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How to Measure Return on Investment of People Development

People development has become a key concern for organisations – employees expect high quality development as part of their contract and are often what will attract an individual to one particular organisation over another. The positive impact of people development through better communication, greater motivation and lower turnover, has been documented. But how do you measure the financial gain from developing people? Return on Investment (ROI) is something that organisations expect from their people development programmes yet few know what it looks like, how to measure it or how to achieve it.

There are many benefits to measuring ROI:

- To uncover what works and what doesn't
- To track the impact of people development on desired goals
- To justify the investment in people development

Perhaps one of the most important reasons though, is to raise HR's profile and standing in the business community as a function which is more than just an overhead cost but one that delivers real financial benefits to the business.

How do you define it?

ROI is the added value created from an investment in terms of cost saving, cost avoidance or income generation created from an investment. Of course there are other benefits to training and development beyond these financial measures but when we talk about financial ROI we are really talking about the financial benefits delivered to an organisation as a result of the training or development intervention.

The ROI percentage is obtained by calculating the benefits minus cost, divided by cost, multiplied by 100.

Kirkpatrick's Model (1959) highlights 4 levels of 'payback' on development:

Level 1 – Reaction – participants' reactions to a development event

Level 2 – Learning – the degree to which learning occurs as a result of the project

Level 3 – Behavioural Change – the transfer of learning to impact on job behaviour

Level 4 – Organisational Performance – the impact learning has on the organisation

Whilst feedback on training and development is often gathered at level 1 and sometimes even at levels 2 and 3, financial ROI, which really impacts at level 4 – organisational performance – is rarely measured. The reason given is that it is just too difficult to calculate 'true' financial ROI for many HR professionals.

In a recent survey by consultancy, Lane 4, other criteria for measuring return were considered to be more relevant than financial ROI measures. Whether this is because these are easier to link directly to training or whether, as HR professionals, we are more comfortable talking 'behaviours and people' rather than 'numbers and figures', is anyone's guess.

Certainly, there is a considerable volume of research linking different aspects of people development to behaviour change and performance. For example, the development of transformational leadership is associated with a number of positive outcomes at both the organisational and individual level, such as lower levels of work stress, increased employee motivation and customer satisfaction. The development of improved communication skills has been shown to result in greater team innovation. The challenge for the HR professional is to take this one step further and link these performance indicators (such as motivation, customer satisfaction) to cost savings, cost avoidance or income generation in order to measure financial ROI.

The best return on training and development results when an intervention is designed specifically to develop those performance indicators which are linked to achieving an organisation's strategic objectives. For instance, if a company identifies that retaining customers delivers better profit (because it reduces the need for direct selling and marketing) training and development interventions aimed at customer handling skills and relationship management will deliver the greatest return on investment.

In summary, to be respected by our colleagues for delivering a real, tangible contribution to the business, we must be seen to be linking each and every training intervention to a hard measure: cost saving, cost avoidance or income generation. It's not easy and takes practice but the simplest way is to design each training intervention with a key performance indicator in mind and link that performance indicator to a hard measure.

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