
PERFORMANCE DIAGNOSIS AND RETURN

ON INVESTMENTS IN DEVELOPMENT:

SOME ISSUES AND PERSPECTIVES

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The value of Performance Diagnosis can be best understood within the context of the real costs of employee development to an organization. Suppose, for example, that an organization needs to improve its sales effectiveness in a region or subsidiary. This situation is not unlike that of a patient who has a need to improve as a result of being afflicted with some illness or disease entity. Presumably, there is a treatment for the patient (and the salesforce) that will be maximally effective in producing the desired improvement. But, what treatment should be used? And, what are the consequences of selecting the wrong treatment?

Unfortunately, prescriptions for sales force development are often made by hunch and by guess. This means that, just as often as not, the treatment

will either be unnecessary or less than fully effective. Consider, for example, the familiar prescription for many salesforce woes, a three-day training program. Logically, there are at least three possible outcomes of such a program. It may turn out to be: (1) Completely unnecessary and irrelevant to real needs of the sales force for improvement; (2) Mostly unnecessary but containing some useful elements; or (3) Highly relevant in meeting critical needs for improvement. Each of these scenarios has differing financial consequences for the organization. To explore these consequences, it is necessary to calculate how much a company invests in such a training program. The following illustrative calculations are based on intentionally conservative assumptions that are likely to underestimate the reality of most actual circumstances.

ASSUMPTIONS RELEVANT TO ESTABLISHING THE COST OF TRAINING	
1. Salesforce size in region/subsidiary	20
2. Average annual salesperson salary + benefits	\$42,000
3. Number of annual workdays	230
4. Daily salesperson salary + benefits (2)÷(3)	\$183
5. Current annual revenues of region/subsidiary	\$5,000,000
6. Daily revenue per salesperson (5) ÷ [(1)X(3)]	\$1,087
7. Potential annual revenues of region/subsidiary	\$7,500,000
8. Length of training program in days	3
9. Number of trainers present	1
10. Participants per diem expenses	\$150
11. Cost of training program development	\$60,000
12. Life of training program in training days	300
13. Amortized daily training development cost (11) ÷(12)	\$200

The total expenditure for a three-day training program is computed by determining the aggregate three-day costs for salesforce (and trainer) salary and benefits, participant expenses, lost revenues, and amortized training program development costs. With the above assumptions, along with some representative cost estimates for each of the factors in question, the breakdown for this total cost is shown below.

Obviously, the total cost of even a three-day training program represents a sizable investment in salesforce

COST BREAKDOWN		
Aggregate 3-day salary + benefits:	21 X 3 X \$183 =	\$ 11,504
Total participant expenses:	21 X 3 X \$150 =	\$ 9,450
Total lost revenues:	20 X 3 X \$1087 =	\$ 65,217
Three-day amortized training program development costs:	3 X \$200 =	\$ 600
TOTAL TRAINING PROGRAM COSTS =		\$ 86,771

development. The return on this investment will be based primarily on two factors: (1) the size of the potential increase in revenues that the subsidiary or regional market will bear if the salesforce becomes more effective; and (2) the percentage of that increase that will be realized by having the new skills and abilities provided by the training program. For purposes of our illustration, it has been assumed that the market in question will presently support another 2.5 million dollars in revenues in a target region or subsidiary, if the salesforce were to become maximally effective. That leaves in question the percentage of this potential increase that actually will be obtained as a result of the training.

Our experience indicates that many factors will affect the size of this percentage including the capability of the training program to actually produce the intended skills, the company's success in being able to implement appropriate follow-up activities to nurture the new abilities, and the relevance of the new skills to the existing developmental needs of the salesforce. Assuming that the training and follow-up procedures are fully effective (not a minor assumption), we are left with the issue of training relevancy.

The principal advantage of Performance Diagnosis to an organization is that it virtually guarantees that training and development activities, if indicated, will

fall into the category of being "highly relevant." This means that, with Performance Diagnosis, an organization can either avoid costly training that is not needed, or make sure that necessary training is directly relevant to documented performance improvement needs. The following table on page 3 shows the financial implications of four scenarios, two with and two without the benefit of prior

Performance Diagnosis. In the two cases without Performance Diagnosis (Columns 1 and 2), training was prescribed by the company on the basis of guesswork and hunches. In

one of these cases, the training turned out to be completely unnecessary, while in the other it happened to be partially relevant. For the cases with prior Performance Diagnosis (Columns 3 and 4), one involved highly relevant training because developmental needs had been clearly identified. In the other, training was avoided altogether because, based on established needs, it was found not to be indicated.

Several additional assumptions were required for purposes of the following calculations. One is that Performance Diagnosis was conducted at a cost of \$80,000. Depending on the type of diagnostic employed, this cost could be on the high side for the salesforce size in question. The other assumption, based on our experience, is that highly-relevant training results in at least a tenfold increase in employee effectiveness on the job, compared to the more common training scenarios depicted in the first two columns. In the following table, this increase is reflected in a larger percentage of the 2.5 million dollar potential that is likely to be realized as a result of the training experience (gross revenue gain). Net revenue gain is computed as the gross revenue gain minus development costs. Numbers in parentheses represent losses to the organization. Return on investment is net gain divided by total cost, expressed as a percentage.

TRAINING RELEVANCY AND RETURN ON INVESTMENT				
	WITHOUT PERFORMANCE DIAGNOSIS		WITH PERFORMANCE DIAGNOSIS	
	Irrelevant Training	Partially Relevant Training	Highly Relevant Training	Training Not Indicated
Cost of 3-day training program	\$86,771	\$86,771	\$86,771	\$0
Cost of Performance Diagnosis	\$0	\$0	\$80,000	\$80,000
% Potential revenues realized	0	1	10	N/A
Gross revenue gain	\$0	\$25,000	\$250,000	\$146,771
Net revenue gain	(\$86,771)	(\$61,771)	\$83,229	\$66,771
Return on investment	-100%	-71%	50%	83%

Note that the gross revenue gain shown in Column 4 above is based on avoidance of training development (\$60,000) and implementation (\$86,733) costs.

The preceding example, based on some fairly conservative assumptions, shows that training is likely to be a losing proposition for organizations (Columns 1 and 2) unless it is highly relevant to the developmental needs of participants (Column 3). Performance Diagnosis is a powerful tool to achieve such relevancy. Even at the cost shown here, the use of this tool can help to insure the profitability of training and development activities. Moreover, Performance Diagnosis can contribute to cost avoidance (Column 4) by providing a means to

determine when specific developmental activities are or are not indicated.

For a number of years, we have pioneered in the development of Performance Diagnostic tools and strategies. Our experience, to date, has been fully consistent with the above hypothetical scenarios. That is, through the use of Performance Diagnosis we have helped clients avoid unnecessary expenditures for training and development as well as ensure the relevance of those experiences that were indicated.

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