Evaluating the return from management development programmes: individual returns versus organizational benefits

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Abstract
Reviews the work published over the last ten years on the subject of the evaluation of individual and organizational learning. The emerging arguments are based on the proposition that the decision to provide training and management development is a strategic investment decision and as such is subject to an assessment of the benefits arising. These benefits are considered in terms of both "hard" benefits, such as impact on bottom-line performance, as well as "soft" factors such as the measurement of the value of the individual learning experience. The practical application of the problem is based on the experiences of a major hotel group which has undertaken, over a period of the last two years, the development and implementation of a "virtual university" utilising a blend of delivery styles for management development courses. This project is ongoing in partnership with the International Management Centres Association.

Introduction

Industry's failure to evaluate a £20 million investment in management education and development is "nothing short of scandalous", according to recent research commissioned by the Chartered Institute of Personnel and Development (CIPD) (2001).

Typically, much management education and employee training is only assessed by the individuals experiencing the process, and much of the feedback is taken from questionnaires and verbal responses and can be considered to be highly subjective. This is because much of the value of the training is assessed on the basis of the trainees' or learners' relationship with the trainer and other factors, such as the environment in which the training is undertaken and the quality of the materials. Obviously these are valid factors, but the fact remains that although many organizations have developed world-class strategies for developing managers, and by implication their business, there remains a widespread trend of ineffective appraisal of management development. However, it is clear that in order for the human resource function to maintain credibility future training activity must be directed towards measurable objectives and investment in training should be subject to the same level of scrutiny afforded to other forms of investment.

Evaluation of training benefit

Over a decade ago research undertaken in the UK, entitled *Training in Britain: A Study of Funding, Activity and Attitudes* (HMSO, 1989), revealed that 85 per cent of UK employers made no attempt to assess the benefits gained from undertaking training. A number of writers have put forward their views as to why this is so. Lewis and Thornhill (1994) summarize the situation when they suggest that traditionally effective training evaluation has been undermined by the:

- difficulty in quantifying the effects;
- difficulty in disentangling the affect of a number of variables which might affect performance;
- cost of evaluation studies which could outweigh the value of the benefit achieved;
- sensitivity of the trainers/consultants undertaking the training who are keen to ensure the experience delivered is shown to have had a positive affect; and
- organization declining to admit that "incorrect decisions" have been made and preferring to take the stance "if you don't want to know the answers don't ask the questions".

However, the business climate of today suggests that such an approach is no longer tenable. Effective training must have value for not just the individual but also for the organization as a whole. Buckley and Caple (1990) summarize this view in a definition that emphasizes the value to the whole organization:

> Evaluation is the process of attempting to assess the total value of training: that is the cost benefits and general outcomes, which benefit the organization as well as the value of the improved performance of those who have undertaken training ...

Lewis and Thornhill (1994) suggest that the reasons for the absence or ineffectiveness of training evaluation are in the main linked to organizational culture. They suggest that the ideal approach to effective training evaluation is one that needs to be both integrated and matched to the culture of the organization. Certainly the human resource movement as body seems to be emphasising that a strategic approach should be adopted where training should make a direct and obvious contribution to organizational objectives. Hamblin (1974) develops this view,

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further offering five levels on which evaluation could take place. These levels are categorized as follows:

1 *Reaction*. Training is subjectively reviewed by the trainees on completion. They give their personal views and impressions of the value of the training.
2 *Learning*. Measuring the amount of learning that has taken place in training, reliability and validity.
3 *Job behaviour*. Assessing how much the programme has affected the learners' work performance about six to nine months later.
4 *Organization*. The impact of the courses on the whole organization using criteria such as productivity and labour turnover.
5 *Ultimate level*. Trying to assess the effect of the learning on profitability and growth of the organization as a whole.

Focusing on the organizational measurements, the performance measures recommended at Level 4 are specific and for many organizations the information structure exists to enable these to be easily compared with before and after performance. Measuring at the ultimate level, Level 5 represents more of a challenge. The most obvious measure is an assessment of additional profit generated compared to the investment, that is the return on investment. In reality estimating net benefit arising from the training or learning experience is also a complex process, but without a credible methodology for monitoring and reporting on successes in financial terms the HR function is reduced to a minor supporting role in the corporate enterprise. It may be possible to assess the benefit achieved from the training by measuring tangible factors such as increase in sales, reduction in material costs or improvement in bottom-line profit from an activity. But in practice, it is rarely as simple as this because it can be very difficult actually to quantify the benefit of training and management development, and the measurement process can often be as expensive as the training itself.

Assessing the costs

The first logical step in the assessment process is to collect an accurate record of all the costs incurred. It is critical when costing a particular training or development activity to ensure that no items are missed out from the cost collection process. A number of authors have produced "how to" publications with comprehensive and functional cost sheets enclosed, the most notable being Head (1985) and Warren (1979). Measurement of direct costs is often fairly simple to achieve but the identification of indirect costs can be more problematic and, as Wright and Belcourt (1995) suggest, any training activity has both opportunity cost (i.e. the trainees or learners could be doing something else) as well as measurable costs.

Benefits can be categorized into hard factors such as increased sales, increased productivity and ultimately increased profit. However, increasingly a growing proportion of a company's market value is attributable to intangible rather than tangible assets and knowledge is only of value where there is a willingness to share it within the organization. Consequently the traditional measures of success must now be coupled with measures based on the management of intellectual capital.

Managing intellectual capital

Intellectual capital has been defined as the sum of a company's intangible assets. In today's world there has been a rapid growth in businesses whose market value is heavily underpinned by the value of the knowledge locked into the business. The Microsoft Corporation is a prime example. The total market value of Microsoft exceeds its book value considerably and the difference is what is traditionally called "goodwill", but a more up-to-date explanation is that the difference represents the investors' belief in the future earnings potential of the business. Knight (1999) believes that four factors combine in an organization to increase market value. These are:

1 Human capital: which manifests itself as the expertise and skills of people.
2 Structural capital: consisting of the organization's strategies, internal networks, systems, databases and legal rights to inventions, processes, brands and trademarks.
3 External capital: defined by the organization's external relationships with customers, suppliers, strategic partners and levels of competitor intelligence.
4 Financial performance: involving the level of profitability and growth an organization achieves.

Knight asserts that the first three of these factors are directly linked to intellectual capital and consequently intellectual capital is a dominant wealth creator. Leif Edvinsson of the Swedish insurer, Skandia, describes the relationship between traditional capital assets and intellectual assets as similar to the structure of an iceberg. Above the water are the capital assets, visible and measurable. Below the water, however, remains unseen something vastly larger, whose importance everyone knows, but whose shape and size is known by none.

Securing intellectual capital according to Ulrich means "upgrading the leadership bench". He stresses that leadership strategies in the future will be team-focused and shared rather than driven by a single person. Managing intellectual capital involves effectively learning to share ideas and information throughout the company ideally quickly and at all levels. Effective management of these processes is essential because intellectual capital has a shelf life.

Louis Ross of Ford Motor Co. once said to a group of engineering students:

> In your career, knowledge is like milk. It has a shelf life stamped right on the carton. The shelf life of a degree in engineering is about three years. If you are not replacing everything you know by then, your career is going to turn sour fast.

By definition, effective measurement and management of an intangible asset such as intellectual capital presents a formidable challenge.

> *'... Many organizations today claim that they are aiming to create a climate in which learning is valued... '*

One company which appears to have turned the management of intellectual capital into a workable system is the Swedish company, Skandia. This company has actually developed a supplementary report to the published annual report in which a measurement tool called the "Skandia Navigator" is used to illustrate the company's intellectual and financial capital, measuring such indicators as customer focus, process focus, employee focus and renewal and development focus. Inextricably linked to the management of intellectual capital is the emergence of a new category of organization – labelled the learning organization.

The emergence of the learning organization concept

> An organization's ability to learn and translate that learning into action is the ultimate competitive advantage (Jack Welch, CEO of General Electric).

In recent years much has been published on the emergence of the learning organization. Pedlar *et al.* were among the earliest writers on the subject and have put forward various theories based on the premise that learning is neither a single process nor an independent factor. Instead, the learning organization is comprised of processes, individuals, environmental factors and managerial tasks.

In more recent years Pedlar *et al.* (1997) have offered the definition:

> A learning company is an organization that facilitates the learning of all its members and consciously transforms itself and its context.

Moilanen (2001). in a recent work reviewing the historical discussion on the diagnosis of a learning organization, concludes that:

> A learning organization is a consciously managed organization with "learning" as a vital element in its values, visions and goals, as well as in its everyday operations and their assessment. The learning organization eliminates structural obstacles of learning, creates enabling structures and takes care of assessing its learning and development.

Many organizations today claim that they are aiming to create a climate in which learning is valued and this approach is whole-heartedly supported by the "Campaign for Learning", an organization originally set up in 1995 as a project of the Royal Society of Arts. It is now an organization in its own right with a mission to create "an appetite for learning in every individual". If it is true that effective learning is critically linked to the business performance, then survival in a knowledge economy is crucially dependent on both the individual and the organization continuing to learn.

The development of the online virtual university

The use of the new technologies for learning often summarized by the label "e-learning" is increasing rapidly, the third annual training and development survey published by the CIPD (2001) has found that the number of organizations using intranets for training has grown by one-third in the past three years. However, the research also indicated that new technology was being used in a fragmented way, with most respondents to the research (68 per cent) indicating that they made only some use of it. According to the most recent study of corporate USA made by the Masie Centre, Saratoga Springs, a New York-based think tank, 92 per cent of large organizations were implementing some form of on-line training in the year 2000. These figures are confirmed by the American Society for Training and Development (ASTD, 2001), which state that the average US company is training more of its employees than ever before: more dollars are going into technical skills training than any other type of training. Their recent report also found that corporations are opting for blended approaches, which combine the best of face-to-face training with online training.

IDC, a worldwide provider of technology analysis and market data, predicts that the US corporate business skills market will reach over $16.8 billion by 2004. It also predicts that the worldwide corporate e-learning market will exceed $23 billion by 2004. North America will account for two-thirds of that growth but Western Europe will experience the fastest growth, at 97.2 per cent, followed by Japan, Latin America and the Pacific (see Table I).

Much has been published to support the view that e-learning strategies for the professional development of employees and managers can be used to define career goals better, implement improvement plans and enable individuals to gain vital skills and information more effectively.

The natural progression for an organization which has in place a corporate strategy which includes a serious attempt to align knowledge management with profits and to achieve the genuine integration of employee and employer learning objectives using high-tech delivery channels is to create their own branded learning environment. Several leading organizations have already taken this next step and as a result have created their own corporate university. Already there are believed to be some 1,600 of these in existence in the world, with well-known examples including Motorola, CISCO and, in the UK, Unipart. The successful development of a corporate university requires for a number of components to be in place which is usually achieved by partnering with other training industry suppliers to provide a range of content, a suitable technological platform, a learning management system, and if preferred, accreditation.

Motorola's vision for its highly acclaimed virtual university is based on three elements:

1. *Relevance.* The learning experience should be relevant to the organization, to the job and to the individual.
2. *Environment.* To create a culture that fosters learning at all levels with a continuous openness to generating and receiving new ideas.
3. *Attitude.* To encourage personnel to anticipate the future, to provide innovative leadership and to be creative and flexible.

Table I
Forecasted growth in corporate e-learning by region

Region	1999	2004
Asia/Pacific (%)	1.5	1.8
Latin America (%)	4.1	4.4
Western Europe (%)	8.0	17.1
Japan (%)	16.0	9.6
Rest of world (%)	0.7	1.9
North America (%)	69.7	65.2
Total ($bn)	1.78	23.1

Source: IDC (2001)

In order to facilitate the development of the virtual university with these aims in mind, an appropriate infrastructure must be in place and the rapid development in technology and in particular business intranets has been a fundamental element in the development of these strategies.

Selecting the right content is of course crucial to ensuring the success of the online provision and a key criterion is ensuring that courses are designed to be interactive and really seek to get learners engaged. It simply is not sufficient to put traditional, paper-based materials on to a site and hope that these will work for learners. In addition to this courses need to provide good learner support based on an appropriate technological platform. The Internet provides the ideal environment for the virtual campus, enabling learners to gain access to training and development materials and other supporting resources at a time and location of their own choice – the ultimate "just-in-time" learning option.

However, not all employees are motivated to participate in voluntary on-line learning, and effective marketing of e-learning to employees is also crucial if the activity is to be a success in the long term. This process can be enhanced by ensuring that employee development and performance improvement plans are integrated with online courses. As Fulmer (1998) recognizes, the key to success for most corporate universities is that they share a major focus on building competencies and skills that are strategically aligned to meet the requirements of employees and the company. This is accompanied by an emphasis on actions that drive the business rather than simply on knowledge acquisition.

Assessing the cost of an e-learning strategy

The considerable initial cost required to launch an online training and management facility increases the necessity for an adequate methodology to assess the return from such an investment. The initial implementation costs can be categorized as "hard" costs and "soft" costs, as illustrated in Table II.

The cost-benefit analysis requires consideration of the financial impact of:

Table II
Implementation cost categories

Soft costs	Hard costs
Managing change	Hardware
Cultural issues	Software
Accessibility	Research
Consistency of approach	Licence fees for content

- Doing nothing. This strategy results in reduced capability, low staff retention, absenteeism, increased stress and lack of successful career planning.
- Use of other learning mechansims such as face-to-face training. The costs arising from this strategy include the costs of trainers, venues and loss of productivity from both the participant and the trainer.
- The amortization costs of the learning intervention over the size of the potential audience versus the cost of the above approaches.

With these factors in mind the following case study explores how one UK corporate has faced the challenges of assessing the value of the application of a blended strategy for enhancing management development programmes.

Case study – Whitbread Plc

The Whitbread Enjoy Learning (WEL) concept was created in 1998 as part of a strategy to tackle the multifaceted challenges facing Whitbread plc (WPLC) and the hospitality industry in general, such as developing service leadership, maintaining competitiveness and improving profitability and return on investment. WPLC concluded that the response to these challenges was to create a highly responsive and supportive learning community for all its personnel. Consequently the WPLC set itself the task of constructing a framework for accelerated "active" learning so that it could build the competence levels of its managers as quickly and as cost effectively as possible. The human resource challenges were perceived to be to:

- generate and retain competence;
- leverage technology;
- develop future leadership performance capabilities;
- create rapid development routes for managers;
- accelerate paths to competency.

WPLC were also keen to create and nurture a corporate culture that fostered learning and valued knowledge while encouraging experimentation, risk taking and problem solving. WPLC recognized that employees expect ongoing personal development as a key element of their employment.

In order to meet all of these objectives WPLC decided that the corporate virtual university should be developed using the learning concepts and philosophies of action learning. Developed by Reg Revans in the 1930s, action learning is based on the theory that effective learning is not just about the acceptance of "programmed knowledge (P)" such as theories on concepts already written down in books, but it is also about "Q" which stands for questioning insight. If learning is represented by "L" then:

$$L = P + Q.$$

Of course, concepts and theory are important, but in action learning, the emphasis is on applying them. Revans focuses on "Q", the questions that need to be asked and the experience which is waiting to be acquired. For Revans, the core of action learning lies in the ability to ask the right questions at the right time and take effective action. Past experience with traditional management development programmes had been less than satisfactory, with the emphasis being focused on thinking rather than action, whereas action learning based programmes place the emphasis on doing and reviewing. This approach suits busy managers far more effectively by providing them with opportunities to solve real problems in their own workplace and learn from that experience, and ultimately impact on the performance of the business.

WPLC chose the International Management Association (IMCA) as its strategic partner in the development of the corporate university because the IMCA, originally founded in 1982, is committed to enabling organizations and individuals to pursue career development through action learning. The IMCA offers a range of accelerated post-graduate programmes targeted at senior managers who do not wish to take time away from the business and who, instead, wish to dedicate their learning to furthering the aims and objectives of the workplace. The underlying principle of IMCA courses is to enable managers to gain a qualification by working on key business challenges, using a project-driven approach which is effectively summarized by Weinstein (1998) as "a highly effective way of helping people in organizations to learn while achieving a practical outcome for their organization".

The first activity of the WEL was to run a Certificate of Management Studies (CMS) programme for "first time" managers or high performing team leaders and a Master of Business Administration (MBA) for more senior managers drawn from a variety of functional roles across the hotel business. Both the MBA and CMS courses were individually tailored to the needs of the group with a dynamic curriculum comprised of elements common to traditional university style courses, but the key difference was that the participants (associates) drove the agenda. Tutors and facilitators designed a curriculum based on the following model. Level:

1. *Foundation.* For associates with little or no direct knowledge or experience of the subject or those who wish to brush up on the basics of the subject.
2. *Core.* Assumes a rudimentary knowledge, and extends this using a range of subject-specific techniques and concepts. Most often mentioned by learners.
3. *Specialist.* This level is related to those issues and problems that associates have raised. It is likely that the content will focus on recent developments and thinking in the subject area and will take the associates beyond the scope of the text-book approach.

All of the associates participated in a learning set where members could share their learning experiences in smaller sub-sets using the Internet meeting place to talk with one another each week. In this way, the Internet provided a resource, along with the organization itself, the tutors, mentors and fellow set members. As a result the programmes, managed partly by the organization itself, were able to offer the chance to customize learning and to demonstrate applied learning by implementing workable solutions.

The programmes culminated in the completion of a project or dissertation which provided the associate with the opportunity and scope to research and implement a workable solution to a business problem pertinent to their own particular roles in the business.

'... The challenge for the authors has been to consider how WPLC could effectively evaluate the returns from the programmes...'

The challenge for the authors has been to consider how WPLC could effectively evaluate the returns from the programmes undertaken by a sample of its first time and senior managers in the initial pilot schemes.

In order to measure the effectiveness of the pilot programmes WPLC focused on each of the levels shown in Table III as defined by Hamblin (1974) and used a series of techniques in order to assess the effectiveness at each level.

The individual learner experience, i.e. Levels 1 and 2, was assessed using the Honey and Mumford "Live and learn" questionnaire. This questionnaire presents learners with a series of statements designed to assess the effectiveness of the learning experience. The answers are categorized into five key areas:

1. learning opportunities;
2. learning behaviours;
3. clarity of learning;
4. transfer of learning; and
5. learning to learn.

The scores obtained from the respondents are then compared against a norm of a sample of 150 people drawn from a variety of functional roles and organizational types. The associates who responded to the survey scored on average well above the average generated by the norm group in all the categories given above, with startlingly high results for the assessment of the categories learning opportunities and learning behaviours.

Level 3, the effect on learning behaviours, was assessed using interviews based on a structured questionnaire designed in-house. Participants commented that the CMS programme had challenged their previous modes of thinking in a number of ways. This included giving them the confidence to step outside their current roles and take a different perspective as well as encouraging them to take a more global or "helicopter" view. One learner commented:

> The CMS had a profound impact on the way I learn. I now take a much broader view on situations; it has made me manage my time better and given me the opportunity to take an overview of my learning and help me make a career move.

Level 4 was assessed using the in-house balanced score card where WPLC have five components to assess business performance. The concept is used to measure performance at every level down to unit departmental level and the key aim is to provide a framework to align actions with the strategic goals of the company.

Level 5, return on investment, was directly assessed by performing a detailed cost-benefit analysis calculation. The direct and indirect costs of the WEL were collected using the techniques recommended by and

Table III
Effectiveness of levels and techniques

Level	Category	Description	Techniques
1	Reaction	Training is subjectively reviewed by the trainees on completion. They give their personal views and impressions of the value of the training	Honey and Mumford "Transfer of learning questionnaire"
2	Learning	Measuring the amount of learning that has taken place in training, reliability and validity	Honey and Mumford "Transfer of learning questionnaire"
3	Job behaviour	Assessing how much the programme has affected the learners' work performance about six to nine months later	Structured interviews
4	Organization	The impact of the courses on the whole organization using criteria such as productivity and labour turnover	Impact on guest satisfaction survey, labour turnover and staff satisfaction survey statistics
5	Ultimate level	Trying to assess the effect of the learning on profitability and growth of the organization as a whole	Investment appraisal techniques

described earlier. The benefits could be directly attributed to the outputs arising from the work-based projects that were the most crucial element of both the CMS and MBA programmes. This emphasis on providing a workable solution to a work-based programme ensured that the outputs did have impact on the profitability and in fact one of the work-based project outcomes provided an immediately workable solution and in turn it is estimated has saved the WPLC £1.5 million in development and implementation costs.

Conclusions

The initial success of the pilot WEL has encouraged the WPLC to continue to work towards integrating learning and individual development into the overall strategy of organizational development. Action learning is recognized as a powerful tool in enabling relevant knowledge to be brought to the workplace, and as such helps individuals to learn with and from each other and in the process "transform" themselves and the organization.

The virtual university concept is viewed as the optimum route to effective workplace learning, offering real and clearly demonstrable potential for strong return on investment for the business. The concept reflects a number of realities: the workplace is the most significant area of learning for managers, the organizations people are key to business success and that workplace learning is a prime vehicle for corporate and business development.

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