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## Overview of the TransferLogix™ Approach to Estimating ROI (Level 4/5 Evaluation)

*Note: This document is designed for professionals who want a brief explanation of our approach to ROI. Those seeking a technical explanation should download the Technical Introduction instead of this document.*

The evaluation of organizational impact from training and the associated return on investment (so-called Level 4/5) has long been the “holy grail” of training evaluation. Despite many decades of advocacy, surveys of practitioners continue to show that it is not often implemented in practice. Most likely this is because practitioners perceive it to be too difficult, expensive and time-consuming. Given the techniques that have been advocated, they are somewhat correct.

Largely overlooked has been a technique advocated for over 60 years by industrial-organizational psychologists called utility analysis. The list of researchers advocating utility analysis reads like a “Who’s Who” of I/O psychology with Wayne Cascio and John Boudreau (2011) being the most current and well-known advocates but with much of the research foundation built by the renowned John Hunter and Frank Schmidt. Thus, it has deep and well-researched roots that have demonstrated its validity. Unfortunately it has not been adopted by practitioners because they mistakenly see the statistics involved as too complex.

TransferLogix™ implements utility analysis in a practitioner friendly way to provide reasonable valid estimates of organizational impact and return on investment. The result is that every training program can estimate ROI with minimal additional effort.

### How Does Utility Analysis Work?

At the heart of the utility analysis equation are two critical measures:

1. the change in performance (skills or competencies) expressed in a standard deviation (SD) measure
2. the value to the organization of a one SD change in performance

Measure #1, the change in performance, has long been incorporated into TransferLogix™ if the pre and post supervisor survey are used. Thus, the change in performance in SD terms can easily be calculated.



Utility analysis requires that performance change be expressed in standard units. To do this TransferLogix™ expresses the effect of training on performance in terms of the number of standard deviations (SD) by which trainee performance changed. This is estimated by calculating the difference between performance pre-test scores and the post-test evaluation scores of individuals who received training. The SD is a statistic that tells how tightly (or loosely) these scores are clustered around the overall mean for the training group.

Measure #2, the value of a one SD change in performance, has always been the primary barrier for practitioners to calculate ROI. Utility analysis offers several approaches to obtaining this value which have been demonstrated to offer valid estimates. The approaches we implement are:

*Salary Based Estimation* – This approach (and the next) is where the real power of utility analysis is realized. Extensive research has shown that one SD of performance change is usually worth approximately 40% of the average compensation of participants. Thus, simply by entering the average salary of training participants into TransferLogix™ an ROI estimate can be produced. The simplifying assumption is that an employee's maximum value to the organization is his/her compensation. In some cases this understates the value so this approach can be viewed as a conservative estimate of ROI.

*Percentile Performance Value Estimation* – For positions which provide value to the organization greater than the person's salary, another easy method from the research is offered. The percentile performance value approach simply requires that the organization estimate the value of a performer operating at the 85<sup>th</sup> percentile and the 15<sup>th</sup> percentile of performance. From these two estimates the distribution of performance value can be derived and the ROI estimate calculated. Examples where this approach might be used could include sales persons, team leaders, managers, and similar positions in which there is a "multiplying" effect of improving performance such that the benefits can be greater than the person's compensation. TransferLogix™ allows one person to make this estimate, or provide for electronic collection of multiple persons' estimates to improve the validity.

## Summary

A major obstacle in the way of improving training systems and enhancing the stature of the training/human resource development function in organizations is the lack of practical methods for determining and demonstrating the strategic value of what we do. TransferLogix™ tackles this issue head-on by providing a straightforward, valid, and believable approach to estimating the dollar value of training programs. The training ROI information provided by TransferLogix™ can be used to assess the value of individual training events, track the value of training efforts over time, and compare the ROI across programs, units/departments, and participants.

Utility analysis has been seen sometimes as "too good to be true" but it really is a carefully researched and effective technique. For more detail on the research, download the



Technical Overview from the ROI page in TransferLogix™. While we would never argue that these estimates are better than a carefully conducted custom study, we (and others) do argue that the ROI metrics produced by utility analysis have a high level of validity. Because they can be easily calculated for EVERY training program—which is not true of custom studies—they are a superior approach to making sound decisions about development interventions.

In short, TransferLogix™ uses an evidence-based approach that is “doable” by every organization for every training program. TransferLogix™ demystifies utility analysis so ROI can truly be the benchmark for every training program and become part of the daily lexicon for human resource development.

Cascio, W & Boudreau, J. (2011). Investing in people: Financial impact of human resource initiatives, 2<sup>nd</sup> ed. Upper Saddle River, NJ: FT Press.

