The CFO and Learning Spending

WHITEPAPER
As CFO, you know numbers are king. That’s why you evaluate each budget request for relevance and track the return on investment of every line item. So isn’t it time to get a better handle on one of your largest expenses: the unmanaged costs related to training and development?

Sure, we know your organization has an annual training budget. But we believe CFOs need to drill deeper – much, much deeper to uncover “hidden” training costs. Industry experts estimate that the average company spends roughly $1,000 on training per employee per year. Yet our research suggests that indirect learning costs are actually two to four times higher than that.

Multiply that sum by your total number of employees. Is it a big number? You bet it is. Even if you take a conservative approach and slice the estimate in half, the total amount is still staggering.
The Impact of Unmanaged Training

You already manage your company’s capital budget. We believe it is sensible, therefore, that you take an active role in managing the costs associated with human capital. At a minimum, you need to have stewardship over this enormous expense, since it exerts a significant impact on the bottom line. It is explicit in the revenue-earnings-expenses equation, even though it is never explicitly itemized on the corporate balance sheet.

Unmanaged training spending manifests itself in various ways:

• Employees’ time away from work
• Lost opportunity costs (the largest item)
• Costs of rework stemming from ineffective training programs
• Costs of duplication for learning management systems, content-development activities, and decentralized staff replicating their work
• Costs of underleveraged training vendors, duplication of content, and underleveraged resources
• Waste, redundancy and inefficiency as business units run individual training “silos”

Combined, these items represent potentially hundreds of millions of dollars worth of squandered financial value, over and above the size of your training budget. But:

• Is anyone in your organization analyzing these concealed costs?
• Are any of these costs captured in a budget?
• If you asked, could the CLO pull this information together for you?
• If you were asked by the CEO, could you pull this information together?

Probably not, which means you have only an incomplete picture of the total financial impact of training-related activities. With uncertainty clouding the economic horizon, ignoring the impact hamstrings your company’s ability to compete.

And that’s only half of the equation. These things contribute to training falling short on the value-creation side of the equation.

AT NIIT, we believe that the time has arrived for you to consider a managed services model – one in which the training function operates like a business. Our experience tells us that training can be successfully converted from its traditional “cost center” function to a value-generating enterprise that produces real, tangible results for your business.
This transformation requires you to see your CFO role in a new and different light. Besides the traditional responsibilities of preparing financials, overseeing compliance, raising capital, and managing debt-to-equity ratios, you need to become a facilitator of change, with a broad window into the discrete functions of talent management and development.

This is revolutionary stuff, we know.

In fact, this revolution is necessary for survival amid fierce global competition. Human resources, talent management and executive development will take on greater importance to CFOs in the future, according to a report by Gainesville, Florida-based Perth Leadership Institute.

“Otherwise they will be seen as technical experts who are necessary for good financial management, but (will) not be seen as part of the solution in the talent management and development side of the strategic valuation equation,” according to “The Role of the CFO in Organizational Transformation.”

**EXEC’S EXPECTATIONS VS. EXEC’S REALITY**

- **96%** Want to see business impact of learning
- **8%** Actually see the impact of learning
- **74%** Want to see ROI data for learning investments
- **4%** Actually have ROI learning data now

*Source: ROI Institute, survey of Fortune 500 CEOs, October 2009*
Unmanaged Training and You

Why does this become your responsibility? After all, the training function traditionally has been “HR's baby,” not the purview of CFOs.

The answer is obvious: as custodian of the corporate budget, you are accountable for how the company invests its dollars. Spending either is accounted for or it isn’t. There is no middle ground. The larger the unmanaged cost, the greater its impact on your organization’s profitability.

This changes the paradigm for CFOs, who according to Perth Leadership Institute must learn to:

“Impact human resources and talent management decisions. This does not mean that he has to implement them; this is a matter for HR. But the CFO must make his or her perspective clear to HR so that the latter can take his views and needs into account in hr and talent management and development programs. Unless the CFO does this, HR is unlikely to make the explicit connection between HR decisions and programs and financial outcomes, including those desired by the CFO.”

This analysis is particularly tough when it comes to employee training. Counting up the big pots of money for individual training programs isn’t that difficult. Where it gets tricky — and where companies typically drop the ball — is in calculating the numerous and elusive hidden and indirect costs. If each employee receives one full week of training each year, for example, 1/52 of the employee’s salary should be calculated as a training cost. The same holds true if the employee spends 10 hours a year taking e-learning courses.

Also, opportunity costs represent the largest element of unmanaged spending. Let us illustrate further. Presume it costs $2,000 to have a sales rep attend a training conference. Your company decides to send its top 10 salespeople, for a total cost of $20,000. Factor in costs for travel, lodging, meals and miscellaneous expenses. You now have a pretty rough idea of the raw out-of-pocket dollars it will take to train the sales reps.

But here are some costs you (or anyone else) probably haven’t considered:

- The number of potential sales they miss as a result
- How much revenue those missed sales represent
- Whether you are able to recover it through other initiatives
- The cost of paying salespeople a lump sum to compensate for lost commissions
- Other job activities they are unable to perform while attending training

Do you know the answers to these kinds of questions? More importantly, is your organization even asking them?

Figure out how much time people spend in training cumulatively during the year. (Also include the financial value of people's time figuring all this out — that’s another cost). Multiply it by the number of “man years,” then multiply again by your company’s revenue per employee. For sake of argument, let’s say your employees got a combined 160 “man years” of training last year. Let’s further assert that your annual training budget is $10 million.
Except that it’s not $10 million. When you multiply the 160 “man years” by the revenue-per-employee figure, you might be shocked to discover the total cost is actually closer to $40 million, $50 million or even higher. Heck, even if it is $20 million, that’s still significantly more than you budgeted for direct training costs. And we guarantee you these indirect sums are far greater than you imagine!

Assigning a dollar value to these indirect training-related costs – then calculating it as part of your overall business-to-value proposition – provides an unprecedented level of specificity and detail.

More precisely, it enables you to run the training function like a business.

Let the Transformation Begin

In many organizations, learning and development typically occurs in a highly decentralized, fragmented way, usually across multiple lines of business. Corporate training departments often develop customized programs for individual business units, who then are responsible for implementing and managing them. This results in “shadow” training functions scattered across the enterprise, with little if any collaboration or standardization.

Consider the following assessment from Bersin & Associates, a training-consulting company in Oakland, California:

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**“THE LEARNING TECHNOLOGY INFRASTRUCTURE WITHIN MANY LARGE COMPANIES IS LIKE A ‘TOWER OF BABEL,’ WITH A MULTITUDE OF DISPARATE SYSTEMS IN PLACE.”** – (2009 Bersin Corporate Factbook)

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Indeed, the varied facets of talent management – recruiting, hiring, training, assessing and managing employees – occur in isolated functional silos. Only 9 percent of companies say that all their talent management functions collaborate on a regular basis, according to a 2010 report by Talent Management magazine.

So instead, training gets delivered through a pastiche of independent “one-off” programs, funded by departmental budgets that rarely tie back to the overall training budget. As is obvious, the financial scope of this unmanaged training is enormous, particularly for large organizations. What’s worse, no one in the organization has sole responsibility for tracking it all. Other than through the human resources function, most businesses don’t even account for this disparate spending in the same way.

According to the American Society for Training & Development, U.S. organizations invested more than $134 billion on employee learning and development in 2008, the most recent year for which figures were available. That includes direct learning expenditures associated with salaries of learning staff, administrative costs, and delivery of learning programs. Nearly $86 billion was spent on internal learning functions, with roughly $46 billion spent on external learning services.
ASTD says the average learning expenditure per employee was $1,068 in 2008. Based on our findings, however, $2,000 to $4,000 per employee would be a more accurate figure, once indirect costs are taken into account.

Take the case of a major global financial-services institution with nearly 30,000 employees. Applying ASTD’s $1,068-per-employee average, the company’s direct spending on training would equate to roughly $30 million annually. Factor in indirect spending, however, and the company’s total training spending is probably in the neighborhood of $90 million to $150 million.

How’s that for financial incentive to transform training?

There is good news, however. In our experience, reorganizing how training gets delivered offers tremendous potential for cost savings. Even in companies with a fairly well-centralized and well-managed learning function, savings between 15 percent and 20 percent are probable. In companies whose learning function is highly decentralized, the savings would be even more substantial. Using the financial-services company above as an example, organizing training in a different way promises a cost-reduction opportunity in excess of $20 million, including direct and indirect spending. Cost savings on that order of magnitude seem hard to ignore. Yet many CFOs do precisely that, simply because it isn’t easy to do.

But it is possible.

Counting The Cost

For far too long, companies have succumbed to a false notion about training investments. Large HR outsourcing companies—perhaps to excuse their own inability to deliver promised cost savings to customers—have advanced the idea that training is too complex and fragmented to yield such granular detail.

We think that’s poppycock.

In our view, running training like a business is not an option. It is an absolute necessity in today’s fast-paced and rapidly changing global economy. More precisely, training should function in support of your company’s bottom-line financial goals, not as some autonomous and fuzzy entity. The continuum of training programs should attack specific business objectives, be provided with the necessary resources to meet those objectives, and held accountable for how dollars are used to deliver corporate value.

Without question, drilling into these details is new territory for CFOs. It upends the proverbial apple cart with respect to the CLO and HR. But it doesn’t have to be this way. There are several steps you can take to smooth the process and build consensus.
Call to Action: The CFO Checklist

**GET CEO BUY-IN**
Just like you (only more so), your CEO is animated to hit quarterly financial targets. The projected cost savings we’ve alluded to in this report provide a compelling business case in support of that goal. Imagine getting a grip on these largely invisible training costs and being able to push earnings and top-line revenues higher. Think your CEO would like the idea?

**ENGAGE STAKEHOLDERS**
Allied with learning leaders, you now have the opportunity to radically change how your organization relates talent management to financial management. Create a multidisciplinary team of key stakeholders to identify, budget, implement, monitor and evaluate the organization’s total training costs. Make someone responsible for keeping tabs, and review the findings periodically to make course corrections.

**FACILITATE, DON’T MANDATE**
By demonstrating the value they can provide the organization through better cost management, you enable the training function and HR to take a step closer toward that much-coveted “seat at the table.” By proving yourself a support partner to the learning function, you defuse “turf wars” and build consensus on the financial value of having a well-managed, businesslike talent management process.

**MAKE THE MOVE TO MANAGED TRAINING SERVICES (MTS)**
By consolidating all of your training activities with an MTS solution, you not only reap the benefits of optimized services, economies of scale, fewer staff hours consumed by training, and conversion of fixed training costs into variable costs. What’s more, you’ll see real return on your human capital investments. But it’s important to choose a qualified managed-services provider that focuses on training as a core business, not a sideline. Only then will you get the sharpened corporate focus that the modern marketplace demands.
References

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“The Role of the CFO in Organizational Transformation,” Perth Leadership Institute, June 2007

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About NIIT

NIIT is a market leading, global learning outsourcing company which provides a comprehensive suite of managed training services including Curriculum Design and Content Development, Learning Administration, Learning Delivery, Strategic Sourcing and Learning Technology. With more than three decades of experience and presence in over 40 countries, our team of some of the world’s finest learning professionals is dedicated to helping our clients increase the business value of learning and development (L&D). We help our clients on both sides of the value equation: increasing the benefits generated from L&D programs while also optimizing the cost of the L&D system. Built on the sound principles of running training like a business, NIIT’s Managed Training Services are a suite of best-in-class training processes that enable customers to reduce costs, realize measurable value, benefit from rock-solid operations, and increase business impact.

For more information, visit www.niit.com or write to us at businessimpact@niit.com.