

THE STRATEGIC VALUE OF WORKPLACE TRAINING AND DEVELOPMENT

A Research Bulletin by:

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The Strategic Value of Workplace Training and Development

Training can be defined as the process of teaching or learning a skill. That's the textbook definition. But in reality, the concept of training has many more aspects than just learning a skill. To many organizations, training is a means of meeting regulatory or legal requirements. Common to this purpose, for example, is training employees in the rules of sexual harassment in the workplace. There are other examples, as well: Safety Training for employees working with industrial equipment to meet insurance requirements or training in the organization's policy and procedures. There is management training, too. One of the programs we see quite frequently is Training for New Supervisors. (You can find an expanded list of typical training courses on the **eLeaP** Learning Management System's website at www.eleapsoftware.com)

Training can also become a means of altering behavior, not in a punitive way but so that gaps in organizational performance can be closed. Common to this thread is the findings of an audit, financial or for certification. On occasion, findings require corrective action and if that affects a relatively large number of employees, training is often the solution to meeting the requirements.

For the individual, training can be a way to earn professional certification. Although some certifications *may* involve learning new skills, it is not directly focused on them nor is it the primary motivating factor. Likely, the motivation for gaining professional certification is to advance one's career or become more employable. We consider this "professional development."

There's no argument that compliance or certification training is very important...to the organization, to the individual, or both. But the questions that we hear again and again is this: "How does training add value to my organization? "Why should training and professional development be a part of our strategy?" "Where, exactly, is the return on the investment?"

Those are the questions we will seek to answer in the sections that follow.

1. The Intended Purpose of Training

While we've pointed out some of the uses of training, to understand its strategic value we have to look a bit deeper. We need to examine what exactly are the attributes of a good training program so that we can effectively employ them. Let's look at some of the common benefits of effective training.

- a. **Productivity.** Effective training should enhance the methods that individuals use to perform their jobs, thus improving their productivity. An increase in productivity that reduces labor costs generally means a more profitable organization.
- b. **Quality.** Similarly, providing the proper training for recognizing quality concerns should result in improved quality and fewer returns or repairs. This will reduce the overall cost of operations and so generate increased profits.
- c. **Empowerment.** Training that is directed to new methods that can be used on the job adds to employee confidence and enables them to perform more effectively. This also reduces the need for close supervision.
- d. **Alignment.** Training should be directed to aligning the individual with the organization's objectives. Employees need to know where the organization is heading and how they can best support its goals. Without a clear understanding of what the organization needs, and how to provide it, it is much more difficult for employees to work effectively.
- e. **Teamwork.** We must all learn to work as a team. This ability is never a given. We know that organizations form teams in varying ways and with varying objectives; that's why orchestras practice and why football teams hold repeated drills. Being able to work closely with teammates provides greater flexibility and agility.
- f. **Liability.** Reducing workplace accidents is often a function of understanding proper procedures and following specific safety guidelines. A reduced injury experience results in lower insurance costs and less lost time at work. It's clear to most trainers that this requires constant awareness...an awareness enhanced through training.
- g. **Risk**
Risk reduction is an important consideration for organizations, not only to avoid liability but to address quality and schedule issues as well. What are the risks of an adverse situation under x and y circumstances? How do we measure risk and monitor it? More importantly, perhaps, how do we avoid risk altogether or mitigate it. Employees should be trained to recognize risk factors and how to take corrective action to effectively deal with them.

h. **Professional Development**

Professional development supports employees in gaining a wider perspective in their jobs and in their personal lives. In many professions, such as in Medicine or Education, continuing education is a requirement for maintaining certification. The general goal of continuing education is to bring professionals up to date on current practices and to prepare them for taking effective action in new and unique circumstances.

Professional development also helps employees to advance their careers. It has been estimated that over **20% of all training dollars spent are directed to leadership development and management or supervisory training**. This is probably the largest area of spending outside of a specific industry. Many organizations subscribe to services such as the Harvard Business Review or Skillssoft that provide training and information in the so-called “soft skills” of business theory and leadership. The nature of the training offered expands the thought horizons for most individuals, exposing them to new, and often challenging, concepts that support their professional growth.

i. **Business Conduct and Social Responsibility**

This is a very real concern today, considering the high profile corruption cases we have seen and the state of our environment. Everyone needs to understand his or her obligations to their employers and to their communities, and how to conduct them in a manner that does not compromise ethical behavior. A good deal of this must be conveyed to the workforce based on the specific requirements of the organization and its codes.

This is by no means an exhaustive list of the benefits we seek to achieve through training. It is simply intended to provide a starting point from which to evaluate the role and value of training in the workplace.

2. **Understanding Value**

In his book, *Intellectual Capital: The New Wealth of Organizations*, Thomas Stewart points out that in the information age of today, “knowledge has become the preeminent economic resource—more important than raw material; even more important, often, than money.” What he is referring to is the concept of intellectual property. Intellectual property is primarily the patents and work processes that an organization develops. When you add up the market value of a company like Google, for example, you will find that the total value of its stock far exceeds the worth of its physical properties. You could say the same for Microsoft or many, if not most, of the Fortune 500 companies.

Not long ago, a prominent Venture Capitalist, a man who began funding technology

development back in the early days of the dot com era and provided some of the initial working capital for companies such as Apple Computers and Netscape (the first browser using graphical formats) explained that physical property, unlike intellectual property, is a burden to commercial organizations: It's difficult to move from place to place, likely has only limited use and is an ongoing cost as it continues to depreciate. Intellectual property has none of these drawbacks. In fact, **intellectual property** is considered **the major source of competitive advantage** to organizations.

There are a variety of other intangible elements that create value for an organization, aside from the patents it holds or the work processes it has developed. An organization builds relationships with customers...called goodwill. That's an asset that can actually be valued on the books. An organization creates relationships with its suppliers and develops its own supply chain. That is an intangible that likely cannot be duplicated and so it clearly adds to the value of an organization. Very importantly, training has a strong relationship with employee retention. Some organizations actually view training as an investment. Increased skill and knowledge can make many jobs more manageable; jobs that are more manageable have less stress and less stress tends to reduce employee turnover.

3. Calculating Value

Value includes a number of other elements in addition to intellectual property. When we purchase a tool or a computer, we usually base our decision on our internal concepts of value. Think, for a moment, about how you evaluate something you intend to purchase.

We begin with our cost: Most will agree that the price of the item we intend to purchase is one of its most distinguishing factors. The lower the price, given that all other aspects are equal, the greater its value. By cost we mean overall cost. For training it would include the instructor's salary or the registration fees to attend a seminar; cost also includes travel to the seminar and living expenses during the trip.

In addition to cost, we must take into account cost reduction. We reduce cost when we improve quality, for example, thus reducing the amount of rework and returns. Similarly, we reduce cost when we raise productivity or decrease lost time due to accidents. While these factors are often difficult to calculate, we do need to take them into account. They are very real savings. And they have another value as well. High quality characterizes many leading organizations and is accounted for by the customer when selecting sources of supply.

Other examples: Raising productivity ultimately results in fewer additional hires when volume peaks. Having fewer employees can lead to a diminished requirement for floor space which can eliminate the need for additional facilities. Reducing lost time helps maintain continuity in the skilled workforce, avoiding the disruptions to work flow during absences.

But there are also intrinsic values that can be very difficult to calculate. For instance, training often increases employee satisfaction but satisfaction is impossible to measure accurately unless it is clearly reflected in reduced employee turnover. So we typically avoid using this benefit in our calculations. For a smile, do you recall the advertising for milk that said “Happy cows give better milk?”

A typical method for calculating the impact of savings from training requires determining the Return on Investment (ROI). The ROI calculation, in its simplest form, compares the cost of an item with its increase in calculated value over a period of time. As an example, let’s say that training reduces the amount of customer returns by 20% and the total cost of returns is calculated at \$100,000 per year. We have reduced the cost by \$20,000. If the cost of training the group is \$15,000, we have saved \$5,000 for that year. That is a return on investment of 25%, calculated as the cost divided by the savings...in this example, $\$15,000/\$20,000 = 75\%$, which is a reduction of 25%.

However, we need to consider the time factor of the savings from a training investment. How long does it take to recover our initial cost? In the example given above, the cost is \$15,000 and the savings is \$5,000, which means it will take three years to recover our investment.

4. Increasing Value Through eLearning

What if, in the example given above, we can substantially reduce the cost of the training itself? How would that impact the ROI? Simple: It will improve the ROI. In the formula we divided cost by total savings: $\$15,000/\$20,000 = 75\%$. If we reduce the cost to \$10,000 the calculation then becomes $\$10,000/\$20,000=50\%$; we have increased the ROI from 25% to 50%, with an overall savings of \$10,000 rather than the \$5,000 in the earlier example. Looking at it another way, we’ve doubled our savings, which means we have increased it by

100%. Now that's an impressive number! It is also a very compelling argument to proceed with the training

Delivering training via eLearning (or online training) provides an exceptional ROI, over and above the calculated ROI for the training itself. How much does the average day of onsite training actually cost? That's hard to answer. Generally, instructors' fees vary from \$1,000 per day to \$3,500 per day, depending on the instructor, the subject and the location. For the purposes of comparison, though, let's consider the average at about \$2,000 per day of instruction, with travel and hotel at about \$500. And let's say that a typical class consists of 25 students. This results in a cost per day per student of \$100 and we will need eight days to train 200 employees. Sounds reasonable, even without calculating the loss of 200 working hours per class (or 1,600 for the entire round of training).

Elearning, on the other hand can be significantly less expensive. We can estimate the course development at about \$2,000. If we use a cost-effective Learning Management System such as **eLeaP**, we can expect it to cost no more than \$512 per month for 200 students (\$2.56 per student). This then reduces the cost per student to \$12.56. Since the training is on demand and available 24x7, employees can access it during slack hours. This results in a very small amount of lost time.

Here's a comparison of the cost of the two methods: (Sorry for all the numbers but it is impossible to understand the concept with doing these calculations.)

Classroom

Instructor Cost	Travel and Hotel	Total Cost	Students	Average Cost/Student
\$16,000	\$4,000	\$20,000	200	\$100.00

Elearning

Cost of Course	LMS	Total Cost	Students	Average Cost/Student
\$2,000	\$512	\$2,512	200	\$12.56

Now let's compare the ROI for the two methods. Using our earlier example, we have a savings of \$20,000 generated by the training. Assuming both methods produce the same results (and this appears to be the case), this is what the ROI would be:

Training Cost Savings Return on Investment

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Classroom	\$20,000	\$20,000	0
ELearning	\$2,512	\$20,000	\$17,488 or 87%

The bottom line is this: eLearning provides substantial savings in comparison to classroom training; we develop the course once and continue to reuse it. For the same amount of cost, eLearning can be delivered to an unlimited number of users. ELearning has a much greater ROI and is therefore much easier to justify. In their paper “Dividing the Costs and Returns to General Training” authors Mark Lowenstein and James Spletzer cite studies that show “the effect of an hour of training on productivity growth is about five times as large as the effect on wage growth.” Translation: For every dollar spent on training, the organization stands to recover five dollars in productivity improvement.

5. Developing Strategies for Training and Development

Most learning organizations establish a strategic plan, often yearly, that addresses the objectives to support the organization in achieving its goals over the plan’s period. Training is a Learning and Development function that supports the organization’s strategic objectives by filling the gaps in skills and knowledge required to achieve those objectives. In order to do this effectively, we must first identify those gaps and then establish an operational strategy that aligns with the organization’s overall strategy. Let’s examine some of the steps common to this process.

- a. *Assess what level of performance will be required to assist the organization in achieving its goals.* What skills or enhancement will we need to implement the organization’s strategic plan? For example, if the strategic plan calls for a reduction in the cost of the products we manufacture to better compete in the market, we would want to determine if our supply management team has the necessary ability to negotiate better pricing with existing suppliers or find new ones. An assessment would be our first objective.
- b. *Determine where gaps currently exist between the existing performance and the required performance.* Here we want to assess the skills and performance that we currently have against what we have established as required to accomplish the levels of performance needed by the organization. Benchmarking and determining best practices would be our second objective.
- c. *Establish a strategy to meet current and future needs.* The challenge, then, is to determine how we are going to go from where we are currently to where we need to be at some future point. There are several possible strategies to consider:

- i. Provide in-house, specialized training to the supply management group by hiring instructors who are experts in the subject matter. This training will be tailored to our precise needs. Since the training will be conducted at the organization's facilities, no travel is required. Very little cross-pollination of ideas will take place considering all the trainees will be from the same organization.
- ii. Locate educational resources with existing training programs in the subjects. This training will address the common needs of the mixed group. Staff can attend at several specific times during a period but will likely have to travel.
- iii. Develop an eLearning program for both self-study and instructor-led online training (blended learning). This training, too, can be tailored to our exact needs; however, it is delivered through a Learning Management System that can be accessed by the trainee at any time. (To better understand the capabilities of this method, browse through the **eLeaP** website at www.eleapsoftware.com)

Once the particular strategy has been agreed upon, the following actions are necessary:

- d. *Create an operational plan to develop and deliver the required training.* This step requires that we establish a process of implementing the particular strategy and determine if we have the resources we need. If not, we must develop a plan to acquire them. The plan must include a timeline for completion. If we have chosen an eLearning program, we need to plan to install an LMS and create course content. Do we want to do this in-house or have it done by a third party as an outsourced function?
- e. *Assess the Return on Investment.* We should consider lowering our priority for implementing this particular plan if we find that the Return on Investment does not result in a potential payback during the period covered by the strategic planning horizon. It may be inappropriate for the long term, but organizations today expect very rapid returns, typically within the budgeted year.
- f. *Deliver the training.* If we are using an eLearning process, we must then establish individual training plans and timetables. We will also need to create a means for internal staff to monitor trainees' progress and provide continuing contact through refresher lessons and in-house seminars.
- g. *Evaluate the results.* Evaluating the results of training is not an easy process. It should begin by instituting a post-training assessment and comparing it to the initial assessment to determine if progress has taken place. Following up, we will need a mechanism for using

periodic assessments and on-the-job evaluation.

- h. *Reevaluate and repeat steps 'a' through 'g' as needed.* The principles of continuous improvement stress the need for ongoing monitoring activity. The process must be repeated over and over again to ensure that we maintain and improve on the gains we have already made.

We should find that we have added significant value to accomplishing the organization's objectives if we conduct the strategy development and operational implementation processes effectively. We will have clearly met our objectives with a workable program that clearly produces results and is proven to be cost effective.

6. Additional Considerations

There are a number of other very important areas that our training strategy should address and to which we can add value, in addition to those already mentioned. For many of these, we need a somewhat different approach. Often, this approach is a hybrid, somewhere between training and communication, where the lines tend to blur. We will look at some of these in this section.

- a. *Preparing for Change.* Let's say we are going to implement a new employee performance review process involving some specialized software. How do we ensure that our employees know how to use the new system and meet its objectives in the designated time frame? This is a topic for both training and communication. Training is needed to learn how to use the programs and communication is required to alert employees and managers to the requirements and timetable for submission. Using a full system such as the **eLeaP** Learning Management System, it is possible to combine both the training and its associated requirements into one system, where courseware and communication are included in one package.
- b. *Knowledge Sharing.* Many organizations have a central database that uses specialized software for collaboration, such as MS Sharepoint or Documentum. The learning management system can provide training for the software as well as providing continuing help by activating search capability within the LMS. It is entirely possible that we will see a dedicated search processes through LMS' which are linked to internal and external databases.

It's of great concern today that most of the information possessed by knowledge workers is never documented at all, stored in the inaccessible minds and experience of senior workers. The challenge is to make that information visible to others in the organization. In

situations where there is an aging workforce, with many knowledge workers considering retirement, we must have a method of passing on critical information to newer employees. With simplified authoring tools, it will be entirely possible for subject matter experts to create their own courses and post them to the LMS. Those following them at the job will thus have an organized and easy to use system for learning required processes, or just for gaining further information on a particular subject.

- c. *Learning to do more with less.* It seems we are continually facing a down-sizing dilemma: How do we manage extensive processes with fewer employees? There's no simple answer that fits all circumstances, but we know that the slack created by a reduction in staff can be offset by new processes and often by new computerized systems. This is a specialized form of training, directed at a specific task common only to those within a specific group. Again, with an effective LMS, content can be easily delivered to specific groups and reports can be generated that shows the progress of training to the responsible managers.

7. Information is Empowerment

Change is accelerating. Change increasingly affects our world, both on and off the job. Undoubtedly, organizations tend to feel the pain of change most severely, even though change is an integral part of the nature of business today. Organizations, therefore, have a stake in providing information to employees in an organized and comprehensive manner. Training, especially eLearning, is a particularly good way to meet these needs.

The strategy of empowerment through the learning and development process becomes a defining force in "enlightened" organizations. Through training and development, employees feel valued and gain confidence in their ability to make the right choices. Empowerment does not imply doing whatever one wants to do; it is a way of encouraging achievement. It encourages teamwork and creates a strongly positive working environment that supports the organization's objectives.

According to one training and development observer, "The real essence of empowerment comes from releasing the knowledge, experience and motivational power that is already in people, but is being underutilized." (Francie Terblanche, "Empowerment Through Training, Development And Change"). The strategy and the promise of training as a motivating factor is rarely acknowledged; nevertheless, training fills a long sought after gap in developing stronger incentives for higher levels of performance.

Summary

In this white paper, we examined the intended purpose of training including productivity, quality, empowerment, alignment, teamwork and, importantly, professional development. We also examined how training supports reductions in liability and risk, and can be used to communicate business conduct and social responsibility requirements for the organization.

The discussion then moved to ways of calculating value and increasing value through eLearning. We followed this with a detailed look at developing strategies for training and development, along with some additional considerations in the development of training strategy. We concluded with a section on how training can be used to empower employees.

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