Hard Numbers from Soft Skills:
You Can Measure the Impact and ROI for Soft Skill Programs

Jack J. Phillips, PhD and Patti P. Phillips, PhD

Recently, a large gold mining company based in North America with mines in three continents faced a challenge. Survey data taken from all employees indicated the first level of management needed leadership skills. The engagement survey results were much lower than expected and pointed to a need for formal leadership development. The chief operating officer (COO) agreed and approved a project that involved 14 days of leadership development, coupled with 360 degree feedback processes, and a team of individuals to make this successful. In all, almost 1,000 managers would be trained at a cost of over $6 million. The COO was willing to make this investment if the human resources function would show the financial ROI of the program, adding, "How can I spend this amount of money and not show my shareholders the return on this investment?" This presented a challenge to the HR executives who had never pursued an ROI study on any of their previous projects.

This story highlights three developing trends.

1. Globally, a record amount is being invested in leadership development—an amount greater than at any previous time in history. Several benchmarking reports confirm this.
2. A record amount of requests for accountability for leadership development are being requested, including showing impact and ROI for major programs.
3. Human Resource professionals, particularly those involved in the soft skill area, must be prepared to step up to this challenge, not only when impact and ROI are requested, but ideally, before the request is made. Hundreds, if not thousands, of HR functions around the world are now doing just that by developing the skills to be a certified ROI professional (CRP).

This case study, as with many other case studies, has a happy ending. The results of this study are included in the recently published book, *Measuring the Success of Leadership Development: A Step-by-Step Guide for Measuring Impact and Calculating ROI*, ATD Press, 2015.[1]

The Soft Skill Challenge

For years, the effects of soft skill development has been a mystery for some. The hard skills of IT training, maintenance training, technical training, and product training are straightforward. Using tasks, procedures, facts, or principles—it is easy to see how these can be absorbed and used appropriately to drive business impact. But soft skills, such as leadership development, management development, communications, and team building, appear to be different and the connection to business seems vague. In reality, they should not be. Soft skills programs should perform just like any other learning program. If the learning is designed to be applied, it should be applied in the work environment with an action, activity, or behavior change. If it is designed to drive business impact, then it should drive business impact which is a consequence of that activity. From the impact, the ROI can be calculated.

Soft skills are important. Some would argue that it is not hard skills that will make the big difference in the success of an organization; it's the soft skills. The soft skills create agile organizations, develop innovative companies, make the best places to work, and build the most admired companies. Soft skills bring out the best in people as their behaviors and competencies are shaped to fit the strategy of the organization, the desired work climate, and the ever-changing, unpredictable landscape.

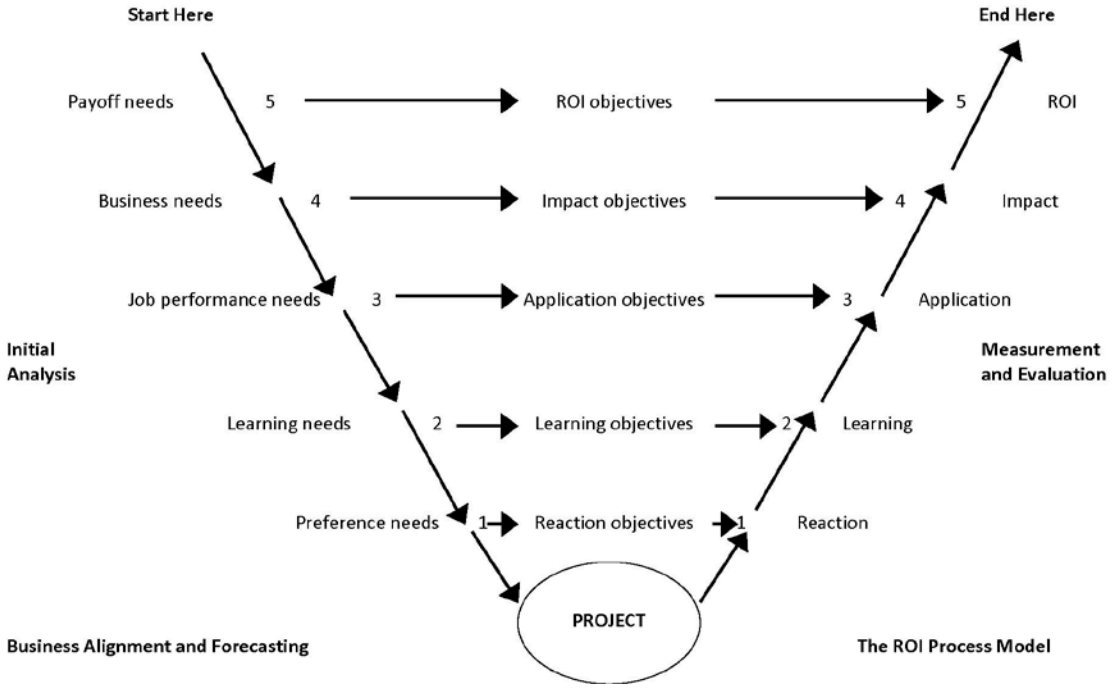
The Approach

So let's unravel some of the mystery of the soft skills evaluation. The first question is, "do you want to evaluate the soft skills program at the impact and ROI level?" The answer could be "maybe not." You could make the case that soft skills programs should be linked to the business at every program. This is a legitimate request, and many organizations have taken this hardnosed approach. For example, Jenny Dearborn, chief learning officer at SAP, speaking at a recent ATD-MENA conference, indicates that every course at SAP must be connected to a business measure or it will not be continued. In our work with over 5,000 organizations and conducting best practice benchmarking with them, about 10 percent of learning programs are pushed to the impact level and 5 percent to the ROI level. That means, in a given year, 95 percent of the programs are not elevated to ROI. Programs slated for ROI are expensive, strategic, very important to the organization and to executives, and often command much time and visibility. These are usually soft skills with a heavy investment. We will explore how this is accomplished by examining the stages of how a soft skills program evolves.

1. **Initial alignment.** Most soft skills programs are initiated because of a perceived learning need with a requestor suggesting, "They need to know this, or have this capability, or know how to operate this way." Because the request suggests a learning need, the programs are implemented and the measure of success is, at best, learning—do they know this? However, to connect to the business, it is helpful to ask, why is this needed? Is the requested program really connected to the business? Ideally, a request for a program should start with a business need, but they rarely do.

The problem is not that our requestors are misguided. When they see a problem, they think that learning is the solution. If the team is not delivering proper customer service, or it's taking too long to complete a project, or that there are too many errors in the system, a learning solution seems logical. But we need to know the business measure connected to the problem, if we want to connect to the business. The analysis that follows may or may not lead to a learning solution. Figure 1 shows the linkage of needs, objectives, and evaluation.

Figure 1. The V Model



On the left side, the process begins with the pay-off needs and quickly migrates to the business need. Moving through the levels will often require some questioning and discussion. The payoff needs address this question, "Is this a problem worth solving or an opportunity worth pursuing?" An example will help explain the process. In one call center situation, a request to the learning team came in the form of, "We need to teach our call center managers how to improve the work habits of employees." As you can image, there are many off-the-shelf programs that focus directly on improving work habits. The temptation is to "take the order"—organize the workshop, find out who should attend, add more detail to the content, determine when it should be offered (and how much time is required), and confirm the method of delivery. Fortunately, we are moving away from "order taking" to a certain extent and now we are probing a little, trying to understand the connection to the business and validate the solution.

In this situation, a little probing moves quickly to the fact that unplanned absenteeism is averaging about nine percent each day and is a disruptive force. Exploring the situation further, reveals call center benchmark data that suggest it should be no more than five percent, on average. This locks in a business need to change this measure from nine percent to five percent, at a minimum. For pay-offs needs, there is no need to ask, "Is this a problem worth solving?" Quickly, we can see the approximate cost of absenteeism for a four percent excessive absenteeism rate. If there are 200 employees in the call center network who normally work 220 days a year, a four percent absenteeism improvement would be 200 x 220 x 4% = 1760 absences prevented. Assuming that the cost of an absence is equal to what we would have normally paid them to be there. That would cost the company at least $176,000 if the wage rate is $100 per day. We can quickly see that this is a problem worth solving. If the solution is costing less than $176,000, there is a positive ROI pay-off opportunity. So the pay-off needs and the business needs are established quickly and this aligns the program to the business.

2. **Secure the right solution.** Now comes the big question, "What is the right solution?" The management team has suggested that the solution is to train the managers on how to change the behavior of the employees (i.e. work habits). A little more exploring will determine if this is the right solution and this takes us to the identification of the performance needs. We need to know what we need to do (or stop doing) to influence the business measure. It could be a motivational issue or working conditions. Perhaps employees are abusing a system that needs to change. There could be many possibilities.

Some probing with the HR team and a sample of call center managers reveals that when an employee is absent and returns to work, there is no discussion about that absence. When there is no discussion, behavior will not change. Thus, conducting this counseling session is a needed solution. While there may be other solutions, it is obvious that if this solution is not implemented, the situation will be worse, instead of better. Still, the solution may not necessarily be a learning solution. If managers know how to conduct counseling sessions to change the behavior of an employee who is abusing the attendance situation, then a learning program is not needed. Other actions are needed to conduct the session such as creating expectations or providing incentives to conduct them. This is critical, because if managers know how to do it, training them to do it again may not generate the results needed. Additional probing reveals that the managers do not know how to conduct these discussions properly and they need help. So, the conclusion is that it is a learning solution, recognizing there could have been other possibilities. This process addresses performance and learning needs. Next are the preference needs.

3. **Make sure the right people are involved at the right time with the right amount of motivation.** It is important to explore the value of this potential solution from the perspective of participants and their managers. Participants must see a need for the new skills that are important to their success. Also, it is important that the managers who attend are those who actually have employees who are abusing the absenteeism policy. A minimum amount of off-the-job time must be devoted to the solution. When these needs are fully developed, we can move to the next issue.

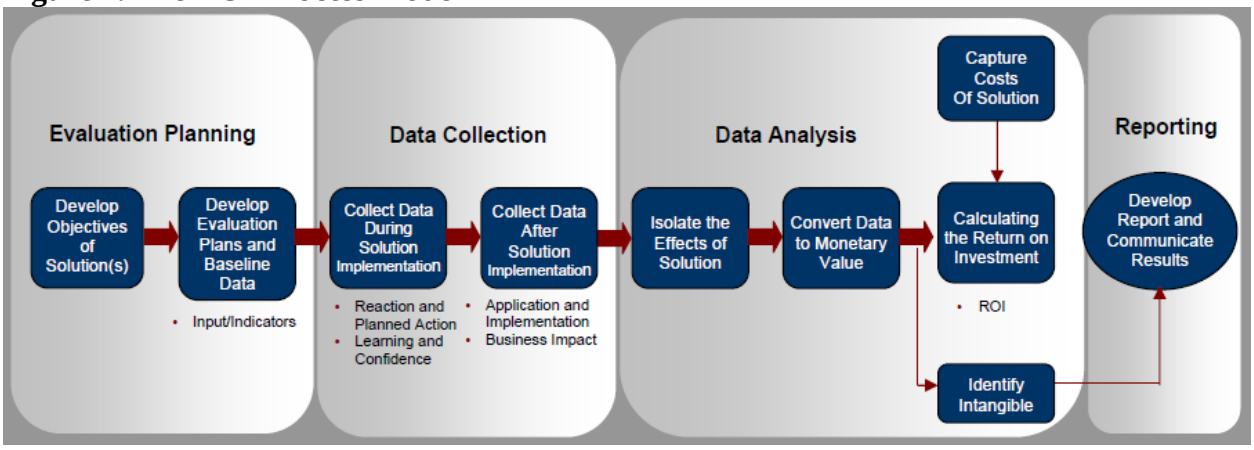
4. **Set objectives at the application and impact level.** As a profession, we are very good at developing learning objectives. Now, we must add reaction objectives, derived from the preference needs, and application objectives based on the performance needs, and the impact objectives which come from the business needs. Collectively the four levels of objectives provide direction and guidance to designers, developers, facilitators, participants and their managers. If you are planning to conduct an ROI study, an ROI objective is needed. This is determined by defining the minimum desired return on this investment. The number could be the same as for capital expenditures or it could be pushed a little higher. Usually, the number is somewhere between zero and 30 percent and consistent with what would be management's expectation as a minimum acceptable performance. So, there you have it now, the five levels of objectives all shown in Figure 1.

5. **Decide what level of evaluation is needed.** When this type of program is implemented, a decision must be made about planned evaluation. "Do I stop the evaluation at level 1, Reaction or push it to level 2, Learning? Or do we move it to level 3, Application, to make sure that these

skills are transferred to the job? Or do I push it onto level 4, Impact, and connect it to the business? Finally, do we want to see the ROI, a comparison of monetary benefits to costs?" Ideally that decision is made before the program starts. Our recommendation is to push the evaluation to the highest level considering the need, resources, and expectations. Unfortunately, there is a tendency to conclude that, "No one is asking for impact and ROI, so I won't do it," only to be surprised later when someone says, "Yes, the absenteeism did decline. Was it caused by the learning program? And what's the ROI?" If you don't have data at levels 4 and 5, you will not be able to provide the appropriate answer. If you decided to evaluate at all five levels, then the evaluation becomes straightforward and logical, with a few more steps.

6. **Collect the data along the levels of evaluation.** This series of steps, shown in Figure 2, introduces a ten-step process to take the evaluation to ROI. This sequential step-by-step logic model, involves setting objectives, planning the evaluation, collecting data, analyzing data, and reporting results.

Figure 2. The ROI Process Model



Data must be collected along four levels starting with Level 1 feedback, to make sure that the participants see this as relevant, important, and necessary. At Level 2, a skill-practice session may be used to make sure they leave the program knowing how to use the soft skills. Level 3 data are collected usually three weeks to two months after the participants are using the content routinely. Then the impact data, unplanned absenteeism, in this example is monitored from the performance records. Impact data are usually captured one-six months after the solution is implemented. Figure 3 shows the possible ways to collect data at each level.

Figure 3. Methods of Data Collection

	Level			
Method	**1**	**2**	**3**	**4**
• Surveys	✓	✓	✓	
• Questionnaires	✓	✓	✓	✓
• Observation		✓	✓	
• Interviews	✓	✓	✓	
• Focus Groups	✓	✓	✓	
• Tests/Quizzes		✓		
• Demonstrations		✓		
• Simulations		✓		
• Action planning/improvement plans			✓	✓
• Performance contracting			✓	✓
• Performance monitoring				✓

7. **Analyze the data.** The analysis involves the steps of isolating the effects of learning from other influences and converting data to money. There are usually other factors that could be driving this same measure, and it is important to sort out the effects of this particular program. Without this step, you have no credibility at the impact level. As shown in Figure 4, several techniques are available ranging from the use of control groups to expert estimation.

Figure 4. Methods of Isolation

- Use of control groups
- Trend line analysis
- Forecasting methods
- Participant's estimate
- Management's estimate of impact (percent)
- Use of experts/previous studies
- Calculate/estimate the impact of other factors
- Customer input

In this soft skills example, the managers (participants) estimate the percent of improvement that is related to the learning program. Because this is an estimate, an error adjustment is needed, expressed as a confidence in the estimate, using a score of 0-100%. This percent is multiplied by the estimate to remove the error. After this solution was implemented, absences reduced from 9 to 5.5%, a 3.5% drop. This represents 3.5% x 200 x 220 = 1540 absences prevented. The managers estimated that 32% (average) of the improvement was caused by the learning program and they were 72% confident. In summary, 1540 x 32% x 72% = 355 absences prevented, because of the program.

The next step is to convert the data to money and this step is easy, using the techniques in Figure 5. We can use the cost of one absence, either be obtained in HR or found on an appropriate database like ERIC. Absence cost is usually reported as a multiple of the average wage rate, usually 1-2 times the daily wage. Assuming a $100 per day wage rate and 1 times the wage for an absence cost yields 355 x $100 = $35,000. This is monetary benefits.

Figure 5. Methods of Converting Data to Money

- Profit/savings from output (standard value)
- Cost of quality (standard value)
- Employee time as compensation (standard value)
- Historical costs/savings from records
- Expert input
- External studies
- Linking with other measures
- Participant estimation
- Management estimation
- Estimation from staff

8. **Develop the cost and calculate ROI.** Next, the cost of the program is captured, including all the costs, direct and indirect. Figure 6 shows the direct and indirect costs. In this example, twelve managers are trained at a cost of $24,600. The ROI is calculated as follows, ROI = ($35,000 – $24,600) / $24,600 x 100 = 42%. Along the way, there are often intangibles that are not converted to money and are listed as an important data set, with an explanation of how we know that it is connected to this program. These intangibles in the example include lowering of stress, improved job satisfaction of the team, improved reputation, and better customer service.

Figure 6. Cost Categories

- Assessment costs
- Development costs
- Marketing materials
- Facilitation/Coordination costs
- Facilities costs, if applicable
- Travel/lodging/meals, if applicable
- Participant salaries (and Benefits), if applicable
- Logistics, supplier costs
- Evaluation costs

9. **Use the results to optimize the performance.** The data from this process, six types of results (reaction, learning, application, impact, ROI, and intangibles) are presented to appropriate audiences. If the results are not up to expectations, adjustments are made. Part of the data collection includes the barriers and enablers to success, so you will have a full profile of process improvement opportunities. We suggest that ROI and impact evaluation be pursued principally from the perspective of process improvement not to evaluate the performance of the managers who are participating in the program. Even if the program is meeting expectations, we want to take steps to make it better so it is more successful, essentially using ROI to optimize the return on investment.

10. **Relax and Enjoy.** This approach to soft skills training, has several important advantages. First, it makes sure that the business alignment is fully addressed, from the beginning of the program (connecting the program to the business measure), during the program

the alignment focus is continued with the impact objectives, and post-program the alignment is validated with the steps of isolating the effects of the program on the data. This approach ensures that resources are not wasted, that this the right solution to drive this business measure, using the right people at the right time. This approach earns the respect, appreciation, and support from the executives who often are not provided this type of results from a soft skills learning solution. Finally, this is a way to secure funds and keep the budget flowing so that we can always continue to invest appropriately in soft skills.

References:

1. Phillips, P. P., Phillips, J. J., and Ray, R. L. *Measuring the Success of Leadership Development: A Step-by-Step Guide for Measuring Impact and Calculating ROI.* (Alexandria, VA: ATD Press, 2015).