

The Value of Tuition Reimbursement: Myth Versus Reality

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In a world of continuous change it is an implicit assumption of every organization that continuous reinvestment in employee know-how is required to remain competitive. However, a disconnect occurs between the concepts and the actual deployment of corporate resources paid for out of the tuition reimbursement benefit.

In a recent study that focused on tuition reimbursement and turnover, published in the Academy of Management Journal, researchers stated that "Of all the forms of company-sponsored development, college courses covered by tuition reimbursement are most likely to be seen by employees as providing marketable skills, because of the broad content and qualifications they offer. Seventy-five percent of U. S. establishments with more than 20 employees and almost all large employers offered some type of reimbursement benefit" (Benson, Finegold, and Albers Mohrman, 2004). From a financial consideration, this corporate resource totals \$10+ billion of corporate investment made annually by US corporations (Eduventures, 2004). The total investment in employment development in the United States is significantly larger and less precise and is estimated to range from \$16 billion to \$55 billion (Benson et.al).

There are a number of management myths related to corporate investment in degree programs for employees. Four of these myths and the data to refute them are provided here for discussions with the CEO.

Myth 1: "Why should I pay to help my employees get a degree, they will just leave the company when they graduate." - Senior management

Analysis: This myth is largely based on the intuitively obvious conclusion that getting a degree is of considerable value to the employee to whom the degree is being conferred. Intuition is confirmed by U.S. Census Bureau data that shows the average value of a bachelor degree vs. no degree, is over \$21,000 per year and growing. It is a very simple calculation to derive the ROI for the employee. The actual ROI to the employee is well over 100 percent. It takes a separate analysis to show how the corporation also benefits, as the research by Benson et. al shows that taking courses and receiving a bachelor degree actually reduces turnover by approximately 50%. This not only refutes the myth, but actually is in the exact opposite direction.

Myth 2: "If I want employees who have a bachelor degree, I am better off hiring them from outside rather than developing them from within." - HR managers and senior executives.

Analysis: This myth is closely linked to Myth 1 and is amplified by the implicit assumption that somehow a new employee with 'outside' experience has more valuable other side." There is some compelling evidence that exactly the opposite is true based upon the value of tacit knowledge advanced in the text Transforming e-Knowledge (Norris, Mason, Lefrere, 2003, p. 68)). As a result of employee switching costs, it is almost always more economical to invest in the new skills of current employees than it is to hire for those skills on the open market.

Myth 3: "Why should I pay to help my employees take courses of their own choosing? They will just take courses that they like, courses like language, or psychology, or basket weaving, or travel - courses that they might enjoy, but which have no value to the company." - Senior Executives, CFOs and HR managers.

Analysis: It is true that under what I call "benign neglect", administration of tuition reimbursement resources, employees are largely given free rein to select whatever they want to take, subject to approval by their supervisors. In reality, the supervisor oversight is loosely administered with very little actual control as to the strategic relevance of the specific education taken. Data shows that while this is the practical reality, employees are strongly motivated to make course investment decisions that enhance their own value to their current employer. Detailed data is available from the author.

Myth 4: "The whole ROI concept in human capital is bogus. Since it can't be measured anyhow, I am simply going to view it as a current period cost and not an investment at all, so don't even try to increase the budget for tuition reimbursement." - Senior executive

Analysis: There is considerable contention over this issue within the training and education departments of corporations. The training profession itself has advocates that debunk the very concept of ROI in human capital investments. In a symposium session held during the Training Conference

Expo (Dust, 2004) it was actually argued that it is impossible to view human capital and expenditures related to improve human capital, as an investment at all. The reality is that the HR profession must build a credible case for objective measurement of ROI to fulfill the senior executive demands for strategic investment in human capital.

Strategic Investment in human capital involves a number of administrative and management issues that must be addressed. These include:

- ◆ What should the annual budget be for investment in human capital?
- ◆ What should the policy be with regard to the qualification and timing of the tuition reimbursement benefit?
- ◆ What courses or programs should qualify for reimbursement?
- ◆ When should the reimbursement take place?
- ◆ How should the policy be administered to minimize administrative overhead costs?
- ◆ Should tuition reimbursement cover 100% of the costs or should there be some "cost sharing" or cap on total expenditures?
- ◆ What are the ROI implications from the interaction between the tuition reimbursement policy and promotion?

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