



## CHAPTER 2

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# Who Should Use ROI

*A*ccountability in training and performance improvement does not apply to just one particular type of organization. Bringing accountability to programs or processes is a basic concern for organizations regardless of their product, service, mission, or scope. Accountability issues exist in organizations during favorable as well as unfavorable economic times. In good economic times, expenditures increase and organizational leaders are concerned that investments are properly allocated. In tough economic times, programs and processes that yield the best results are most likely to survive reorganization and restructuring efforts. A comprehensive evaluation can often help pinpoint the areas in which to place available funding.

Table 2.1 provides a profile of some of *Training's* top 50 training organizations currently using or pursuing comprehensive measurement and evaluation processes including ROI (Galvin 2001). While the profile represents private sector organizations, public sector organizations are quickly adapting ROI to measure the impact of their programs (Phillips 2002). For decades the public sector relied on cost-benefit analysis to evaluate the use of resources (Nas 1996). But while cost-benefit analysis

**TABLE 2.1****ORGANIZATIONS USING COMPREHENSIVE EVALUATION INCLUDING ROI**

Company Name	Annual Training Budget	Training's Percent of Budget	Training Hours Per Employee	Percent On-the-Job Skills	Percent Personal Development
IBM	\$1b	N/A	60	80%	20%
Synovus	\$10m	1.3%	40-60	70%	30%
AllState	\$73.3m	1.6%	46	35%	65%
Kinko's	\$30m	6%	80	80%	20%
Solectron Corp.	\$10m (CA only)	N/A	40 (CA only)	67%	33%
A.G. Edwards & Sons	\$17.45m	1.42%	15.6	77%	23%

Adapted from: *Training*. 2001. Top 50 Training Organizations. *Training* 38, no. 3 (March): 70-77.

takes into account similar measures as the actual ROI calculation (Thompson 1980), it falls short of the balanced approach of the ROI methodology (as discussed in chapter 1). Therefore, public sector organizations are also moving towards use of the ROI methodology to report all of the measures that explain the impact of training and performance improvement programs.

## THE TYPICAL ORGANIZATION

While the ROI methodology is suitable for any organization, the organizations currently implementing ROI as part of their training and performance improvement evaluation process share some similar characteristics. Typical characteristics include:

**Size of the organization.** Currently, the typical organizations that are implementing ROI are large. Whether in the public or

private sector, large organizations tend to deliver a variety of programs to a diverse target audience—usually throughout a vast geographical area. Organizations delivering a variety of programs usually have some programs they could do without, and it is important to ensure they are offering the right programs at the right time to the right people. Large organizations also have the budget to develop comprehensive evaluation approaches. However, ROI *should* be built in the accountability process in smaller organizations as well. Small organizations have an even greater reason to conserve resources and ensure they're getting the most out of their dollar. Using several cost-saving approaches described later, small organizations (and larger organizations with limited budgets) can implement ROI with credible results.

**Size and visibility of the training and performance improvement budget.** The budget is usually large and has the attention of the senior management team. As shown in table 2.1, IBM has a training budget of \$1 billion, an enormous budget by most companies' standards. Kinko's budget of \$30 million, while a good deal smaller than IBM's, is 6 percent of the total payroll—a high percentage of payroll in comparison to some organizations. Edward Jones (not shown on this table) designates 13 percent of payroll to training (Galvin 2001). Regardless of how it is measured, whether as total budget, expenditure per employee, percentage of payroll, or percentage of revenue, a large training and performance improvement budget brings appropriate focus to additional measurement and evaluation. Executives will demand increased accountability for large expenditures.

**Focus on measurement.** Typically, organizations implementing ROI focus on establishing a variety of measures throughout the organization. Organizations already using well-known processes such as the Balanced Scorecard, Economic Value Added (EVA), Six Sigma, and others are ideal candidates for the ROI methodology because they already have a measurement-focused environment.