

Literature Review 2

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LITERATURE REVIEW: ANALYSIS OF THE RELATIONSHIP BETWEEN TRAINING AND EMPLOYEE PERFORMANCE IN A COMPANY

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ABSTRACT

The knowledge and skills of workers acquired through training have become essential in dealing with the increasingly rapid changes in technology, products, and systems. The purpose of this research is to analyze the relationship between training and employee performance in a company. In the review presented in this article, the focus is mainly on research published in many reputable national and international journals that is in accordance with the studies in this article, namely human resource management. A type of qualitative research, a type of literature research, is a systematic review of the literature using the appropriate methodological approach. It is used inductively so that it does not raise further questions. This study provides a review of the literature on employee training and its effect on performance in firms and develops and proposes a framework for analyzing training and corporate performance issues to assess the strengths and weaknesses of many previous studies (e.g., research design, variable measurement, and firm performance or estimation methods), to suggest directions for future research, and to improve the accuracy of the results of future research on this topic.

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1. INTRODUCTION

Training is designed to equip students with the knowledge and skills needed for their current jobs (Fitzgerald, 1992) because few people come to companies with the complete knowledge and experience needed to do the jobs assigned to them. (Becker, 1962) provides a systematic account of investment in human capital and the associated productivity, wages, and worker mobility. Such investments not only create a competitive advantage for an organization (Salas & Cannon-Bowers 2001), but also provide innovation and opportunities to learn new technologies and enhance the skills, knowledge, and performance of company employees.

In fact, there is increasing awareness within organizations that investing in training can improve organizational performance in terms of increased sales and productivity, increased quality and market share, reduced turnover, absenteeism, and conflict (e.g., Huselid 1995, Martocchio & Baldwin 1997, Salas & Cannon-Bowers 2000). Training, on the other hand, has been criticized as faddish or overpriced (Salas & Cannon-Bowers 2000; Kraiger, McLinden & Casper 2004), and there is growing skepticism about the practice and theoretical foundations for linking training to firm performance (Alliger et al. 1997; Wright & Geroy 2001).

The studies conducted so far regarding training and the relationship between company performance can be characterized as follows: Although a large number of single-country studies have estimated the effect of training on firm performance (e.g., Bishop, 1991; Black & Lynch, 1996; Bassi & Van Buren, 1998; Boon & van der Eiken, 1998; Fey, Bjorkman, & Pavlovskaya, 2000; Faems et al., 2005; Zwick, 2006), it is unclear whether this study's scientific theme was sufficient. Moreover, it is difficult to find strong evidence of this theme in the human resources literature, especially at the level of organizational analysis. Therefore, the main objectives of this research are: 1) to view the emergence and attributes of the relationship between training and firm performance; and 2) to develop and propose a theoretical framework to meet the requirements for analyzing training and firm performance issues.

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This review is structured as follows: First, this article reviews some general and specific training characteristics, describes a theoretical model linking training to company performance, and develops and proposes a framework for analyzing training and company performance issues. Second, this article reviews studies that have estimated the effect of training on firm performance using enterprise-level data from a large sample of firms or detailed data from one specific firm. Third, in explaining the results of this review, this article briefly summarizes the advantages and disadvantages of the two approaches using data from a large sample of companies and one particular company, and measures their impact on company performance. This paper also summarizes how previous studies have measured and estimated the impact of training on firm performance. Finally, this article examines the theoretical and methodological issues, limitations of previous studies, and managerial implications for practitioners and provides suggestions and directions for future research on this topic.

2. LITERATURE REVIEW

2.1. Employee training

The knowledge and skills of workers acquired through training have become essential in dealing with the increasingly rapid changes in technology, products, and systems. Most organizations invest in training because they believe that higher performance will result (Alliger et al., 1997, Kozlowski, et al., 2000). However, the theoretical framework for the relationship between training and firm performance has been the subject of considerable debate. (Devanna, Formbrun, and Tichy, 1984) proposed a model that emphasizes the linkage and coherence of human resource management (HRM) policies and performance. According to their model, training and other HRM activities aim to improve individual performance, which is believed to lead to higher corporate performance. This section describes the relevant theories behind the research topic and provides a review of relevant prior studies. It also serves as a reference and justification for conducting this research. If there is a hypothesis, it may be communicated implicitly, and is not required to be posed as a question.

(Guest, 1987) developed a theoretical framework to show how HRM policies can affect human resource and organizational outcomes. The strengths of the Guest model make it a valuable analytical framework for studying the relationship between HRM policies and organizational performance, as it is a path of expression for more careful, clear, and easy empirical testing. He sees commitment as a vital result with regard to the goal of linking employees to company performance because quality goals are important to ensure high product and service quality. Therefore, training and development policies play an important role in HRM and contribute to improving strategic integration, employee commitment, flexibility, and quality. HRM results can then lead to high job performance, high problem-solving activity, high cost-effectiveness, low turnover, fewer no-shows, and fewer complaints. Another theoretical framework emphasizing the interrelationship and coherence of HR practices, corporate strategy, and firm-level results is presented by Wright and McMahan (1992). They present six theoretical models from the fields of organizational, financial, and economic theory. Three of them (a resource-based view of the firm, cybernetic systems, and a behavioral perspective) consider the relationship between training and firm performance.

First is the resource-based view. Company resources include physical capital, human capital, and organizational capital, which enable the company to increase its efficiency and effectiveness. Its resources determine the strength of the company in the long term. However, for a firm's resources to provide a sustainable competitive advantage, they must possess four attributes: 1) being valuable; 2) being rare; 3) being imperfectly imitated; and 4) being non-substitutable for other resources by competing firms (Barney 1991). Therefore, human capital is the main source of sustainable competitive advantage for a company because, apart from the four criteria listed, it cannot be duplicated or purchased in the market by competitors. Adopting a resource-based view of training suggests that training can provide knowledge and skills for employees, which in turn can lead to high company performance.

2.2 Employee performance

(Kozlowski et al. 2000) suggest an approach to organizational improvement and development based on increasing the knowledge, skills, and attitudes or abilities of the workforce. This paradigm can be achieved through training activities. From this perspective, training is effective to the extent that it directly contributes to the strategy, goals, or results that are central to organizational effectiveness. However, the theoretical framework is not adequately addressed in the current model. Thus, a theoretical model is proposed with the hope that it will help in understanding the relationship between training and firm performance.

In order to contribute to the theoretical literature, a theoretical framework was developed and proposed to meet the requirements for analyzing training and corporate performance issues. Training is based on contributing to the goals, results, and performance of higher-level groups and organizations. A number of HR and firm performance outcomes, which are important in analyzing the relationship, are mentioned in the second and third boxes. Attention is paid to several critical variables that indicate that training affects the overall knowledge, skills, abilities, attitudes, behavior, and motivation of employees. HR results have a direct impact on company performance.

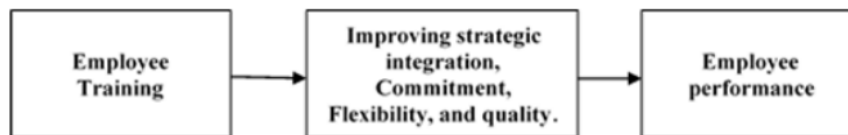


Figure 1. Training and Employee Performance Relationship Analysis Framework

3. METHOD

In the review presented in this article, the focus is mainly on research published in many reputable national and international journals that is in accordance with the studies in this article, namely human resource management. A type of qualitative research, a type of literature research, is a systematic review of the literature using the appropriate methodological approach. It is used inductively so that it does not raise further questions. The reason for conducting qualitative research is that this research has an exploratory nature. Furthermore, an in-depth discussion is carried out in the related literature section or the literature reviewed.

4. RESULT AND DISCUSSION

In this section, many studies have estimated the impact of training on firm performance using firm-level data from a large sample of reported firms. The advantage of previous studies is that they can be generalized to other companies, whereas case studies cannot reveal problems in general. With respect to performance measurement methods, several researchers (Bishop 1991; Bassi & Van Buren 1998; Fey et al. 2000), who estimate the effect of training on firm performance, have used subjective performance measures. The disadvantage of subjective measures is that research results are not comparable across firms over time and rely on many assumptions. For example, Bishop (1991) used data on 2594 employers for his study and then came up with tentative estimates of the opportunity costs and productivity effects of training. Thus, the reliability of these estimates depends on the accuracy of assumptions about training costs as well as the accuracy of subjective estimates of firm performance (Bartel, 2000).

To overcome the limitations of subjective measures of performance, other researchers (Black & Lynch, 1996; Boon & van der Eijken, 1998; Faems et al., 2005; Zwick, 2006) have used firm-level data sets in standard Cobb-Douglas production function regression to estimate the impact of training on company performance. They have measured company performance by net sales or added value. More specifically, Black and Lynch (1996) use data from the National Center on the Educational Quality of the Workforce (EQW) National Employers' Survey and measure productivity by net sales, estimating a production function in which the dependent variable is sales, receipts, or shipments. In contrast, Faems et al. (2005) studied the influence of individual HR domains on financial performance using survey data from 416 small and medium enterprises and measured productivity based on added value.

The type of training used for estimation differed across studies. For example, Barrett and O'Connell (2001) estimate the productivity effect of general training, specific training, and all types of training combined. They find that general training is more related to sales growth when the firm has a larger capital investment rather than a smaller one. Or, Ahmad and Schroeder (2003) estimate the effect of job skills training and cross-training on the performance of operational companies. Their research results show that training is only related to operational performance through its effect on organizational commitment within the factory, whereas Fey et al. (2000) concentrate on the effect of technical and non-technical training on overall company performance.

Regarding the types of establishments assessed in previously reported studies, Black and Lynch (1996) divided firms into two groups: manufacturing firms and nonmanufacturing firms. (Ng and Siu, 2004) collected data from 800 state-owned and non-state-owned manufacturing firms from a survey in Shanghai to assess the effect of training on firm performance. Faems et al. (2005) estimate the impact of

training on the performance of small and medium enterprises. Other authors use data from companies in certain industries for their estimates. For example, Ichniowski, Shaw, and Prensushi (1997) collected data from 41 steel production lines in Japan and the US, whereas Paul and Anantharaman (2003) collected data from 34 companies in the Indian software industry.

To summarize, a review of previous studies on a large sample of firms provides an interesting picture of the relationship between training and firm performance. The authors of this article attempt to capture the effect of training on firm performance by differentiating the type of training, firm performance, using firm-level data from one or several sectors, and various ways of measuring performance. However, they may not be able to control data accurately, complex production processes, and other factors (e.g. new technology, product changes, or labor market conditions) other than training.

As expected, training has a variety of positive effects on the performance of financial and non-financial firms. These effects may be much more widespread than results from many previous studies suggest. This means that these effects are very important in terms of theory and managerial implications. Therefore, it is necessary to identify and develop potential ideas for discussion and provide suggestions and directions for future research on this topic.

5. CONCLUSION

This study provides a review of the literature on employee training and its effect on performance in firms and develops and proposes a framework for analyzing training and corporate performance issues to assess the strengths and weaknesses of many previous studies (e.g., research design, variable measurement, and firm performance or estimation methods), to suggest directions for future research, and to improve the accuracy of the results of future research on this topic. This article reviews the highlights and proposes a framework for analyzing training and company performance issues. Data from previous research is used to assess the effect of training on company performance.

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