The *Art* and Science of ROI in Online Education

Prepared by the Online University Consortium

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What To Be Suspicious Of

Numbers are crucial to running a company, and most executives require them as part of doing business. Yet most numbers leaders use to manage their investments in people are often misleading and frequently misunderstood.

CEOs are primarily focused on answering two questions: How is our average performance improving over time? And, how do we stack up against our competitors based upon industry averages? (1)

Answering these questions makes little sense. Companies don't expect average performance from workers, why would they measure it and then subsequently compare it to industry averages?

Nevertheless, averages are measured. Always be suspicious of them because they often hide what's important and average out both good and bad. For instance, averages prevent companies from emulating star achievers and identifying those bottom performers who should be leaving the company.

As such, top and bottom measures reveal important information and have current value that organizations can use.

Equally dangerous for companies is to rely on one quantitative, accumulated number — for instance, increased profits — as an absolute measure of ROI used to make a purchase or justify the expense of education.

Why? Because quantitative measures of ROI expressed as a single performance metric are difficult to measure and it's often challenging to isolate primary factors from those that contributed to the increase.

With the job environment in such flux, you should also be highly suspicious of any "hard" ROI metrics related to work performance. This is especially true if the employee base has changed before, during or after measurements have been taken. These numbers should be considered unreliable measures and will most likely be one-time occurrences that the company will never replicate.

Employee ROI is but one type of unique return measure, which can not be evaluated the same way a company would financially analyze return on a piece of equipment.

Companies should understand that measuring people, performance and their work productivity are human endeavours prone to human error. People, their work and everything connected to them - including education and development - are dynamic making it harder to isolate return and match it with the specific investment it was intended to measure.

In summary, be suspicious of:

- Averages because organizations lose present and predictive value that goes into calculating averages
- One absolute, quantitative measure of ROI
- Any measure related to people, performance or productivity during periods of employment change
- Return measures when they're not matched to specific investments

Art & Science

So, what's a company to do? You're facing an environment where ROI is an absolute must when evaluating new or ongoing projects, but you can't base a decision solely on ROI for fear of making the wrong decision with what's perceived to be the right information.

What To Look For

> *"HR (and training) will almost always be looked at as an expense if data are not available to show a contribution to the bottom line.* "
> (2)

This quote makes it obvious that "the bottom line" is what executives and investors in corporations care about the most. HR and training departments haven't traditionally had the types of measures that really matter according to executive management.

Here's how to get what management wants and obtain what's needed to prove ROI of education.

Several measures that drive cash flow, profitability and growth

We have documented the risks associated with concentrating on one absolute, numerical measure of ROI. The tendency here is to manufacture, or accept from a provider, one all inclusive number that can be used to appease management and tie to the bottom line.

Buyers and sellers should consider themselves fortunate if they can produce and defend a single number that management accepts.

Executives won't continue to accept these types of ROI numbers for long.

The ROI challenge now is to produce more evidence in the form of additional measures.

If return numbers are found that directly and consistently tie to profitability, respect will be earned. Plus, money and resources will follow.

Ongoing success comes from knowing without a doubt that e-learning projects are truly affecting the bottom line.

Here's how you find numbers that should be meaningful to your company.

Search out measures that improve efficiency and contribute to revenue

For the time being measures that relate to profits or improve operations are still expressed in financial terms. Consider how you can tie employee measures as contributions to the following financial categories:

- Cost Reduction

Corporate leaders should focus on the cost savings side of ROI, trying to isolate these numbers whenever possible, as a targeted measure of their company's performance.

Cost savings over previously deployed training and HR methods are among the first measures to look for because they can be easily identified and monitored.

As one measure of ROI, executives want to know how much money training online can save.

> When considering cost reductions with respect to education know:
> 1) the method of delivery is a factor
> 2) savings realized are essentially a one-time event

Art & Science

Most online providers can show a cost reduction related to education. But savings are due in many cases to the efficiencies of the web as a medium for learning rather than any one particular provider's solution.

Be mindful of this when evaluating present-future cost savings associated with an online education program.

According to Cisco's VP of Internet Learning Solutions Tom Kelly, "There are some fantastic cost savings, but only for one year. You can't keep claiming the savings over time. If I can save a company $5 million in training-related travel this year, how much would they save next year? Nothing, because they'd take it out of the budget." (3)

So if you're not showing cost savings with your web-based HR project or education initiative within 12-18 months after initial deployment, you've got a problem that needs to be fixed.

Because they don't measure the full impact of cost savings in subsequent years, too many companies have found out the hard way that exclusively focusing on cost savings of ROI often leads to failed projects after the first year.

- The Evolution of Savings Year 2 and Beyond

Following Y1 of project rollout, companies should be building an ROI model that includes measures, which prove costs savings have not affected quality. You'll want to verify that online education has accomplished more while spending less without sacrificing quality.

You don't get to this stage of ROI overnight, but you can make progress by tracking the relationship of cost savings to measures like employee satisfaction.

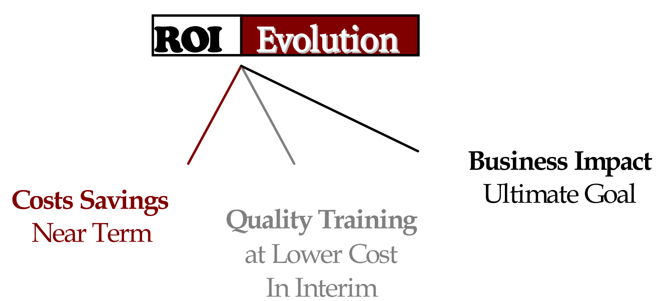
With these measures you can show ROI and build a business case for continued investment.

To later predict employee ROI and company performance, which experts like Kaplan and Norton (4) believe is the only true purpose of training and HR, "…companies must track the relationship of cost savings to employee satisfaction and work performance."

If you track and report these measures as averages, don't forget to investigate and document both highs and lows of employee satisfaction. Again, they are always quite revealing and very useful.

As can be seen in the evolution pyramid below, the third phase of ROI focuses on education's impact to the business.

<u>Diagram</u>



Companies, which view education as a strategic business advantage, know that proving "impact" is what matters most.

According to Tom Kelly, "You can't do ROI of e-Learning just on cost savings because return measures must be based on business impact." (5)

That's why Cisco, considered to have a well-trained workforce, has an even keener understanding of ROI in education.

- Business Impact

Department Level

How do you measure business impact? By focusing on revenue enhancements that are directly affecting the business. So revenue enhancements, as a third iteration of ROI, are critical to build into your payback model.

Revenue enhancements add more variables to your model. Because of this, you can't start at the organization level.

The first step in this process of ROI is for companies to isolate departments and projects within their business where education can play an integral role in success.

It could be a mgmt. initiative, a product development project, or customer support program depending on the strategic direction of the business. When you spot education opportunities within departments, further zero in on what projects that particular area of the business sees as important. These areas are typically well supported and sufficiently funded.

Once there is this type of fit, and education is being provided, then you can track relationships such as sales training to increases in sales, product education to successful development and launch, and management development to company growth and performance.

A reliable expression of ROI here measures relationships of education to strategic growth initiatives where the employee experience (e.g., development, satisfaction) is shown relative to the outcome of the project that's being measured as cause and effect.

Organization Level

At the organization level, the most accurate revenue measures related to employee education and corporate performance you can reasonably expect to produce fall under what are known as contributing factors to ROI.

Contributing factors are less scientific, harder to define and more difficult to measure because many factors typically contribute to a performance increase at this level.

They can also be viewed with great suspicion and doubt because many vendors and company managers incorrectly attempt to measure ROI by jumping to the organization end point rather than starting at the beginning of ROI.

This harms credibility and impairs the organization's focus on ROI. We know a provider who stated that their solution had lowered a company's management attrition rate by 12% one year after deployment of services. (6)

Expressed as one absolute, quantitative measure of ROI this would have been grossly misleading and could have soured management's enthusiasm for the project while setting unrealistic future expectations.

However, because it was expressed as a contributing factor to ROI and not the only reason for the decline, the measure has been seen as reliable, helping management maintain confidence in the project as well as solidifying the reputation of both provider and department.

From an organization view, employee retention measures are the most reliable, valid and frequently used. (7)

For example, consistently high retention can - through competitive advantage and better morale - produce improvements in productivity and growth.

It's also widely believed and accepted that keeping good people longer can have a substantial, ongoing economic impact on a business. (8) This is due to the fact that there's a statistical correlation between retention and profitability.

A good example of retention's relationship to profitability can be seen at the brokerage house A. G. Edwards. The firm has both the highest broker retention and consistently tops the list of most profitable brokerage firms. (9)

After you've successfully tracked and reported employee measures related to education that save money, prove business impact, contribute to the success of a project, or add to corporate revenue, consider these important factors to improve ROI.

Improving ROI

- Measures That Reflect Upon Present and Future Performance

Businesses often don't know how to measure what really counts, so they focus on what they know how to measure. What companies know how to measure well is past financial performance. If for no other reason, the stock market has effectively trained them to do so.

As in all investments, past performance is never a reliable predictor of future performance. This is especially true when measuring the contribution of well-developed people to the financial success of a company.

Whenever possible, companies should stick with employment measures that have a relationship to present and future performance.

Retention is one such employment measure that is worthwhile to track.

We recommend that companies focus on retention rather than turnover because turnover is measured as a past event whereas retention is forward-looking. And, contrary to popular belief, turnover and retention are not opposite expressions of the same measure. (10)

Retention is a measure companies can build upon and, as we've seen with A. G. Edwards, it is a reliable predictor of future financial performance.

ROI is made up of several contributing factors. Beyond retention and employee satisfaction, organizations should also consider tracking new measures that improve on ROI.

- New Measures

Since '94 , (11) there has been active discussion about how to measure intellectual capital. Now HR technologies (12) and processes are in place to track progress of people and separate out numbers related to ROI.

Tools and disciplines have allowed new measures to show positive correlation with financial measures, or projects within departments, that companies consider important.

Several organizations have built ROI models focused upon financial and non-financial measures that revolve around talent and leadership standards they've set up. One of these companies is Pitney Bowes.

These new metrics, increasingly used by corporations, attempt to measure the impact workforce development has on an organization's bottom line.

With the increased pace of business and shortened product life cycles, one new measure many organizations deem important is time to competency. It tracks the time it takes for any company stakeholder to learn and demonstrate new competencies needed to perform successfully on the job.

Now that organizations understand the value of both development and time, time to competency has taken on more meaning and relevance.

Conclusion

The Online University Consortium has written this paper as a way to build credibility and earn trust with corporate development staffs so that ROI will be less of an obstacle that prevents business or slows progress of education.

We realize that this is an ongoing process, but we feel awareness of the issue has now been sufficiently raised. We trust you'll find resources, like this paper and others developed by the Online UC collectively represent some excellent beginning coverage.

We plan to continue our role of disseminating timely and valuable information on ROI in online education.

Our objectives are to make real progress toward more working solutions. With the intent to spring board from this body of work and help companies continue to developing education programs that hold up to the scrutiny of ROI.

Summary

There are two traditional measures of ROI that matter – a cost savings element and the revenue enhancement side.

Of the two, cost savings are the first measures to look for because they can be easily identified and monitored.

However, cost reductions in e-learning disappear after the first year.

Following the first year of a project rollout, companies should be building into ROI models measures to prove costs savings have not affected quality.

This is done by focusing on revenue enhancements that are directly affecting the business.

Revenue enhancements are less scientific and more difficult to measure than cost savings.

This is because of revenue's relationship to ROI. It is harder to isolate primary factors from those that contributed to the revenue increase.

(continued »)

Summary…

When possible, companies should focus on employment measures that have a relationship to present and future performance.

The most reliable, valid and frequently used revenue measures, related to education and HR, focus on retention and employee satisfaction.

New talent and leadership standards are starting to emerge at companies. These measure contribution to ROI and correlate closely with a company's financial performance.

THE END

Sources

(1) Courtesy of Marcus Buckingham from the Gallup Organization

(2) Harvard Business School accounting professor Robert Kaplan (*January 2001, TRAINING Magazine)*

(3) Tom Kelly, VP of Learning, Cisco

(4) Harvard Business School accounting professor Robert Kaplan and Renaissance Solutions President David Norton. Both ROI experts maintain that predicting financial performance, which is the only true purpose of training, means tracking operational measures—such as employee satisfaction and turnover—as well as financial ones. (Beyond ROI – *TM – 01/01)*

(5) Courtesy of Tom Kelly, VP of Learning, Cisco

(6) A Fortune 200 Business and a Top 10 E-Learning Provider

(7) According to several companies, analysts and studies including Hewitt and the Gallup Organization

(8) ROI Experts - Harvard Business School accounting professor Robert Kaplan and Renaissance Solutions President David Norton

(9) AG Edwards - As measured by their low 8% broker turnover rate and return on equity over the last decade, which stands at 18%

(10) Online UC has proven this difference via analysis

(11) Fortune first reported on Intellectual Capital October 3, 1994

(12) Web-based technology is in place, which allows companies to create development plans and profiles on employees