International Business Management 10 (4): 475-478, 2016
ISSN: 1993-5250
© Medwell Journals, 2016

Improving Organizational Performance Through Training Function: A Review

[1]Choi Sang Long, [1]Tan Owee Kowang, [1]Thoo Ai Chin and [2]Ong Choon Hee
[1]Faculty of Management, [2]International Business School,
Universiti Teknologi Malaysia, Johor Bahru, Johor, Malaysia

Abstract: The human resources' training function plays an important role from the beginning of the employment. In the same time, the development function of HR is equally important for the future of the employment relationship. This study reviews the previous studies on the impact of training on firms' performance. The review shows that few determinants and factors on the training program are related to firms' performance. Factors such as number of training programs conducted, training policy, nature of training, effort in evaluating training programs, flexibility of the training programs, training cost, identifying training needs and training program design found to have significant impact to firm performance. In addition, some studies have shown a positive correlation between training and firms' sales and productivity. This indicates that increase in training activities can help organizations to perform better and improve firm's future value. In conclusion, it is undeniable that training is one vital function in HRM that can impact firms' performance. HR practitioners that wanted to play more strategic role in the organizations must embark into this function effectively.

Key words: Human resources, training, firm performance, strategic role, employment

INTRODUCTION

Training in an organization is an educational process where staffs or peoples can learn new information as well as re-learn and reinforce existing knowledge and skills. The most important thing for organization management is to think and consider what new options can help their staffs in improving their effectiveness at research. Effective trainings convey relevant and useful information that inform participants and develop skills and behaviors that can be transferred back to their actual workplace. The human resources' training function plays an important role from the beginning of the employment. In the same time, the development function of HR is equally important for the future of the employment relationship. Companies often fail to realize that the return on investment in training and development activities can to help support organization goals for profitability and success in the future business.

Basically, the goal of training is to create an impact that lasts beyond the end time of the training itself. The focus is on creating specific action steps and commitments that focus people's attention on incorporating their new skills and ideas back at research. Training can be offered as skill development for individuals which involve presentation and learning of content as a means for enhancing skill development and improving workplace behaviors. Training development process refers to the imparting of specific skills, abilities and knowledge to the staffs in any attempt to improve current or future staff performance by increasing the staff's ability to perform through learning which usually by changing the staff's attitude beside increasing his or her skills and knowledge in his working field and environment (Garcia, 2005).

In general, training and development consist of three main activities which are training, education and development. The training activity is focused upon and evaluated against the job an individual currently holds. Education activity focuses upon the jobs that an individual may potentially hold in the future and evaluated against those jobs while development activity focuses upon the activities that the organization employing the individual and it is almost impossible to evaluate.

LITERATURE REVIEW

Impact of training on firms' performances: Human capital is defined as formal education and training that can contribute to economic growth through workers' productivity, hence, firms' output and productivity. This implies firms will be more competitive in coping with changing technology when they engage in training (Bartel and Lichtenberg, 1985). According to human capital theory, human capital variable like training will enhance individual' skills, hence contribute positively to output and productivity of the companies where they

Corresponding Author: Choi Sang Long, Faculty of Management, Universiti Teknologi Malaysia, Johor Bahru, Johor, Malaysia

research. Lucas Jr. (1993) postulated that knowledge workers are the most important asset for firms and these type of workers sustain firm's level of competitiveness.

Garcia (2005) carried out a study to examine the relationship between training policies and business, specifically on what is the contribution made by training policy to firm performance. The outcome of the study conducted by Garcia (2005) suggests that the definition of training programs oriented towards human capital development will have a positive impact on organizational performance and more specifically will help to keep all stakeholders involved in the organization more satisfied.

Although, quite a number of studies have shown that training indeed increases firm's productivity, however most of these studies relied on surveys having relatively low sample sizes. Also previous studies rarely relate to costs involved with the training initiatives. A study by Thang *et al*. (2008) investigated the impact of training on Vietnamese firms taking into account their financial data. In their research, they used data from 2007 Vietnam Employer Survey to estimate the impact of training on firm productivity in Vietnam. However, their approach was facilitated using a data that contains information on the value of sales, receipts or shipments, the book values of capital stock, the cost of materials used in production during calendar years 2005 and 2006, the number of labor, employee training costs and other related information. The researchers distributed questionnaires to 1,000 large Vietnamese companies both in manufacturing and non-manufacturing sector. Responses were received from 202 companies. The questionnaire distributed focus on firm characteristics (total value of revenues, sales or receipts; total value of capital or the cost of goods and materials used in production), use of education and training investments (types of training programs, total cost of training programs, reasons for establishment training, sources of trainers, government grants or subsidies for training), employment and work organization (the number of employees, benchmarking programs, total quality management program, flexitime, company strategies). Variables used in the study were firm characteristics, training activities, training costs, reasons of training, source of training provider, kind of training, employment and work organization. Results indicated that companies that increased training in 2006 experienced significant increases in sales and productivity companies in 2006. Manufacturing companies that implemented training programs after 2005 had 9 and 9.1% increase in total sales and productivity, respectively per year between 2005 and 2006. However, these increments were not statistically significant on non-manufacturing companies. The findings from this study suggests that a relationship between training and firm performance exists not only at the level of the individual employee as previously reported by other researchers but also at company level as indicated in this study. Furthermore, the finding in this study also suggests that non-manufacturing companies need to concentrate on a benchmarking program and flexible time beside training programs.

Ng and Dastmalchian (2011) reported another study in Canadian organizations examining the link between training and the perceived contribution of training to enhanced productivity or cost reduction. The research by Ng and Dastmalchian sought to fill the gap in the literature whereby the bundle approach was used to identify whether perceived benefits of training are enhanced by three types of training related practices the climate bundle, the motivation bundle and the assessment bundle. The findings from this study indicates that policies to motivate employees to undertake training and the practice of assessing training needs and effectiveness have the most impact on whether training is perceived to yield positive benefits. In addition, paying close attention to the evaluation of program effectiveness can make an organization to have a more effective program. The study went further to reveal that for training to be most beneficial it should be accompanied by motivation policies or assessment practices or both. Some of the implications of these findings are that lack of proper analysis of training needs can lead to training given for the wrong reasons or inappropriate training program design. This can lead to employees becoming demotivated from participating in future training programs. In addition the findings imply that adding more training-related policies (for example, those related to open climate) does not add to the effectiveness of training. In other words, simply increasing the number of training-related practices will not necessarily increase the effectiveness of training programs.

In Malaysia, because of the importance of training in organizations, the government has allocated huge expenditure towards this cause. The Malaysian Government established the Human Resource Development Fund (HRDF) managed by the Human Resource Development Limited (HRDL). The HRDL act stipulated that each company must contribute 1% of total wages of an individual employee to HRDF. Employers can then use this contribution to train their employees under several HRDF training schemes. In view of this, Ismail *et al*. (2011) conducted a study to analyse the impact of workers' training on firms' output and labour productivity in the hotel and ICT sector in Malaysia. The variables used to develop the estimation model were value of sales, average value of capital stock, capital-labour ratio, number of employment and average

number of managerial, professional and executive workers. The analysis was based on the companies' data in the hotel sector and Information and Communication Technology (ICT) sectors collected in 2009 in Klang Valley and Penang, Malaysia. All companies have registered with the HRDL and are involved in workers' training either under HRDF or non-HRDF training schemes. Results from this study indicated that training variable either in terms of number of workers who attended training or amount of expenditure allocated for training was not a significant determinant of companies' output or labour productivity. This finding reflects the ineffective training scheme in Malaysia. However, output and labour productivity were highly determined by the capital stock and capital-labour ratio. Implications from these findings are training scheme should be redesigned to suit with the companies' needs. In house training may be better that outside training because it can be tailored to the companies' requirements. Ismail *et al.* (2011) pointed out that in the course of their study complaints received from employers were the restriction made by the HRDF on grant facilities in terms of training program.

Recently, Jones conducted a study on Finnish cooperative banks to study the effect of general and firm-specific training on wages and performance. Jones investigated two groups of cooperative banks under the OP Group. OP Group is a network of local cooperative banks. One group was a division of the OP Group called the Group Central, owned by the cooperative banks and responsible for joint banking activities. The other group is at the local level of the OP Group which are the individual cooperative banks. To investigate the effect of general and firm-specific trainings, general training was measured by trainings organized by the group central while specific training was measured by training organized by the individual banks. Data from 223 banks from 2000-2004 were collected. Three broad types of data were collected from the banks. They include economic data from income statements and balance sheets. Second were training data of two types, training expenditures data from accounting department and training duration data from personnel department. The third data was bank level data on diverse control variables, e.g., workforce characteristics (education, age, tenure, gender) and municipal unemployment rates. Results from the analysis carried out indicated that general training was associated with somewhat higher wages than firm-specific training, although, the difference is statistically meager. In addition there was little econometric evidence that training decreases costs or increases profits. However, a major finding from their research was that training improves worker outcomes rather than organizational performance.

Training effectiveness in firms/organizations: Zhao *et al.* (2004) carried out a study modeling and investigating the effects of various organizational and individual level factors on training effectiveness in the context of the Chinese hospitality industry. Results from the study showed that external factors influenced trainee's perspectives of training effectiveness to a greater degree than internal factors. Internal factors did not have an effect on trainee's evaluations suggesting that employees were less concerned about the design and implementation of the training program. In addition, the trainees paid more attention to the extent to which management supports the training program. Work environment or the extent to which managers motivate and encourage employees to acquire learning and to make use of training programs was significantly related to employee's perceptions of training effectiveness. The managerial implications of this findings means that managers should first motivate employees to learn new abilities and skills. In addition, to ensure better training effectiveness, managers should support employee efforts to practice such skills at the workplace.

Basterretxea and Albizu (2011) also carried out a similar study investigating the degree to which a training policy developed through corporate training centers is recognized as a source of competitive advantage for attracting, developing and retaining valuable staff. Their study was an update of research previously carried out on the training structure of Mondragon Corporation. The previous studies did not discuss several important strategic decisions related to the group's training policy during the last two decades: most notably, the creation of Mondragon University (MU) and Otalora, the management training centre. Questionnaires were distributed to 66 HR managers of Mondragon Group's various cooperatives. Test results from the questionnaire analysis indicated that Mondragon's training policy, backed up by its corporate training centers was perceived by HR managers as a tool that provides advantages to attract, develop and retain valuable human resources.

Conceptual framework: Base on the above discussion, a conceptual framework (Fig. 1) has been developed as below.

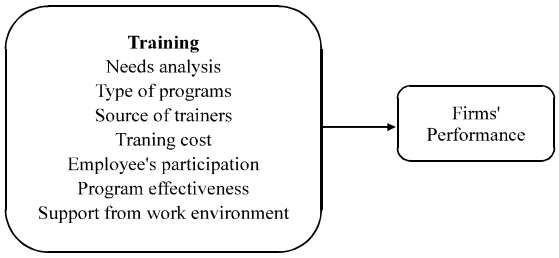

Fig. 1: Conceptual framework

CONCLUSION

Employees' knowledge and skills have become increasingly important to organization performance, competitiveness and innovation. Organizations are spending huge amount of money and resources to train their employee with the hope of increasing organization performance. In this report, previous studies on the impact and effectiveness of training to organizations have been reviewed. From the review most studies have shown that implementation of training policies and activities had positive impact to the organization, its clients, its employees and its owners or shareholders. Such policies and activities must include systematic needs analysis, choosing the correct programs, employing capable trainer, managing training cost, maximizing involvement of employees in training programs, ensuring effectiveness of the programs is achieved and the support from work environment. In addition, some studies have shown a positive correlation between training and firms' sales and productivity. Increase in training activities resulted in increased sales and productivity as well as firm's future value.

ACKNOWLEDGEMENT

Researchers wish to acknowledge the Malaysian Ministry of Higher Education and Universiti Teknologi Malaysia under the Research Grant (Vot. 4F349) for supporting and sponsoring this publication.

REFERENCES

Bartel, A.P. and F.R. Lichtenberg, 1985. The comparative advantage of educated workers in implementing new technology: Some empirical evidence. Rev. Econ. Stat., 69: 1-11.

Basterretxea, I. and E. Albizu, 2011. Does training policy help to attract, retain and develop valuable human resources? Analysis from the Mondragon case. Adv. Econ. Anal. Participatory Labor-Managed Firms, 12: 231-260.

Garcia, M.U., 2005. Training and business performance: The Spanish case. Int. J. Human Resour. Manage., 16: 1691-1710.

Ismail, R., Z.M. Noor, A.H. Awang, 2011. Impact of training on firm's output and labour productivity. J. Bus. Policy Res., 6: 130-144.

Lucas Jr., R.E., 1993. Making a miracle. Econometrica: J. Econometric Soc., 61: 251-272.

Ng, I. and A. Dastmalchian, 2011. Perceived training benefits and training bundles: A Canadian study. Int. J. Human Resour. Manage., 22: 829-842.

Thang, N.N., N.V. Thu and D. Buyens, 2008. The impact of training on firm performance: Case of Vietnam. Proceedings of the 7th International Conference on the Academy of Human Resource Development (Asia Chapter), November 3-6, 2008, Bangkok, Thailand, pp: 3-6.

Zhao, X., J. Zhan and K. Namasivayam, 2004. Factors affecting training success in China. J. Human Resour. Hospitality Tourism, 3: 89-105.