

SHOPPERS FIGHTS BACK

COM DEV'S SPACE RACE

CANADIAN BUSINESS

How to stop worrying
and love the loonie **P.18**

Global recovery and the
East Asian boom **P.28**

The new consumer class
shaking up retail **P.127**

CANADA'S BUSINESS NEWSMAGAZINE

OCT 27-NOV 9, 2003

MBA GUIDE 2003

FIND THE
SCHOOL
THAT'S
RIGHT
FOR YOU



canadianbusiness.com

\$4.25



Publications Mail Agreement 40070230

LEFT TO RIGHT
Anna Algard, Sauder
Sheryl Scully, Dalhousie
Stewart Hayes, Rotman

Cult of accountability

DOES EMPLOYEE TRAINING PAY OFF? ACCOUNTING TECHNIQUES AND SCIENCE-INSPIRED METRICS EVALUATE RETURN ON INVESTMENT

BY SARAH STAPLES

Measuring the return on a stock is easy enough: simply divide the amount it gained (or lost) by the price you paid. For CIBC senior executive Donna MacCandlish, however, calculating return on investment is a tad more daunting: as vice-president of financial-solutions support within the bank's wealth-management division, MacCandlish (*right*) leads a team of 50 people who design and deliver training programs for various professionals. "It's very difficult to put a value on your business when the assets are truly the people and what's in their heads," she says.

How, in fact, can companies like CIBC account for improvement in the performance of staffers who upgrade their skills? There's no easy answer. Though professional training was often derided in the past as an executive perk, the need for it is questioned by few people these days. It has become a strategic must in an age when processor speeds have a nasty habit of doubling every 18 months, information is king, complex mergers are commonplace and the competition is decidedly global. It's estimated that last year American companies alone spent US\$70 billion, or about 2% of payroll, on everything from web-based software to classroom courses and weekend learning getaways. Some US\$20 billion of that was spent on IT courses. Anecdotal evidence suggests proportionately hefty spending here.

The problem is, while billions are being poured into professional education, the human-resource or training execs who typically oversee the expenditure have few tools to prove, measurably and unequivocally, that this nebulous thing called learning has stuck. "The goal, ultimately, is to quantify how much a company's investment in people boosts the bottom line," says Allan Bailey, CEO of Learning Designs Online, a training consulting firm based in Mississauga, Ont. "It's all coming from a heightened awareness of the need to monitor more closely what [trainers] are doing, and how they're doing it."

That is causing knowledge-driven U.S. companies, along with a select few in Canada, to seek help. In a trend known by its catchphrase, return on investment, or ROI, accounting techniques



TRAINING

and other quasi-scientific methods are fast being adapted to evaluate staff improvement. Inventing science-inspired metrics to improve training evaluation has blossomed into an industry unto itself, complete with best-selling books, pricey certification courses (to teach trainers how to train properly), and in Canada, a new entity called the Canadian ROI Network, which launched this spring. There is even an anointed champion of the movement, former-banker-turned-consultant Jack Phillips. A veritable Jack Welch of training, Phillips jets to speaking engagements and meetings with clients that include the CIA and Internal Revenue Service, FedEx, Lockheed Martin, Motorola and even Harley-Davidson.

Phillips's particular method of deducing ROI, dubbed, logically enough, the ROI Methodology, essentially converts the results of training into monetary values, and then plugs these into two familiar mathematical equations: benefit-cost ratio, or BCR, expresses the total benefits as a ratio of the total costs; ROI expresses the net program benefits as a percentage of the total cost of the program ($\text{ROI} = \text{benefits} \div \text{costs} \times 100\%$).

The key is to identify possible tangible benefits—such as increased sales leads—off the top, and then, after the training course ends, establish their link to the learning. That is done through a lengthy and hairsplitting evaluation involving focus groups, months of follow-up questionnaires, trend-line analyses and “controlled” studies, where employees are split into two groups, but only one receives training so the results can be compared.

Before any final calculation, the impact of learning has to be isolated from gains in revenue, performance or productivity that might have accrued because of outside circumstances—seasonal sales variation, for instance. And ROI acolytes are instructed to plug only the most conservative data into their formulas. Intangible benefits—such as increased job satisfaction, organizational commitment, teamwork and customer service—are excluded outright from the evaluation.

Phillips's formulas have taken root in at least 1,000 private and public-sector organizations in 40 countries. Some 2,000 people have taken the five-day, US\$3,000 certification course conducted by Jack and Patti Phillips (www.jackphillipscenter.com). Learning Designs Online recently agreed to become Phillips's exclusive Canadian partner, and offers certification in his

method. Allan Bailey, who runs Learning Designs with his wife, educational psychologist Lynette Gillis, admits the method's popularity bears more than passing resemblance to the cultish über-phenomenon Six Sigma—a statistics-driven management philosophy conceived by Motorola in the 1980s and adopted ever since by everyone from General Electric to, more recently, Air Canada. “I guess you could say it's a cult,” says Bailey. “The cult is accountability.”

ROI calculations, he argues, are simple, reproducible and conservative—all attractive features for senior human-resource and training execs, many of whom continue to have to defend their budgets against doubters. “They always say trainers have a place at the top levels, but they're not in the boardroom,” says Bailey. “Where we're finding the greatest traction is where the sharp pencils are—it's the hard-nosed business people who are attracted to this, the ones who look for tangible results.”

“The goal is to quantify how much a company's investment in people boosts the bottom line,” says Allan Bailey

CIBC's MacCandlish, for example, operates her multimillion-dollar training group as a business within a business: other divisions of the bank are billed by her staff for delivery of web- and classroom-based courses. She feels no pressure to justify her budgets, she stresses; but she *was* intrigued by the prospect of being able to single out more, or less, effective courses from among her division's offerings. “It allows you to measure which services are adding value and which you could recalibrate or drop,” says MacCandlish. “We've taken a big leap of faith saying that it has been worth spending a significant amount of money in training our sales force. I want to be able to say that if we develop a half-day workshop, what the costs of developing that workshop are, and the benefits.”

MacCandlish's team is now conducting a small pilot project, based on a measurement program introduced by Learning Designs, to test the Phillips methodology. About 100 CIBC financial advisers across

Canada will be asked to sit through a quiz to diagnose their baseline knowledge of company pension plans, before taking a half-day workshop showing them how to advise clients on the subject. Afterward, they'll complete detailed surveys designed as one-on-one interviews. Those surveys won't be “smile sheets”—industry code for questionnaires that ask for feedback. “We need to move beyond that,” MacCandlish explains. “What you get is an immediate reaction of the value at that moment in time. It's nice that you liked us, but how much did you actually retain? Did you actually practically apply that knowledge? And what was the business impact: did you build more business or generate more leads?”

When the pilot concludes at year's end, trainers will be in a position to compare survey results with hard data on new pension-related sales generated over several months, to identify what percentage of new business was attributable to the workshop. And MacCandlish will have enough data to gauge the usefulness of some of Phillips's ROI techniques.

Meanwhile, Lynette Gillis of Learning Designs has agreed to chair the Canadian ROI Network, a discussion group for members of the Canadian Society for Training and Development. The focus won't be exclusively on Phillips's doctrine, but on the broader theme of applying more rigorous standards to evaluate training, says Lynn Johnston, executive director of the society. “Employers need to be able to deliver the training faster than ever before, have it stick and get people back on their jobs sooner,” Johnston says. “Just-in-time learning—in other words, what you need to know and when you need to know it—there's a return on investment.”

The upshot of ROI is that it adds as much as 5% to the cost of training, says Johnston. But Bailey argues there may be greater penalties for lost opportunity. A recent ranking of the 100 highest-performing U.S. companies, done by *Training Magazine*, found that firms at the top of the list invest more than US\$6 billion, or an average of 4% of payroll, in workforce development—double the industry norm. Fully 67% of the top performers measure some form of ROI, compared to only 20% of underperforming peers. Those results suggest “training has become closer to the heartbeat of a company,” Bailey argues. “The reality is, some companies will live or die by how fast their people can get up to speed and stay there.”

