

Making the Business Case for Learning and Development: 5 Steps for Success



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Introduction

Human resource and talent management professionals can turn today's economic challenges into opportunity and become true strategic partners by creating strong business cases for their learning and development initiatives. To do so, HR can no longer measure the return on investment (ROI) of learning and development after the programs have been implemented. Instead, they should calculate and anticipate the returns these initiatives will have on their organization's bottom line.

This white paper explores how organizations can retool their learning and development programs to reflect how they should be doing business and provides steps you can make to show your CEO and CFO the top and bottom-line value and the ROI of learning and development initiatives. With the proper focus and understanding of how learning and development programs contribute to corporate profits, spending on training and development will be viewed as an investment with the potential for strong returns rather than as a disposable business cost.

Our Promise

This white paper draws lessons from our work with a range of organizations. It outlines steps you and other learning and development leaders can take to show your CEO and CFO the top and bottom-line value and the ROI of learning and development initiatives.

These steps can change your own and your senior management's perception of learning and development programs and of the value these programs provide to the organization:

1. Know your organization's strategic priorities.
2. Understand how the learning and development function can contribute to those priorities.
3. Determine what learning and development programs will support the organization's strategic direction.
4. Build it with metrics.
5. Pitch it like you're the CFO.

With the proper focus and understanding, you can have leaders view training and development as a worthy investment instead of as a cost.



Step #1: Know Your Organization's Strategic Priorities

The turbulent economy of the past few years has put even seemingly recession-proof industries like health care and utilities on edge. Such volatility often makes it easier to think in terms of short-term survival, rather than long-range strategy. Yet it is crucial to focus on what is important (long-term strategic priorities), rather than on what is urgent (today's employee relations problem).

Make it your business—even a job duty—to know and understand your organization's strategic priorities and keep these priorities in mind when developing your learning and development programs:

Learning and development professionals who can show how their organizations' top and bottom lines ultimately improve from investing in training and development will grab the attention of senior management and quickly become a valued strategic business partner.

1. Read about your industry and organization on the Internet.
2. Learn about your competition.
3. Understand how your organization is rewarding its executives and how this compares to others in your industry.
4. Learn how your company is viewed externally and what your customers are saying about you—both positive and negative.

This environmental scan will help you understand and anticipate where your organization needs to be in three to five years, and how effective talent management can push your organization in this direction.

Gathering this knowledge will help you to communicate better with your top management and improve your ability to ask the right questions. These enhanced communication skills will also put you in a better position to offer human capital recommendations that align with your organization's strategic priorities.

An Example – Duke Energy

Top management at Duke Energy understands the value of long-term planning. At a time when most organizations slashed their training budgets, Duke Energy actually increased its spending on leadership development.



In 2008, the company launched the Strategic Leadership Program, intended to develop the next generation of leaders to be more strategic and less tactical in their thinking and actions.

The two-week program focused on developing the leadership skills of mid-level managers. Participants learned how to evaluate business decisions, how to execute business strategies, and then how to put the theory to practice:

- It started with in-depth sessions on understanding the industry and the business.
- During the first week, participants identified actual business challenges in their own business units and then developed solutions to address these challenges.
- During the second week, they worked on emerging company challenges identified by the senior executives.

The challenges had measurable bottom-line impact for the organization, and they piqued the interest and generated ongoing support of senior management.

According to a recent Bersin & Associates survey¹, corporate learning and development budgets were cut by 11 percent in 2009, and by a total of 22 percent since 2008.

¹ O'Leonard, K. (2010). *The Corporate Learning Factbook: Benchmarks, Trends and Analysis of the U.S. Training*. Oakland, CA: Bersin & Associates.



Step #2: Know How Your Department Contributes to Those Priorities

Understanding your organization's strategic initiatives will help you better focus on how the learning and development function can contribute to achieving these priorities. Two key questions to ask are:

1. How can your existing learning and development programs help support the business strategy?
2. What new learning and development programs may be needed to assist in achieving those goals?

Two Examples

For example, if your organization plans to expand its business internationally within the next several years, determine how the training and development function can support this goal. Will current employees need to do work overseas? If so, then evaluate the training that employees will need to succeed in these new business environments.

Will the organization need to hire new employees in other countries? If so, then careful thought should be given to the training needs of these employees, as well as to how to deliver the training efficiently and effectively overseas. Also, understand how those employees who do not work overseas will support the strategic objectives and develop training programs that align with those global priorities.

“Once senior leadership understands that your focus is the same as theirs, it leads to better support to obtain your goals.”

Lori Antieau
Vice President, Human Resources
Talecris Biotherapeutics

The impact of training and development on a strategic priority, such as expanding globally, can be multilayered, so it pays to think outside of the box.

Providing a clear picture of how work will change and preparing employees for these changes can be an invaluable contribution. Knowing what learning and development opportunities are needed to help employees adjust to new or changed roles can offer great results and pay back.



Step #3: Determine What Programs Will Support the Strategic Direction

Now that you understand your organization's strategic priorities and how the learning and development function can help make them a reality:

- What specific learning and development opportunities are needed?
- What existing training programs should be included or excluded moving forward?
- What new training programs may be needed?

Except for those required by law, evaluate how your existing learning and development programs support your organization's strategic direction. Keep those that support the strategic direction and discontinue the rest. And even with programs that are required by law, evaluate them to make sure they are working and getting the results your organization expects and needs.

For example:

- Is your organization developing a new product, service, or solution?
- If so, do you have the knowledge and skills in-house to design and deliver it?
- If not, can you help develop the knowledge and skills that will be critical to bring this new offering into a highly-competitive marketplace?

Examples for training and development may be preparing the sales force to sell the new product or building a customer-focused organization that can deliver it, particularly if it is outside your organization's normal offerings.

An Example – Caterpillar

Caterpillar, the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines, has done exactly this. Caterpillar has hundreds of locations worldwide to serve and support their customer base and to respond quickly to their needs.



- **79% of CEOs who responded in a recent PriceWaterhouseCoopers survey² said they intend to increase focus and investment on how to manage people through change. This includes redefining employee roles within their organizations.**
- **79% of CEOs in that same survey said they want to change their strategy for managing talent.**
- **68% said they intend to increase investment in leadership and talent development as a result of the global recession, suggesting that existing people practices did not support businesses when the global recession hit.**

Jose (Pepe) Brousset, regional director for Americas South at Caterpillar, focuses on how Caterpillar can maintain its leadership in the industry.

According to Brousset, "While we continue to invest in the differentiation of our products, we recognize that we need to change the (85 year-old) organization to become much more customer-centric. We need to understand, really, the solutions that our customers are seeking.

"Our talent development efforts are designed to drive this organizational change; to become more customer-centric, starting with top leadership and continuing down through the operating managers. In this way, we're able to transform the organization and impact the bottom line.

"To be successful, talent development needs to start with the leadership; they need to be committed to driving the culture change down through the organization. They also need to empower their managers and provide support. From there, it will cascade through the organization. 2

"At the operating manager level, our talent development efforts are designed to provide the training and tools to enable organizational change. We help our executives throughout the organization see their roles in supporting this strategy so they will better understand how their contribution drives results.

"As a result, we have a direct impact on market performance by imparting knowledge that drives the behaviors which will change attitudes."

² PwC Saratoga (2010). *Managing People in a Changing World: Key Trends in Human Capital*. PriceWaterhouseCoopers.

Step #4: Build It with Metrics

Too often, CEOs and CFOs view employees as depreciating assets, and frankly, learning and development professionals have given them little reason to change their minds. A recent McKinsey Quarterly report found that only 8 percent of respondents said they track the return on investment of training and development programs. Learning and development professionals must be prepared to show at the planning stage the top and bottom-line impact learning programs will have on the organization.

Measuring outcomes that have a real and demonstrable effect on the organization's top and/or bottom line is not as hard as it sounds. Learning programs can have measurable results such as increased sales or improved productivity. Reductions in recruiting costs from lower employee turnover and improved customer service also can have positive and very measurable impacts on corporate results.

However, no single set of metrics will apply to every program, so talent management professionals must be prepared to develop specific measurements for each program.

An Example - Boys and Girls Clubs of America

According to a recent McKinsey Quarterly report (July 2010), officials with the Boys and Girls Clubs of America (BGCA) analyzed and created a set of metrics when developing a leadership training program for more than 650 volunteers.



In 2007, BGCA management realized that an anticipated wave of retirements among local club leaders would leave them with a severe leadership shortage. With the changing demographics, this leadership gap is a consistent theme seen today in many for-profit and non-profit organizations.

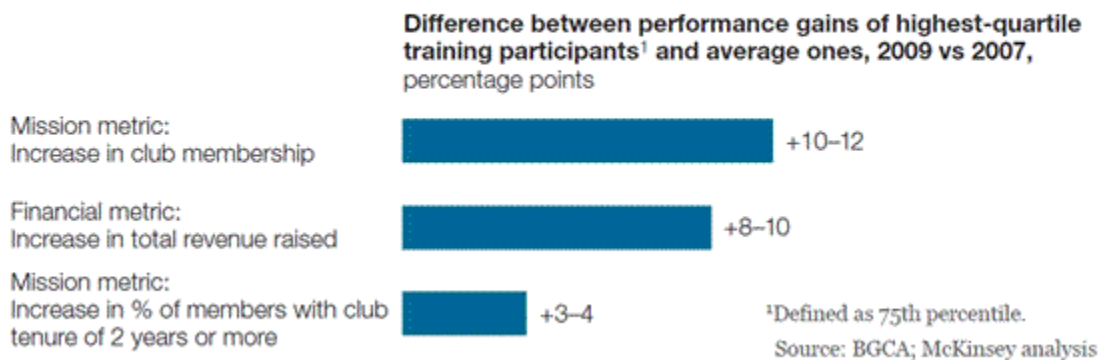
BGCA management also found themselves in a situation not uncommon among non-profit organizations; donors preferred that their money go directly to those in need and not to overhead costs like training and development. BGCA quickly understood they would have to make the business case for the leadership training at the outset and ensure that they could demonstrate how the training would pay for itself.

First, BGCA officials narrowed the focus of its leadership training down from 50 to 4 key aspects. They accomplished this goal by analyzing which leadership traits contributed the most to job performance. By designing a program based on leadership

aspects tied directly to performance, BGCA officials found that developing metrics and assessing the success of the program was straightforward and tied directly to the association’s strategic priorities.

BGCA compared the pre- and post-training results of leaders who completed the training program. The BGCA officials also gathered benchmarking data from a control set of member organizations that had similar characteristics, such as budget size and operating revenue; however, the leaders in the control group did not receive the training. The results for leaders who participated in the training programs were markedly better than leaders in the control group on every outcome measured.

Boys & Girls Clubs of America (BGCA) training attendees’ performance before and after training



Officials estimated that if all 1,100 member organizations matched the success level of the groups whose leaders participated in the training programs, then the BGCA would have added 350,000 new members and increased revenue across all its organizations by \$100 million—or approximately a 3 percent increase in the average local organization’s budget.

Estimated impact of Boys & Girls Clubs of America (BGCA) training program



Source: BGCA; McKinsey analysis

The BGCA officials also calculated that the training programs generated more than four times the return on the program’s cost—including the cost of time and travel for all the participants.

An Example – Duke Energy

Duke Energy also measures the success of its leadership program, but takes a venture capitalist view; if just one of the business plans generated from the program comes to fruition, the cost savings to the organization or the increase in revenue will pay for the program and more.



This is a lesson we can all be reminded of: Don’t be afraid to think unconventionally. According to Atul Nerkar, associate professor of strategy and entrepreneurship at the University of North Carolina’s Kenan-Flagler Business School, who was involved in the development of the Duke Energy program, "We wanted activities that lead to either cost savings or an increase in revenues. We wanted to show where [the program] impacts the top and bottom lines. This is a unique approach which we believe helps make the program pay for itself."

According to Mark Short, managing director of organizational development at Duke Energy, this venture capitalist approach to its leadership program has paid off. "We wanted to create an environment of innovation and empowerment; an environment where our leadership talent is encouraged to think outside of the box when seeking solutions, and they feel safe in pushing those solutions forward."

Talent management professionals must be prepared to develop specific measurements for each program.

"The impact from the program has been tremendous, both culturally and on the bottom line. You know the program has made an impact when every new participant in the program knows the successes of the preceding class, and they all strive to top."



Step #5: Pitch It Like You're the CFO

It's time to change your mindset and think like a finance person. As you identify how future learning and development programs can affect your organization's strategic priorities, you need to be able to make the business case to obtain and retain program funding.

This principle applies to both for-profit and not-for-profit organizations. The key to success for any organization is how to get the best returns from its available resources.

Your Assignment

This will require you to shelve your HR or training and development role for a while and start thinking about how your job and your department create organizational value. While HR professionals stress the need to get senior management support for training and development programs, it is unlikely that they will get or maintain this support without being able to demonstrate the effect on the organization's key performance metrics.

At the end of the day, training and development programs should not be seen by the CEO or CFO as a cost, but rather as an investment in the organization's human assets. An investment that you can demonstrate has a real, positive top and/or bottom-line impact.

In most cases, other departments or divisions within organizations have been doing this for years. Marketing and operations directors normally can make strong business cases and have measures in place to show how their functions and programs directly affect the organization's bottom line.

CFOs are not likely to support what appear to be disposable costs which offer no measurable positive impact to corporate profits—especially in tough economic times when resources are limited. However, a positive return on a cash outlay will elicit a completely different response from most finance officers.

"We have aligned our HR efforts more closely with the business strategy. Although there was some resistance from managers at the beginning, early and frequent communication and involvement of staff and managers in the development of new, more effective talent management processes has substantially reduced the resistance to change."

Milton E. Barrios
Assistant Senior Personnel Manager
International Monetary Fund

The challenge that many learning and development professionals face is calculating the return from what some call a "soft set" of measures.

"A basic rule of capital budgeting is to only fund investments where the net present value is positive; the challenge to HR and learning and development managers is how to calculate the real value that training and development programs add to the bottom line," said Robert A. Connolly, associate professor of finance at the University of North Carolina's Kenan-Flagler Business School.

"Since HR and learning and development projects generate human capital, change management processes, affect job satisfaction and have a direct impact on other hard-to-measure outcomes, these types of investments tend to be much more difficult but not impossible to quantify," Connolly says.

For example, how might one measure the impact of a cross-cultural training program for a business planning to enter the international market? Many times organizations tend to chalk up such a training exercise as a direct but necessary cost.

However, even a training program which appears to support a "soft set" of skills can have a hard and measurable impact on corporate profits by improving external and internal customer satisfaction. This satisfaction can be measured through customer or client retention, which in turn can directly affect corporate profits and costs savings.

The challenge that many learning and development professionals face is calculating the return from what some call a "soft set" of measures.

Conclusion

An organization's financial officer will be much more likely to fund learning and development proposals that project a return on the initial investment. Metrics such as customer retention and the positive impact repeat customers have on the bottom line can be ways to illustrate the efficacy of a learning and development program.

"Getting a seat at the table is imperative; however, you have to be a respected voice at the table or you are doing nothing more than keeping the chair warm. Business is the key word, not the kumbaya-hold-hands-and-sing-the-praises-of-people approach.

"Business means putting your numbers up and presenting your viewpoint or proposal from a quantitative instead of a qualitative approach."

Carrie Alden, SPHR-CA
Human Resources Manager
Sierra Nevada Brewing Co.

The trick is learning to use a financial perspective to view the possible outcomes of learning and development programs and then apply the appropriate metrics to project the possible returns. As most any financial professional will tell you, it's not an exact science. No one can predict the future with 100 percent accuracy, so cost and return projections which provide best and worst-case scenarios and the probabilities of success are what CFOs think about and want to see.

Simply put, do your homework. And if that homework clearly shows how learning and development programs offer a strong return on investment on the organization's performance metrics that matter, then a business will be much more likely to provide the resources. It's a formula for success that many top organizations (both profit and not-for-profit) are now using.

About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We call this approach [The Power of Experience](#). We combine traditional with experiential and unique learning. Through action learning and business simulation activities, we challenge participants to think, reflect, and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty, and program managers. This integrated approach consistently drives strong outcomes.

Our Approach: The Results

Our executive education programs are designed with results in mind. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined
- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business, and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

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