

GreenWays



JOBS FOR THE FUTURE

EMPLOYER ENGAGEMENT TOOLKIT | TOOL 1.7

DEMONSTRATE RETURN ON INVESTMENT TO EMPLOYERS

TOOL 1.7

Your employer partners have many competing demands on their resources. It's not easy to decide how best to deploy limited time, people, equipment, and money in a way that best serves customers, grows the business, and generates strong profits. To make decision-making a little easier, many businesses use return on investment (ROI) calculations to assess new opportunities—like possible involvement in your program. You'll be better positioned for success if you are prepared to demonstrate the advantages of involvement in the form of an employer ROI.

This tool will help you think about your program from the perspective of financial ROI for your potential employers. Even if you ultimately choose not to promote your program to employers using a specific ROI—in dollars—working with this tool will give you a powerful window into the criteria by which many employers make decisions, and a business vocabulary for making your case.

WHO SHOULD USE THIS TOOL?

Executive directors, program managers

SOURCE

This tool is adapted from Barker, K., 2002. Why Train? Calculating the Return on Training Investment. Burnaby, BC: Open Learning Agency. Adapted with permission of Thompson Rivers University, www.tru.ca.

WHAT IS RETURN ON INVESTMENT?

The basic idea behind return on investment (ROI) is simple and easily understood. If you invest \$1,000 in a company's stock, for example, you want to estimate how much more you'll have in your account a year from now. If the estimate is \$1,100, the expected return on your investment is 10%. You can use that 10% ROI to make decisions about how to invest your money by comparing that estimate against other investment opportunities.

When money is the only resource being invested, and more money is the only return hoped for, it's fairly easy to calculate ROI. The decision to become involved in your training program, however, is much more complicated than that. Calculating the employer ROI for involvement in your program requires the following things:

- > Listing investments of time, money, and resources the employer must make
- > Listing benefits that will accrue to the employer as a result of their investment
- > Translating both costs and benefits into dollar values
- > Demonstrating the training program was responsible for generating the benefit

FIVE STEPS FOR CALCULATING EMPLOYER RETURN ON INVESTMENT

The employer's ROI for involvement in your program will ultimately be expressed through the simple equation below:

$$\text{Value of employer benefits/employer cost of involvement} \times 100 = \text{ROI}$$

The process of calculating this employer ROI involves the following five steps:

1. Identify and describe the training under analysis
2. List the reasons for training from the employer's perspective
3. Calculate the costs of training (total) and note which are borne by the employer
4. Calculate the benefits of training (total) and note which accrue to the employer
5. Calculate the ROI for the employer

The checklist and worksheets that follow will help you work through the five steps.

STEP ONE

IDENTIFY AND DESCRIBE THE TRAINING

Before you can begin to assess the costs and benefits of your training from the employer's point of view, it helps to take it apart so that you can see the component pieces. Generally speaking, this involves answering six questions, including:

- > **What is the curriculum?** Understanding the curriculum in detail will help you assess the skills, knowledge, and competencies that trainees will receive by virtue of having taken the training. These have a value which can often be quantified.
- > **Where does the training take place?** Answering this question gets at both costs—such as rental space and transportation to and from site; and benefits—such as avoided cost for the employer if you are using your own space.
- > **How is the training to be delivered?** Online? Classroom? On-the-job training? Labs?
- > **When is the training to take place, and how long?** Gets at issues of total hours—which have dollar value—and when those hours take place which may create lost or added time for the employer.
- > **Who are the participants?** This is critical. You will use this information later. Are these incumbent workers whose new skills will create immediate, quantifiable value? Are they people who will likely be hired, providing work-ready people (with quantifiable value) at a very reasonable cost? Are they people who are being trained for industry in general, adding to the overall pool of applicants?
- > **What is the unit of ROI analysis?** A typical “unit of analysis” is either an individual training program graduate, or an entire training cohort. That is, your final ROI equation will demonstrate the quantifiable benefits of investment in training the “unit of analysis” when compared to the cost.

IDENTIFY AND DESCRIBE THE TRAINING UNDER ANALYSIS

> **WHAT** is the curriculum? _____

> **WHERE** does the training take place? _____

> **HOW** is the training to be delivered? _____

> **WHEN** is the training to be delivered? _____

> **WHO** are the participants? _____

> **ROTI:** what is the unit of ROI analysis? _____

Notes: _____

STEP TWO

LIST THE REASONS FOR EMPLOYER ENGAGEMENT

This step gives you and your staff a chance to consider the reasons for investing in training from the employer's point of view. There are many reasons an employer might make such an investment, but we've found that they can often be grouped together under the following categories:

- > **Business and industry context** (e.g., keeping up with trends, changes, best practices and regulatory requirements in the affected industry that require more qualified people to be hired, or incumbent workers to be trained.)
- > **Tangible outcomes** (e.g., new or improved skills for workers, new hires)
- > **Intangible outcomes** (e.g., deepened community relationships, company reputation)
- > **External circumstances** (e.g., political, social and community environment)
- > **Payback period** (e.g., responding to an immediate training/hiring need, or building for the future)

IDENTIFY AND DESCRIBE THE TRAINING UNDER ANALYSIS

Consider these factors to identify your reasons for training:

- > Business and industry context: _____

- > ROTI analysis perspective: _____

- > Tangible outcomes: _____

- > Intangible outcomes: _____

- > External circumstances: _____

- > Payback period: _____

Notes: _____

STEP THREE

CALCULATE COST OF EMPLOYER ENGAGEMENT Your process here involves two steps. First, calculating the total cost of training. Second, calculating which part of the cost is borne by the employer, if any. This is a critical step for third-party job training programs, and may end up being your secret weapon in negotiations. Here's why: In many cases, employers will find that while the benefits accrue to their company (well-trained employees with new or improved skills, new people to hire quickly, etc.); the costs are largely borne by the training provider through grants and contracts. The employer gets the benefit and someone else pays much of the cost! Sounds like a good deal.

Use the sample cost calculation worksheet to get you started. Your own cost categories might differ from those we've provided.

CALCULATE THE COSTS OF TRAINING

Not all of these items will be applicable in every case.

COST ITEM	TOTAL COST/UNIT OF ANALYSIS ¹
Needs assessment and training plan	
Curriculum and materials development	
Registration or tuition fees	
Trainer and consultant fees	
Materials and equipment	
Facilities	
Refreshments	
Travel costs: food, transportation, lodging	
Assessment & certification fees	
Salary replacement cost	
Other	
Total training cost	

¹Unit of ROTI analysis (e.g., per person, per session, per year)

Notes: _____

STEP FOUR

IDENTIFYING AND ASSESSING DOLLAR VALUES TO BENEFITS OF EMPLOYER ENGAGEMENT

Identifying tangible and intangible benefits

This step is the most important, and most difficult, part of the ROI process. You must first create a list of all of the tangible and intangible benefits that accrue to the participating employer, and then decide which ones are translatable into dollar values. Finally, you must then make a stab at assessing an actual dollar value to the benefit.

Based on information from employers and other research, we've created a list of some typical tangible and intangible benefits on the Worksheets below. Use them as a launching pad to create your own.

Assessing dollar values and calculating total employer benefit

The sample worksheet below gives you a sense of the type of benefits that can often be assessed in dollar terms. These are:

- > Time Savings
- > Productivity Increases
- > Personnel Savings

These are categories that any employer can understand in terms of dollars—either dollars saved against expected benchmarks, or new dollars generated.

Use the worksheet to create your own calculation of employer benefits, and strongly consider involving existing employer partners in the exercise.

Use these checklists to help you identify the costs and benefits that may apply to the training under your ROTI analysis.

Tangible Benefits

- Increased sales
- Improved overall quality
- Improved competitiveness
- Improved productivity per staff
- Improved profitability
- Improved customer satisfaction
- Improved personnel relations
- Improved safety record
- Compliance with regulations
- Broadening the range of workers' tasks
- Meeting a shortage of qualified labour
- Implementation of new ideas
- Other

Intangible Benefits

- Improved understanding of new technologies
- Remediation of workers' inadequate pre-employment preparation
- Improved understanding of markets
- Improved staff morale
- Greater cooperation among staff
- Better management-staff relations
- Better staff understanding of the organization
- Greater staff flexibility
- Greater staff loyalty
- Improved staff work ethic
- Improved staff motivation
- Improved staff perceptions of job responsibilities
- More problems solved
- Conflicts avoided
- Increased use by staff of performance measures and standards, benchmarking, and quality control methods
- Other

CALCULATE THE BENEFITS OF TRAINING

Measure those returns most important to you and for which you can gather data—actual or informed estimates.

TANGIBLE RETURNS CATEGORIES	CALCULATION	TOTAL
<p>Time Savings</p> <p>(e.g., reduced supervision, absenteeism, downtime)</p> <p>> Hours × wage × number of employees</p>		
<p>Productivity Increase <i>if applicable</i></p> <p>(e.g., quality/quantity changes due to training)</p> <p>> Reduction in complaints</p> <p>> Increase in sales, customer satisfaction</p>		
<p>Personnel Savings</p> <p>(e.g., reduced recruitment costs, grievances, accidents)</p> <p>> Cost of individual interventions × incidence</p>		
<p>Other</p> <p>> _____</p> <p>> _____</p> <p>> _____</p>		
Total Returns		

Notes: _____

STEP FIVE

CALCULATE FINAL ROI FOR EMPLOYER ENGAGEMENT

You're ready! Using the worksheet, plug in the total dollar value of the benefits you've identified and the dollar value of the total costs. Perform the simple equation, and you have an estimate of the employer ROI for involvement in your program.

CALCULATE THE RETURN ON TRAINING INVESTMENT

Total benefits in dollar value	
Total costs in dollar value	
Divide the benefits by the costs and multiply by 100 to get a percentage	

Value of benefits/Cost of training × 100 = ROTI

Notes: _____

