



What is Return on Investment (ROI)?

Mark Rendell, independent trainer and project manager, reflects on the knotty problem of measuring the Return on Investment (ROI) of a training intervention

A Return On Investment (ROI) analysis attempts to define the benefits accruing to the organisation as a result of a particular training intervention. This is not as straightforward as it sounds as a number of factors need to be in place to be able to relate the *desired benefits* to the *particular training* (and not some other external or internal effect).

A cautionary note

There are many situations where it would be inadvisable to carry out an ROI. In fact, ROI as applied to training, is a controversial area. As Donald Taylor¹ put it recently,

“A true ROI study demands at least the following:

- 1. Good historical data about the trained delegates’ performance before training, as well as after it,*
- 2. A control group which is not given any training, and*
- 3. A monetary value for the results of any performance improvement.”*

From Taylor’s conditions, it’s possible to see that it would be inappropriate to carry out an ROI on an induction course or a whole-team intervention as there would be no control group (or previous data) with which to compare. Also, if the training intervention is one in a range of skills development inputs and knowledge exchange methods, then it would be nearly impossible to ‘isolate’ those benefits accrued to the organisation solely via one particular part of the overall training series.

ROI or ROE?

It can’t be denied that the question, *“How valuable is this training to my organisation?”* is a valid question to ask. However, ROI is not necessarily the answer. Valerie Anderson recently proposed that a much better response would be to attempt to define the Return on Expectation², as organisations *expect* learning to add value.

A pragmatic approach to defining value and benefit to the organisation, particularly in strategic terms, ROE uses a combination of hard (numerical) and soft (qualitative) metrics. This method would be appropriate in those situations where ROI has been acknowledged to be an insufficiently robust method, such as induction training and whole team (no control group) learning scenarios.

¹ Training Journal article 2008.

² ANDERSON, V., (2007) The Value of Learning: From return on investment to return on expectation. ‘Research into practice’ report. London: CIPD.

Working through an example to calculate ROI...

In the case of a recent training course I ran, it is possible to measure the impact of the training as I introduced a new tool to reduce the time spent in planning projects – a skill that hadn't been formally developed via training in the organisation to date (as far as I am aware).

Here is how I would demonstrate the calculation for an ROI on my training intervention, allowing for a number of financial and time assumptions.

Firstly, what are the overall costs to the organisation of the training?

One Day Management Training Day	Costs
My fees (including travel and accommodation) for the one day course:	£1325.00
There were nine managers in attendance for a total of 6 hours (9 x 6 = 54). Assuming an internal benchmark cost of £100.00 per working hour (p.w.h) for each manager, the cost to the business of attending:	£5,400.00
Room hire, refreshments and materials:	£500.00
Administrative support at £50.00 per working hour and for 10 hours:	£500.00
The 'total cost' of organising and delivering the training course for the nine managers:	£7,725.00 or £858.33 per manager

I introduced the team to a new methodology for planning projects via a new Project Planning Workbook that allows the project manager to plan a project (and check for viability) in approximately one hour. Note that this activity doesn't currently happen in this workplace and so an impact I would expect to be able to measure directly as a result of the course would be a reduction in the amount of time planning a project.

The current situation...

I also estimate that approximately 50% of projects fail due to poor planning in the department (for various reasons). I would expect a further measurable impact to be an increase in the success rate of projects (measured in the 'efficiency' of the project meeting its objectives on completion). I can't formulate an ROI to measure for this particular benefit as it may also be affected by factors other than the training itself.

To attempt to measure the impact of improving project planning, I will use the following information provided on the day to make a basic calculation of cost savings.

Current project planning practice	No. / Hours	Costs (p.w.h)
No. of new and unique projects managed per month per manager	4 and 6 (5 on average)	-
Amount of time taken to plan each project	Up to 8 hours	£800.00

Even assuming that this would be reduced over time by a quarter (25% / 2 hours) due to greater experience, this means that each manager is taking an average 6 'planning hours' per project to complete the planning activity of each project.

Current project planning practice	No. / Hours	Costs
Over the course of a month, this would be 6 planning hours x 5 projects	30 planning hours <i>per project manager</i>	£3,000.00 <i>per project manager</i>
For 9 managers in attendance on the course = 30 x 9:	270 planning hours per month	£27,000.00 per month

The Impact of the Training Day...

By reducing the planning time to 1 hour (using the methodology introduced in the Project Planning Workbook),

Future project planning practice	No. / Hours	Costs
In future, this would be 1 planning hour x 5 projects per project manager	5 planning hours <i>per project manager</i>	£500.00 <i>per project manager</i>
In future, this would be 1 planning hour x 5 projects x 9 managers = 5 x 9	45 planning hours per month	£4,500.00

Cost Savings...

Using the £100.00 per working hour figure, this means a cost saving of **£22,500** (270 hours x £100 p.w.h – 45 hours x £100 p.w.h), per month.

To calculate ROI...

When we compare this to the cost of the training event, the return on investment (ROI) would be: £22,500 / £7,725 = 1 : 2.91 or £2.91 saved for each training pound spent.

Bearing in mind that this sum is for *one month*, over the course of one year, and assuming that the average number of projects per line manager remains the same, then the cost saving would be: 12 x £22,500.00 = **£270,000**. The return on investment (ROI) would be: £270,000 / £7,725 = **1 : 34.95** or £34.95 saved for each training pound spent.

**In this example, and using the above variables,
£1 spent on this training
produces a *minimum* saving to the business (ROI)
over one year of £34.95.**