



White Paper

What Return On Investment Does e-Learning Provide?

Executive Summary

Organizations make investments in e-learning solutions with the expectation that the solutions will have a measurable impact on performance by achieving specific business outcomes. Measuring the value of learning solutions enables organizations to demonstrate the return on investment they make in training. In addition, organizations that measure training are able to increase the contribution of their learning solutions using continuous improvement processes that drive higher levels of return through enhanced performance over time.

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Why Value Measurement? Why Now?

Most e-learning programs, due to their innovative nature and enterprise-wide scope, command the attention, and often the approval, of executive-level management. The investment's visibility creates pressure for ROI — often within seven to 12 months of implementation.

e-Learning strategies typically support overall organizational learning strategies, which should directly correlate to business strategy and direction. To this end, organizations are implementing processes that measure value based on impacting business outcomes.

This need that organizations have to measure value is often driven by the following key questions that underlie the organization's decision to implement e-learning:

- Why do organizations invest in e-learning?
- Are investments in e-learning mission-critical?
- Are executives looking for bottom-line justification for e-learning investments?
- How do organizations justify e-learning expenditures in terms of cost and ROI?

These questions and others like them illustrate the intense focus on performance that corporations experience today. Of course, corporations are not alone. Organizations ranging from hospitals, to universities, to federal and state governments are engaged in a constant state of continuous performance improvement and associated cost reduction. Doing more with less has become the mantra of the day.

Are Investments in e-Learning Mission-Critical?

Tying e-learning investments to expected outcomes and using value measurement processes to evaluate progress greatly increases the chances of your e-learning program's success.

The answers to the following questions provide guidance to organizations that intend to begin or expand their value measurement efforts for their mission-critical learning solutions.

What is the Business Need?

Business needs focus on the goals and strategies of the organization. In their book *Performance Consulting: Moving Beyond Training*, Dana Gaines Robinson and James C. Robinson describe these needs as follows:

- **Business problems** describe a gap between what is occurring operationally and what is actually occurring at the present time. Examples include excessive waste, low sales, high production costs and reduced customer satisfaction ratings.
- **Business opportunities** focus on a future operational goal. No current problem needs to be fixed; instead, an opportunity needs to be optimized. Examples include bringing a new product to market and opportunities that exist from a merger/acquisition.

Business needs are defined over a specific time frame for a specific population. SkillSoft developed a value measurement process to assist organizations in measuring business impact in areas such as:

- Selling and negotiating skills → Higher volume of sales
- Customer relationship management skills → Better customer retention
- Customer service skills → Increased problem resolutions per day
- Problem-solving skills → Reduction of incomplete deliveries
- Or any number of other possible desired results from operational excellence

What Return On Investment Does e-Learning Provide?

What is the Culture and Learning Philosophy of the Organization?

An organization's culture and associated learning philosophy plays a defining role in the use of the value measurement process. Culture is the glass ceiling against which organizations push to reach excellence. Characteristics of a culture that values learning include:

- Stakeholder interest in measuring learning results
- High visibility of value measurement results
- Senior management willingness to support change initiatives and use value measurement data for continuous improvement
- Ongoing support of learning department as a key player in change management processes

These organizational characteristics are key to the success of any value measurement process.

Are Executives Looking for Bottom-Line Justification for e-Learning Investments?

Due to its visibility and relative ease of measurement, companies have historically focused on the reduction of training program costs. Within this context, they often cite e-learning for providing significant cost savings in relation to traditional training delivery methods. The emergence of the chief learning officer (CLO) position, among other factors, has further driven scrutiny of learning expenditures and returns to the executive level. However, as research firm IDC points out, a shift is occurring from considering return on investment strictly in terms of cost savings to investments in learning that deliver expected business outcomes.

The purpose of e-learning is to drive business results, not simply reduce the costs of training.

If you can't identify the business goal of an e-learning program, why do it?

Calculating ROI enables organizations to evaluate training investments in comparison with other investments the organization makes; however, it also allows organizations to compare a learning solution's monetary benefit with the solution's cost. Calculating ROI verifies that the solution's cost justifies the benefit it provided.

ROI Defined

ROI is defined in the accounting discipline as earnings per dollar of investment. An ROI evaluation compares solution cost to the monetary benefits that result from the learning solution. Therefore, ROI enables an organization to determine if the solution breaks even or contributes to the bottom line.

An ROI of 25 percent means that the investment cost is covered and an additional 25 percent of the investment is returned as earnings. In other words, for each dollar (\$1.00) of investment, 25 cents (\$0.25) is returned as earnings. An ROI of zero percent means that the investment breaks even.

In 1983, Jack J. Phillips introduced the concept of ROI to the field of training. (*The Bottom Line on ROI* - Patricia P. Phillips, ISPI, 2002) He defined ROI as:

$$\text{ROI} = \frac{\text{Net solution benefits}}{\text{Solution costs}} \times 100 = \text{_____} \%$$

Where:

Net solution benefits = Total solution benefits less solution cost

*** Net solution benefits are the "earnings" derived from the "investment" in the learning solution. Some organizations might choose to broaden the concept of ROI to realizing a "return" be it monetary or otherwise.*

How Do Organizations Justify e-Learning Expenditures in Terms of Cost and ROI?

Measuring and converting training impact to solid bottom-line results is not a widespread practice. Most organizations that want to justify expenditures on e-learning look to forecasting potential returns based on performance impact, while also employing some assumptive and widely accepted conversion rates. Measuring the actual impact of learning in performance and monetary terms, however, is well within reach. There are two ways to positively impact ROI:

1. Increase the benefit derived from the learning solution
2. Reduce the learning solution costs

Implementing SkillSoft's value measurement process for a given learning solution can help an organization build a business case for the learning solution. It also provides a systematic way to measure the results affected by the learning solution.

SkillSoft's Value Measurement Approach

SkillSoft's value measurement process provides answers to the following questions required to evaluate the actual or expected results realized from a learning solution:

- What is the business need?
- What is the performance solution?
- What is the learning solution? (Is it all or part of an overall performance solution?)
- What are the learning solution's measurements and goals?
- Who are the resources?
- What is the time frame for the implementation of the learning solution?
- What is the time frame for achieving the desired outcomes?
- Were results forecast prior to implementing the solution?

If so, will the forecast results be compared to the actual results?

- Do all stakeholders agree to the answers of these questions?

Ongoing Process

The SkillSoft value measurement process requires consistent data collection before, during and after training. Pre-training measurements align a solution with the overall strategy and later may serve as baseline data for measuring performance improvement. Clear goals, needs analysis, skills gap analysis and well-planned solutions designed to close skill gaps are essential components.

Measuring Return on Investment is not Appropriate for all Learning Solutions

Measuring ROI at Level 5 takes time and consistent effort as well as solid understanding of corporate strengths, weaknesses, strategies and goals. This level of measurement is appropriate for only 10 to 20 percent of training solutions based on the following criteria developed by Phillips and Stone (*How to Measure Training Results* - Jack J. Phillips and Ron D. Stone, McGraw-Hill, © 2002). Solutions that rank high in these areas are the best candidates for Level 5 evaluation:

- Long life cycle of the solution
- Clear link to organizational strategy
- High program costs
- Large audience size
- High level of visibility
- High level of management interest

To Get Value, You Need to Measure Value

Peter Drucker wrote, “If you want it, measure it. If you can’t measure it, forget it.”

If organizations that invest in e-learning solutions expect to derive value from their investments, then they would be well served to measure the value these solutions add to their organizations. Organizations implement e-learning solutions to get better results by changing behavior. If learning solutions are not to be “forgotten,” Drucker said, they will need to be measured.

As Jeanne Meister points out in her book, *Corporate Universities*, (ASTD McGraw-Hill, 1998), the value measurement process is a way to “continuously learn about how an organization learns.”

The value measurement process provides the means for this continuous learning. Learning is a process and deserves to be measured with the same rigor that is applied to the measurement of other critical business processes for effectiveness and the value they bring to the organization. The value measurement process increases the value of the learning solution through continuously measuring improvements to drive higher levels of return over time.

What Return On Investment Does e-Learning Provide?

The Five Levels of Evaluation Table

The industry-accepted Kirkpatrick/Phillips evaluation methodology provides the framework for a world-class value measurement system. The following table describes the focus and the required actions at each level of measurement.

The Five Levels of Evaluation		
5	Return on Investment (ROI)	Focus: Specific returns on investment from the implementation of the learning solution with a comparison of the solution's cost to the solution's benefits.
		Action: Analyze the ROI. Express the business impact including taking into account the program costs, intangible benefits and then use the calculations to make adjustments in future training programs.
4	Business Impact	Focus: Specific business measures that will change as a result of the participants' application of the training.
		Action: Measure the business impact/benefits. Determine the monetary value of the measured change. Measure intangible benefits (e.g. increased job satisfaction among employees who participated.)
3	Job Application and/or Implementation	Focus: Participants' behavior that must change as the knowledge and skills are applied in the work setting following the implementation of the learning solution.
		Action: Analyze skills gained over time to see if on-the-job behaviors changed as result of learning event. Gather data on how employees are using new skills. Identify barriers and enablers, and isolate the effects of the program from other factors that can influence behaviors.
2	Learning	Focus: Specific knowledge, skill(s), and/or attitude(s) to be developed/acquired by the participants.
		Action: Analyze learning with tests, simulations and instructor evaluations.
1	Reaction and/or Satisfaction	Focus: Specific level of satisfaction and reaction to the learning solution as it is delivered to the participants.
		Action: Measure employees' initial reaction, satisfaction and planned action derived from learning event (ex., post-course survey assessing quality of course.)

(Adapted from Jack J. Phillips/Ron Drew Stone, *How to Measure Training Results*, McGraw-Hill, 2002)

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Steps to Implement SkillSoft's Value Measurement Process Table

With the Kirkpatrick/Phillips methodology providing the framework, SkillSoft created a value measurement process that is comprised of the following steps:

Steps to Implement SkillSoft's Value Measurement Process	
9	Reviewing and reporting the results
8	Calculating the return on investment
7	Calculating the solution costs
6	Collecting the data
5	Aligning the learning solution
4	Determining the necessary behavioral changes
3	Establishing the desired outcomes
2	Agreeing on the business need
1	Partnering with stakeholders