447% ROI on Competency Training

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How a Fortune 100 Firm Realized a 447% ROI On Training

"As a result of this assessment, we learned that we need to run our training programs like a business. In the past, it was all about the relationships that are developed at the programs. While those are still important, we now know how much the program helps our bottom-line."

Fortune 100 company Senior Executive overseeing sales force

Companies extol the virtues of training, mentioning it in annual reports and using it as a recruiting and retention tool. Yet human resources professionals repeatedly fight for budgeting and must justify programs to top management

Lessons Learned

- Use research-based management competencies
- Test everything
- Measure and communicate results in terms of corporate performance.
- Adhere to strict financial methodology.
- Determine if the program has lasting effects ,
- Make training an integral part of the business by making it business-like.

Background: A Typical Story

When developing proposed programs, many human resources executives engage in the same routine. Their due diligence includes in-depth interviews of senior executives to identify training areas, sourcing colleagues in other companies, and researching critical subjects in current literature. They complete this phase by tapping outside experts.

After synthesizing this information, a program is developed. Attendees are selected, the facilities booked, and presenters are retained. The program is conducted. From the comments on the end of session survey, participants typically say they gained a great deal as a result of their participation.

Common sense suggests that better trained employees, from executive to entry-level, are more productive. Yet few companies *know* it.

Blissful ignorance is the rule rather than the exception. This can be a major cause of senior management's lack of understanding of the financial impact of training programs. Still, organizations pour untold resources into executive training without measuring outcomes, relying on anecdotal evidence or comments received from program participants upon completion of sessions.

A New Approach: Breaking the Cycle

A progressive Fortune 100 financial services company refused to treat training as a separate entity from the business. Training would be subjected to basic business principals and tests. Intent upon establishing an executive development program linked to ongoing results, it took radical steps to structure, monitor, and measure the effects of training. The program was designed to increase significantly the field managers' First Year Commissions.

When concluded, the company would *know* if and how the training had been effective by assessing the degree of improvement achieved by participants. The organization would establish a clear link between organizational performance and management behavior as measured by management competencies.

Improvement would be weighed in relation to costs, showing if training was an investment or a cost. The analysis would go one step further and determine a return on investment (ROI).

Table 1: Key Drivers of First Year Commissions

Business
- Drive for Results
- Decision Quality
- Hiring and Staffing
- Timely Decision Making
- Priority Setting
- Managing and Measuring Work
- Organizing

Leadership
- Managing and Vision and Purpose
- Developing Direct Reports
- Command Skills

Personal
- Time Management
- Career Ambition
- Innovation Management

The Foundation: Training Appropriate for Needs

One of the biggest mistakes companies make is assuming they know what areas need improvement. The Fortune 100 financial services company chose to structure their training by testing its own theories. Some of their preconceived notions proved erroneous.

In undergoing the Lominger International VOICES 360° feedback assessment, 13 of 67 competencies were identified as statistically proven drivers of increased First Year Commissions (Table 1). As it turned out, only six of the competencies that the company originally thought would drive performance actually did so in reality (see Korn/Ferry International Institute whitepaper, *Making Millions By Mining Management-Competency Data,* for more complete details.) Armed with accurate results, the company modified its thinking, designing training that would target the 13 competencies that affect an individual field manager's ability to generate First Year Commissions. The 13 competencies were categorized as Business, Leadership, and Personal focused

The Focus: A Strategic Program Design

Organizational leadership wanted utilization of the concepts taught in the program. Management understood the vital importance of allowing sufficient time for participants to assimilate training concepts and develop skills and the company to track progress. Four sessions, each 2 ½ days in length, were scheduled over a period of two years. To enhance focus and minimize distractions, the company chose to conduct this training at its off-site university.

Sessions focused on concepts and skills related to the 13 competencies commanded the majority of training time. Participants were selected from a total pool of 120 field managers throughout the company. The first session had 27 participants of varying skill levels.

Program Sessions: Targeted to Participants

Content and structure were the foundation for successful training. Delivery would determine its credibility and assimilation.

Program sessions offered training in related areas, providing a foundation for the logical progression of the Key Driver competencies development (Table 2). External experts conducted the sessions, each included skill building exercises.

Company executives knew that lectures could be viewed by program participants as hollow rhetoric. Theory is great, until put into practice.

Knowing field managers were likely to embrace training that would have positive outcomes in their specific situations, successful company colleagues were showcased. Fellow field managers and senior executives who excelled in specific competencies presented sessions with the external expert. They demonstrated real-time situations where application of new skills and information was beneficial.

Table 2: Key Driver Competencies

<u>Session One</u>
- Managing Vision and Purpose
- Time Management
- Organizing
- Career Ambition
- Hiring and Staffing

<u>Session Two</u>
- Developing Direct Reports
- Timely Decision Making
- Priority Setting

<u>Session Three</u>
- Command Skill
- Managing and Measuring Work
- Innovation Management

<u>Session Four</u>
- Drive for Results
- Decision Quality
- VOICES 360 Feedback on all 67 management competencies

Results: Underachievers Outpace Peers

The training completed, the company began a thorough analysis to answer difficult business questions. Did program participants improve? How did they improve compared to peers who did not participate in the program? Was the training an investment or a cost? What, if any, was the return on investment?

First, the average First Year Commission data for the 27 program participants was compared to that of the 93 individuals who did not attend training. This information was readily available, since the company tracks the total amount of First Year Commission produced by each office, which is run by a field manager, on a monthly basis.

Total First Year Commission is the sum total of the individual sales producers' production in each office. A major portion of field managers' compensation is based on this figure. Field managers' effectiveness in executing certain duties, such as hiring, training, and development, significantly influences corporate and individual success.

Table 3: Underachievers Become Proven Performers

Measuring relative performance of participants' before and after First Year Commissions (FYC) showed training on targeted competencies was effective.

Average FYC of 27 Participants – Average FYC of 93 Non-Participants = Participant Performance

Participant Performance Before Program: -$108,196
Participant Performance After Program: +$45,677

Key Measures: First Year Commission

For an accurate comparison, First Year Commission information for all 120 field managers was obtained for the same five time periods over the course of the training and beyond:

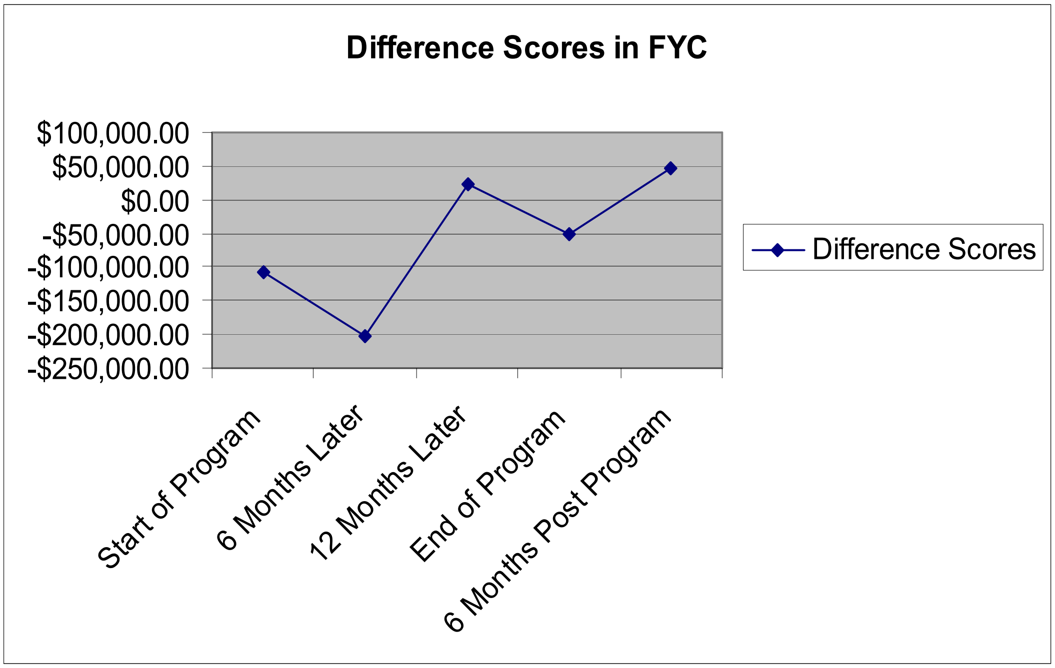
- 1 month prior to the start of the program
- 6 months after the first session
- 12 months after the first session
- 18 months after the first session – program completion
- 24 months after the first session – 6 months after program completion

Using this data, the company examined relative performance, which assumes extraneous factors such as the economy affects both groups equally. Changes in performance of program participants would be credited to their utilization of training techniques.

Relative performance was determined by subtracting the average First Year Commissions of the 93 field managers not in training from the average of the 27 program participants.

A dramatic transformation occurred. At the beginning of the program, participants were below average performers, generating an average $108,196 per program participant less than their peers. (Graph One).

Graph One



During the initial six months, participants began to incorporate training concepts in their activities. While making the transition, their production suffered, sliding to an average of $200,000 less than colleagues who did not participate in training.

However, the six-month point was the springboard for tremendous improvement. At the end of the next six months, program participants had reached positive territory in producing First Year Commissions

Table 4: Difference Scores in First Year Commissions

The company knew that most people will continue to use training methods for the duration of a program. Would progress continue after the program's conclusion? Departing from most training programs, the company continued to monitor performance after graduation. Six months after completion of training revealed that program participants outpaced peers in generating First Year Commissions by an average $45,677.

Individual performance took a quantum leap, thanks to structured, targeted training. Over the course of the 24 months, program participants realized an average increase of $153,873 per individual in First Year Commissions.

Results: ROI Can Be Calculated!

The Fortune 100 Company wouldn't blindly accept conventional wisdom that if performance improved, the training must be worthwhile. It wanted to know whether their training was an investment with a positive return or a drag on the bottom line.

First, it assessed whether the program produced a gain or loss. It determined a dollar amount for the participants' improvement, using data from the start and end of the 24-month program.

At the program's initiation, the 27 program participants were sub-par performers. Each generated an average of $108,000 less than peers.

By the program's conclusion, these field managers had exceeded peers' production, each producing an average of $45,677 more in First Year Commissions.

When looked at as a whole, the increase in First Year Commissions totaled $4,154,000, an impressive turnaround.

Table 5: Underachievers Raise the Bar

The program had significant impact on performance. The month prior to the program, participants each underperformed their peers by an average $108,185.

Group total – 27 x -$108,185 = -$2,921,000

Six months after program, participants outperformed peers by an average $45,677.

Group total – 27 x $45,677 = $1,233,000

Total Turnaround - -$2,921,000 to $1,233,000 = **$4,154,000**

The Best: ROI

While this was positive news, it did not prove this training was an investment with a positive return. Costs needed to be determined.

Expenditures were fairly easy to determine. The company conducted a thorough audit of any expenses associated with the First Year Commissions Training on Key Competencies Program. Presenter, travel, lodging, meals, and training materials fees were added to pro-rated salaries paid to staff, executives, and participants for the time spent in preparation and at training sessions, for a total of $760,000.

Income exceeded costs, suggesting a positive return. Calculating the return on investment showed astounding results. Senior management was thrilled to learn its return on investment was **447%**.

Table Six: Proof Positive: Astounding ROI on Training

Using the standard ROI equation, the Fortune 100 company learned that training produced an astounding return.
(Income – Costs) divided by Costs = ROI
($4,154,000 - $760,000) divided by $760,000 = **ROI of 447%**

Conclusion: The Bottom-line

This program generated a positive return far exceeding the usual 15-20% benchmark. For every $1 spent, the company got their initial investment of $1 back and realized an additional $4.47.

Subjecting training to the normal rigors of business proved beneficial for the company and its program managers and human resources executives. Armed with hard data, they have the support of senior management. Training's credibility has been elevated.

Takeaways: Lessons Learned

1. Use research-based management competencies.

Insist that the competencies you use be based on solid research such as the Lominger International VOICES' 67 competencies or other reliable research based competency list.

2. Test everything.

Don't assume you already know. The best program will have little effect on performance if it focuses on the wrong criteria. Invest the time and resources to identify competencies that are critical to specific improved performance you want. Use all of the available competencies. It is not always clear up front which ones truly drive performance. After you have the list of competencies that drive performance, then design your programs.

3. Measure and communicate results in terms of corporate performance.

Senior management bases decisions on facts and figures. Anecdotal evidence is never as powerful as data. Make it a matter of course to present training in business terms such as return on investment (ROI).

4. Adhere to strict financial methodology.

Use all costs involved in implementing and conducting the program. This includes pro-rated salaries of program participants, company staff, and executive presenters. Determine the amounts for all associated activities such as program design, preparation, travel, and actual face time.

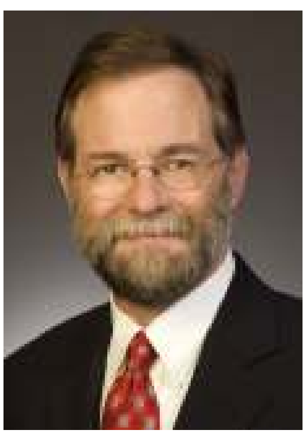
Lessons Learned—Continued

5. Determine if the program has lasting effects.

Has the training become a habit? Are the skills used continuously? How does this influence performance? Be sure to measure performance at intervals after concluding formal training sessions. By monitoring participants' progress after training, management can see the real return on investment. In the six months post-training, the 27 participants continued to show an increase in First Year Commissions, an indication that training concepts were continuously applied and had become a regular part of daily activity.

6. Make training an integral part of the business by making it business-like.

Respect for training will increase when training proves its value. Gather hard data on performance and the return on investment. Use facts to refine training and continuously improve.



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