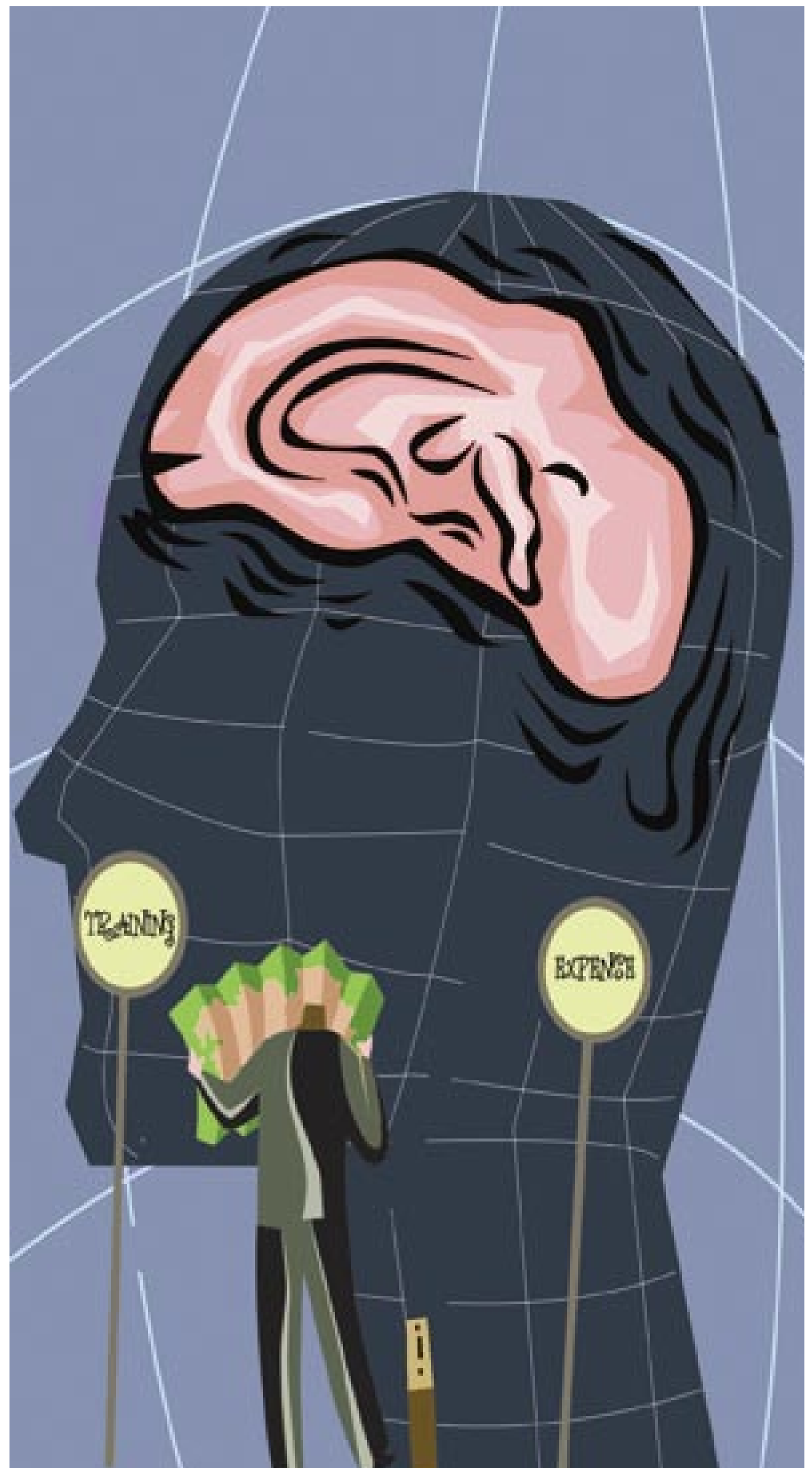
distribution

Evaluating Field Development Activities:

A Practical Road Map to ROI

MEMBERS OF LIMRA'S FIELD DEVELOPMENT AND PERFORMANCE COMMITTEE (FDPC) ROI TASK FORCE: Jim Johnson, ING U.S. Financial Services, Chair; Michael Catania, Bankers Life and Casualty; Delores Freitag, LIMRA International; Mark Gmach, Northwestern Mutual; Bruce Hamstra, LIMRA International; Don McLaughlin, Principal Financial Group, and Faye Williamson, consultant, are jointly responsible for coauthoring this article.



Financial services companies have long recognized the need for a trained sales force, and have invested a lot of money, resources, and capacity in providing a wide variety of programs designed to make their producers more productive.

Some companies are beginning to see highly developed sales training as a competitive advantage and they recognize that learning is central to continued business success. But many other companies continue to view sales training as an expense — part of the cost of doing business.

When sales training is considered an expense, it can become an easy target for expense reductions. The people responsible for monitoring expenses often view producer training as separate from their core business. Training managers can point out that in theory the better trained the producer, the more revenue he or she will generate for the company. Still, this argument often falls on deaf ears because it can only be backed up with anecdotal evidence. Members of the Field Development and Performance Committee (FDPC) of LIMRA have grappled with this issue and concluded that producer-training units need to identify a method to obtain hard statistical evidence of the effectiveness of their training programs. The committee objective then was to develop a report outlining the sales training needs and how corporate investment in producer training is truly an investment in the business — not an expense to the business.

When it comes to training and development, proving that the training programs add value to the bottom line of the company is critical and urgent — in fact, it may be one of the most pressing issues the training director faces.

This article is derived from the FDPC's final report, which reviews the return on investment (ROI) concept as it relates to training (in general) and producer training (specifically). It also reviews training literature, summarizes the findings of a LIMRA survey, and reports on extended conversations with some of the survey participants.

RETURN ON INVESTMENT IN TRAINING Any discussion of ROI should start with a review of the history of training measurement. In 1975 Donald Kirkpatrick identified four levels of evaluation to help quantify student experiences and any subsequent performance changes. This classic evaluation model — the Kirkpatrick Model — is simple, practical, objective, and widely known and accepted. It consists of:

1. Student reaction
2. Knowledge transfer
3. Behavioral change
4. Business results

Jack Phillips expanded the Kirkpatrick Model into six levels, paying special attention to the importance of determining the financial ROI of training. Phillips' six levels are (in sequential order):

1. *Reaction, satisfaction* Measures participant satisfaction and planned action
2. *Learning* Measures changes in knowledge and skills
3. *Application and implementation* Measures changes in on-the-job performance
4. *Business impact* Measures changes in business impact variables
5. *Return on investment* Compares program benefits to the costs
6. *Intangible measures* Identifies things that add value to the training effort, but cannot be measured.

The Phillips model can be used to identify a variety of learning impacts. For example, Level 1 (reaction and satisfaction) can answer questions such as:

- Did learners feel they personally benefited from the training?
- How motivated are learners relative to the difficulties posed by the training?
- Did learners find the learning experience emotionally satisfying?

Data gathered from this level's evaluation can be valuable for:

- Marketing the program, especially through word of mouth and testimonials
- Identifying unmotivated learners
- Recognizing and defusing potential frustrations of learners

Level 2 (learning) can answer questions such as "What specific facts, concepts, skills, attitudes, and beliefs did learners acquire?" Data gathered from Level 2 evaluations can be valuable when:

- Job performance depends on the specific content measured.
- Generic skills and knowledge may be applied in many different situations.
- Meaningful yet economical evaluation is required.

Level 3 (Application) can answer questions such as "What specific facts, concepts, skills, attitudes, and beliefs did learners apply?" Data from Level 3 evaluations can be valuable when:

- Job performance depends on the specific content measured.
- Generic skills and knowledge may be applied in many different situations.
- Meaningful yet economical evaluation is required.

Level 4 (business impact) can answer questions such as "Did the training accomplish its original business and organizational goals?" and "What is the rate of return on money invested in learning?" Data from Level 4 evaluations can be useful when:

- Deciding among learning and other solutions to problems
- Documenting the benefits of learning to tight-fisted, skeptical executives
- Aligning training with basic business goals

Level 5 (return on investment) can answer the question "What is the numerical percent increase in return from doing a project?"

Level 6 (intangible measures) can answer questions such as "What nonquantifiable impact does a program have?" and "How does the program impact corporate values?" Data from Level 6 evaluations can be valuable when:

- It is hard to calculate ROI itself.
- More justification for a program is needed in addition to numbers.
- Decision-makers are interested in soft benefits as well as hard benefits.

CURRENT EVALUATION PRACTICES During 2003, LIMRA's FDPC sponsored a survey of life insurance companies — Training Evaluation Practices — on whether they conducted evaluations of their training programs and if so, what level of evaluation was used.

Twenty-six companies out of 81 responded to the survey. All but one of the companies offer field training programs for producers, and most also have training programs for agency heads and second-line managers. Eighty-eight percent of the responding companies evaluate their training courses on at least one of the six levels discussed in this article.

LEVELS OF EVALUATION Level 1 (participant reactions and satisfaction) is the most common level of evaluation and is used by almost all respondents. Level 1 and Level 2 (learning or knowledge gained) appear to be used more often because they are easier to collect data about than other measures. Only about half the responding companies measure Level 3 (application or implementation) and Level 4 (business impact) results. Fewer than 10 percent of the responding companies measure Level 5 (financial ROI) Level 6 (intangible measures — identify things that add value to the training effort, but could not be measured) was not used in the survey.

When measuring Level 3 and above, the most common measure is production (e.g., first-year commissions, premium, etc.) followed by the number of new sales. Other measures used include producer turnover, customer satisfaction, and persistency. Since few companies evaluate training at the ROI level, fewer than 1 in 4 measure training costs.

Use of evaluation information Information on the effectiveness of training from evaluations is used most frequently to change the content and/or delivery of the training program. The information is also used to get improved management buy-in for training. Some companies have used the information to adjust their goals and to increase sales results.

Reasons for not evaluating training The primary reason companies do not evaluate training is the inability to obtain proper information from company databases. Other reasons include a lack of time and lack of knowledge of how to do a proper evaluation.

Larger companies are more likely to conduct training evaluations than smaller companies. Of those companies conducting evaluations, larger companies are no more likely than small companies to use Level 3, 4, 5, or 6 measures.

Observations Companies consider the lack of effective evaluation of training programs to be one of the greatest weaknesses of their training programs. While most companies use Level 1 evaluation techniques, very few go beyond that level.

Companies must improve their evaluation system/process. To obtain long-term results — sustained growth and development — evaluation must go well beyond Level 1.

ROI is often looked to by many corporations as the answer. There are a large number of issues in ROI that must be understood and implemented for a company to evaluate its training activities, especially if ROI is used as the basis for making decisions regarding program funding, budget setting, etc.

The following sections begin to address these issues and should be considered a starting point for anyone interested in applying these concepts to training evaluation.

ISSUES IN USING ROI The ROI universe involves viewing ROI from multiple perspectives — taking into account all the financial and nonfinancial effects (levels 1-6) of training. Creating an ROI universe means factoring in all key stakeholder positions and considering many variables.

An important part of creating an ROI universe is developing a strategy that explicitly defines an evaluation model based on current conditions within the company. The evaluation strategy must link strategic and tactical plans across the enterprise.

ROI will be perceived in different ways, depending on the stakeholder and his or her perspective. For example, the time taken away from production for training courses may generate a conflict between the training manager and the sales manager. The sales manager may be under pressure to focus on immediate results, and as a result may view training as a costly loss of production time. The training manager, however, without the short-term production pressure, may take a longer-term perspective and reason that the time away from production will result in increased long-term sales volume. Both positions are valid and may require compromises.

Because each stakeholder feels a need for measurements that support his or her objectives, reaching a consensus on measurement content and methods may prove difficult. Nonetheless, without a common set of expectations, the results will have little value.

The ROI universe should also consider items such as:

• An understandable evaluation philosophy and model

• Consideration of company governance and standards

• Sensitivity to stakeholder roles and responsibilities

• Goals and objectives for the duration of the evaluation period, showing both the short- and long-term impact in terms of hard and soft dollars.

• A clear identification of resource requirements, such as money, people, space, and equipment

• An outline of key deliverables and the intermediate milestones leading up to their delivery

Ultimately, an effective ROI universe will:

• Establish commitment and agreement regarding what factors are going to be measured and why

• Identify how these factors and variables will be measured

• Use a framework that is flexible to each issue and/or initiative, and is based on enterprisewide strategic and tactical objectives

> Corporate investment in producer training is truly an investment in the business — not an expense to the business.

MEASURING INTANGIBLES The mathematical formula for defining ROI, while extremely valuable, ignores factors that cannot be put into a formula. For example, to measure ROI by comparing only the cost in time and materials with increased productivity ignores equally important but more intangible and hard-to-measure factors, such as:

• Increased job satisfaction

• Increased retention

• Improved teamwork

• Improved customer service

• Improved sales practices and market conduct

• Reduced complaints

• Reduced conflicts

• Lowered stress levels

Guidelines for measuring ROI:

• When a higher-level evaluation is conducted, data must be collected at the lower levels.

• When an evaluation is planned for a higher level, the previous level or evaluation need not be comprehensive.

• When collecting and analyzing data, use only the most credible sources.

• When analyzing data, select the most conservative findings for calculations.

• At least one method must be used to isolate the effects of the solution.

• If no improvement data are available for a population or from a specific source, it is assumed that little or no improvement occurred.

• Estimates of improvements should be adjusted for the potential error of the estimate.

• Extreme data items and unsupported claims should not be used in the ROI calculations.

• Only the first year of benefits (annual) should be used in the ROI analysis of short-term solutions.

• Costs of a solution, project, or program should be fully loaded for ROI analysis.

• The ROI findings should be overcommunicated across departments, as well as to attendees.

Drawbacks to ROI:

• ROI is a traditional financial measure based on historic data. As such ROI is a backward-looking metric that yields no insights into how to improve business results in the future.

• ROI may be used primarily for self-justification rather than for continuous improvement.

• Many senior executives don't care about ROI. They may tend to act on their instincts, rather than on data.

• ROI is an imperfect science that often involves making educated guesses at potential savings and gains. Senior executives are aware of this, and know that many variables can't be captured by a formula.

• ROI "guesstimates" are often a cop-out for much tougher measurements of actual results.

MEASURING TRAINING ROI Training ROI is defined as a measure of the monetary benefits obtained by an organization over a specified time period in return for a given investment in a training program. In other words, ROI is the extent to which the benefits (outputs) of training exceed the costs (inputs). Training evaluation is a good idea if for no other reason than to determine the participants' immediate response to the program. Still, for the training program to be considered an important asset of the company, evaluation must go beyond immediate responses to a positive impact on the company's bottom line.

The simple ROI formula is:

$$\frac{\text{Net Program Benefits}}{\text{Program Costs}} \times 100\% = \text{ROI}$$

For example, if net benefits are \$230,000 and costs are \$88,500 for doing a program, the ROI is:

$$\frac{\$230{,}000}{\$88{,}500} \times 100\% = 2.59 \times 100\% = 259\%$$

The six steps in obtaining ROI typically involve:

1. Identifying the program benefits (Level 4)
2. Identifying all of the intangible benefits (Level 6)
3. Converting those benefits to monetary value
4. Calculating total program costs (direct and indirect)
5. Identifying all of the intangible benefits
6. Comparing the dollar benefits to the total costs

Used properly, the ROI process can help:

• Demonstrate how selected programs contributed to business results

• Earn respect and support from senior management

• Improve the training and learning processes

• Identify inefficient programs that need to be redesigned or eliminated

• Identify successful programs that can be expanded

The wide acceptance of ROI outcomes may in part be due to the broad use of the ROI model by practitioners who design or implement solutions, by clients and senior managers who request and approve programs and solutions, and by researchers and evaluators who validate programs and processes by implementing ROI.

WHEN ROI IS APPROPRIATE Not all situations call for a full-scale ROI evaluation process. In some cases a simple Level 1 evaluation may be satisfactory. In budgetary or corporate goal-setting situations, however, a comprehensive ROI analysis may be required.

If you do not have control over the factors that make up the project or effort being evaluated, then there may not be any need to measure ROI, if it even exists. For example, if compliance training is required by the regulators, it is a requirement that must be met, whether it produces a return on investment or not.

Some questions that need to be addressed in determining whether to measure ROI include:

• Does the program to be evaluated have a sufficient life cycle to make the effort worthwhile?

• Is the program linked to the company's strategic objectives?

• How will this information impact the organization?

• Has a comprehensive needs assessment been conducted?

• Can the results be used to make changes, if necessary? What conditions are necessary for the changes to be effective?

• Does the organization have enough control over the elements of the project to produce a valid assessment?

• Do all participants understand and accept the objectives of the program and the assessment?

• Do senior management and key managers buy in to the process, and are they willing to implement changes based on the findings of the evaluation?

• Are adequate, credible data-gathering systems in place?

• Are the evaluators willing to be objective and eliminate extreme data items and unsupported claims?

• Is the organization willing to allocate sufficient time and resources (people and systems) to accomplish the evaluation?

• Is there general agreement on the plan of approach, items to be measured, scope of the evaluation, and timelines for the process?

Some conditions that may render the process ineffective:

• If senior management is not committed to the project, results may be ignored or disregarded, making the process less valuable.

• If the evaluation does not result in positive changes where appropriate, participants may be reluctant to participate in future projects.

• If insufficient time or resources are allocated to the project, the results are likely to be invalid.

• If credible data is not available, credible results cannot be obtained.

CONCLUSION The above ideas are intended to be a starting point for anyone interested in applying not only a more quantified approach to evaluating training activities but also exploring the many nonquantified variables critical to determining the effectiveness of training activities. The critical factor in undertaking any such process is that specific, conscious decisions must be made regarding what will and will not be done to analyze the financial viability of any development program.

EDITOR'S NOTE: *THE FDPC will be presenting a workshop titled "Training ROI — Contributing to the Bottom Line" on February 27, 2005, at LIMRA's Distribution Conference, to be held at the Sheraton Hotel, New Orleans, Louisiana. Presentations will cover the general concepts of ROI and how several companies are using this process to measure the contribution of their training efforts to marketing profitability.*