Calculating and optimising the ROI in training

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Most organisations spend a significant amount of money on L&D, yet many HR professionals struggle to calculate the return on investment (ROI) of training. And the reason for this is clear - to calculate ROI, you need to allocate a financial value to the benefits of L&D, and this can be tricky.

So let's start with the basics.

ROI formula

ROI is calculated using a simple formula:

$$ROI = \frac{Benefits - Cost}{Cost} \times 100$$

Calculating the cost of an L&D intervention is usually simple – it is the total training cost, including:

- Direct costs such as the cost of developing the programme, facilitator fees, venue, transport, catering, training material, required software and licences.
- Indirect costs such as the time spent by the HR Department and other stakeholders to plan and implement the intervention, and the time employees spend away from work to attend the training.

On the other hand, the financial value of the benefits is more difficult to quantify. And since ROI is a financial metric, the benefits must be quantified.

Quantifying L&D benefits

Depending on the objectives of the L&D intervention, a wide range of potential benefits could be considered in the ROI calculation. Let's consider how you could quantify them for the purposes of ROI.

Objective	Metric / benefit	Typical measurement
Performance improvement	Sales revenue	Increase in sales or new leads
	Productivity	Increase in efficiency or output
	Quality	Decrease in errors, defects or rework
	Customer satisfaction	Increase in repeat business and referrals, or decrease in complaints
Time saving	Productivity	Increase in efficiency or output
	Quality	Decrease in errors, defects or rework
	Onboarding	Decrease in the time required for new employees to become fully productive
Cost saving	Retention	Decrease in employee turnover
	Absenteeism	Decrease in employee absenteeism
	Safety	Decrease in workplace incidents and accidents
Employee behaviour	Retention	Decrease in employee turnover
	Absenteeism	Decrease in employee absenteeism
	Promotion	Increase in promotion rate
	Performance	Improvement in behaviour and attitude (evaluated objectively where possible, or through 360-degree feedback)
	Skills acquisition	Increase in knowledge, skills and aptitude
	Skills transfer	Increase in formal and informal skills transfer (such as mentoring and coaching)

If you're wondering about evaluation metrics such as net promoter scores, training feedback surveys and knowledge assessments, these are not true metrics for calculating ROI.

Net promoter scores and feedback surveys measure an employee's attitude towards the L&D intervention, and assessments measure knowledge gain. These are important, but they reveal only the short-term impact of training. Furthermore, calculating ROI requires hard data on the true impact of training on performance and behaviour, rather than information on training engagement and knowledge gain.

> *Effective learning and development should improve competencies, behaviour and attitude, and these gains take time to realise. ROI can therefore not be measured during or directly after the L&D intervention.*

Calculating ROI

To accurately calculate the ROI in training, follow these steps:

- **Define the objectives:** Before initiating any L&D intervention, it is important to establish clear and measurable objectives. In other words, what impact must the training have on the organisation and/or employees? Examples of objectives are included in Column 1 of the table above.
- **Identify the key metrics:** Once the objectives have been established, identify the key metrics (or benefits) that will enable you to achieve these objectives. Examples of metrics are included in Column 2 of the table.
- **Collect data:** Accurate data collection is crucial for calculating ROI. Depending on the metrics you've selected, you'll need to gather very specific data – before the L&D intervention, and then afterwards. For example, if employee promotion is a key metric, you'll need data on the promotion rate before and sometime after the L&D intervention. Examples of the data you might need are included in Column 3 of the table. Also remember to carefully track the direct and indirect training costs.
- **Calculate ROI:** Calculate ROI using the formula.

Let's consider an example.

Your objective is to improve business performance through an L&D intervention. The total cost of the intervention is R200,000. Six months after the intervention, you've gathered data on your metrics and you're ready to calculate the ROI.

The data is as follows:

Objective	Metric	Measurement	Percentage	Benefit in Rand
Performance improvement	Sales revenue	Increase in sales	5%	R400 000
	Productivity	Increase in efficiency or output	8%	R150 000
	Quality	Decrease in errors, defects or rework	10%	R25 000
	Customer satisfaction	Increase in repeat business and referrals	13%	R90 000
			Total	**R665 000**

$$ROI = \frac{Benefits - Cost}{Cost} \times 100$$

$$= \frac{R665\ 000 - R200\ 000}{R200\ 000} \times 100$$

$$= \frac{R465\ 000}{R200\ 000} \times 100$$

$$= R2,33 \times 100$$

$$= 233\%$$

In this example your return on investment in training is 233%. Another way of looking at it is that for every R1 you spent on training, you got R2,33 in value.

Optimising ROI

To make sure you're getting the maximum value from your investment in training, follow these best practices:

- **Conduct a needs analysis:** Before designing or selecting an L&D intervention, identify the skills gaps, performance deficiencies and developmental needs in the organisation. By identifying the most critical areas for improvement, you're more likely to identify the most suitable L&D intervention – and therefore increase your ROI.
- **Set clear objectives:** Establish clear and measurable objectives for each L&D intervention that are specific, realistic and tied to the desired objectives. This will help you design or select the most appropriate training, as well as know what benefits you're expecting for your ROI calculation.
- **Align training to career development:** Help employees see the link between training and their advancement within the organisation. By aligning training initiatives to career paths, succession planning and talent management strategies, you can increase employee engagement, retention and ROI.
- **Customise training programmes:** Although there are a myriad of great off-the-shelf training programmes, customised training ensures that employees receive relevant and targeted content. This in turn leads to improved engagement and application, and ultimately a higher ROI.
- **Engage managers and supervisors:** Managers play a critical role in reinforcing and supporting the application of new skills and knowledge in the workplace. By engaging managers in pre-training discussions, setting expectations, and providing post-training support, you can enhance the transfer of learning and maximise ROI.
- **Ensure continuous reinforcement:** Training should not be a once-off event. To optimise ROI, incorporate continuous reinforcement strategies to ensure sustained learning and application. This can include follow-up courses, microlearning, and ongoing coaching or mentoring. Reinforcement activities keep skills fresh and reinforce learning over time, which increases long-term impact and ROI.
- **Measure and evaluate effectiveness:** Implement a robust evaluation framework to assess the effectiveness of L&D interventions. This includes measuring employee satisfaction, learning outcomes, behaviour change and business impact. Collect both qualitative and quantitative data through surveys, assessments, feedback sessions and performance metrics.

> *Regular evaluation helps identify areas of improvement and enables data-driven decision-making to optimise ROI. And remember that the calculation of ROI should not be a one-time exercise – it takes time to realise the full gains of training.*

Beyond ROI

Calculating the financial return on investment in training is important from a business perspective, but it's not always possible to quantify all training benefits. So while ROI is a significant indicator of training effectiveness, it's not the only indicator. You may find it useful to explore the following alternative models:

Model	Pros	Cons
The Kirkpatrick Model is the most recognised method of evaluating training effectiveness. It evaluates the effectiveness of training on four levels: *reaction, learning, behaviour* and *results.*	• Measures the impact of training on employee behaviour and business results • Provides a practical and simple framework for evaluating training effectiveness • Can be implemented by organisations of any size	• May be too simplistic for evaluating the effectiveness of complex training programmes • Can be challenging to determine the financial value of certain training outcomes • Does not provide a direct method for calculating ROI
The Phillips ROI Model adds ROI to the Kirkpatrick Model. It evaluates the effectiveness of training on five levels: *reaction, learning, application and implementation, impact* and *ROI.*	• Measures the impact of training on business results • Evaluates comprehensively by examining multiple outcomes • Offers a systematic approach to calculating ROI	• Requires a significant amount of data collection and analysis • Can be time-consuming, complex and costly to implement • Can be challenging to determine the financial value of certain training outcomes
Kaufman's Model of Learning Evaluation is based on the Kirkpatrick Model, but with a few modifications. It evaluates the effectiveness of training on six levels: *input, process, acquisition, application, organisational results* and *societal/customer consequences.*	• Evaluates the inputs and processes that lead to successful training outcomes • Evaluates the impact of training on society and the surrounding environment • Can be adapted to the specific needs and goals of the organisation	• Requires a significant amount of data collection and analysis • Can be time-consuming, complex and costly to implement • Does not provide a direct method for calculating ROI

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