Training and Organisational Performance

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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

ROE-Ke Spread

Toiletries/Cosmetics (15%)
Pharmaceuticals (10%)
Soft Drink (5%)
Tobacco 0%
Food Processing 5%
Household Products 10%
Electrical Equipment 15%
Financial Services 20%
Specialty Chemicals 10%
Newspaper 5%
Bank 0%
Integrated Petroleum 5%
Telecom 10%
Electric Utility - East 15%
Retail Store 20%
Tire & Rubber 20%
Electric Utility - Central 15%
Medical Services 10%
Machinery 5%
Auto & Truck 0%
Computer & Peripheral -5%
Paper & Forest -10%
Air Transport -15%
Steel -20%

Average Invested Equity ($B)

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
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.

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<th>Constructs and measurement items</th>
<th>Item factor loadings</th>
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<td><strong>Firm Performance – FP</strong></td>
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<tr>
<td>P1: Sales growth</td>
<td>.66***</td>
</tr>
<tr>
<td>P2: Expected sales growth</td>
<td>.67***</td>
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<td><strong>Market Transformation – MT</strong></td>
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<td>Changes in the width of market activities – MTW</td>
<td>MT1: Changes in range of products/services</td>
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<td>MT2: Changes in advertising</td>
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<td>MT4: Changes in market targets</td>
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<td>Employee Training and Education – ET</td>
<td>Item factor loadings</td>
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| **Formal programs – ETF**           | **ET1**: Structured courses and programs  
                                       | 0.70***               |
|                                     | **ET2**: Formal seminars and workshops  
                                       | 0.76***               |
| **Informal programs – ETI**         | **ET3**: On-the-job training  
                                       | 0.79***               |
|                                     | **ET4**: Job rotation/duty exchanges  
                                       | 0.62***               |
The proposed model

\[ \chi^2 = 39.207, \text{df} = 30, p = .121 \]
GFI = .983, AGFI = .969, IFI = .989, CFI = .989
RMSEA = .026

*** \( p < 0.001 \); ** \( p < 0.01 \); * \( p < 0.05 \)
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?