Study Says Employee Training Increases a Company's ROI
By David Essex

There's little debate that companies should invest in their people by offering training and other educational opportunities. But such investments are usually swept under the rug as expenditures best kept from the eyes of frugal shareholders. Now an effort is afoot to prod companies to view employee training as an investment -- even to report it in their financial statements alongside R&D and capital expenditures.

Evidence suggests that the money will come back in enhanced shareholder value.

That's the conclusion of the American Society for Training and Development (ASTD; based in Arlington, Va.), a professional association of 70,000 corporate-learning specialists around the world. It routinely collects detailed training data for its benchmarking service, and by last fall had accumulated enough data from 575 US companies between 1996 and 1998 to show a link between training expenditures and total stockholder return (TSR). The study, entitled "Profiting from Learning: Do Firms' Investments in Education and Training Pay Off?" provides new ammunition for anyone who needs to make the case for employee training programs.

Why training pays ASTD defines a company's TSR as the change in its stock price plus dividends, calling it the best measure of a stockholder's actual return. ASTD found that companies that spent $680 more per employee per year than the average company increased their TSR by six percent the following year. These top companies had a 37 percent TSR, while companies investing below the average (ASTD doesn't give a figure for this average in its report) had an average TSR of 20 percent, compared to a 26 percent return of the Standard & Poor's 500 index. The top quarter of the study group spent $1,595 per employee, while the bottom quarter spent just $128. ASTD can't reveal the companies that participated.

Skeptics might hunt for other causes for these figures. Perhaps productivity-enhancing IT expenditures boost TSR, or perhaps some industries simply have inherently higher returns. But the ASTD applied "a more sophisticated statistical model" that employed multivariate regression and still found a positive effect from training. With employee education factored in, the model's ability to predict TSR growth improves by 50 percent.

The study notes that training probably influences TSR indirectly by positively affecting other "productivity indicators" that the market recognizes. "We do know from our research that employee retention is higher at companies that have significant training efforts," says Mark Van Buren, ASTD's director of research and the study's coauthor. He adds that "more of the firms that lead in terms of investment in training are in the IT sector."

While it's too early to say which types of training are most effective, the data is yielding some answers that ASTD may soon publish in a report, Van Buren says. "The training content that matters most is IT training," says Laurie Bassi, another study coauthor. Bassi is director of research at Saba Software (based in San Francisco), a maker of corporate-training software. This holds true for both major types of IT training technical training for specialists and the basic computer-skills training offered to all employees. Bassi adds that preliminary indications show that so-called e-learning – courses delivered over the Internet or corporate networks -- may not be as effective as classroom training and other traditional educational techniques. However, Internet-delivered training is a lot more economical.

SEC Reports

Having established training's ROI, ASTD advocates that publicly traded companies report training expenditures in the quarterly and annual financial reports they file with the federal Securities and Exchange Commission. This would accomplish two important things, the study says: it would provide investors with new information that could improve their portfolio performance, and it would give managers increased confidence that they would be rewarded in the marketplace for putting money into human capital.

A related advocacy effort is underway at the Brookings Institution (based in Washington, D.C.), which will soon publish a report, entitled "Unseen Wealth," detailing the conclusions of a task force studying the importance of intangible assets in today's knowledge-based economy. Steven Wallman, a former SEC commissioner, co-wrote the report; Bassi is chairperson of a subgroup that worked on the human-capital component.

Brookings and the ASTD want the SEC to require companies to report human-capital investments such as training expenditures, but they say that the wheels of bureaucracy have been slow to turn. "The SEC seems unwilling to embrace change," Bassi says. "Realistically, the best we can hope for is some companies will see it in their interest to report things voluntarily." Says Van Buren: "We have had conversations with the SEC. Their position is they have a pretty good system right now."

"The commission does not have anything on the table at the moment," admits SEC public affairs officer John Heine. He adds that the SEC often takes its financial-disclosure cues from the Financial Accounting Standards Board (FASB; based in Norwalk, Conn.), the group that promulgates the familiar Generally Accepted Accounting Practices (GAAP). Tim Lucas, FASB's director of research and technical activities, says the profession is struggling with how to quantify intangibles. "These are hard questions. For one thing, the definition of training can be troublesome, " he says.

One Company's Top-level Commitment For all this to happen, companies need standard metrics for evaluating their training efforts. ASTD provides several such tools at its Website (see Resources), including the benchmark service that gathered the data in the TSR study. Beware: it takes a lot of heavy lifting to fill out the questionnaire. You must answer detailed questions in a 51-page measurement kit, but your reward is a free report comparing your company to others in ASTD's database, Van Buren says.

One company that scored high in the benchmarking service is Wisconsin Public Service, (WPS; based in Green Bay, Wis.), which ASTD named a training investment leader in its 2000 State of the Industry Report. WPS maintains close partnerships with five nearby technical colleges. "What we have done is create a kind of a branch campus at our locations," says Frank Quisenberry, a WPS organizational-learning consultant. Typically, the colleges provide professors who teach WPS managers how to teach. The professors and the WPS staff also jointly develop online learning systems, the focus of much of WPS's recent efforts. While the company doesn't yet show training expenditures in its annual report, the CEO is a training champion and touts the effort publicly.

Quisenberry says the most effective types of training seem to be computer-related or technical -- say, giving meter readers who would otherwise fall victim to automation a chance to learn new skills within
the company. Retention is such a corporate value that Quisenberry seems to have little patience with the old-school fear that employee training will only pay off for your competitors. Says Quisenberry: "If you don't do it, they're going to walk out the door faster."

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