Driving Cost Out of the Learning Organization:
Assessing the Enterprise Learning Function
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Leading the L&D enterprise is especially treacherous when macro-economic factors affect everything from the price of food to the price of oil.

A joint study recently conducted by the Institute for Corporate Productivity (I4CP) and HR.com suggests that 88% of companies surveyed plan to implement significant cost cutting initiatives within the next year. In March 2008, the Wall Street Journal reported that business schools relying on executive education worry “that demand may dry up as companies once happy to spend big on training look to trim budgets”. As companies are forced to tighten their belts under these increasing cost pressures, it is likely that L&D Leaders will feel similar pressure to drive cost out of the learning organization and optimize operational efficiencies.

Decision making challenges

Although the imperative to increase the operational efficiency of the learning organization is relatively easy to make, decisions about where to make these changes quickly become complex. Which programs are most effective? Which programs are most aligned to business goals? Which business goals are most critical? Furthermore, the enterprise learning function is a complex organization, often made up of decentralized groups with a multitude of inter-related processes, systems, vendors, and staff. In order to make informed decisions about how to strategically reduce costs – while maintaining high levels of service – it is necessary to take a systematic approach to assessing the enterprise learning function.

In its simplest form, an organizational performance assessment consists of the following activities:

1. Categorizing key functions of the learning organization into mutually exclusive domain areas
2. Developing key measures of performance for each domain and calculating a baseline
3. Benchmarking baseline data against industry measures or specific competitor/peer organizations and prioritizing gap areas
4. Identifying and prioritizing changes and efficiencies to address gap areas
5. Developing financial models for high-priority changes to predict the financial impact to the organization and acquire investment funding
6. Implementing and measuring the success of each change/efficiency initiative
Defining the learning function

As previously stated, the enterprise learning function in a large organization is often a complex environment.

As figure 1: Complexity of the enterprise L&D function illustrates, it consists of a multitude of inter-related processes and functional service areas.

With so many moving parts, it can be difficult to establish a means by which to evaluate them. It is therefore necessary to combine these elements into higher-level categories (or domains).

Figure 2: Enterprise L&D domains illustrates a view of the organization that is manageable, comprehensive and mutually exclusive in terms of developing financial measures.

This domain structure represents an enterprise view of the learning function. Those responsible for an organization that does not encompass all of these domains may need to develop different categories to allow for a more tailored assessment strategy. It is also helpful to group these domains in the categories of strategic and operational, where strategic alignment, organizational/talent development and measurement and business impact focus on executive-level issues (strategic) and design and development processes, delivery and logistics and learning technology are focused on the day-to-day operations of the learning function (operational). For the purposes of this model, each domain is further described below.

Figure 1: Complexity of the enterprise L&D function

### Strategic alignment
The alignment of learning and development (L&D) with the corporation’s strategic goals and objectives and L&D’s accountability to contribute to those goals and objectives, including L&D’s level of financial discipline.

### Organizational/talent development
The quality of L&D’s relationship with other functions and lines of business across the organization. The extent to which L&D operates as a strategic partner with other support functions and lines of business.

### Design and development
The efficiency, effectiveness and sustainability of L&D’s processes related to the design and development of training courses.

### Delivery and logistics
The efficiency, effectiveness and sustainability of L&D’s processes related to training administration, materials fulfillment and delivery of training courses. This includes processes related to outsourcing and vendor management.

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<table>
<thead>
<tr>
<th>Business measurement</th>
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<tbody>
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<td>Service measurement</td>
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<tr>
<td>Participant measurement</td>
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<tr>
<td>Administrative reporting</td>
</tr>
<tr>
<td>Platform administration</td>
</tr>
<tr>
<td>Resources scheduling</td>
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<tr>
<td>Facilities management</td>
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<td>Print fulfillment</td>
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Governance

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<thead>
<tr>
<th>Business alignment</th>
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<tr>
<td>Relationship management</td>
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<td>Performance consulting</td>
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<tr>
<td>Needs analysis</td>
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<tr>
<td>Job analysis</td>
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<td>Competency modeling</td>
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<td>Instructional design</td>
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<td>Content development</td>
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<td>Media development</td>
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<td>Instructor-led delivery</td>
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Learning technology

The efficiency, effectiveness and sustainability of L&D platforms and technologies as well as the alignment and integration of L&D platforms and technologies with other platforms and technologies throughout the organization. This includes processes related to outsourcing and vendor management.

Measurement and business impact

Actual, documented L&D contributions to corporate performance. Availability and usability of reports tying L&D metrics to organizational metrics and actual performance for all levels of management. Extent to which these reports are utilized and acted upon. Measures of success of the training function.

Developing measures

Once the core elements of the learning function have been categorized into meaningful domain areas and defined, it is then time to identify key measures and assessment questions that will provide insight into the relative performance of the organization in each domain. When developing these measures, it is important to look at the organization through three dimensions – strategic alignment, effectiveness, and efficiency. Each dimension is further described below.

Strategic alignment means prioritizing the output (products and services) of the learning function in accordance with the priorities, goals and initiatives of the business. If a program or function of the learning organization is not recognized as core to the business strategy or at least mandatory from a regulatory standpoint, an opportunity exists to ask why it exists and what value it adds to the organization.

Effectiveness is ensuring that the products and services of the learning function are having their intended effect. It means measuring the impact of learning interventions in terms of business metrics.

Efficiency is about financial rigor and resource management – uncovering all costs, direct and indirect. Being efficient is working to reduce costs while optimizing systems and processes. Senior executives are expected to run business operations as efficient as possible and therefore expect the same from the learning function.

Other considerations for developing measures include availability and validity of existing data sources, means of collecting additional data such as surveys and interviews, and how financial measures will be calculated, scored and compared for the purposes of benchmarking. Using the domain structure defined in the previous section, the following table provides some sample questions and measures for each domain:

Note: Measures marked in italics indicate business measures that are easily benchmarked with industry sources such as ASTD’s WLP Scorecard. These measures also provide the foundation for calculating the financial impact of solutions and initiatives further downstream in the assessment process.

Figure 2: Enterprise L&D domains
### Strategic alignment
- Do you have an L&D strategic plan?
- How does it align with overall business strategy?
- How do your customers and business leaders perceive the L&D function?
- To what extent do you track and report how much you’re spending on L&D activities across the organization?
- Does the enterprise have structures in place to facilitate decision making, learning standards and communications for learning across the lines of business?
- Is your learning staff to employee ratio consistent with industry benchmarks?

### Organizational/talent development
- Does the L&D function follow a performance consulting approach?
- Is L&D involved in or leading the development or management of competency models?
- Are specific learning activities mapped to competency models?
- To what extent is L&D involved in informal learning activities within the lines of business?
- Is your average learning spend per employee consistent with industry benchmarks?

### Design and development
- Are instructional design and courseware development processes managed efficiently and effectively?
- Does your team have the right tools for courseware development?
- How do you maintain and manage content changes?
- How well is learning content reused throughout the organization?
- Is your design and development staff effectively utilized?
- What does it cost your team to produce an hour of WBT or ILT content?
- How long does it take your team to produce an hour of WBT or ILT content?

### Delivery and logistics
- Do you effectively and efficiently manage your facilities?
- Do you have the appropriate learning modality mix?
- How efficient is your course scheduling process?
- How efficient is your course/materials fulfillment process?
- How efficient are your administrative processes?
- Do you select and manage vendors and external resources effectively?
- Is your delivery staff fully utilized?
- What is your total cost per hour of training delivery?
- Are your training admin and support costs consistent with industry benchmarks?

### Learning platforms
- Do you have a learning technology strategy?
- To what extent are you leveraging the capabilities of your LMS?
- To what extent do you manage content across the organization?
- How mature are your technology administrative and support processes?
- To what extent are you leveraging/experimenting with new (Web 2.0) learning technologies?
- Are your direct and indirect technology costs consistent with industry benchmarks?

### Measurement and business impact
- Do you have an assessment and measurement strategy? How is it aligned with the strategic goals of the organization?
- Are participant and business metrics correlated to business performance?
- How is assessment and measurement data reported throughout the organization?
- How is measurement and assessment data used to inform instructional design, organizational development, and strategic planning processes?
Benchmarking and gap analysis

Once measures and data collection methods have been developed, baselined, and scored for each of the domain areas, the next step is to benchmark the data with industry sources, such as ASTD’s State of the Industry Report or WLP Scorecard, or with competitor or peer organizations. Benchmarking provides an objective means by which to highlight potential performance gap areas and start the process of identifying solutions and initiatives to improve in those areas.

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Figure 3: Benchmarking at the Domain Level illustrates a means to visualize and compare baseline and benchmark data at the domain level, while Figure 4: Benchmarking Specific Measurements provides an example of this comparison of the specific measures within a domain.

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<tr>
<th>Scoreboard measure</th>
<th>XYZ company</th>
<th>Benchmark</th>
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<tbody>
<tr>
<td>Process maturity</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Design/dev tools</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Content maintenance</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Content reuse</td>
<td>2</td>
<td>3</td>
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<tr>
<td>Average score</td>
<td>2.75</td>
<td>3.25</td>
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<td>Staff utilization</td>
<td>65%</td>
<td>85%</td>
</tr>
<tr>
<td>Development ratio</td>
<td>42:1</td>
<td>36:1</td>
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Business metrics

Key findings:
- Design/dev process standards vary across lines of business
- Development tools selection committee exists
  - Use of industry standard tools prevalent
  - Cost savings due to centralized/volume procurement of tools
- Content reuse is limited across lines of business - some redundant efforts
- Small development teams are subject to large swings in demand/capacity (overall utilization is lower than industry)

Identify solutions and initiatives

Having used the process of benchmarking the baseline data against industry and competitive sources, focus areas for potential improvement and their relative priority will start to become apparent. For each of these areas, it is necessary to identify the key stakeholders and conduct a solutions development activity. Depending upon the culture and structure of the organization, this activity can take many forms. In some cases, it may be a brainstorming session in which the data is presented and stakeholders offer solutions. In other cases, a smaller team may identify solutions and work with the larger stakeholder group to validate and prioritize them based on financial impact, organizational impact, and the ability to implement. The key is to identify and prioritize solutions and initiatives that ultimately support and enable the goals of the business, but also optimize the operations and efficiency of the learning function. Because the next step in the process – developing financial models for high-impact solutions – can itself be a large effort, it is worth the effort to apply some rigor to the prioritization process.

For example, as a result of conducting the baseline assessment and benchmarking, it was determined that the organization had a higher L&D staff to employee ratio as compared to ASTD’s best practices measures. Furthermore, it was also determined that instructional design staff (who are distributed in very small teams across multiple lines of business and subject to large swings in demand and capacity) had a lower average utilization rate when compared to peer and competitor organizations. Two potential solutions, among others, arise from these findings – simply reduce headcount in the various lines of business (thus exacerbating demand/capacity issues), or look at centralizing the function to increase the flexibility around managing demand/capacity at the enterprise level (creating the need for a more rigorous governance structure and resource management processes). By applying a rigorous set of prioritization criteria (such as strategic impact, financial impact, organizational impact, and the ability of the organization to implement), these choices become simpler to make in a more objective and strategic manner – in this case, deciding to centralize the function and gaining the additional benefit of a stronger governance structure.
Financial modeling

Because few cost savings initiatives or solutions can be implemented without costs of their own, it is important to calculate the total (short-term and long-term) cost of each solution as well as the projected long-term financial impact to the organization. This activity not only serves as a validation step for those responsible for implementing the initiative, but also provides the business case to business leaders from whom it may be necessary to acquire the necessary funding. The financial modeling activity also provides a final prioritization of the solutions and initiatives based on their financial and strategic impact to the organization.

The following example shows what a financial modeling activity might look like in the case where an organization has determined that it relies too heavily on instructor-led training for some of its enterprise-wide programs. Figure 5: Financial modeling of solutions and initiatives shows a comparison of total cost of ownership of an existing instructor-led program with a blended learning approach that combines elearning components with live classroom sessions and another approach that incorporates virtual classroom sessions.

Figure 5: Financial modeling of solutions and initiatives

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<tr>
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<th>2008</th>
<th>2009</th>
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<td><strong>Financial modeling</strong></td>
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Some additional points to consider when developing financial models are:

- Incorporating a realistic lifecycle for the initiative such that total cost of ownership is reflected accurately
- Capturing not only cost benefits, but also potential impact to business measures such as increased sales, reduced time to competency, or reduction in defects
- Accurately and conservatively capturing implementation costs – including change management and communications activities.

Implementation and measurement

Once high-impact initiatives have been identified and validated through the financial modeling process, it is time to implement the initiatives themselves. Although it is beyond the scope of this paper to discuss the details of project management and change management it is important to keep these in mind when developing the implementation plan. Another key element is incorporating a means for measuring the long-term success of the initiative by using the earlier defined measures and reporting on them at appropriate intervals.

Conclusion

Economic slowdown is a reality for most large companies, and with it comes the inevitable focus on costs and operating efficiency. And while most L&D leaders can anticipate some pressure to develop cost-reduction initiatives, they must not be selected and implemented without regard for strategic alignment with business needs. A comprehensive L&D assessment that measures associated levels of strategy, efficiency, and effectiveness is a means to identify these initiatives. Rigorous financial modeling and external benchmarking are seen as vital elements of any assessment and provide a means for objective decision making and prioritization of these initiatives.
About the authors

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References
1. Institute for Corporate Productivity and HR.com, April 2008

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