

The 2012 International Conference on Asia Pacific Business Innovation & Technology
Management

Business Impact and ROI: A Proposed Approach to Learning and Development Investment

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Abstract

In increasing markets and economy, human capital investments have evolved as a result of intense competition, rapid growth and change, colliding cultures, technology waves and more, that occurs at unprecedented speeds. The interest and purpose of this research is due to Malaysian Government worries on Government Linked Companies (GLCs) and to assist the Malaysian Government as in the 9th Malaysian Plan, to focus on the National Mission to achieve Vision 2020 through one of the priority areas, human capital development. This paper draws on the review of training evaluation literature on the factors contributing to the implementation of evaluation on business impacts (BI) and ROI for soft skills training in Malaysian GLCs. The proposed contribution factors to be discussed are organisational policy, organisational resources and organisational culture.

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Keywords: ROI, business results, training evaluation, learning and development, soft skills

1. Introduction

In today's ever changing business environment, as organisations seek ways to remain competitiveness, they have significantly increased their efforts to develop their knowledge, skills and capabilities of each employee to increase organizational performance [1]. [2] states the recent ASTD report indicated organization spends a stunning \$109.25 billion annually on workplace learning and performance (WLP). Trends indicate an average annual expenditure per employee in ASTD's Benchmarking Forum (BMF) sample of large organisations increased to \$1,424 per employee in 2005 which is an increase of 4 percent from 2004. In ASTD BEST organisations, there is an increased in 3.7 percent to \$1,616. These figures inform that BMF and BEST organisations show continued allocation for

resources to employee learning and development. Indeed, towards the extent of this, American Society for Training and Development (ASTD), [3] stated that workplace learning professionals must “articulate the business value” of their initiatives and demonstrate a payback for their efforts in the form of improved organisational performance and measurable results. It is seen the importance of showing the bottom line impact of training programmes not only proves that the programme is beneficial for the organisation, but also provides a platform for deciding which programme is to be continued or needs discontinuation [4]. According to [5] it is important for companies to have accurate measures of the rate of return on investments (ROI) in employee training, as this is what guides their human capital investment decisions.

The most recent survey by the Chartered Institute of Personnel and Development (CIPD) [6] in its Learning and Development Annual Survey Report 2008, stated that compared with two years ago, organisations are now requiring a broader range (61%) and a higher level of skills (40%). Key skills that employers class as very important include interpersonal (79%) and communication skills (68%). However, 66% of organisations feel that new employees currently lack communication/ interpersonal skills and management/leadership skills and organisations are now looking for more and better skills among their staff, with interpersonal and communications skills. While these, along with management skills, are abilities that organisations consider essential to their success. [7] informs over 60 per cent of all jobs require skills and competencies of educated knowledge workers. This demand resulted in an outlook for the supply of workers to be poor. In addition, by the year 2008, 25 percent of senior management positions would be vacant and the supply of qualified candidates to fill in these vacancies is unclear. In general, organisations implement training programmes with the idea that this increases employee’s efficiency and productivity. All this emphasis on training employees has resulted in issues of successful training concentrating on evaluation as the bottom line approach for monetary returns. According to [4], a systematic approach to measuring training impact begins with an evaluation framework. Kirkpatrick (1998) created a four-level model and later Phillips (1994) expanded upon this framework to incorporate a fifth level, ROI.

2. Literature Review

2.1 Soft Skill Evaluation in Context

[8] in [9] defines evaluation as “to measure the effects of a program against the goals it set out to accomplish as a means of contributing to subsequent decision making about the program and improving future programming”. [10] define evaluation as “an activity that is central to and inextricably linked with decision making and consequently with the management and control of rational business activity”. [9] suggest that evaluation supports the decision making of the whole process of development of a programme, from justifying design decisions to justifying decisions about the design process.

As the name suggests, soft skills are the skills of relationship management and creativity and ability to influence when interacting with people [11]. Soft skills are intangible, elusive and therefore not easily taught. [12] define soft skills as the interpersonal skills used in one-to-one and one-to group settings. [11] divided soft skills into two: interpersonal skills and advanced soft skills. Examples of interpersonal skills are effective communications, leadership, team building and listening skills, while example of advanced soft skills are career planning, marketing and sales pitches, project management and delegation, public speaking and time management. A study of 968 major firms in the USA by [13] and [14] in [15] found that lower turnover, increased profits, higher sales per employee and increased stock market value are the results of effective management skills. Thus those skills are vital in order to ensure the development of organisations [11].

2.3 Training Evaluation Practices

In today's rapid moving environment and competitive business challenges, training human capital has become an important asset in organisations and businesses on which they spend a huge amount of money every year. [16] stated that about US\$750 billion is spent annually around the world, representing an average of almost two per cent of the payroll of many organisations. Training is only a method of human capital intervention, however, evaluation allows for justification to meet organisations objectives, needs and performance. It is utterly important for us to concentrate on the impact of the training process itself. Even though there are many evaluation models available and training function is believed to have become an important agenda for business performance today, we still see many organisations which are not yet very subtle about the importance of conducting evaluation nowadays. Very minimal attention is still paid towards the returns that their training programmes are achieving. [17] stated that HR managers are often plagued by the lack of simple and effective methods for showing the benefits of the training provided by their departments, often resorting to 'smiley sheets' or just assuming that if training is based on a needs analysis, it is probably effective.

Furthermore, [5] stated that data from ASTD's Benchmarking Forum indicate that the number of companies performing some type of results-oriented evaluation grew from 27 per cent of Forum companies in 1994 to 40 per cent in 1995, but the number of these firms which convert the results from training into monetary terms in order to calculate an ROI on the training investment is not clear.

2.3 Argument for Measuring HRD Costs and Benefits

Developing human capital does have demonstrable costs. However, it is more than a cost, indeed it is an investment. [18] it is an investment in the development of individual, organisational and ultimately societal capability. As in any investment, the return on the outlay should be demonstrable. Reasons advanced in opposition to measure HRD effectiveness frequently revolve around a view that benefits are too difficult to measure. A variation on this assessment will be too subjective and requiring too many assumptions to be made [19, 48]. Somewhat cynically, it has also been suggested that the aversion to

outcomes measurement on the part of some HRD managers may be as simple as fear of collecting data which may show their programmes to be ineffective, the possibility being that HRD budgets may be cut as a result [20]. Other than this fear of potentially adverse budget impacts, the arguments against measuring ROI or non-return on soft skills training investment essentially distils down to a view that isolating the outcomes from HRD and tying these back to initial outlay is just too complex and too difficult a task to be undertaken. This is an argument too hard to maintain. If training employees is important to be done, if an investment is being made in the development of human capital, then it is reasonable that the business impact and ROI should be able to be demonstrated and measured. Asserting that soft skills' training is intrinsically a good thing and therefore its effectiveness needs to be measured is not a sustainable argument. The relationship between soft skills training programmes and the resulting improvements, the broad benefits of soft skills training investments, can and should be actively identified and measured. Just as HRD itself is not an optional extra but a strategic imperative, so too is the effective measurement and evaluation of training outcomes.

2.4 Factors Contributing To Training Evaluation

The systematic approach to training requires elements of evaluation. Many organisations venture into training without taking prior consideration of factors which promote its application. For example, [21] indicates that there are too many reasons why organisations are shying away from taking on evaluation. It was mentioned in the 2004 ASTD survey that a cross-section of benchmarking services organisations concluded that the majority of these organisations embark on lower level evaluation (Level 1) because an evaluation programme is not an easy task. Very many factors have been considered as important for successful evaluation. In this article, the following discussion will work through some of the key related factors to be used in this research for the decision to evaluate a soft skills training programme and its success at the higher levels of evaluation, BI and ROI. The contributing factors considered in this paper are 1) top management support [22; 23; 24; and 25]. Government involvement plays a vital role too [26; 27; 28; and 29]. Other authors discuss shareholder value as one of the contributing factors. [30; 31; 32, 29; and 33], for example, discuss a lot the power of shareholders and how shareholder value can influence decision making for higher evaluation of training and its success. [34] mentioned that organisations are shying away from evaluating training programmes due to lack of knowledge and skills. Others such as [35, 4; 17; 36; 37; 38; discuss and suggest the steps to be taken in the evaluation process. The fifth factor is time, cost and budget. [4; 34] discuss the time factor that holdback the decision to evaluate a training programme and its success, while [39] explore the combination of time and budget constraints. [2;40] on the other hand discuss the cost of evaluation side. [34; 29; 5 and 40] mention that without reliable data, organisations fail to evaluate training programmes and calculate ROI. Later, they and with some other authors such as [41; 4; 17; and 18] discuss guidelines to manage data. Effective and relevant training

given to staff is a seventh factor that determines the decision to evaluate training and to ensure its success [42; 29; and 40]. [43] discuss the advantages and disadvantages using external evaluators while [44], and [45] explain the importance of external evaluators to carry out the job. Performance transparency is also one of the important elements that influence the decision to evaluate a training programme and to ensure a meaningful result is achieved [29]. Later, [34, 22] discuss the reasons for this. Last but not least, economic conditions are one of the factors organisations need to consider in order to make a decision to evaluate a training programme [46; 17; and 28]. Later, [47] explain the relationship between economic conditions and the need to evaluate education programmes.

Based on this analysis, the authors categorised three major internal factor groups: organisational policy, resources and culture, and one external factor which guides the article toward a proposed conceptual framework to invest in higher level training evaluation.

4.0 Conclusion

This article provides a timely and comprehensive investigation of contributing factors in decision making for effective implementation of soft skills training evaluation in Malaysian GLCs. Given the wealth of theoretical literature relative to training evaluation implementation, and the absence of information describing contributing factors of training evaluation for soft skills at the business impact and ROI levels for successful evaluation practices, the study helps to bridge the gap between theory and practice. Despite the possible potential limitations, the following contributions are hoped to be achieved; i) the first comprehensive study of contributing factors in soft skills training evaluation in Malaysian GLCs (and there is no similar study in an ASEAN country to the researcher's knowledge, at the time of writing); ii) development of an integrated conceptual model of contributing factors in soft skills training evaluation for business impact and ROI within the Malaysian context and the identification of contributing factors in seeking soft skills training evaluation practices can be used by managers and executives as useful guidelines in adopting and implementing soft skills training evaluation; iii) offer substantial descriptive findings on the current contributing factors for effective training evaluation practices and reasons for not adopting them in the Malaysian context. These findings may encourage executives and managers to re-evaluate and improve their soft skills training implementation in the light of the revealed practices and problems of others; v) previously unavailable information on the association between the contributing factors of soft skills training and its practices and adoptions will be analysed. In particular, this study will initiate an empirical link between contributing factors of soft skills training and training evaluation practices; and vi) construct a model for contributing factors of soft skills training evaluation in a proper organisational perspective. Therefore an organisation would be able to assess the various significant variables identified and, based on this assessment, decide whether the benefits it could gain by redesigning its training evaluation to adopt these evaluation techniques would bring monetary returns and business impacts to the company. Overall, the study will identify and examine some clear disparities between contributing factors in soft skills training implementation theory and practice, and provided insights into the efforts needed to bridge the gap.

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