



Calculating Return on Training Investment (ROTI)

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Calculating Return on Training Investment

Overview

Return on Investment (ROI) is the relation between financial benefits gained from something (in this case a training programme) and the total cost of that thing. The purpose of an ROI analysis is generally to see whether the benefits outweigh the costs, ie to see whether the investment was worth it.

Please note that ROI of training can only be calculated reliably using TrainingCheck provided that:

- reliable data on changes to relevant business performance measures is available (or can be reasonably estimated by key stakeholders)
- changes to the selected performance measures can be assigned a financial value
- the costs associated with developing, delivering and managing the training can be identified.

If these criteria can be met, then by following the steps below you will be able to use TrainingCheck to create a Return on Training Investment (ROTI) report using the ROTI Calculator function.

Once you have entered relevant financial data, the Calculator will automatically calculate the ROTI % as follows:.

$$\frac{\text{£ BENEFITS} - \text{£ COSTS}}{\text{£ COSTS}} \times 100 = \text{ROTI\%}$$

£ COSTS

The Benefit to Cost ratio will also be calculated as follows:

£ BENEFITS : £ COSTS

There is also an option to calculate the 'Payback Period', ie the time taken to pay back the investment.

Notes on ROTI Results:

It is advisable to get early agreement from training programme sponsors as to what the target level of ROTI should be. As a general guideline, ROTI levels below about 20% are usually considered to be low. In practice, however, it is quite common for ROTI percentage figures to be very high, eg 500% or more.

While high ROTI figures can impress senior managers they may also raise doubts, especially among those who are generally unconvinced of the value of workplace learning. This is just one reason why it is important to combine ROTI calculations with other levels of evaluation. Evidencing a consistent link between the training and

improvements in job and business performance will add significant credibility to ROTI figures. Similarly, where the ROTI figure achieved is low or negative, feedback from other evaluation levels can be used to help diagnose any inhibiting factors.

Why calculate ROTI?

Calculating the return on investment from a training programme can be important when, for example, the training programme is seen as significant investment by the organisation, or it is aligned to the achievement of a particular strategic or operational objective. It can also be useful when it is unclear whether a programme will generate any financial benefits or what those benefits might amount to.

However, while ROTI can play an important role in a training programme evaluation, an ROTI calculation alone will not usually be sufficient to make the business case for a training programme or persuade senior managers to take action in some way. This is because most often it is just one small element of the value of the training. Depending on the agreed objectives and expectations of the training programme, factors such as what learners thought about the training programme (level 1), what learning actually occurred (level 2), and what influenced whether the learning was applied to the workplace (level 3) may all be of significant interest to decision makers.

When should ROTI be calculated?

As a rule, calculating the ROTI from a training programme should only be carried out when the following conditions apply (ie if not all these conditions apply, then you should seriously consider whether spending time, effort and resources on conducting an ROTI analysis would be worthwhile):

- the training programme requires a significant financial investment
- the training objectives are clearly defined and their achievement is likely to impact on areas of strategic or operational importance
- there are enough learners to make an impact on business performance and draw financial conclusions
- learners have good opportunities to apply their learning to the workplace
- data on relevant changes to performance is available
- changes in performance can be attributed credible financial values by key stakeholders (see **Note 1** below)
- training factors can be isolated from non-training factors and the financial benefits apportioned accordingly (see **Note 2** below)
- direct and indirect costs of training can be identified
- an ROTI analysis is likely to be meaningful/important to the programme's sponsors.

Note 1: Changes to some performance measures, such as those related to employee relations or contribution of ideas, may be more difficult to quantify in monetary terms than others, and attempts to do so may be treated with some scepticism. You will need to be especially certain of the basis for assigning financial values in these cases. Similarly, some relatively easily monetised outcomes, such as benefits achieved due to time savings, need to be treated with caution as they may not tell the whole story (for time savings to translate into real financial benefits the time saved must have been used productively).

Note 2: When collecting business performance data from respondents, they should where possible estimate the relative influence of the programme as compared to other organisational and external factors, such as new working practices, performance incentives, new competitors, legislation or environmental factors. The proportion of influence ascribed to the training programme can then be applied to the data.

For example, if gains in staff retention have resulted in a financial benefit to the organisation of £5,000, and it is estimated that the training is responsible for 50% of the change in retention (the other 50% being attributed to other factors), then the total financial benefit attributable to the training is calculated as £2,500 (ie £5000 x 50%). It is this figure that is then used as part of a Return on Training Investment calculation.

Respondents should be encouraged to remain on the conservative side when providing financial estimates. As if they are unreasonably high this may damage the credibility of the final ROTI figures.

Over what time period should ROTI be calculated?

There is no fixed period over which you should calculate the ROI of a training programme. Some commonly used examples include:

- from 3 months to 12 months after a training has been completed (allows time for transfer of learning to the workplace)
- the period of a product cycle
- one financial year (audit period)
- 2 to 4 financial years (depreciation period)
- average time of target audience employees remaining in the organisation.

As financial benefits are likely to continue to increase for some time after the training, it stands to reason that a longer evaluation timeframe should result in better ROTI figures. However, as time goes by it is likely to be increasingly difficult to attribute changes in performance directly to a training programme. For this reason some experts recommend that the maximum period for an ROTI calculation should be one year from the completion of the training programme.

What is the 'Payback Period'?

The Payback Period is the time taken to pay back the investment, ie when the costs equal the benefits.

A short payback period is likely to impress and may add to the business case for investing in further training.

The ROTI Calculator calculates the payback period by comparing reported benefits with reported costs as follows:

Payback Period = costs/monthly benefits

For example:

Number of months over which benefits are calculated	12
Total Benefits	81,500
Monthly benefits =	6,792
Total Costs	15,000
Payback period	2.2 months

How do I collect ROTI data and create the ROTI report?

There are 4 key steps to collecting ROTI data and creating the ROTI report.

Step 1: Choose the performance measures you want to use.

First you will need to work with key stakeholders to choose the relevant business performance measures you want to use as a basis for the ROTI analysis.

Examples of measures include changes to:

- productivity/output rates
- sales volumes
- employee turnover rates
- customer satisfaction and retention rates
- number of customer complaints
- wastage rates
- non-compliance
- rate of accidents per year
- number of sick-absence days per month
- number of cancelled training days/sessions
- recruitment costs.

It is important that the measures you choose:

- *are relevant*, ie changes to them are attributable to the training. (**Note:** As there are factors other than the training that may influence changes to the selected measures, stakeholders will need to estimate the proportion of change which can be directly attributed to each factor.)
- *are measurable*, or can be reasonably estimated by key stakeholders
- *can be assigned a financial value by stakeholders.*

This last requirement may sometimes mean defining the financial value of changes in performance that are not usually measured in this way.

Step 2: Gather data on changes

Next you will need to gather data on the selected performance measures. You will need to collect the following:

- financial data in relation to the changes in performance
- estimates of the % influence of the training on these changes relative to other possible influences.

Note: Example ROTI questions and evaluations are provided within TrainingCheck.

You will need to collect this data from stakeholders who both have access to the relevant performance/financial data and are in a good position to estimate the likely influence of the learning programme on changes to this data. This may include operational managers and/or other key experts in the organisation, eg, within Finance, Operations and Human Resources departments.

You can use TrainingCheck to create and deploy your ROTI evaluation(s) in the usual way, ie using email or via your company webpage. However, you may find it just as effective to collect the data through other methods, such as face to face meetings or desk research.

Whichever data collection method(s) you choose, once you have gathered the data you will need to enter it manually into the TrainingCheck ROTI Calculator. Just click on the ROTI Calculator tab to open the Calculator, and then enter the performance data, source (ie who provided the data) and % influence of the training programme into the relevant sections. The total financial benefit attributable to the training will then be calculated automatically according to the following formula:

**Total Financial Benefit of Performance Change x % Influence of the Training =
Total Financial Benefit Attributable to the Training**

For example, if the total financial benefit of a improvements in staff retention is £10,000, and the training is estimated to have been responsible for 50% of that change, then you get the following:

£10,000 x 50% = £5,000 Total Financial Benefit Attributable to the Training

It is this figure (ie £5,000) which will be used as part of the final ROTI calculation.

Step 3: Add data on Costs

Once you have added the financial benefits from training programme, you will then need to enter details of the costs associated with the training. To begin this process, click the 'Add Data on Costs' button on the ROTI Calculator page. This will launch the 'Cost Calculator'. Then just enter the details of costs as prompted.

Costs associated with a training programme fall under the following broad categories:

- management
- development costs (eg developer fees, design, printing)
- delivery costs (eg facilitator fees, venue, learning materials)
- attendance costs (eg employee release costs, travel, accommodation)
- overheads.

The Cost Calculator provides guidance on how these costs can be broken down and calculated. If your organisation has its own method for calculating costs associated with each training programme, you can choose to enter the total cost directly into the final 'Costs/overheads not included' section at the end of the Cost Calculator.

Notes on entering costs:

- Salary costs should include all benefits (usually between 25% and 50% of the base salary). This should be both for the programme participant and for all others involved in the management, administration, delivery and evaluation etc of the programme.
- To calculate employee release costs, first you need to calculate the salary per day – to find this add together the salary and benefits per year then divide this by the number of work days per year. To calculate the release costs multiply the salary per day by the total number of days attending the training.
- For large groups of learners you may wish to use average hourly rates rather than actual rates.
- Costs associated with 'backfilling' jobs of learners' and any overtime needed should also be included.
- You may also consider including costs associated with supporting employees to apply their learning to the workplace (eg on-the-job coaching).
- Costs associated with equipment such as laptops and computers should be apportioned if these are used for other training programmes. Only the depreciation cost for the ROI period should be included.

Step 4: Create the report

Once all of the data on financial benefits and costs associated with a training programme have been entered into the ROTI Calculator you will be able to generate the ROTI report. Just click the 'Create Report' button on the final page of the Cost Calculator.

The report will include a summary of the benefits and costs added and provide an analysis of the the ROTI %, the Benefit to Cost ratio and the Payback Period. ROTI Reports are stored on the My Reports page and can be edited there.