

# Getting Return on Investment Out of Your Learning & Development



By Dr. Chance T. Eaton

I recently asked a manager what a meaningful return might look like when conducting their two-hour training for 90 employees averaging a salary of \$35 per hour – which translates to a \$6,300 investment due to lost production time. Their response was “It will cost nothing. We are using our own employees to deliver the training, so we aren’t actually paying anyone anything.” I suggested that, economically, lost production actually has a value, specifically \$35 per hour per person. Further, I added, you conduct the same two-hour training four times a year, bringing your training cost to \$25,200. Add a return of investment of, say, 10% to the annual investment and you are now at \$27,720.

The question I really wanted them to address was how will you get your \$27,720 back? Will it come in the form of greater efficiency, communication, productivity, sales, engagement, innovation, safety, customer service ... what? Time away for training is another part of the economic training investment, which requires a return on investment just like any other work activity.

The problem with the learning and development (L&D) field is that we aren’t always comfortable putting development in terms of real dollars and returns. Further, most people aren’t sure how they would actually measure the return on L&D. We need to remember that L&D is an investment no different than upgrading machinery and equipment or investing in

new projects or software replacements. These are real dollars that need to see real improvements in cash flow. The sooner we can learn to see training and development from this perspective, the sooner we’ll see better quality L&D services.

According to a recent L&D survey from Optimus Learning Services (2018), one of the top strategies for L&D departments is to move away from being reactive solution finders to adding greater value through consultation and leading on strategy. This translates to building legitimate learning cultures. But in order to be treated like a legitimate part of the business, L&D departments need to show their financial value. The following are two strategies I recommend for L&D departments to embark on: (1) account for all training activity, and (2) demonstrate return on investment per learning activity.

## Account for All Training Activity

To help move toward building a legitimate training and development culture, start with tracking all learning data. Methods for capturing learning data range from using sophisticated Learning Management Systems to simple Excel worksheets. This starts with accounting every training event, the number of participants and the total hours of training delivered. Second, pull training-related costs from L&D budgets, as well as development dollars that may be occurring outside the department. Finally, develop metrics that can be tracked from year to year in order to show themes

and trends. A great starting place is to refer to the Association for Talent Development learning metrics. They have a standardized process for tracking L&D and report their findings annually. For example, L&D metrics for 2017 included the following (ATD 2017 State of the Industry Report):

- The direct expenditures for training are \$1,273 per employee per year.
- The average hours of learning are 34 per employee per year.
- The percentage of payroll for training and development is 3.62%.
- The percentage of revenue for training and development is 1.36%.
- The cost of training and development per training hour is \$80.28.

This is a nice large-scale perspective of how to gauge your company's state of learning and lets you see how efficient your total training and development dollars are. Once you begin capturing learning metrics, you can compare your figures from year to year as well as compare your figures to those of your peers.

#### Demonstrate Return on Investment per Learning Activity

L&D departments need to provide a financial picture of each learning activity. Further, they need to be performance coaches and walk their customers through meaningful actions to achieve returns on investments for learning activities. Below, I provide a simple math exercise demonstrating the economic investment of any L&D activity.

- Step 1: Calculate investment of training (dollars spent on vendor or estimated value of internal trainer). Example: \$4,200
- Step 2: Calculate lost value of production. Example: 42 employees x \$20 per hour per employee x four hours = \$3,360
- Step 3: Add Step 1 and Step 2 to derive total economic investment. Example: \$7,560
- Step 4: Calculate annualized return on investment of 10% (rate depends on cost of capital). Example: \$756
- Step 5: Add Step 3 and Step 4 to derive total needed return on investment from the L&D activity (assuming a one-year payback in this example). Example: \$8,316

This translates to \$198 of value needed from each employee for one year (assuming a one-year payback) in greater productivity, efficiency, sales, safety, theft, etc. Another way of looking at the same value is per hour value needed. Per hour would translate to \$0.10 per hour ( $\$198 \div 2,080$  work hours per employee). In other words, each employee, as a result of the L&D activity, needs to add \$0.10 per hour in additional economic value to their work.

This might not sound like much, but using the same \$20 per hour wage, at 34 average hours of training per employee (seen above in ATD's Annual Report), this translates to \$2.58 per hour needed in additional economic value. With an additional \$2.58 needed in economic value, you should see managers and leaders highly motivated to hold themselves accountable for ensuring that all L&D activities pay off!

Now comes the hard part: performing the role of performance coach for companies and their leaders. L&D leaders need to sit with the stakeholder and identify how they will determine what success looks like. How do you measure success from an L&D activity? Sometimes this is easy, like achieving new sales targets, productivity and efficiency metrics. These types of successes are quantitative and likely already exist as business metrics. Sometimes this can be very difficult, however, like having clearer communication regarding the team's weekly expectations. This can be a very qualitative topic and harder to measure. To turn a highly qualitative outcome, like better communication, into something tangible, you can build pre- and post-survey statements that get to the heart of the qualitative goal. For example, one option in a bank of statements could read "I have a clear understanding of this week's expectations." You can administer the statement selection before the training and then again after, to determine growth. In the case of this example, the measurement could be a 25% increase in satisfaction for "I have a clear understanding of this week's expectations."

Where L&D drops the ball nearly every time is in helping a customer develop a plan for success as a result of the development activity. To add even more spice to accountability, build into your L&D budgets a reward system for when goals are actually met. For example, if a team identified the right kind of L&D activity, develops meaningful goals related to the activity, is held accountable by management to hit their targets and meets/exceeds their goals, return 5% of the initial investment value back to the stakeholder group. This can be used as a reward and celebration for the team, to reflect on what got them there, and

builds continuing degrees of team comradery and motivation.

Organizations really need to improve their learning cultures. Instead of being reactive solution finders, companies need to invest in their L&D departments and encourage them to consult and lead on strategy. Further, companies need to help managers improve their ability to help their employees learn. But for L&D to be considered valued and relevant in today's competitive environment, they have to clearly demonstrate how they will provide a meaningful return on investment.

#### References:

Association for Talent Development (2017). 2017 State of the Industry Report. Alexandria, VA: ATD Press.

Optimus Learning (2018). Overcoming the Challenges for L&D in 2018. Sawbridgeworth, England: Optimus. Retrieved at [optimuslearningservices.com/blog/ld-strategy/challenges-for-ld-in-2018/](http://optimuslearningservices.com/blog/ld-strategy/challenges-for-ld-in-2018/).



Dr. Chance Eaton has over a decade's worth of experience working in the field of learning and organizational development. Due to his unique educational and work experiences in finance, psychology, leadership and management, education, noetic sciences and agriculture, Dr. Eaton provides his clients with relevant business solutions grounded in theory and research. To learn more about Dr. Eaton's services, visit [HCSInter.com](http://HCSInter.com).