ROI + Training = ISO 10015!

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Why invest in training?

Globalisation continues despite the current economic downturns and political uncertainty. Competition for market shares and customer loyalty has pitted companies against each other competing on price, innovation and services. Global supply chain has become the business norm rather than the exception, even for smaller firms, in order to create greater value for the customers and to achieve business sustainability. This trend is best seen from the foreign direct investment (FDI) figures, which reached 1.3 trillion US dollars (2000)[1]

For the advanced industrial countries, the firm's competitive advantages are increasingly residing in its superior innovation capacity and the firm's intellectual properties and capital. The more traditional advantages of OECD countries in terms of production know-how and quality have been eroded by companies from newly industrialised countries (e.g., South Korea, Taiwan, Singapore) and developing countries (e.g., China, India).

Global competition coupled with technological innovation has shifted the European and North-American economies from industrial production to knowledge based production of goods and services. Knowledge based capital concretely means acquiring or generating patents and products through research and development, which in turn requires ensuring increasingly sophisticated skills and knowledge levels of human resources. While companies are applying varied strategies to stay ahead of the global competition, the value of human capital of the OECD countries would be put into jeopardy without continuously investing in their workforce's skills and knowledge capital.

Investment or Expenditure?

Keeping pace with the changing demands of market conditions and workplace practices, companies have to continuously re-invest and upgrade the competence profile of their human resources. Yet while most of the managers recognise the need to attract, develop and retain a highly skilled and innovative workforce, few managers feel comfortable with the idea of investing in people, especially when the profit margins have dwindled and market conditions become increasingly tough and competitive. In times of economic stagnation or recession, investing in people is often seen as a luxury rather than an investment. Instead, cutting expenditures predominates top management's thinking and budgets for training get cut without taking into account the potential future erosion of its current competitive advantages.

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[1] *World Investment Report*, UNCTAD, 2001

This discrepancy between espoused value ("people are our most valued asset") and actual practice can be attributed to different sources. One reason being those enterprises are not requested to report on training investments to shareholders nor to society at large. Therefore there is no external accountability regarding managerial responsibility in safeguarding its human and intellectual capitals.

The other reason, even more important in terms of making investment decision, is the fact that most managers do not know how to assess the return on investment in training, nor are they equipped with the necessary management tools to monitor the decision making process of such investment. How can one know that the money paid for staff training will return in form of more efficient and effective work processes or new and more competitive goods or services? How can one measure the benefits of training and how could one amortise investments made in human capital? How can a company be sure that newly trained staff, the most important assets of today's working world, does not simply walk off and take with them the newly acquired knowledge and skills?

Major companies in North America and Western Europe spend up to 2% to 3% of the total payroll [2] on training amounting to millions of dollars in training for a large company are not as thorough in scrutinising the training investment as investments made in other domains. Why is it? Is it because that training continues to be treated as expenses rather than as investment into company's capacity to compete and to innovate? Is it because the schooling is much more solid in Switzerland and therefore little additional training is necessary, despite the speed of knowledge development and paradigm shift?

[2] The 2001 ASTD State of the Industry Report, American Society for Training Development.

What benchmarking facts to consider?

The questions raised above are true for all of our companies. Managers are concerned with justifying and are anxious in safekeeping their investment. Their staff could leave the company without the company having already recuperated sufficient return on its investment in training. After all mobility and labour turnover is part of the labour market conditions.

Successful companies have to manage this dilemma and invest anyhow since the competition abroad does not stop investing in people! For example, US employers spent in average US$ 677.00 per employee in 2000[3] representing an average 2% of payroll or 10% if indirect costs are factored into the total costs. All this exists despite the seemingly relentless price competition and a highly mobile US labour market, which is much more flexible than is the case in Europe.

Example could also be found in Europe. In a recent survey of 1,200 companies in Ireland, one of the most dynamic economies of Europe, training constituted in average 3.01% of payroll in 2001[4]. This might partially help to explain the dynamism of the Irish economy.

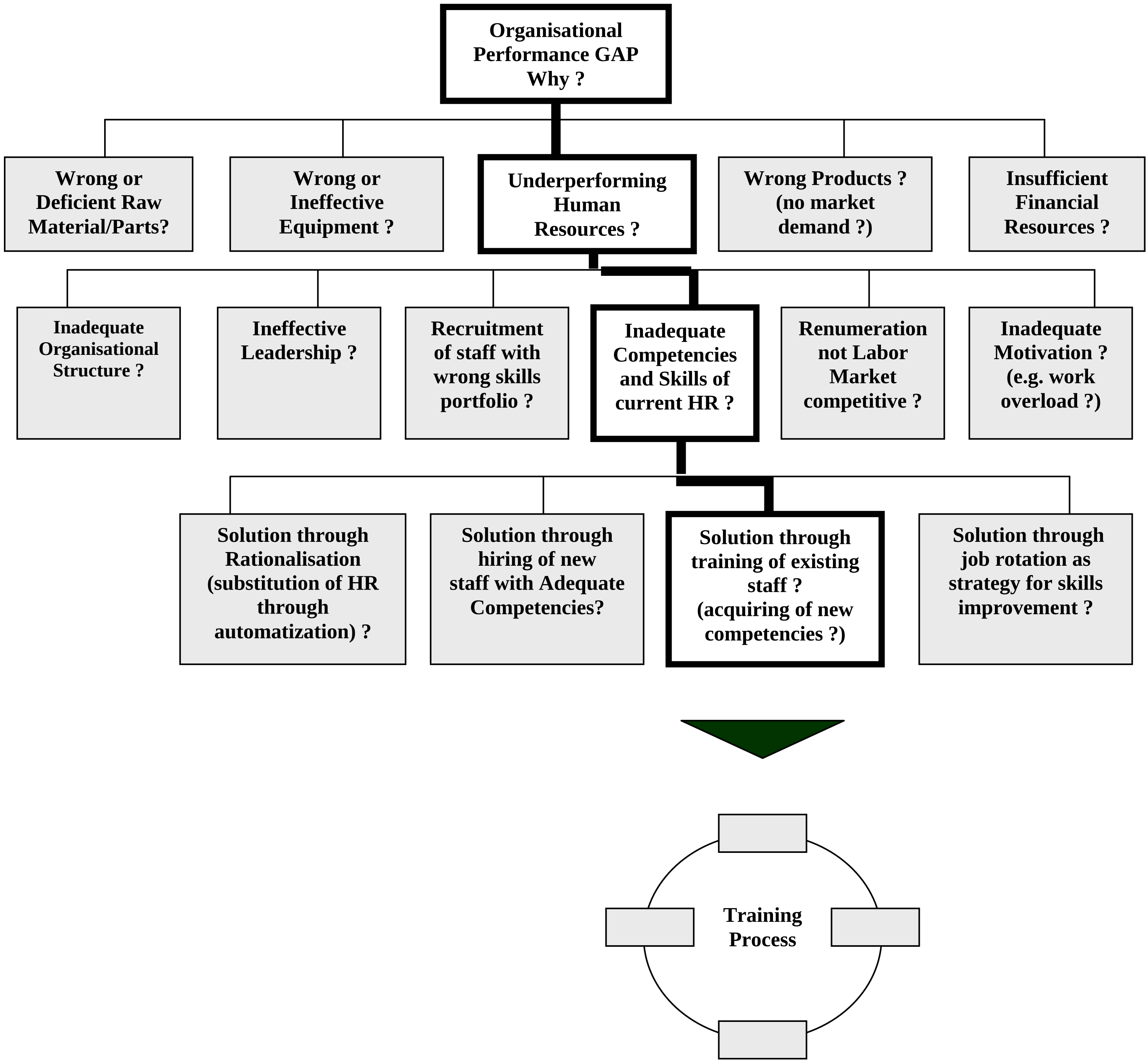
How to measure Return on Investment (ROI)?

Measuring return on investment in training is difficult but not impossible. ASTD (American Society for Training & Development) started to collect data on companies training investments since 1997 on a continuous basis in order to find answers to the question: does it pay to do training?

[3] ditto

[4] Training Survey, 2001, Graphite HRM Ltd., www.hrmaster.com/hr-info/hr-practice/training/training-survey.htm

Figure 1: Why Training?
(Elucidation of ISO 10015 Training, 1999, Figure 1, p.V)



Data was collected from over 2,500 firms and measured against TSR (stockholder return) which is defined as the change in stock price plus any dividends issued in a given year. The findings were unequivocal. Firms with higher training investments in 1996, 1997 and 1998 showed higher TSR the following year[5]. The sample of firms' survey included some European companies who showed similar causal links between higher training investment and TSR.

These pioneering findings help to confirm the often intuitively held belief that training does pay off in terms of company performance. It supports the argument that investment in people could impact the bottom line. Like all investment portfolios, investment in training does not automatically result in organisational performance improvement without smart strategy and competent management. Training management also requires vision, strategy, expertise AND management tools.

Hence one key question remains unanswered but needs to be addressed -- how can a company ensure quality of training investments so that optimal return is guaranteed?

What about quality of training investment?

What quality system could best support a company or a government agency in improving the efficiency and effectiveness of training? Different quality standards and instruments exist in the market, such as ISO 9000, the European Foundation for Quality Management (EFQM), or some form of Total Quality Management systems.

Many companies have used either of the three quality instruments mentioned above with mixed results. Some felt these standards were sufficient, others considered the three instruments as being too bureaucratic, too industry oriented and not sufficiently adjusted to the peculiarities of the training process. A survey of seven countries indicated a trend away from the three traditional quality instruments.[6]

Responding to the growing demand for more sector specific quality instruments of training, new quality systems have been developed to target different elements of the training process. For instance EduQua[7], a private and non-ISO based certification organisation operating within Switzerland, offers quality certification of training institutions in Switzerland focusing on training institutions' physical infrastructure, training curricula and teaching capacities. As means of ensuring adequate professional standards of trainers, tests and diplomas are being offered in Switzerland by the Swiss Federation of Trainers in Enterprise (FSFE)[8] and by the Swiss Federation of Adult Education (FSEA)[9]

None of the quality instruments mentioned, however, address the actual pedagogical process itself and the interaction between organisational performance objectives and the training intervention within companies or public organisations. An alternative quality management and assurance tool has become available to respond to this need.

ISO 10015: the new solution to the quality question

Realising the need for more sector specific guidance of quality assurance of training, a working group was created within ISO to draft a guideline standard for training. Twenty-two country representatives developed the draft text over several years culminating in the publication of a final official standard ISO 10015 issued by the

[5] L. Bassi, J. Ludwig, D. McMurrer, M. VanBuren; "Profiting from Learning: Do firms' Investements in Education and Training Pay Off?, Research White Paper, ASTD, Washington, September 2000.

[6] Raymond Saner; "Quality Management in training: generic or sector-specific? ISO Management Systems, Geneva, July-August 2002, pp 53-62.

[7] www.eduqua.ch

[8] www.fsfe.ch

[9] www.alice.ch

ISO secretariat in December 1999. The new ISO standard offers two main advantages namely:

a) being based on the process oriented concepts of the new 9000:2000 ISO family of standards and being easily understandable for companies used to ISO related Quality instruments; and
b) being a sector specific, that is pedagogical oriented, standard offering companies specific guidance in the field of training technology and organisational learning.

What follows is the description of two key features of the new ISO 10015 standard.

a. Linking training investment with company performance

While it can be useful to test the professional competence of trainers or certify the pedagogical concept of training programmes, the key to assessing return on investment of training is its link to company performance. When asked the question why do you pay for training, a company should be able to link the decision to conduct training with concrete performance needs of the company. In other words, the key client is the organisation, not only the persons being trained.

Looking at the diagnostic tree below (Figure 1), a company has to recognise first what is the performance challenge it faces and what are the causes of this challenge. For instance, if sales have diminished, a company should first attempt to find out why. Is it because the wrong products are being produced, or the right products are being sold to the wrong markets?

Is the quality of products deficient because the machines are old and often break down? Is it because the company is illiquid and cannot pay for the maintenance of its production equipment? Is the quality of services poor because the staff is not equipped to deal with customers' requirements and complaints?

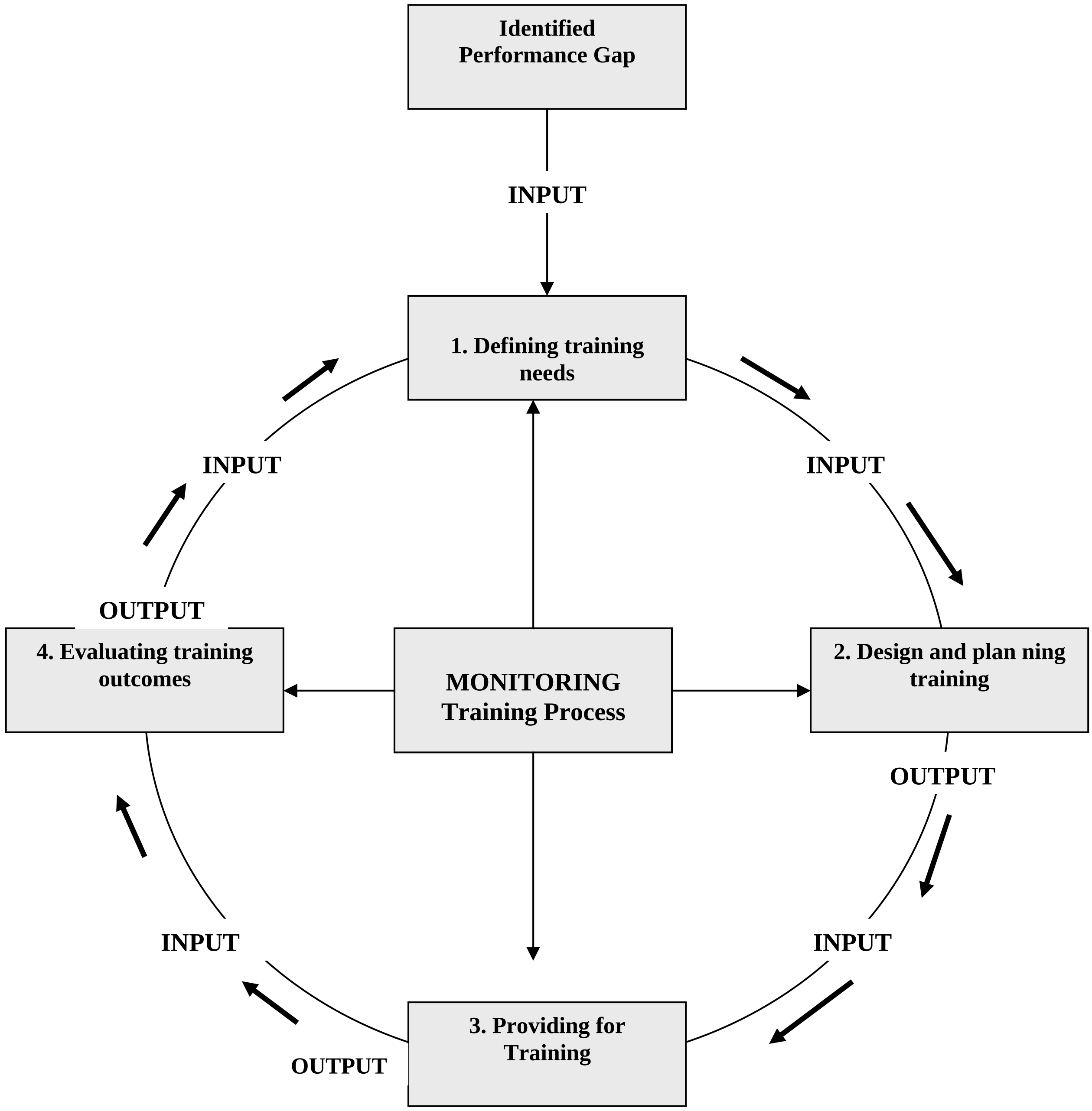
Following this differential decision tree, if the performance gap is linked to under-performing human resources, then the company should ask itself, why do our people under-perform -- Is it because their competencies do not fit the job requirements? Are they remunerated below labour market standards and hence de-motivated or ready to leave the company? Is leadership deficient and staff are simply de-motivated? If none of the above is applicable, it might be that their under-performance is due to the skills set of the current employees. Then training could be the right solution, provided that replacing of existing staff or hiring of new staff with the adequate skill set are considered unfeasible.

ISO 10015 in this regard offers a clear road map in guiding the company to make sound training investment decisions by asking the top management to connect training to performance goals and use it as a strategic vehicle for individual and collective performance improvement. As a result, the success of training is not only measured by whether individuals have improved their professional competence, but also whether individuals have positively contributed to the company's performance because they benefited from effective in-service training.

b. Organising training on the basis of pedagogical principles and processes

Training as an intervention strategy will be called into place once a company has determined that training of the current staff is the optimal approach to close the performance gap. Consequently, the next critical phase of investing in people is that of establishing an appropriate training design and effective learning processes. In this regard, ISO 10015 serves as the management tool to ensure that training is organised efficiently in its use of resources finances, time and energy) and effectively in closing the performance gap.

Figure 2: Input-Output Process of Training
(Elaboration of ISO 10015 Training, Figure 2, p, 2)



Following the well-known Deming Cycle, ISO 10015 defines training in a four-step process, namely, Analyse-Plan-Do-Evaluate. Each step is connected to the next in an input and output relationship (see Figure 2). As a quality management tool, ISO 10015 helps to specify the operational requirements for each step and establishes procedure to monitor the process. Such transparent approach enables training management focusing more on the substantive matter of each training investment rather than merely controlling of the expenditure.

Unlike other quality management systems, ISO 10015 helps a company link training pedagogy to performance objectives and link evaluation with the latter as well. Such a training approach provides companies with constant feedback regarding its investment in human competencies. Similarly, at a higher aggregate level, ISO 10015 offers companies the opportunity to examine their training models and to validate their training approaches and operating premises by the use of comprehensive data.

Conclusion

For sustainable business development, companies need more urgently than ever to invest in people. Only the quality of company's human capital can ensure long term competitive advantage in knowledge economy. In a knowledge based economy, training is "mission critical" and should not be considered as an activity "nice to have" and therefore dispensable at times of economic difficulties.

Training, as one of the most frequently-used approach to invest in people, needs to be managed carefully like any other major investment. ISO 10015 offers a new and sector specific quality management tool to ensure the link between training and organisational performance needs. It also offers a transparent and easy to follow process in ensure the sound logic between the four steps of any training process.

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Organisations interested in ISO 10015 Certification and Registration may contact Adequate/CSENDat: info@adequate.org or get more information at www.adequate.org

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