

# THE TRAINING FUNCTION: OVERHEAD OR PROFIT?

*the urgent need for  
human resources accounting  
practices in training*

The role of training has reached a major crossroad. It can continue as it has in the past as the obedient servant of industry, or it can recognize that great changes have taken place in society and industry. To achieve new dimensions in the role of training, a careful evaluation of the sociological changes is necessary. A break with the traditional concepts is necessary for training to develop its new role and achieve its proper position in industry and society.

In this article, I propose a new direction to be pursued by the training function. This new direction is based upon a basic premise — that training can be executed to create profit for an organization. Two approaches to accomplishing this new direction are discussed. They are not the only approaches, but are worthy of consideration. It will require many creative ideas before the best roads to new dimensions in training will be discovered. The pressures of time are against us, but it is not too late to start.

## WHERE ARE WE?

During World War II, it became apparent that training in many applications had become a necessity. No longer could industry just reach into the labor market and acquire the human resources it needed to keep pace with the rapid technological growth and satisfy the increased needs for management personnel. Proof of the recognition of the training need was the sudden appearance throughout industry of the "training director." In most situations, the training function was incorporated under the personnel manager as its primary reason for existence was to provide the company with personnel with the requisite skills to support the company's production needs. In the larger corporations, where training had been recognized as a requirement prior to World War II, the training function was centralized and managed at an executive level at least equal to that of the operating departments.

The development of skills for industry through training progressed rapidly and generally used the principles and tech-

niques developed during World War II by the military. Due to the tremendous growth in industry during the late 1940's, a significant shortage of management personnel was generated, creating the need for development of personnel with the necessary skills to lead the growth in the nation's productivity. Training directors were called upon for programs to solve this situation. At that time, there was little knowledge of what skills were required to be an effective manager. This became the new era of analysis of management techniques and the investigation of the applications of the new technologies to the role of the manager. Training programs, both in-house and outside, were started with many different underlying philosophies and techniques. Today, there is a whole new industry devoted to the creation of training programs in all imaginable areas.

## WHAT SHOULD WE DO?

In the past twenty-five years, a service industry has been created to satisfy the needs of all product-oriented industries. Yet, there still remain two related elements in which a breakthrough is required before the training function achieves the significance that is necessary for the continued growth of the world's productivity through effective utilization of its human and natural resources. These elements consist of a change in attitude at top management level and the movement of training into the mechanisms of producing increased profits. The element of attitude change involves both management and the training director. There still exists the attitude in management that training is a general and administrative cost and adds nothing to the profits.

There still exists the attitude of training directors to say, "Yes", when training in any aspect is requested, instead of saying, "I'll investigate as to whether training is the proper solution to the problem." Dr. Gordon L. Lippitt, past president of ASTD, at the Society's twenty-fifth anniversary conference, asked: "Do you have the 'guts' to say 'No'?

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when your boss tells you to conduct a training program?" Thus, the two parties to this attitude element need to re-evaluate. Management must recognize the profitability of conducting training for its human resources with the same vigor that is directed at improving its production processes. The training director needs to develop the "guts" to say "NO" to directives from management until proper analysis of the situation can be accomplished.

The second breakthrough of training's movement into the area of increasing industry's profits is directly related to the elements of attitude change. Before this can take place, training must prove that it can add profits instead of overhead costs. To achieve a profit-generating training function, the training director must design a coordinated attack in two areas.

The first area is to apply the training function to the reduction of costs in producing an item and getting it into the hands of the ultimate consumer. The training operation must be organized and executed in so that the cost reductions it accomplishes are measurable in terms of its dollar-share of each product's profit margin. The second area is to search out the opportunities that will allow the creation of a marketable training product. The profit potential from this area is great and can greatly influence management's thoughts towards the training function.

### ONE WAY TO PROGRESS

To accomplish the first breakthrough, new methods of accounting need to be established. One possible answer is under study by Dr. Rensis Likert and was introduced in his book, *"The Human Organization: Its Management and Value,"* published in 1967. The basic principle presented is that the human resources of an organization should be considered as part of the organization's capitalization as are its plant and equipment. Under this approach, a major portion of training conducted in the organization for improve-

ment of human resources would be considered as a capital investment, the cost of which would be depreciated as are investments in new equipment.

There are obvious advantages to this concept. The most significant one being the fact that the total costs of training activities do not apply against the profits of the year in which the costs are incurred. Rather, the costs are distributed over the period of time that the training is expected to influence corporate income. In this consideration, greater funds can be allocated to a specific training activity to achieve greatly increased effectiveness without jeopardizing that year's profits and dividends to stockholders.

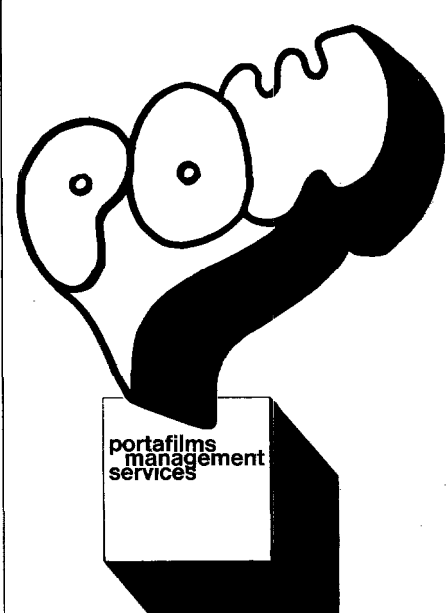
What this means to the training director is that he can approach the training task with the confidence of "Let's do it right," as compared to, "I'll do the best I can." This would allow the selection of the best methods to match the task as opposed to doing the best that he can with the existing resources.

For example, a new computer system is being developed for automatic reading of gas, water and light meters in large population areas. This system will periodically read the meters at a particular home, compare that reading with a previous one and compute the consumption. The computed consumption will be converted to a printed bill to the consumer. The system can, and will, do much more; but it is obvious that training of installation and maintenance personnel will be required. The training preparations must be accomplished prior to the production of the first system. Under current accounting methods, the costs would be applied against income in a year where none of the income has any relationship to the purpose of the training conducted. Under Dr. Likert's concepts, human resources accounting, the costs of the training would be handled the same way as the costs of developing the meter reading/billing system. This puts training costs in their proper perspective and allows

the training director to design the training program to achieve the best results over the long term of the system's anticipated contribution to corporate income.

### PROBLEMS, TOO

There are, of course, problems associated with implementation of this method of accounting for training costs. The most difficult problem is discussed in the April, 1968, issue of *The Accounting Review*, entitled "Human Resources Measurement - A Challenge for Accounts," by R. Lee Brummet, Eric G. Flamholtz and William C. Pyle. The authors are associates of Dr. Likert. The problem lies in the difficulty of determining the capital evaluation to be applied to the human resources of a cor-



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poration. There is much work to be done in this field as there are psychological, as well as fiscal problems to be considered. How will the individual employee feel about the value assigned to his contribution to the corporation's capitalization? A dynamic study of human resources accounting concepts are in progress in a few corporations. The R. G. Barry Corporation has implemented the concept for its salaried employees and executives and reports excellent results so far. It plans to extend the program to all employees within the next two years. The influence of the program on employee attitudes and behavior will be studied intensively.

The application of human resources accounting concepts may be one way to achieve the breakthrough towards accomplishing the change of attitude of top management towards the training function. Training would no longer be a cost, but it would be a capital investment directly related to the production of corporate income. As such, the contribution by the training function becomes product-orientated, and its influence on profits can be reflected realistically on the corporation's financial statements. How well the training director does his job will now be measurable in terms of profit contribution.

#### **ANOTHER WAY TO PROGRESS**

The training function has the capability of demonstrating to top management that it is profit-orientated in many situations in another way. Since training has become a service industry in itself, it is certainly capable of producing a marketable and profit-generating product. This product can exist in a multitude of forms, ranging from a staff of instructors with a prepared training program to a multi-media programmed instruction course, complete with all training devices and materials. The creation of such products follows the same steps as in creation of other types of product. It is opportunistic in that a need must be discovered, developed and produced.

In a product-orientated corporation, the opportunities exist for the development of by-products in the form of marketable training programs. This is another way of showing to top management that the training function is not just a cost, but that it can be a profit-producing department worthy of equal status with the production and marketing departments. For the training director to be aware of the opportunities for training product creation, he must be knowledgeable of the future products of the corporation long before they enter production. As a new idea emerges from basic research and is accepted for development into a corporate product, the training director must actively participate in the progress of the applied research. If the training department waits until the product goes into production, the time available for research and development of a marketable training by-product is insufficient. Identification of the training needs and appropriate training methods must be accomplished early in the applied research phase of new product development. Incorporation of significant training activities into PERT/CPM schedules is one way of ensuring that the training director will have the necessary time to recognize and create the profit-generating training programs which may be associated with the new product and its applications.

#### **TRAINING BY-PRODUCT**

The meter reading/billing system can serve again as an example. What could the training director create as a profit-generating by-product in association with this system? Considering the ultimate user of this system, the utilities corporations, there is a need to obtain trained installation and maintenance personnel to make the equipment and concept profitable. The customer will want to reach this goal at the least possible cost. Some of the users will want to lease the system and the maintenance service. Others will want to own the equipment and service it themselves. The producer of the system should be

ready to satisfy either customer.

To do this, the training director has to solve two problems. First, he must decide on the best program for training the producing company's installation and maintenance personnel. Second, he must prepare a training program for customer operation and maintenance. Each program will be significantly different. If created for maximum training efficiency, they will utilize different instruction methods and different learning objectives. The first program is, under human resources accounting, a capital investment in the system, leading to increased income. The second program is a marketable product which broadens the product base of the corporation and increases the marketability of the system by increasing the number of potential purchasers of the meter reading/billing system. It is obvious that the training function must be actively engaged in new product activities from the very instant that the decision to proceed with its development is made.

#### **DETERMINING NEED**

There is an economical way in which the training function can achieve the necessary knowledge of the training requirements for a new product. The method requires close inter-departmental cooperation and precise planning. The key to analysis of training needs is a detailed understanding of the operation and maintenance requirements of the new product. This can only be attained through extended experience with the equipment. To assign a member of the training department to observe the early development of the new product is non-productive — "too much, too soon." There can be no contribution by this man at this time in the product development process, as the production phase of the training function is not yet extant. Further, the training director cannot become sufficiently knowledgeable of all new products under various stages of research and development to be practicable.

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An answer to this problem may be found in effective utilization of certain personnel in the applied research department. The laboratory aide/engineering aide is the most knowledgeable person in a corporation on the operational and technical aspects of a new product. How can he be of value to the training director? Hopefully, the engineering aide could be both research-oriented and experienced as a technical instructor. Thus, he could participate in research from both a scientific and educational viewpoint. It would be necessary that a small proportion of his time be devoted to his training role; but, in either endeavor, he is important in increasing corporate profits. This man will have two jobs; but, through careful personnel assignment, the dual role can be accomplished to the gratification of all concerned. The advantages are obvious from this approach; the engineering aide can be productive in two areas simultaneously.

#### PROJECT ORIENTED

To achieve this Utopian condition, the organization of the training function must be project-oriented. The ideal situation would exist when an engineering aide possessing training skills is assigned to a new product and assumes the task of assisting the product development from initiation to completion. Also, he becomes the project manager of the total training package associated with the new product with which he is becoming so intimately familiar. It would be necessary to build a staff of engineering aides sufficiently trained and experienced to support the new-product volume of the company. However, even if the new product fails to reach actual production stage, the staff's labors would not have been wasted. They would then rotate to another potential new product and assume a new project manager role. The training director's position in this effort is to plan, organize and coordinate. In addition, he must provide special training for his "project managers" so that they are kept abreast

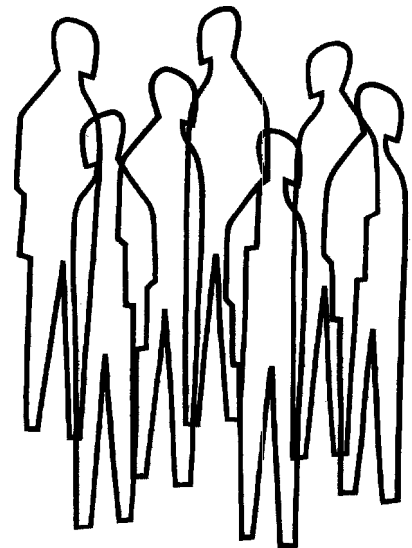
of the latest training methods so that cumulative knowledge may best be utilized and applied to each situation.

As in the case of instituting human resources accounting, this plan has associated problems. This time, the problem is human in nature. Where does one find this "super" engineering aide? How does one keep him motivated in the circle of engineering aide to training project manager to engineering aide? This is the point where interdepartmental cooperation is required. The person selected for these assignments must be screened by both the research and development department and the training director. When recruiting engineering aides, a training representative must take part.

As in all other personnel situations, selection and placement of personnel is the key. The person chosen to fill the special slot of "super" engineering aide must be fully aware of his role before he is assigned to the project. His compensation must certainly reflect his additional skills in the training function. There are other problems, but finding these employees is less difficult than solving the human resources accounting problems.

#### SUMMARY

The original premise was that training could generate profits for the corporation. The training function, as old as it is, now enters a new dimension. New ideas and new energies must be applied in order to reach the goals of the next decades. Two areas of effort have been introduced for consideration, but there are many others since people involved in the training function are by necessity creative. Study all possible approaches and select the one that best fits the situation. The energy and creativity of the training director, his ready adaptability and concern with all phases of product development will determine whether progress and profit are to be attained. Training activities can have a direct bearing on the profit achieved by a company when properly directed.



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