OPPORTUNITIES IN TALENT DEVELOPMENT:

Leveraging Market Economics to Manage Macro Learning Investment

Joe Pollard

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Executive Summary

The point of measuring the return on ANY investment is to ensure its yield is more than the cost of capital plus some defined level of profit. In Learning this is difficult to do because each skill-developing experience is driving to different outcomes and the resources required to define, collect, and measure those outcomes is overwhelming to the point of being impractical. But what if there was a way to ensure Learning was unlocking a positive return at a specific level of investment? And what if by uncovering that level of investment we could not only give confidence to executives that Learning was providing a positive return, but also give them a specific investment level to target each fiscal year?

So should Learning be excused from typical scrutiny around ROI in a business setting?

Of course not…in fact because its calculation at scale is so unwieldy and open to interpretation, there should be MORE scrutiny around its usage. However, the traditional bottoms-up approach to calculating macro-level ROI (let's say greater than 100 assets in a curriculum or course catalog) is problematic and not as effective. Learning is a process that builds upon itself over time, in concert with other experiences, and not one neatly tied to current quarter financial reporting. Therefore, we need distinctly different methods to evaluate macro and micro Learning investments.

What value do our traditional tools for measuring the ROI in Learning hold?

At the course level, conventional Learning measurement techniques are useful in spot checking major investments and/or areas where ROI is suspected to fall below internal hurdle rates. The key is limiting the scope of examined content to minimize the variables impacting measured outcomes and the resources necessary to conduct the assessment. These tools become akin to a "Special Forces" team sent in to tackle suspected areas of conflict. They should be used selectively and within a controlled capacity.

But there is still the problem of justifying our investment in Learning.

There are few leaders in today's business environment unwilling to concede the fact an organization should invest SOME amount in formal Learning opportunities. Those in the Learning function trying to justify ALL investment are attacking the theoretical straw man. Instead we should shift to creating a vivid perspective around the prescribed level & profile of the investment.

In creating this perspective, the value isn't in imaginative measurement but rather creating an investment environment such that Learning funds are deployed in scarcity. Ultimately, competition for funds will drive lower ROI yielding assets out of the system. In other words, let the market decide. The role of the Learning function then becomes to increase visibility and the pace of iteration such that the market makes decisions based on rich, accurate information over and over again.

Unfortunately, in many organizations, this isn't the case. The emphasis is on directing investment to anything with a perceived positive ROI and executive support instead of asking, "*How much* should we invest overall?" We pour through alternatives and in the end never truly answer the second question. We wind up investing in everything that can be "justified" with heavily assumption-based business cases until somebody in leadership cuts us off. And we generally engage in binge & purge cyclical behavior with years of opulence followed regularly by those of austerity.

Most importantly, prioritization is virtually non-existent. Everything is important and because we haven't established a clear and firm cut line, everything gets in. The scrutiny intended to be applied through ROI measurement rarely leads to the exclusion of a proposed Learning experience. And it becomes nearly impossible to say with confidence that the entirety of our Learning investment is supporting macro-level business outcomes.

The following analysis demonstrates why this shift in mentality is so important for the Learning function to support the profitability goals of the broader business. More significantly, it describes in detail ways to better promote the kind of market-based Learning economy that facilitates healthy spend. And finally, it explores opportunities to tie Learning investment to universal business metrics that ultimately enable our Learning function to objectively support the level of investment needed

Introduction

What is the return on investment in the Learning portion of our Talent strategy? In previous work published in the 2006 book *Return on Learning: Training for High Performance at Accenture*, Accenture's Learning team conducted exhaustive academic research to conclude our return on each non-payroll dollar invested in Learning was 353%.[1] This was exceedingly relevant at a time when following a market downturn, the organization was asked to justify the annual investment made to train employees. In retrospect, there are additional relevant points that can significantly further our understanding and accuracy around training investment, the relevancy of which continues to grow as Accenture's investment moves to consistently eclipse the annual USD 1 billion mark.

At the time, this was the most comprehensive and scientifically sound exploration into the literal calculation of the ROI in Learning. And still its results exposed the inherent issues. If the return truly was 353%, why weren't we plunging every available dollar into Learning? Which courses were returning 353%...and which were returning more and which less? Assuming the answer wasn't "every available dollar", how much SHOULD we have been investing in Learning?

Let's start with the standard ROI equation:

$$ROI = \frac{(BENEFIT - COST)}{COST}$$

Figure 1: Traditional ROI Equation

Most of our challenges start with quantifying the benefit. Specific to macro-level Learning investment, there are three primary issues plaguing us:

1) Pragmatism
The assumptions required to quantify the benefit of Learning are so extensive we can use them to shape any predetermined solution. Along with simply building market relevant skills, training can potentially influence the business through positive impacts on retention, talent attraction, tangential performance enhancements, etc. There is enough variance in what could reasonably be used in the equation that any outcome can and should be met with acute skepticism.

2) Actionability
The ROI measurement met the need of the previous generation to justify the overall investment in training. However, the metric represents the AVERAGE return across ALL dollars invested. At the macro level, it doesn't discriminate between individual experiences. Obviously, some Learning assets are more valuable than others. And undoubtedly some assets yield a negative return. In order to make the ROI calculation useful, we would need to continuously measure and calculate it at the asset-level for every Learning asset and potentially multiple times for different audiences.

3) Scalability
IF we could solve the practical measurement problem and IF we could make it actionable at the Learning asset level, the next challenge would to automate and scale the practice across the potentially tens of thousands of assets in a given curriculum. Each Learning asset provides multiple types of benefits in many different combinations (consider the objectives of a Sales course vs. a

[1]Vanthournout, Donald, et al. *Return on Learning: Training for High Performance at Accenture*. 2006. p. 54

Leadership Development course vs. technical training building development skills on a software platform). Each asset is routinely being updated to address the most up-to-date topics in the field. Methods to normalize for content changes, additions/subtractions, delivery channel shifts, etc. would need to be updated on a continuous basis to provide meaningful result. And the benefits of some experiences wouldn't fully materialize for years after the investment is made. Ironically, the ROI of investing in the infrastructure to measure & report the ROI on Learning across the entire curricula frequently isn't positive itself.

Therefore what is the answer to, "What is the ROI in Learning?" If we accept that WHATEVER it may be, there are pockets where it is positive and at a level that exceeds our internal investment hurdle rate, then at a macro level we are asking the wrong question. Instead we should ask ourselves "How much SHOULD we invest in training?" or even more helpful, "At what point do we STOP investing in training?"

The solution to this quandary allows us to simplify the search. We look to the market to decide. The principles of free market economics espoused by Adam Smith in his treatise *The Wealth of Nations* exposes the justification this would yield in our search:

> "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."[2]

With self-interested parties, in the aggregate and over time we would expect to see a natural break at relative levels of investment based on the inherent marginal costs and benefits being incurred. In other words, the point at which we should cease investment is at the intersection where the marginal benefit of the NEXT training dollar meets the marginal cost. *Figure 1-1* demonstrates where this point would theoretically exist.

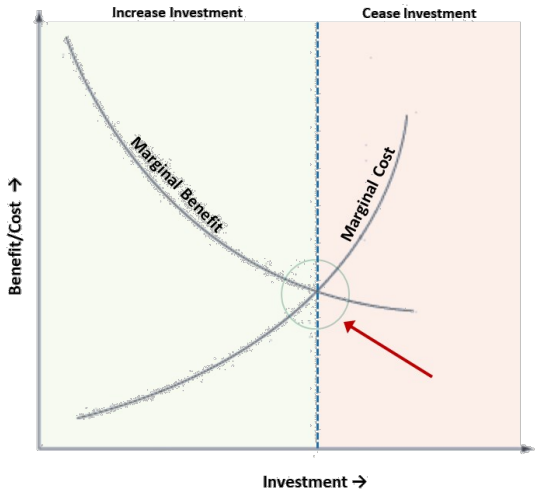

Figure 2: Marginal Cost/Benefit Curve

The new challenge to address is then to: a) identify this intersection and b) tie it to variables upon which it is dependent. The latter will allow us to project forward the optimal level of investment for a given level of the dependent variable(s).

Setting the Stage for a Free Market Learning Economy

Before we can address our new challenges, we must confirm the financial ecosystem within which we operate our Learning function espouses to free market economics. In such an ecosystem, there are three main settings we must ensure are present. The first involves the demand/supply should be relatively elastic. Most directly, as the cost of an individual Learning experience goes up/down, there should be a corresponding shift in demand and/or supply.

Secondly, our ecosystem should be Pareto-efficient; meaning no individual or group can be made better off without making another individual or group worse off. In some cases we can substitute "individual or group" for "course", "content", or however else we want to define discrete units of Learning vehicles. The objective is to force a prioritization of investment so that business leaders must make an informed decision among alternatives.

Lastly, we need to provide visibility into all of the above. If business leaders have elastic demand for a product and understand prioritization is

[2]Smith, Adam. *Wealth of Nations, Book I, Chapter II*. 1776. p. 26-27.

necessary but have no ability to compare alternatives in like terms; we've failed. Most commonly this is solved through internal chargeback models (i.e., tuition), a catalog listing available alternatives (housed within the LMS), and a person or team within the Learning function that can translate details associated with various options.

Reinforcing Reasonableness in Expectations

There are a few common misconceptions that must be corrected as we move forward in this exploration. They don't always directly impact the evaluation of ROI, but they can cause erroneous decision-making if they aren't absorbed. And they can cause a loss of confidence in what is otherwise an efficient market if not properly accounted for.

The first is the wrongful assumption that Learning investment is executed chronologically in a straight line. Generally, there is a good degree of seasonal cyclicality tied to investment behavior. This can be affected by the timing of fiscal year start/ends, local holiday schedules, one-time events, etc. But rarely is an organization outlaying $1/12^{th}$ of their investment each month. If Leaders don't recognize this, they will incorrectly evaluate the health of their remaining investment funds at any point in the year.

The second is that virtual/online Learning is "free". Yes, the delivery vehicle will certainly impact the investment profile. And sure, if we don't include the cost of faculty & participants' time associated with virtual/online training then it may appear "free". But when comparing alternatives, it's imperative to include reasonable opportunity costs if a fair comparison against alternatives is to be made. Including payroll costs is a conventional solution; however, the point must be made that these is no such thing as a free lunch in Learning. All alternatives carry a cost.

Lastly, no two workforces or geographies are the same. Growth or contraction isolated along one of these aspects can significantly impact the investment profile even if on average there is net no-change across the organization. This simply means we need to pay attention to the dynamics of our always evolving workforce to determine potential impact on our Learning investment.

Identifying a Positive ROI

Once we've done our best to create a market economy for Learning products and normalized expectations, it's time to take the next step. This means tying the Learning investment to something that will allow us to deduce a positive ROI. This suggestion isn't anything revolutionary, but if you're dozing off, now is the time to wake up and pay attention. Two of the most immediate ways to draw inference between Learning investment and a positive ROI are an organization's Net Revenue and Deployed Payroll.

Tying Learning investment to Net Revenues provides probably the most direct path to corroborating a positive ROI, especially in more service-oriented businesses. The logic goes that if Learning is enabling returns in excess of the business' internal hurdle rate, we should see a gap opening between Net Revenues and Learning investment. In other words, over time Learning should be acting as a net margin contributor. The easiest way to depict this numerically is to calculate Learning investment as a percentage of Net Revenues:

$$\% = \frac{\textbf{Total Learning Investment}}{\textbf{Net Revenues}}$$

Figure 3: Learning Investment as a % of Net Revenues

Over time, if Learning is operating as a net margin contributor and thus generating a positive ROI this percentage should consistently be declining. Using some nice round numbers to demonstrate how we would expect this to play out in firms of different maturity/growth stages:

In an organization experiencing consistent growth, we would expect both net revenues and Learning Investment to be increasing year-over-year (YoY). However, we would expect Learning investment to grow more slowly than Net Revenues if we we're experiencing a positive ROI on Learning. Therefore mathematically our Learning Investment as a percentage of net revenue would decrease as shown in the far-right column below.

Figure 5-1: Normal Growth Organization

Year	Net Revenue	Learning Investment	as % of NR
0	1,000,000	20,000	2.0%
1	1,200,000	22,500	1.9%
2	1,400,000	25,000	1.8%
3	1,600,000	27,500	1.7%

Now let's imagine a firm experiencing zero revenue growth. For Learning to demonstrate a positive ROI, over time we would need to see a declining level of investment. This decline coupled with flat revenues would also result in a declining % of investment compared to revenue over time.

Figure 5-2: Flat Revenue

Year	Net Revenue	Learning Investment	as % of NR
0	1,000,000	20,000	2.0%
1	1,000,000	19,000	1.9%
2	1,000,000	18,000	1.8%
3	1,000,000	17,000	1.7%

And finally, a firm experiencing slight growth in revenue could confirm a positive ROI by holding Learning investment levels steady.

Figure 5-3: Steady Training Investment

Year	Net Revenue	Learning Investment	as % of NR
0	1,000,000	20,000	2.0%
1	1,050,000	20,000	1.9%
2	1,100,000	20,000	1.8%
3	1,150,000	20,000	1.7%

These examples are exaggerated to more clearly illustrate the point. There may be some years where an intentional injection of investment in Learning is made to jumpstart growth for example. But in the long run, if we were to normalize for atypical investment behaviors, we should see the patterns above emerge. If there is a consistent trend in the other direction or the investment as a % of Net Revenue was flat over time it would warrant further analysis into the benefits of the organization's curricula.

The angle with regards to deployed payroll is nearly identical. We depict our Learning investment as a percentage of deployed payroll.

$$\% = \frac{\textbf{Total Learning Investment}}{\textbf{Deployed Payroll}}$$

Figure 4: Learning Investment as a % of Deployed Payroll

In this case we would expect the gap to widen because our relative investment in Learning is able to decline as we yield more from a more capable workforce. Therefore, this percentage would again consistently decline over time as the workforce grows faster (presumably to support expanding revenues) than the Learning investment required to support it. Figures 5-1, 5-2, & 5-3 would all look the same if reproduced here.

An advantage of both routes is they inherently solve for many of the assumptions and controls we would have otherwise been forced to disentangle. For example, consideration for inflation is virtually nullified as it is present in both the numerator and denominator of each equation. The differences in geographies/workforces previously mentioned should also be normalized through their appearance in both levels of the division operation.

The one thing this approach demands that many leaders may not possess in abundance is patience. Trying to measure Learning ROI by month or quarter is impractical on multiple fronts. Learning is for the most part not going to yield a return that quickly. And even for the minority of events that could possibly see a more immediate impact; the financial repercussions will always lag behind. This isn't a weakness of the approach but rather recognition that our approach should match reality. Forcing an ROI calculation based on immediate results doesn't yield an accurate reflection of the benefit the experience may or may not have provided.

Actioning the Investment

Once we've pegged our training spend to one of the business metrics mentioned, the next phase flows naturally. The other reason Net Revenue and Deployed Payroll are excellent measurements

to attach to is because they are frequently forecasted by management fiscal years in advance. Let's use a numerical example to form a baseline:

> In FY24, the organization had net revenues of $3B. Learning investment was $90M which represented 3% of net revenue. Looking ahead to FY25, the executive leadership team is forecasting a 10% growth in net revenues.

In order to promote a positive ROI, we'd need the corresponding Learning investment for FY25 to represent something LESS THAN 3%. How much less we'll discuss in a moment but for the sake of this examination let's say our goal is to see a 10 basis-point decrease year-over-year for the foreseeable future. A 10% increase gives us net revenues of $3.3B in FY25. A 10 basis-point decrease in our Learning investment as a percent of net revenues means our targeted investment should be 2.9% of $3.3B or **$95.7M in FY25**.

We now have a number that forces our investment in Learning over time to yield a positive ROI. If net revenues dip, so should our Learning investment; unless/until we deem it necessary to make a strategic shift in the level of investment. If/when that time comes, we would seek to reset the relationship between investment and net revenues and then resume driving that relationship in the proper direction.

The last step is planning the individual pieces of the investment to fit within these constraints. Think of it like we've put together the edge pieces of a jigsaw puzzle and now we must size the remaining pieces inside the frame to see how they will fit. Using whatever estimation techniques are in place, this now becomes a natural prioritization exercise which is exactly what we wanted. And bringing this full circle, eventually the stronger courses will survive given enough iterations of this program.

We now know how our desired behavior should be reflected in our investment decision-making. We can set boundaries to enforce prioritization and over time confirm Learning is acting as a net margin contributor, thereby reflecting a positive return to shareholders on our investment.

Implementation at Accenture

We've set these wheels in motion by first turning the forecasting/budgeting process on its head. Instead of building from the bottom up based on specific investment opportunities, we leverage the methodology described to first set our overall level of investment. We tie our level of investment to market and contextual conditions to find the proverbial sweet spot. This is one that is both sustainable by the business and ensures we maintain a market economy within which Learning dollars behave according to the principle of scarcity.

From there we then begin a bottoms-up planning exercise to determine what we can afford based on the guardrails already in place. The difference is this bottoms-up exercise now has teeth. No longer are we talking to leaders about a generic Learning dollar, but instead we are able to put those dollars in context. We are able to present trade-offs in terms of destinations for investment. Discussions sound like "Yes, we can send 25 more people through our Leadership Development program, but that means we must send 50 less people through our technical skills course." These are much more productive conversations than trying to force leaders to make a thumbs up/down decision on thousands of micro investments.

Ultimately, we will have more appetite for Learning than Accenture can afford…which is the aim. It ensures our demand slightly outpaces supply. And it eventually pushes out courses our Leadership team and Learners themselves have not prioritized. As competition for Learning investment dollars heats up, our standard for value delivery increases. We've created the market economy we desired and now operationally we are less focused on chasing evasive metrics and instead on enforcing the controls that promote efficient functioning of the market.

Strengthening Our Understanding

We know how our desired behavior should be reflected in our investment decision-making. We can set boundaries to enforce prioritization and over time confirm Learning is acting as a net margin contributor. In doing so, we can

demonstrate to shareholders a positive return on our investment. The last piece is to take the last step towards collaborative benchmarking and developing guidelines by industry, organization size, and other noteworthy organizational variables. While we know the investment as a % of net revenue/deployed payroll/etc. should be decreasing; what relative parameters do we expect it to fall within over time?

Benchmarking is difficult in this space for two primary reasons:

1) Definitions around what constitutes Learning and therefore what is considered in the measurement of Learning investment vary considerably.
2) In the current business environment, executives are incentivized to portray exaggerated investments in their workforce; thereby clouding the genuine investment in Learning.

To overcome this will require a consortium of organizations dedicated to opening their financial books and candidly sharing information along some commonly accepted definition of Learning. The more data points collected and properly vetted, the more confidence can be fostered in the boundaries that are developed. While not a requirement of implementing the other ideas presented, if adequate analysis is compiled showing commonalities among various participants, convincing leadership to implement these principles becomes much easier.

The ultimate answer will also vary by industry, orientation of business (i.e., service vs. product), workforce composition, geography, etc. Which means along with volume, the more diversity represented in consortium participants the more flexible the resulting solution. The true next steps therefore involve leadership of those serious about shaping behavior to promote the honest ROI in Learning bringing together like-minded partners in an unprecedented sharing of cost information and definition. Is your organization ready to take this step?