

Putting a value on training

Training programs generate greater value for organizations when the curricula reflect key business performance metrics. Testing real-world outcomes is crucial.

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Source: Organization Practice

All organizations train their people, and most spend significant sums doing so. Yet they generally don't have any idea whether they're getting any business value from training. Beyond teaching new employees the specifics of their jobs, most companies train staff in areas such as leadership, communications, performance management, or lean operations. But they typically measure training's impact by conducting surveys of attendees or counting how many employees complete courses rather than by assessing whether those employees learned anything that improved business performance.

This approach was, perhaps, acceptable when companies had money to spare. Now, most don't. Yet more and more, organizations need highly capable employees—90 percent of the respondents to a recent *McKinsey Quarterly* survey¹ said that building capabilities was a top-ten priority for their organizations. Only a quarter, though, said that their programs are effective at improving performance measurably, and only 8 percent track the programs' return on investment.

The story of one social-sector group, the Boys & Girls Clubs of America (BGCA), illustrates how organizations can make the most of their outlays for training programs by doing a better job of understanding which of them create business value, and how. The answers are remarkably straightforward and have lessons for retailers, manufacturers, and a range of other organizations as well.

What the Boys & Girls Clubs do

BGCA faced a common problem: a lack of capabilities in a core area—leadership—and a lack of funds to build those capabilities. Further, its donors were far more interested in financing programs directly aimed at children rather than “overhead,” such as training. That made it imperative for BGCA to prove the performance impact of any training it undertook.

BGCA is one of the largest nonprofits in the United States. It acts as an umbrella for more than 1,100 local organizations and 4,000 club locations, which provide safe places for young people to learn and participate in athletic and life skills programs. The 1,100 local organizations manage their own resource development, strategic planning, programming, and fund-

raising.

In 2007, BGCA found itself facing an incipient shortage of leadership capabilities. The organization has an ongoing growth strategy to expand the number of club locations but anticipated a wave of retirements among current local leaders. Using a capability model that appraised nearly 50 aspects of leadership, BGCA began to address the problem by undertaking a 360-degree assessment of every local leader. Regression analysis helped BGCA to correlate each aspect of leadership with local organizational performance on crucial measures such as growth in membership and funds raised—measures that it already tracked to assess the local organizations as a whole. Four out of the 50 aspects contributed disproportionately to performance: the leader's ability to build an effective board, find and pursue effective revenue-development strategies, use an investor's mind-set toward programs and resource development, and lead with personal tenacity and persistence.

BGCA therefore built its training program around those four subjects. The program involved both intensive classroom work and a project chosen by each local team; projects ranged from implementing new HR processes to deepening the impact of after-school programs. By the end of 2009, over 650 leaders from approximately 250 local organizations had been trained.

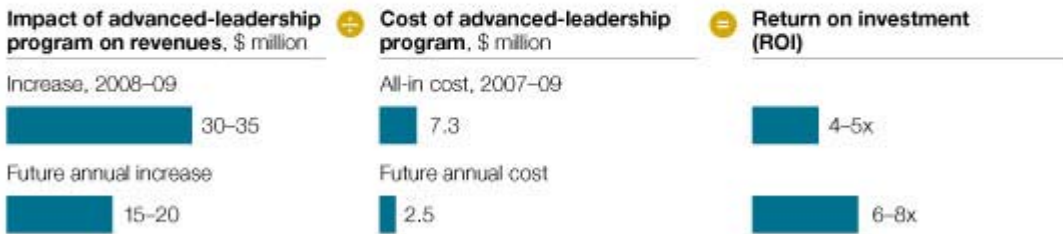
Because the program was designed to improve specific organizational-performance outcomes, the process of assessing its impact was straightforward. Where the leaders of local organizations had received training, BGCA compared their pre- and post-training results. More important, it also compared the post-training results against those of a control set of organizations, which had similar characteristics (such as budget size) but whose leaders had not yet gone through the training. The downturn in the economy, as well as preexisting economic differences among cities, complicated efforts to assess gains in membership and fund-raising on an absolute basis. With the use of these controlled pairs, however, BGCA was essentially able to screen out the impact of external factors (for instance, unemployment or differences in local educational-attainment rates) on membership and fund-raising. In this way, BGCA could isolate the effects of the training itself. Besides the quantitative analysis, BGCA used qualitative approaches, such as surveying local board members before and after the training, to assess the leaders' changes in behavior related to board leadership.

On average, locations where the leaders had been trained bested the control group on every performance outcome measured. If all 1,100 BGCA member organizations had matched the level of success achieved by the program participants, BGCA would see more than 350,000 new members and more than \$100 million in annual incremental revenue—a 2 to 3 percent increase in the average location's budget, meaningful at a time of

precarious funding. Moreover, BGCA determined that it generated more than a fourfold return on the program's costs, including the imputed cost of the participants' time, as well as travel and training expenses (Exhibit 1).

BGCA's training program generates returns more than 4 times its cost.

Estimated impact of Boys & Girls Clubs of America (BGCA) training program



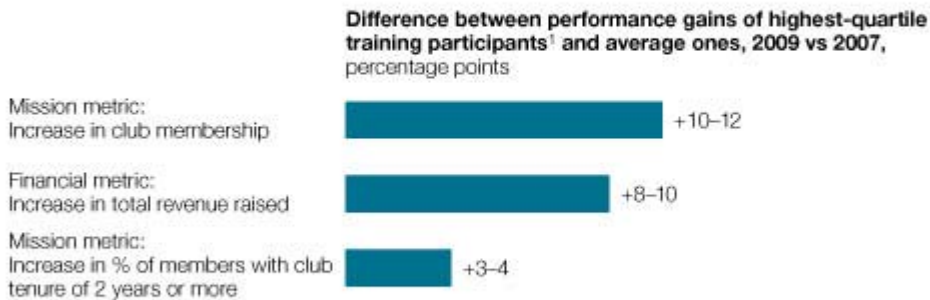
Source: BGCA; McKinsey analysis

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BGCA then compared performance gains among participants and found that the gains of participants in the highest quartile were three to five times the average (Exhibit 2). The high performers typically focused on very aspirational projects; set clear, quantifiable goals; and took the extra step of teaching what they'd learned to the rest of their organizations. Those insights led BGCA to adjust the training curriculum to reinforce the success factors.

The performance gains of the highest-quartile training attendees were 3 to 5 times the average.

Boys & Girls Clubs of America (BGCA) training attendees' performance before and after training



¹Defined as 75th percentile.

Source: BGCA; McKinsey analysis

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Applying the lessons

Picking the right metrics is the key to creating real value from training. Most for-profit organizations have a longer list of quantitative business-performance metrics than BGCA does. A retailer pursuing better customer service and sales growth, for example, could train employees by getting its managers to provide real-time coaching and to role-model best-practice customer-engagement techniques. Rather than just measuring the managers' time allocation or employee-engagement data—as most would do now—the retailer should measure the impact of its programs through hard business metrics, such as sales, basket sizes, and conversion rates in critical categories or departments. Similarly, a manufacturer might try to improve its operations by teaching plant supervisors lean-manufacturing and coaching skills, but rather than tracking only how many managers have been trained, it should track metrics such as downtime, the overall effectiveness of equipment, or fill rates.

In every case, companies must continually review and revise the links between skills, performance, and training programs. Typically, to determine which metrics should be improved, companies assess their current performance against industry benchmarks or their own goals. Like retailers and manufacturers, most other companies know what kinds of skills are tied to different areas of performance. So a good next step is to conduct an analysis of the relevant groups of employees to identify the most important specific skills for them (as BGCA did) and which performance-enhancing skills they currently lack. To get a clear read on the impact of a program, it's crucial to control for the influence of external factors (for instance, the opening of new retail competitors in local markets) and of extraordinary internal factors (such as a scheduled plant shutdown for preventative maintenance). It's also crucial to make appropriate comparisons within peer groups defined by preexisting performance bands or market types.

By tying the curricula of training more closely to key performance metrics and then measuring its impact on them, organizations can generate greater value from training programs and find useful insights to improve programs constantly.



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Jenny Cermak is a consultant in McKinsey's Atlanta office, where Monica McGurk is a principal.

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Notes

¹ "Building organizational capabilities: McKinsey Global Survey results," mckinseyquarterly.com, March 2010.