

# Training and Organisational Performance

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Informing **policy** and **practice**  
in Australia's **training system**

# What I would like to talk about today

- What do we mean by organisational performance?
- Why does performance vary between organisations?
- How does training improve organisational performance?

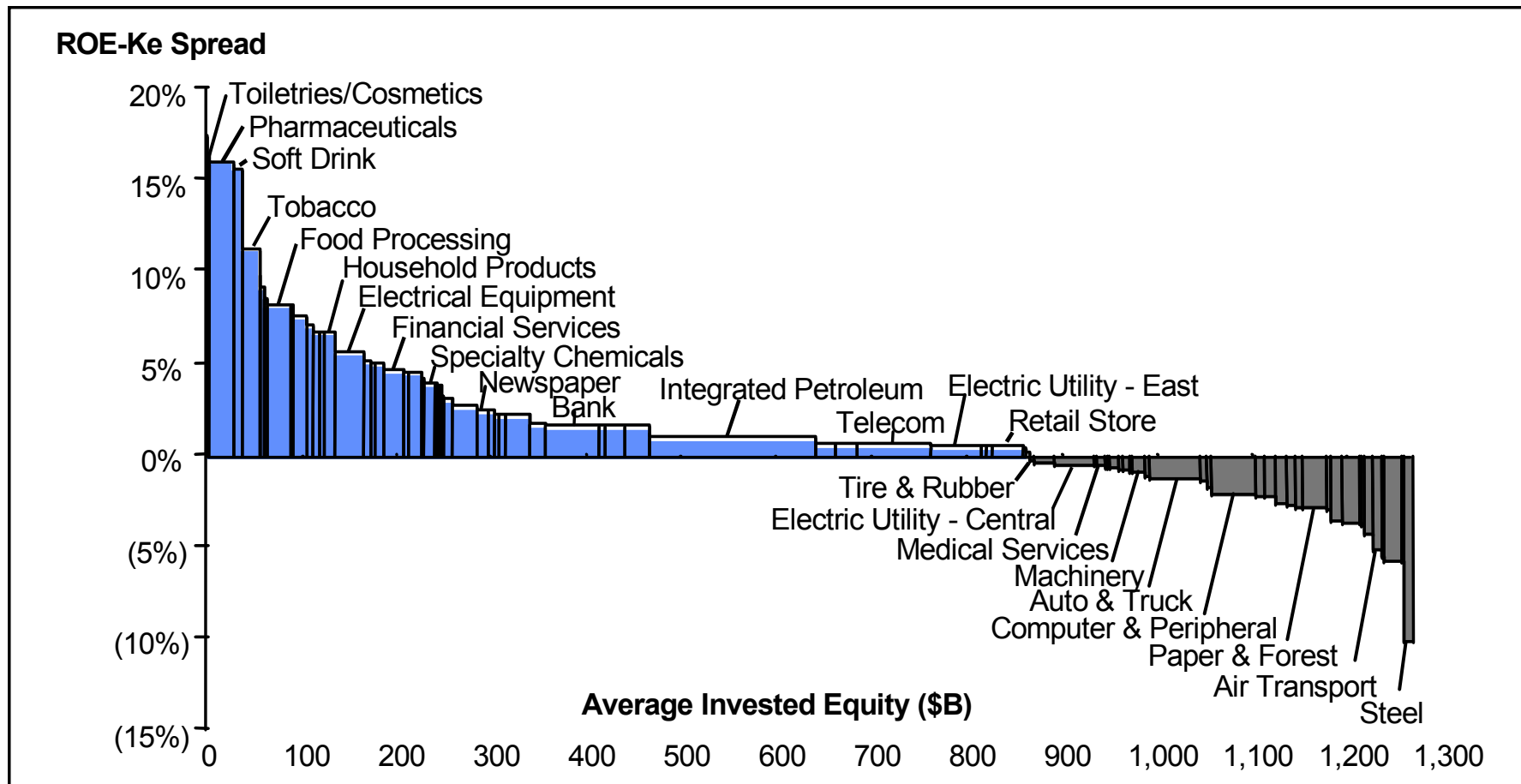
## Organisational Performance

- ❑ Organisational performance is as varied in scope as there are organisations
- ❑ Private-sector organisations have the benefit of (relatively) clear financial goals
- ❑ Public and not-for-profit organisations have complex and nuanced performance measures
- ❑ In all cases, performance emerges from understanding goals and applying resources effectively

## Strategic Management

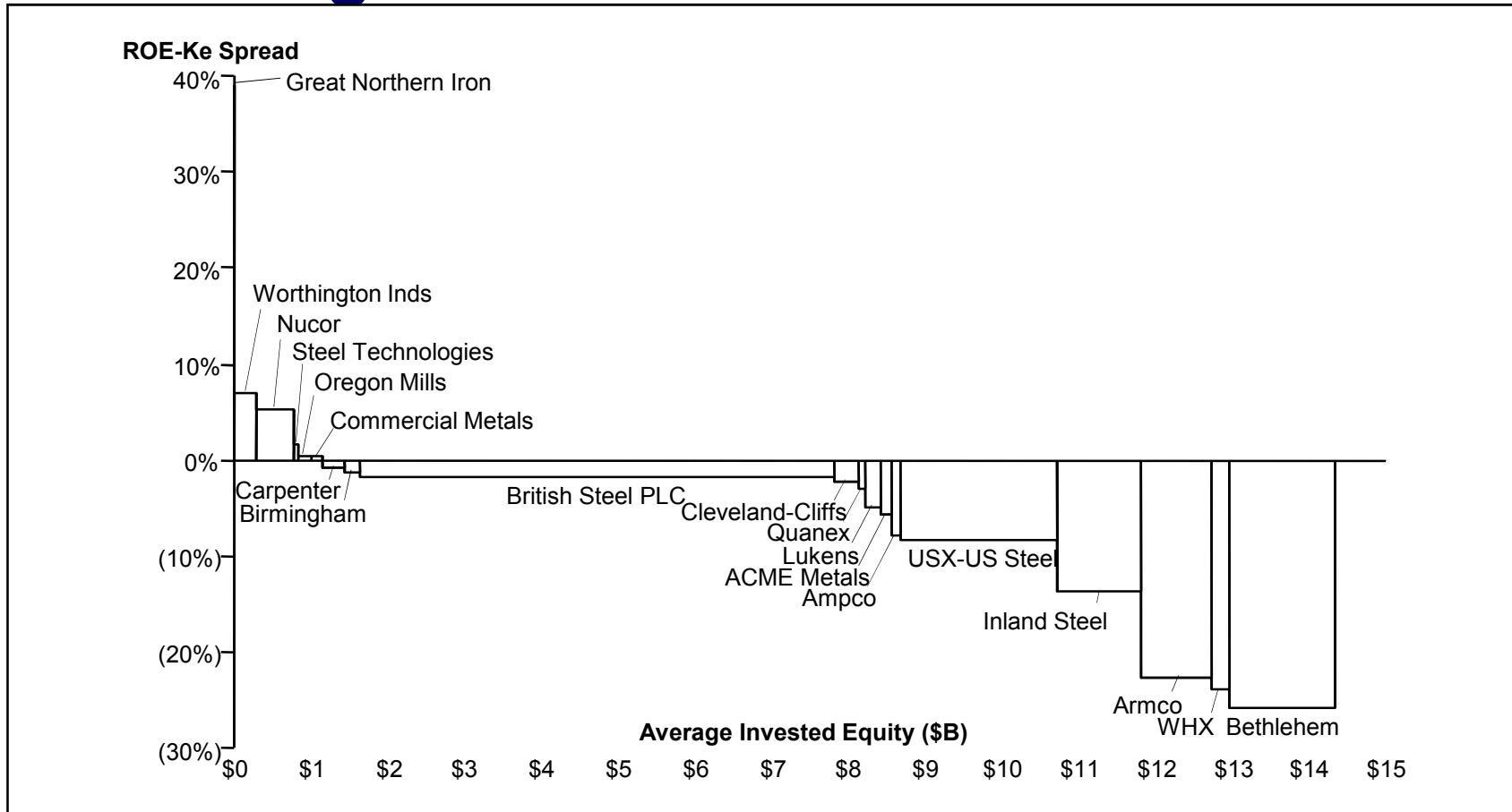
- ❑ Organisational strategy has a focus of studying the variance between organisational performance, and the persistence of higher performance in some organisations than in others.
- ❑ Like other areas of applied economics, it has emerged from an acceptance of the ‘truth of the market’ to a focus on the ‘failure of the market’.

# Organisational Performance



From Ghemawat (2002)

# Organisational Performance



From Ghemawat (2002)

# Employees in Strategic Management

- ❑ Strategy has adopted a remarkably ‘de-peopled’ version of organisations
- ❑ The big exception, recently ‘rediscovered’, was the work of Edith Penrose (1959) – she focused on people (and their capabilities) within organisations as the key determinants of performance

## The Resource Based View

- ❑ The Resource Based View of strategy has emerged as a competing paradigm over the last 30 years.
- ❑ It focuses on resources (including employees) meeting the following criteria:
  - ❑ **Valuable**
  - ❑ **Rare**
  - ❑ **Inimitable**
  - ❑ **Non-substitutable**

## The impact of training on employees

- ❑ It seems logical to expect that effective and extensive training will improve employee, and hence organisational, performance.
- ❑ There is a major endogeneity issue – ‘good’ organisations value their people, ‘poor’ organisations do not.

## The impact of training on employees

- ❑ However, there has been much research linking training with
  - ❑ Employee capabilities (breadth and depth)
  - ❑ Organisational climate
  - ❑ Organisational performance
- ❑ We can think, therefore, of the primary and secondary performance impacts

## The impact of training on employees

- ❑ In the Human Resource Management literature, some have developed a model of High Performance Workplace Practices (Cappelli, 2000), which invariably includes training.
- ❑ Training antecedes:
  - ❑ Employee (positive) risk tolerance and innovativeness
  - ❑ Strategic growth orientation
  - ❑ Organisational commitment

# The impact of training on organisational performance

- ❑ Many authors, however, have struggled to find a direct, unmediated link between training and financial performance
- ❑ Possible explanations:
  - ❑ Training costs money – countering benefits
  - ❑ Training makes organisations happier, not more efficient and profitable
  - ❑ The training is not focused on the ‘right’ areas

## So to test this, with Australian data ..

- ❑ We took a sample of 444 Australian small to medium manufacturing firms
  
- ❑ More details in the paper, available from February 2011 issue of the *International Journal of Human Resource Management*

Constructs and measurement items		Item factor loadings
<i>Firm Performance – FP</i>		
	P1: Sales growth	.66 <sup>***</sup>
	P2: Expected sales growth	.67 <sup>***</sup>
<i>Market Transformation – MT</i>		
Changes in the width of market activities – MTW	MT1: Changes in range of products/services	.76 <sup>***</sup>
	MT4: Changes in market targets	.65 <sup>***</sup>
Changes in the depth of market activities – MTD	MT2: Changes in advertising	.67 <sup>***</sup>
	MT3: Changes in distribution of goods/services	.65 <sup>***</sup>

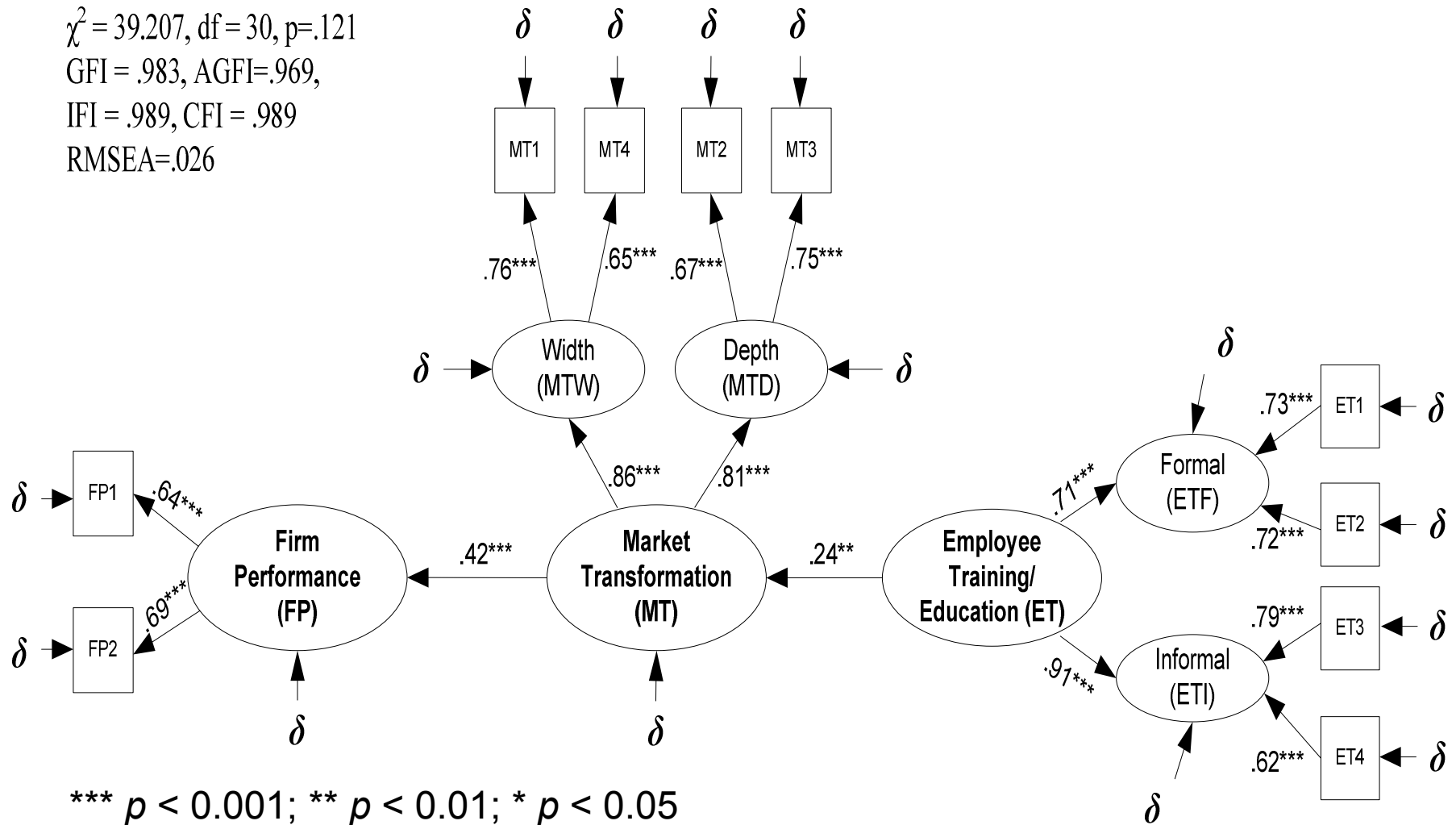
*Employee Training and Education – ET*

Item factor loadings

Formal programs – ETF	ET1: Structured courses and programs	.70 <sup>***</sup>
	ET2: Formal seminars and workshops	.76 <sup>***</sup>
Informal programs – ETI	ET3: On-the-job training	.79 <sup>***</sup>
	ET4: Job rotation/duty exchanges	.62 <sup>***</sup>

# The proposed model

$\chi^2 = 39.207, df = 30, p = .121$   
 GFI = .983, AGFI = .969,  
 IFI = .989, CFI = .989  
 RMSEA = .026



## What to take away

- When effectively organised ‘or configured’, training drives performance for this sample of firms
- This suggests the question – should training of existing workers be a subsidised activity?