning and development program, this white paper:

- Briefs the Kirkpatrick model of evaluation
- Explains the Phillips ROI equation
- Discusses the challenges involved in evaluating the ROI of a learning program
- Provides solutions to challenges
- Shows how L&D professionals can apply the 80:20 rule to assess learning



Kirkpatrick Model of Evaluation

In the late 1950s, Dr. Donald Kirkpatrick designed a simple four-level model to evaluate L&D programs. The four levels are:

Level 1

Reaction

The first level of evaluation captures learners' reaction to training programs, and to what extent they've actively participated in learning. Most companies record the satisfaction levels using feedback forms, smiley sheets, surveys, or through verbal testimonies. This level of assessment is quick, easy to execute, and inexpensive.

Level 2

Learning

This level uses simple assessments to conduct and compare the knowledge and skills of learners before the learning program and after the learning program. The goal is to find out whether knowledge transfer has occurred or not. Assessments are done through written tests, interviews, or observation.

Like level 1, level 2 is also easy to execute and needs only fewer resources.

Level 3

Behavior

This level is to find out how the learners are applying the newly gained knowledge and skills to their jobs. The line managers assessed the learners via observation and interviews over a period to notice any positive behavior change.

Unlike level 1 and level 2, this level requires considerable participation from line managers.

Level 4

Results

This level is to analyze how the knowledge and skills gained by the learners are impacting the growth of the organization.

Unlike the top 3 levels, this level needs a substantial investment of time and resources.

Companies all over the world use the Kirkpatrick model to evaluate their training programs. Some of them use all four levels, while some of them limit themselves to a single level. It all depends on the company's requirements. But to get a meaningful evaluation, it's necessary to evaluate the learning experience at each level. This has proven easier said than done. Most L&D professionals find it tough to assess beyond the first level to prove how learning is benefiting the company.

But the four levels prescribed by Kirkpatrick are not sufficient to determine the value of learning programs. There is one more level, a very important level added by Dr. Jack Phillips in the 1980s.

And what's that?

Dr. Jack Phillips added the 5th level on top of the Kirkpatrick four. The level to calculate ROI.

ROL

Level 5

ROI

Companies that spend crores of rupees on training programs want to see the monetary benefit of training and development programs.

To find out the monetary benefit, the Phillips ROI model compares learning business impact outcomes to total training costs.



How to Calculate ROI of Training

Programs with The Phillips Model

Firstly, gather the data by using the four levels of the Kirkpatrick model.

- Reaction to the training program (level 1)
- Knowledge transfer (gathering pre-learning and postlearning data level 2)
- How the newly gained knowledge and skills are applied (level 3)
- How the training is impacting the business (level 4)

Once the above data is gathered, the next step is to calculate the training cost.



This will be a simple calculation that sums up all the costs for the training program. It can be a cost of the following elements:

- Cost for designing, developing, and administering the training program (payment to training staff and miscellaneous expenses)
- LMS costs or training venue costs
- Cost of training material such as stationery, hardware, and software.
- Salary of mentors and administrators
- Salary of the learners for the time they are in the training

The Formula

There are many formulas for return on investment, and it also varies from company to company. But here's a simple and common formula that is used by many:

$$\text{ROI \%} = \frac{\text{Benefit of training} - \text{Cost of training}}{\text{Cost of training}} * 100$$

Cost of training

Entering the benefit and cost of training in the above formula will generate the ROI.

But.

Is ROI only about calculating monetary benefits?

No.

Identifying intangible benefits is as important as measuring the monetary benefits. Here are a few categories of intangible benefits that can be identified.

- Employee satisfaction: How the training programs have changed the attitude of learners. Are they satisfied with their job roles? Have the grievances and complaints been reduced? Are they more committed to their company? Has their stress reduced?
- Employee turnover: Has the employee turnover reduced? Are they getting promoted to the next level?
- Leadership: How the learners are making decisions? Have they become more responsible? How is communication between the employees?
- Customer service: Has the customer service improved? Is there any drop in customer complaints and an increase in customer satisfaction?

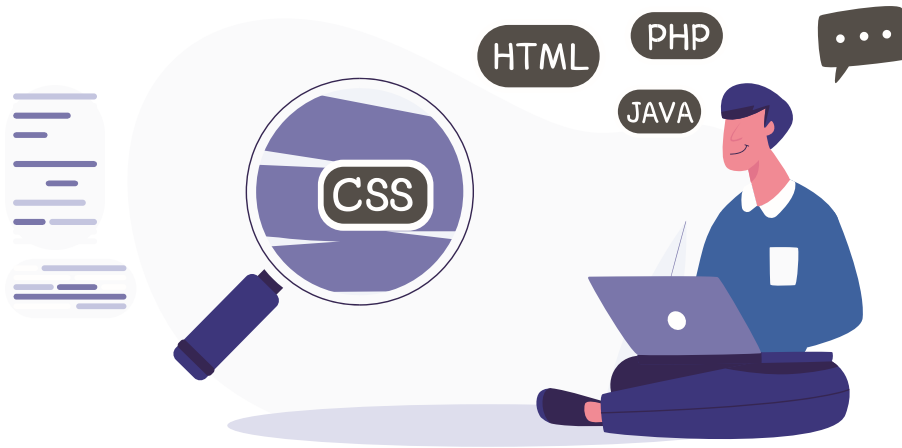
Is it easy to calculate the return on learning? Not exactly, there are a few challenges that block the way.



Challenges in Evaluating the ROI of a Learning Program

It will be easy to evaluate sales training. Managers had to simply observe the sales done by an employee post-training. The sales figures will show whether the training was successful or not.

But for other roles, which depend on intangible skills such as collaboration, leadership, creative decision making, and the ability to produce strategic ideas, evaluating ROI will be difficult. Also, for the roles such as designers and developers where results aren't numeric and immediate.



Lack of Communication

The communication gap between the L&D professionals and other leaders results in setting poor training program goals, and confusion about what to measure. Even if there's communication, training teams are confused about how to measure. Without having answers to what and how, it's difficult to produce a training strategy that has a positive impact on the organization.

They are unaware of the issues why training and development programs are designed, which causes trainers to produce inaccurate ROI metrics [Peak & Berge, 2006].



Lack of Resources

In some cases, the upper management is not providing enough support or resources to L&D professionals. They typically try to avoid bringing in and addressing an excessive amount of complexity during the evaluation process. In general, they have the mindset that it is sufficient to limit the program's evaluation to Level 2 or Level 3.

A lack of resources hinders the evaluation of the ROI activity. According to [Phillips, 2011], the return on investment (ROI) process is thought to involve large expenditures for it to be implemented.

The procedure takes a significant amount of time. According to Skillnet Ltd. (2005), for organizations to conduct an accurate and reliable evaluation up to and including level 5, they must first commit to allocating skilled employees to work in this direction.

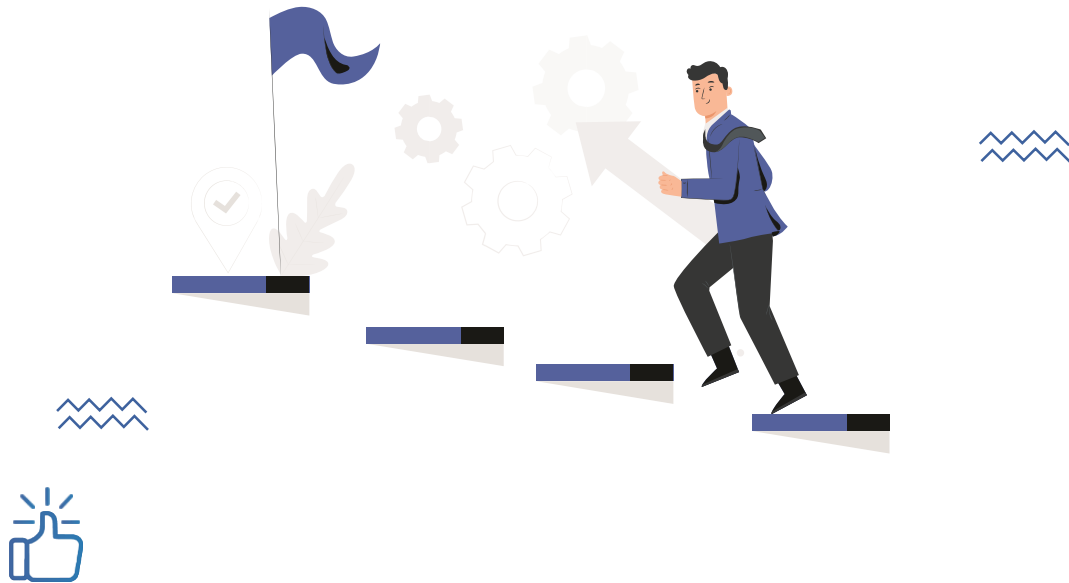
[Davis] identifies several additional variables that serve as barriers to implementing ROI methodology, including the absence of ROI policies and procedures, and ROI model, and uncooperative coworkers and administrative personnel.

Sometimes, despite having resources, L&D professionals will shy away worrying that the return on investment (ROI) for the training and development program will be low or negative, leading to more criticism of their work than will justify their efforts.



Lack of Data

In some cases, L&D professionals struggle to collect data at the right time. Data can be either in hard form (output, quality, cost, and time) or in soft form (customer satisfaction or job satisfaction).



How to Overcome the Challenges?

In this section, let's have a look at how to overcome the challenges and track ROI.



Be Specific When Defining Goals

It's not good practice to define only training-focused goals. Such as calculating completion rates, engagement rates, course ratings, etc. L&D professionals should involve leaders across all teams and have clear communication to find out what are the business goals. For example, are they looking to increase sales revenue, or do they want to reduce the employee turnover by some percentage?

The Hyatt hotel chain has implemented a training program to give its staff everyday opportunities for professional development and advancement. The end effect is a more significant percentage of retained employees. There are a few different approaches to take when analyzing the data and determining how to measure the costs and benefits of specialized training for your firm. The level of assessment that L&D teams carry out will (and should) vary depending on the specific priorities that each organization has set for itself. Therefore, before beginning each new learning experience, a company will need to figure out and specify what the value that they intend to achieve is, as well as what they believe to be a cost associated with the event.



Identify What to Measure and When to Measure

After having clear communication with other leaders, L&D professionals would've a list of goals to achieve. They now need to divide these goals into primary and secondary goals.

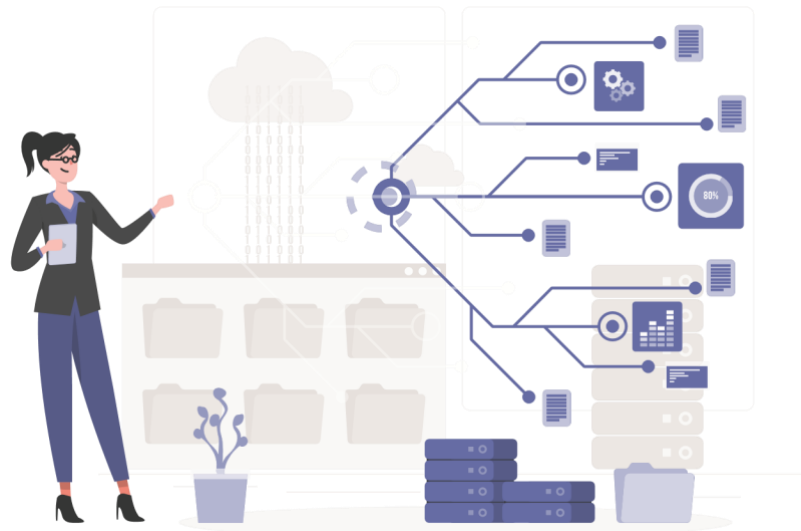
Primary goals should be revenue-based. Because they directly reveal the financial impact the training is having on the business. Whereas secondary goals should be about measuring how the training is impacting the behavior of learners.

Motorola discovered that for every dollar invested, they were able to return as much as a 30 percent increase in the productivity of its staff members. Because of this productivity improvement, they significantly cut costs while increasing earnings by 47%. The initial financial investment into the training program was justifiable for Motorola due to the company's monetary return on investment and the general increased productivity of their staff because of the training program.



Data Collection

It's important to collect and analyze pre-training and post-training data, and data of non-trained employees and trained employees. And data collection shouldn't be a one-time thing. L&D professionals should meet with other team leaders whenever required to get input and insights.



How L&D Professionals Can Apply the 80:20 Rule to Assess Learning

In 1897, Italian economist, Vilfredo Pareto noticed that 20% of pea pod harvest in his garden produced 80% of the peas. Impressive. He applied the same observation to study the wealth distribution of Italy and found out that 20% of Italians owned 80% of the country's wealth.

Then in the 1940s, Dr. Joseph Juran, a quality management expert coined the term Pareto Principle and applied Pareto's observations to quality issues. He observed that 80% of product defects were caused by only 20% of production methods.

The Pareto Principle has become a cornerstone of every successful business. Richard Koch, the author of several books on the Pareto Principle, states that 20% of work produces 80% of the results.

Microsoft is also a fan of the 80/20 rule. They found out that by fixing the top 20% of the major bugs, 80% of the related errors and crashes in applications can be eliminated [Paula Rooney, 2002].

Not only in businesses but even in sports the 80/20 rule of Pareto is applied.

By finding out the 20% of exercises and the habits that have an 80% impact on the performance of a sports person, training can be focused on those effective exercises [Jimson Lee].

In practical terms, 20% of a company's products or services create 80% of revenue. 20% of work generates 80% of output. 20% of friendships constitute 80% of meaningful relationships. This 80/20 principle extends everywhere across personal and professional life [Richard Koch].

Now let's look at how the 80/20 rule can be applied to

employee training.



Assessing Training Material and

Methods

It's important to investigate what 20% of training is producing 80% of the desired results. What training methods and material are helping the learners to understand the subject easily?

For example, L&D professionals can find out whether it's a deck or a video that is impacting learners deeply. If 80% of the time is spent preparing decks and it's only producing 20% desired results. Then L&D professionals should change their strategy. And let's say that 80% of the impact is created by videos, then efforts should be invested in videos instead of decks.

It's always good practice to ask a few questions while assessing training material and methods.

- How fruitful is the training method that demands most resources such as time, money, staff, and tools?
- What's preventing from shifting those resources into the training with the greatest impact?
- How would investing more resources in the 20% of training that produces 80% of the learning results benefit the company, employees, and the L&D professionals?

The 80/20 principle is all about investing resources into training with the maximum outcome. If this principle is applied correctly, it'll save organizations tons of money and countless hours of L&D professionals and learners.



Applying the 80/20 Rule to Assessments

It's important how we evaluate whether the learner has reached the learning goals. The evaluation is often done by some forms and tests, and all assessments are based on passing numbers or grades.

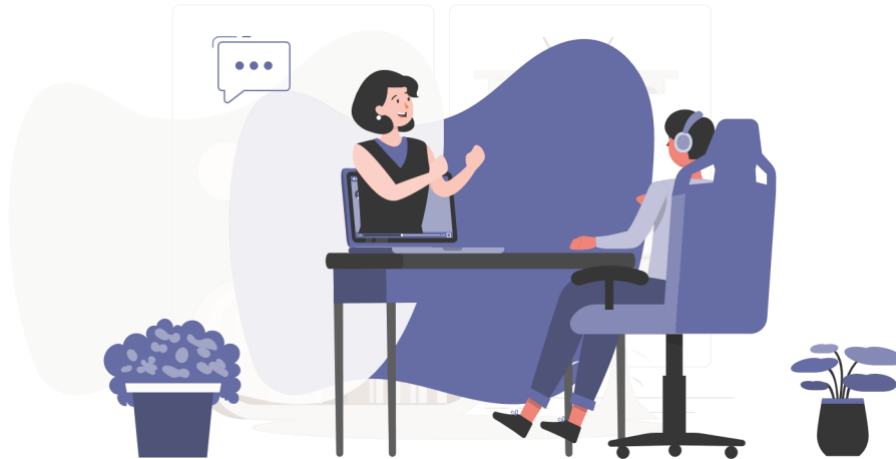
Suppose a learner has achieved 80% on a test. Does it mean that they have reached a level of knowledge that is enough to do their job?

But what about the remaining 20% that they couldn't answer?

Is it safe to ignore the fact that they lack 20% knowledge?

For example, a doctor who doesn't know 20% of what he/she is doing. Is it safe to get treated by this doctor? Or a pilot, who doesn't know 20% of the plane commands. Is it safe to fly with him/her?

Achieving 100% results in a test or acquiring 100% knowledge is not the debate here. The objective is to identify weaker areas and gaps that'll lead to maximum errors, mistakes, and harm productivity. By using the 80/20 rule, L&D professionals can mitigate the risk that the 20% holds.



Conclusion

Organizations expect all departments to meet higher standards of accountability, and the L&D function is no exception. Smiley sheets or feedback forms are no longer enough to evaluate the ROI on learning programs. Even while organizations may acknowledge that training is valuable, learning managers need to be able to evaluate its value. Hence, L&D professionals should be proactive and decide in the early phase what measures they need to evaluate the ROI for the learning programs they are making. And they should have clear communication with leaders of other departments to set actual goals, use resources to the fullest, and collect data as they go.



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