How Much Should You Invest in Education?

By Jack J. Phillips

Learning and development in organizations in the past decade has transcended from low-level activities to high-profile contributors to organizational success. Budgets are growing at a faster rate than the gross national product. External learning suppliers are now large enterprises. In the midst of this growth and increased influence, many executives are left with a perplexing question: Just how much should be invested in learning and development? The answer is not easy. The actual level of expenditure needed is often an elusive figure. This article explores five basic strategies to help CLOs determine the level of investment in formal learning and development for their organizations.

Let Others Do It

This strategy is simple: Let other organizations provide the necessary training and then recruit fully capable employees from those organizations. A variety of organizations use this philosophy and recruit only the best. While these organizations pay a premium wage for capable, ready-to-contribute employees, they avoid a significant internal investment in learning and development. A few smaller firms, struggling to operate efficient, lean organizations, pursue this strategy as a cost-effective approach to learning and development.

An obvious advantage of this strategy is that it serves as an immediate fix for a struggling company that cannot afford serious learning and development initiatives. In the short term, costs can be reduced as organizations forego the tremendous expense of developing and implementing a variety of programs. Also, some organizations do not have the resources, staff or capability to develop critical employee skills.

This strategy is advocated by Lester Thurow, a noted economist who recommends that employers invest only in necessary job-related learning. Thurow argues that building skills and competencies beyond what is needed on the job now is only creating a situation for the employee to be recruited by others who need the additional competencies.

While this strategy has some advantages, serious concerns begin to emerge. The image of firms preying on the employees of other firms often has negative repercussions. Also, because premium wages are paid, compensation expenses can be above average and ultimately cause long-term financial stress. Excessive turnover may become a problem as new recruits, realizing that the organization is not investing in desired learning opportunities, leave after a short period of employment.

Invest the Minimum

This strategy involves investing only in required or essential job-related skills. With this approach, little or no resources are devoted to preparing employees for future jobs or in developing skills or knowledge that they can apply in areas beyond their immediate work routine.

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This strategy is attractive for many organizations and is based in part on the evolution of on-the-job training. In this approach, the learning is related to the job and is provided only when necessary—an idea that is still attractive for many firms.

When pursuing this strategy, it is important for organizations to have mechanisms in place to facilitate learning on the job. Supervisors or team leaders must accept the responsibility to conduct much of the training. On-the-job training conducted by peers and team members, along with the use of technology and job aids, can also be a part of this strategy.

The advantage of this strategy is that it is a low-cost approach with limited resources expended beyond on-the-job provisions. The approach is also efficient because training is provided only when it is needed and only to those people who need the training. Another important advantage is that this process adjusts to changing learning needs. If efficiency and low costs are needed, a short-term focus is critical and the workplace skills are simple, this approach may be a logical and practical strategy.

On the downside, this strategy is very limiting, providing employees little opportunity to stretch beyond their current job context. It may also be shortsighted because preparation for future jobs is largely ignored. When technology changes or customer requirements shift, employees may not be prepared for job changes or may struggle to adapt to new processes. Also, this strategy may stifle growth and innovation, since it does not prepare future leaders or prepare individuals to seek new approaches and generate innovative ideas.

Invest With the Rest

This strategy involves investing at the same levels as other (usually best-practice) organizations. With the continued interest in benchmarking, this strategy is very attractive. The challenge with this approach is to locate the appropriate benchmarked data and take steps to ensure that they are considered best practices.

Because of the importance of human resource development (HRD), several benchmarking sources are available. Perhaps the most dedicated resource is the American Society for Training and Development (ASTD, www.astd.org), which provides a range of benchmarking data, including investment measures. One important advantage of ASTD data is that investments in other countries, as well as the United States, are sometimes included. In this very column, on a bimonthly basis, CLO magazine covers the learning investments of its Business Intelligence Board. The American Productivity and Quality Center (www.apqc.org) provides benchmarking data on investments in HRD. Also, the Saratoga Institute (www.pwcservices.com/ saratoga-institute/index) develops human resources data with HRD investment data included. In the United States, Canada and Europe, the Conference Board (www.confer ence-board.org) provides benchmarking studies on HRD investment. The Corporate Executive Board (www.executiveboard.com) is dedicated almost exclusively to benchmarking and research services. The Corporate University Xchange (www.corpu.com) focuses on developing, launching and maintaining corporate universities, and has limited data on investment in HRD.

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When using this strategy, the interpretation of the data becomes an important issue. As with other benchmarking projects, a variety of measures are available. (See Figure 1.) Perhaps the most common measure is the investment as a percentage of the firm's payroll. The average in the United States is about 1.2 percent; best-practice firms spend about 3 percent to 5 percent. The data can vary considerably depending on the definition of actual investments. Unfortunately, there is no agreement on what costs should be included. Some measures include direct and indirect costs, while others include only direct, out-of-pocket expenses. The actual investment per employee can also vary considerably. The typical measure is the direct cost of learning divided by the number of employees and averages from $1,000 to $1,200. Other measures focus on expenditures as a percentage of revenue or a percentage of operating expenses.

Figure 1: Benchmarking Measures

- Total expenditures (direct)
- Total expenditures (direct and indirect)
- Total expenditures as a percent of payroll
- Total expenditures as a percent of revenue
- Total expenditures as a percent of operating expenses
- Total expenditures per employee
- Total days of learning per employee
- Total hours of learning per employee

The advantage of this strategy parallels the benefits of benchmarking best practices. An abundance of data is available. If the benchmarks represent best practices, the data may reflect what many organizations desire to achieve. Also, benchmarking has become an accepted approach by many senior managers who are eager to compare investments with others they admire and respect.

Several concerns surface with this strategy. What one organization invests is not necessarily what another needs. Each organization is unique with regard to its employees, systems, product lines, philosophy and markets. This may require a larger or smaller investment than a best-practice firm. Also, benchmarking to an artificial level of investment sometimes leads to inefficiencies where the organization may require programs just to meet the minimum requirements. This situation is common when there is a specific target number of hours or days devoted to formal learning programs.

Invest Until It Hurts

This strategy involves excessive investments in learning and development. An organization following this strategy focuses an extraordinary amount of resources on learning activities, essentially meeting every request.

Several forces contribute to a potential overinvestment. The desire to develop a learning organization causes organizations to invest–sometimes excessively–in a variety of approaches to learning programs, solutions and activities. Another force is the continued acceptance and growth of corporate universities. With a corporate university in place and resources available, there may be pressure to use them to ensure efficient program delivery. This may cause the organization to support learning just to fill seats.

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The third force is the proliferation of nontraditional delivery options. Fueled in part by innovations in technology, organizations are implementing a myriad of alternatives for making learning more accessible and appropriate for a particular audience. Along with this investment in technology and alternative sources comes a push to make sure that these tools are fully utilized.

The existence of this strategy raises an important question: Could an organization spend too much effort developing skills and knowledge for its employees? With today's changing environments, new skills and knowledge are required for continued growth and development. However, it is possible to spend more than necessary. When employees spend too much time in training, not only do the costs increase, but employees are taken away from other important activities as well.
Proponents of excessive investment point to the relationship between employees' desire to learn and job satisfaction, which ultimately influences their decision to stay with the organization. They believe a full array of learning opportunities will actually reduce turnover. For an organization struggling to become an innovative leader, additional learning can lead to new ideas, techniques and methods, which can translate into improved business decisions. Also, in a rapidly changing world, the skills needed in the future are not fully known. Providing employees with a full range of learning opportunities may pay off in the future when those skills are ultimately needed.

This investment strategy will create excessive cost because it represents an inefficient approach to delivery. All types of activities and programs will be developed, not necessarily based on business needs or legitimate requests, but rather on employee preferences. Overinvestment may actually lead to higher turnover. Employees sometimes develop skills for future opportunities on their own, which may create false expectations. Opportunities may not surface as quickly as employees desire or expect. Consequently, they leave.

Invest Whenever There Is an Acceptable Return on Investment
This final strategy is simple in concept, but a challenge to implement: Invest as long as there is a return on investment (ROI) in learning programs. This strategy requires measuring the payoff of learning for a few selected programs—but evaluating every program at some level. In the programs selected for ROI analysis, impact data are converted to monetary values and are then compared to the actual costs (investment) to calculate the ROI. The level of investment should be increased if the return is positive.

While measuring ROI is challenging, the good news is that it is being accomplished by a rapidly growing number of organizations. ROI is the ultimate level of evaluation and is considered by some executives to be the most appropriate measure to determine the level of investment. For them, matching the investment with the return is the economic approach to learning system accountability.

Almost all stakeholders will agree it is time to review learning expenditures with more economic scrutiny. When coupled with other measures, ROI provides a balanced perspective to determine the payoff of training. The ROI process develops a scorecard of six types of data: reaction to the program, learning, application, impact, return on investment and intangible benefits. These types of data show the effectiveness and efficiency of learning and development, and how it can be improved or enhanced.

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This approach guarantees a strong link between business needs and learning since the ROI process is based on the fundamental premise of beginning with the end in mind—using predefined business measures to determine the success of programs. The data from this process represent the best information to secure increased support for learning, particularly with middle-level managers. When managers are convinced that learning and development programs are improving their business units and helping them reach critical goals, they will support learning.

Which Strategy Is Best?

The appropriate strategy is not the same for each organization. Several questions must be considered when developing the proper investment levels. More than anything else, resources and economic constraints are important influences that help determine the proper investment strategy. The complexity of the organization, the commitment and attitude of the learning staff, and the strategic direction of the organization will drive a particular investment strategy because many investment options rely on the overall direction of the organization.

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