



# TALENT DEVELOPMENT

## THE ROI OF MENTORING, COACHING, AND OTHER EMPLOYEE DEVELOPMENT PROGRAMS

*IT'S NO SECRET THAT ORGANIZATIONS WHO INVEST IN EMPLOYEES ARE TOP PERFORMERS. PROGRAMS LIKE MENTORING AND COACHING ARE INCREASINGLY POPULAR METHODS FOR DEVELOPING AN ORGANIZATION'S TALENT POOL. HOWEVER, HOW DO YOU KNOW IF THESE PROGRAMS ARE EFFECTIVE IN IMPROVING ORGANIZATIONAL PERFORMANCE? AND HOW DO YOU KNOW IF YOUR INVESTMENTS ARE PAYING OFF?*

*WE INVITE YOU TO READ THIS SHORT EBOOK TO LEARN THE IMPORTANT FACTORS TO CONSIDER IN CALCULATING YOUR ORGANIZATION'S RETURN ON INVESTMENT (ROI). AS A BONUS, SEE THE READINESS CHECKLIST AT THE END TO GET YOUR ROI CALCULATION STARTED!*



**CHRONUS**

Mentoring & Talent Development Solutions

## THE ROI OF INVESTING IN YOUR EMPLOYEES

Top performing organizations invest in their employees. This fact is borne out by reviewing the list of best companies over the past few years. Whether it is Forbes' "Best Companies to Work For" or Global Finance's "Top Twenty-Five Companies to Watch," Apple and Google top the list—both companies well known for valuing employee development. But it doesn't take the resources of these technology giants to reap immense gains from investing in the development of your employees, or as they are more descriptively termed, your organization's talent.



There are a number of strategies for developing talent and most organizations engage in some of these activities. But effective organizations, what Bersin—a Deloitte research firm—terms high-impact learning organizations, invest in more than just the basics. They engage in focused

development activities designed to advance individual and organizational performance. Some of the most effective activities are targeted mentoring and coaching.

When Booz Allen Hamilton designed their LINK Program, a diversity mentoring program, they were addressing the need for a diverse pipeline of leaders. (Due to a variety of circumstances they were experiencing a pinch in the middle.) They were also trying to realize their goal of linking diversity and inclusion groups to a formal mentoring practice in order to better align these efforts with business goals. How did they know that the LINK Program has been a success? They defined clear metrics and conduct periodic evaluations.<sup>1</sup>

In order to effectively evaluate the impact of your talent development initiatives, there are a number of factors to consider in measuring your organization's return on investment (ROI).

# 5

### ELEMENTS FOR MEASURING THE ROI OF YOUR TALENT DEVELOPMENT PROGRAM

- 1 RETENTION
- 2 ENGAGEMENT
- 3 ADVANCEMENT
- 4 PROGRAM COST
- 5 BEHAVIORAL CHANGE



<sup>1</sup> Bersin and Associates, Case Study: Mentoring for a Diverse Workforce, September 2012

## 5 ELEMENTS FOR MEASURING THE ROI OF YOUR TALENT DEVELOPMENT PROGRAM

### 1 RETENTION

Everyone knows that attrition costs organizations money. There are the hard costs associated with replacing an employee (off-boarding the previous employee and hiring the new employee); there are the softer transition costs (on-boarding, knowledge transfer, lost productivity); and there are the even more difficult to quantify (but essential to consider) costs of long-term disruption to the organization's talent pipeline.

An effective talent development program should increase retention of targeted employees. To measure the impact of increased retention or reduced attrition, you can use the organizational cost of

replacing an employee (as defined by your organization) multiplied by the overall change in attrition. Remember to segment your employee population so you are only evaluating the change relative to the population you are targeting for your talent development program.

There are several methods for determining the cost of attrition. Perhaps the simplest is to calculate it based on the salary of the replaced employee. 150% of the base salary is the percentage most commonly cited.<sup>2</sup>



**! TURNOVER COSTS ARE OFTEN ESTIMATED TO BE 100% - 300% OF THE BASE SALARY OF REPLACED EMPLOYEE (150% COMMONLY CITED).**

- SHRM, "MEASURING AND MITIGATING THE COST OF EMPLOYEE TURNOVER"

<sup>2</sup> Incentive Talent Consulting, LLC, SHRM Webcast: Measuring and Mitigating the Cost of Employee Turnover, July, 2012

5 ELEMENTS FOR MEASURING THE ROI OF YOUR TALENT DEVELOPMENT PROGRAM

2 ENGAGEMENT

Gone are the days that organizations talk about and measure employee satisfaction. While satisfaction may correlate with retention, it doesn't tell an organization anything about employee productivity or other drivers of business outcomes.

*HAVING AN EFFECTIVE TALENT DEVELOPMENT PROGRAM WILL POSITIVELY IMPACT EMPLOYEE ENGAGEMENT LEVELS AND ORGANIZATIONAL OUTCOMES.*

Enter employee engagement, a measure of the emotional commitment employees have to the work and their company. According to Gallup, a global research, analytics and consulting organization, there are 30 million engaged employees in the United States and they are the ones

who "come up with most of the innovative ideas, create most of a company's new customers, and have the most entrepreneurial energy."<sup>3</sup> Effectively, engaged employees drive strong organizational performance.

Based on extensive research, we know that a key driver of employee engagement is providing learning and development opportunities.<sup>4</sup> Having an effective talent development program will positively impact employee engagement levels and organizational outcomes. But the key is evaluating the impact of these programs by measuring its effect on employee engagement. When doing so, remember to segment your data so you can target your analysis to the population being developed.



DEVELOPMENT PERFORMS

Opportunity for learning and development is a top driver of engagement. Of the 11 general topics, learning and development opportunities was the second highest ranking item to drive engagement, more important than leadership, culture and compensation.

ENGAGEMENT DRIVERS BY TOPIC IN RANK ORDER:

1. WORK PROCESSES
2. LEARNING & DEVELOPMENT OPPORTUNITIES ←
3. CULTURE
4. SENIOR LEADERS
5. COMMUNICATION
6. STRUCTURE, ROLES & CAPABILITY
7. RECOGNITION & REWARD
8. CUSTOMER FOCUS
9. STRATEGY
10. IMMEDIATE MANAGERS

RIGHT MANAGEMENT, INC.

<sup>3</sup> Gallup, Inc., State of the American Workforce, 2013  
<sup>4</sup> Right Management, Inc., Advancing Careers, Driving Results, 2012

5 ELEMENTS FOR MEASURING THE ROI OF YOUR TALENT DEVELOPMENT PROGRAM

3 ADVANCEMENT

Retention and advancement are highly correlated. People remain in organizations where they have an opportunity to learn and grow. Thus, investing in employee development provides organizations with a strong talent pipeline. Having a strong pipeline is increasingly critical as the availability of skilled workers continues to shrink and an estimated 31% of employers worldwide find it difficult to fill positions because of talent shortages in their markets.<sup>5</sup> Additionally, internal advancement

provides both hard and soft cost savings to organizations (see the cost savings analysis in the retention section above).

When evaluating the impact of their company's mentoring program on employee advancement, Sun Microsystems found that 25% of employees who took part in the company's mentoring program had a salary grade change, while only 5% of employees who did not participate in the program had a similar change in grade.

Additionally, mentors were promoted six times more often than those not in the program and mentees were promoted five times more often than those not in the program. As evidence of the correlation between retention and advancement, the retention rates were much higher for mentees (72%) and mentors (69%) than for employees who did not participate in the mentoring program (49%).<sup>6</sup>

<sup>5</sup> Ernst & Young, Tracking Global Trends, 2011  
<sup>6</sup> Chronus Corporation, How Coaching and Mentoring Can Drive Success in Your Organization, 2013



5 ELEMENTS FOR MEASURING THE ROI OF YOUR TALENT DEVELOPMENT PROGRAM

4 PROGRAM COSTS

Program costs are one of the most obvious elements of calculating a program’s return on investment. However, there are a variety of organizational practices regarding which costs are calculated. Most organizations factor in the hard program costs for external consultants, materials, expenses such as travel, food and beverage, etc. But what about the other expenses incurred by an organization? The cost of administering a large program can be considerable. When looking at organizational spending on learning and development, Bersin found that “overall, training spending rose 12 percent, on average, during the year [2012], following a ten percent gain in 2011.”<sup>7</sup>

While increased organizational investment in employees is good news, the value as well as the cost needs to be considered.



CONSIDER BOTH THE HARD PROGRAM COSTS (TECHNOLOGY, CONSULTANTS, ETC.) PLUS THE SOFT PROGRAM COSTS (INTERNAL ADMINISTRATION) WHEN CALCULATING PROGRAM COST AND ROI.



Increasingly, organizations are looking to technology to lessen costs while providing greater value. Online learning solutions, such as mentoring platforms and social learning tools, support just-in-time learning while potentially reducing the administrative costs of development programs.

In reviewing learning and development trends across

a number of US sectors, the Corporate Executive Board (CEB) found that organizations are conducting effective talent development programs with a smaller number of staff (reducing administrative costs) and an increased investment in third party technology products to meet their companies’ development needs.<sup>8</sup>



Regardless of delivery model being used for any talent development program, it is critical to consider both hard program costs and the softer costs of program management when factoring overall ROI.

<sup>7</sup> Bersin, Deloitte Development Group, LLC, *The Corporate Learning Factbook, 2013*  
<sup>8</sup> The Corporate Executive Board Company (CEB), *The 2013 Learning and Development Forecast, 2012*

5 ELEMENTS FOR MEASURING THE ROI OF YOUR TALENT DEVELOPMENT PROGRAM

5 BEHAVIORAL CHANGE

Most organizations conduct some type of program evaluation to evaluate program effectiveness. Kirkpatrick's well established Four Level Evaluation Model is frequently cited as the ideal. In Kirkpatrick's model, program evaluation would consist of the following steps or levels:



Frequently organizations stop after level two, which is often a self reported learning indicator. While it is important to evaluate whether or not a participant learned a skill that the program was designed to teach, this level of evaluation does not tell an organization anything about what impact this knowledge has on individual or organization performance (behavior and results). In order to begin to assess impact at this level, talent development programs must be evaluated more longitudinally as individual and organizational behavior change takes time.

While initial learning measures are an important element in evaluating program success, a high impact learning organization is one that begins to gather data on behavior and impact to effectively calculate a talent development program's true ROI.

## ROI CALCULATIONS

Using some of the elements outlined above, you could use the following simple calculation to determine a program's return on investment.

$$\left[ \underset{\text{RETENTION}}{\text{R}} + \left( \underset{\text{ENGAGEMENT AND ADVANCEMENT PERFORMANCE}}{\text{E} + \text{A}} \right) \right] / \underset{\text{PROGRAM COST}}{\text{P}} = \underset{\text{RETURN ON INVESTMENT}}{\text{ROI}}$$



**FOR EXAMPLE:** If retention increased 5% (out of 100 employees) and the average salary for the population is \$100,000 annually then R would equal \$750,000 (5 x \$150,000 – remembering that the cost to replace an employee is 1.5x his/her salary).

If employee surveys indicate engagement and/or advancement increased by 10% and, for example, the organization has determined that engaged employees increase sales by 25%, netting the organization an additional \$1,000,000 in revenue annually, then E would equal \$100,000 (.10 x \$1,000,000).

To sum up this example, we have:

$$\left( \underset{\text{RETENTION}}{\$750\text{K}} + \underset{\text{ENGAGEMENT AND ADVANCEMENT PERFORMANCE}}{\$100\text{K}} \right) / \underset{\text{PROGRAM COST}}{\$170\text{K}} = \underset{\text{ROI}}{5}$$

**OR A 5 TO 1 RETURN ON INVESTMENT**

If your organization calculates separate advancement metrics and evaluation data for behavioral change and results (levels 3 and 4 of the program evaluation), you can add these elements into the sample calculation above.

# ARE YOU READY?



BELOW IS A LIST OF CRITICAL ELEMENTS TO EFFECTIVELY MEASURING THE RETURN ON INVESTMENT (ROI) OF YOUR TALENT DEVELOPMENT PROGRAMS

While it is not essential to have every element in place, it is valuable to know what is readily available. For those elements not in place, you should consider whether or not you want to put something in place to capture this data in the future. Evaluation processes often become more sophisticated as programs mature. Additionally, the more effective your measurement process is, the more compelling your success story will be.

ELEMENTS	DATA READILY AVAILABLE?		IF NOT, SHOULD IT BE CAPTURED IN THE FUTURE?	
<b>RETENTION</b>				
Employee Turnover Data	Y	N	Y	N
Involuntary vs Voluntary	Y	N	Y	N
Performance (low, average, high)	Y	N	Y	N
Salary Data (base salary plus perks)	Y	N	Y	N
Engagement (low, average, high)	Y	N	Y	N
<b>ENGAGEMENT</b>				
Engagement Survey Data	Y	N	Y	N
Engagement Level (low, average, high)	Y	N	Y	N
Correlation Between Engagement and Organizational Bottom Line (increased sales, faster product development, reduction in accidents, etc.)	Y	N	Y	N
<b>ADVANCEMENT</b>				
Employee Career Data	Y	N	Y	N
Employee Movement (lateral and grade changes)	Y	N	Y	N
Employee Salary History (should include performance bonuses and other perks)	Y	N	Y	N
Recruitment (fees for recruitment agency or executive search firms)	Y	N	Y	N
<b>PROGRAM COSTS</b>				
Program Design and Execution	Y	N	Y	N
External Experts (consultants)	Y	N	Y	N
Training Costs (materials, facilities, travel, food and beverage, etc)	Y	N	Y	N
Lost Productivity or Backfill Costs (for time spent in training)	Y	N	Y	N
Program Management	Y	N	Y	N
Administration (salaries and equipment)	Y	N	Y	N
Third Party Online Systems (implementation fees and annual costs)	Y	N	Y	N
<b>BEHAVIOR CHANGE / LEARNING</b>				
Program Evaluation Data	Y	N	Y	N
Reaction (enjoyment – affects program reputation)	Y	N	Y	N
Learning (affects program value)	Y	N	Y	N
Behavior (affects individual and, by extension, organizational performance)	Y	N	Y	N
Results (affects organizational bottom line)	Y	N	Y	N

## CONCLUSION

The most successful organizations over time are high impact learning organizations. These organizations understand the value of talent development, effectively evaluate program impact using the measurements listed above, and perhaps most importantly of all, share compelling talent development success stories throughout the organization.



Once you conduct an effective ROI evaluation of talent development activities, it becomes easy to tell your organization's success story. This level of strategic communications is a self-fulfilling prophecy, creating program sustainability and enduring organizational culture change.

## ABOUT CHRONUS CORPORATION

Chronus is a leading provider of talent and career development software for enterprise-scale organizations. Chronus empowers mentoring, coaching, and continuous learning initiatives by combining cloud-based software and program best practices to provide a complete talent development solution. Chronus' solutions, including Chronus Mentor, Chronus Coach, and Chronus Spark, are used by more than 500,000 professionals worldwide at leading institutions including PNC Bank, Staples, MIT, and the American Diabetes Association.

For more information, visit [www.chronus.com](http://www.chronus.com).

### ABOUT THE AUTHOR



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FOR MORE INFORMATION ABOUT HER COACHING AND CONSULTING PRACTICE, PLEASE GO TO [WWW.MYLIMITLESSLIFE.COM](http://WWW.MYLIMITLESSLIFE.COM) OR CONTACT HER AT [COACH@MYLIMITLESSLIFE.COM](mailto:COACH@MYLIMITLESSLIFE.COM)



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