

THE IMPACT OF THE INVESTMENT IN EMPLOYEE TRAINING ON THE PROFIT OF SMALL COMPANIES

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ABSTRACT

In order to survive in the market, managers need to be constantly looking for the best solution that will enable them to survive in the dynamic business environment they face in their daily lives. Today, human resource management is not just hiring and firing people, administering salaries, designing and implementing benefit programs, and implementing the strategic intentions of top management, but also plays an active role in formulating business strategies (Khanka, 2003). This paper focuses on the review of small business literature and the importance of training and productivity development of employees in the small business sector. The structure and program of employee training and development will also be reviewed so that we can finally draw conclusions about how this affects employee performance. Today's global economy is having a major impact on the difficulty of staying competitive and making a profit. Whether it is a company that offers customers a tangible, in fact physical product or a company that offers any service, a trained employee will be much more successful in selling that product, than an employee who has little or no knowledge of it, or no sales knowledge. The training focuses on making employee development activities for their current jobs and the development prepares employees for future roles and responsibilities. Organizations that invest in effective training and human resource development tend to achieve both short-term and long-term benefits. Given previous research on the interference of employee training in the operational process of companies, the purpose of this paper is to continue the study and clarify how companies that invest in employee training should apply, formalize and implement managerial functions in the desired workforce, and at the same time to have a successful functioning.

Keywords: *Management, Small business, Human resources, Training, Job satisfaction, Job performance, Profitability*

JEL classification: *J240, J280, M540*

1. INTRODUCTION

According to European Commission, small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. They represent 99% of all businesses in the EU. They employ around 100 million people, account for more than half of Europe's GDP and play a

key role in adding value in every sector of the economy. The Small and Medium Sized Enterprises (hereinafter: SME) sector is the engine of growth and development in any economy, it creates healthy competition, it is a source of innovation, knowledge and entrepreneurial human resources, it is important during common economic conditions, but it is even more important at the time of crisis (Debarliev S. & Iliev-J. A., 2015). In order to meet the ever changing customer needs, as well as staying competitive on the market, companies must invest in one of their most valuable assets, the employees. According to several studies regarding the subject of training and development of employees, the ultimate conclusion is that companies should deal in a very specific way with training needs so that they can give the opportunity to the employees to constantly upgrade their skills and knowledge as well as to improve work-related capabilities. The most important role of training and development is to upgrade the employees' skills and abilities for ongoing and future tasks and responsibilities.

It is very important for company managers to understand that having a well trained and skilled staff is one of the most important things to keep their business alive. In our country, employee training, especially regarding small businesses, is still something not very much used and practiced. We must agree that employee training and development is a financially expensive process, and that's the reason why most of our locally based companies can't afford to do it, or at least not doing it in a proper way. Unqualified staff with limited knowledge or no knowledge at all can bring more harm to the employer and the company, than good. Mistakes done through the working process can affect directly the quality of services and selling. Training and development is about managing and empowering people, the vital assets of any business or firm. (Salah, 2016).

The main objective of this paper is to understand whether employee training and development has impact on their job performance, job satisfaction and companies profitability overall.

According to Salah (2016), on-the-job methods of training are highly recommended to organizations. These methods ensure that there is no loss of man hours, such as in the case with off-the-job trainings where employees must travel out of the country or out of station to attend a training and development program. Training has been an important variable in increasing organizational productivity. Most of researches, showed that training is a fundamental and effectual instrument in success full accomplishment of the firm's goals and objectives, resulting in higher performance and productivity of the organization. (Bhat Z.H., 2013).

2. LITERATURE REVIEW

Small business management, is the ongoing process of owning and operating an established business (Hatten, 2012). Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation (Burton, 2017). A definition of a small business must have three criteria. First, it must be measurable and observable. For example, a definition predicated on the type of management structure would be unacceptable as this attribute is very difficult to measure. The second criterion is that any definition of a small business must be congruent with the perceptions of the market system. The third criterion is that any definition of a small

business must be meaningful (Osteryoung and Newman, 1993). Small enterprises are defined as enterprises that employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed EUR 10 million (European Union, 2020). Small businesses usually do not take into account the future demand and needs for the specific profiles of employees. In other words, small businesses usually do not perform timely planning of human resources. Although many small businesses create a business plan, this document most often does not include a component of human resources, which means that the business plan of small businesses does not carry out correctly the assessment of the required number and competence of employees in the future (Petković and Poljasevic, 2015). Training is the use of systematic and planned instruction activities to promote learning. The approach can be summarized in the phrase ‘learner- based training’. It is one of several responses an organization can undertake to promote learning (Armstrong and Taylor, 2014). The Oxford English Dictionary definition of training defines it as a practical education in any profession, art or craft. General training is distinguished by its applicability to many employers. Specific training is defined as the acquisition of a skill valuable to one employer only. An example would be induction training which is unique to the particular company and does not have transfer value (Garavan, 1997). Whereas some employees might wish to stay in their existing job and find satisfaction through the enhancement of their job specific skills, others define successful development as promotion and increased pay (McDowall and Saunders, (2010). There are four approaches used for employee development. These approaches are: Education, assessment, Job experiences and behaviors that are strengthened by each development method. (Sheikha N.A.A. and Khrawis H. A., 2008). According to a research by O'Regan et. al, (2014), a ‘training and knowledge’ culture certainly impacts on productivity whilst, at the same time, encouraging creativity, where ‘being creative’ can certainly become the fuel of the future. After all, it is the combination of an employee’s capabilities and efforts that would enhance the undertaking of business activities (O'Regan, Stainer and Sims, 2010). In a perfect world with no financial impediments or time constraints, all employees would receive as much training and professional development as they could consume. In the real world, however, the ‘needs’ of the employer, as opposed to the ‘wants’ of the employee, drive these kinds of training programs (Walters M.L. & Griffin W., 2013). A study by Schmidt (2014), confirms that employees value training and deem it a necessary part of the job. Organizations that offer effective job training may find they have better trained and more satisfied employees (Schmidt, 2014). According to Schmidt findings, job training satisfaction was not only highly correlated with job satisfaction but also significantly related to the time spent in training, training methodology, and content (Huang, 2020). A study of nurses in the United Kingdom found that dissatisfaction with promotion and training opportunities had a stronger impact on job satisfaction than dissatisfaction with workload or pay (Schmidt, 2010). According to a research by Sheikha and Khrawish (2008), employee development has an important role in increasing productivity and profitability because the employee development is a necessary component of a company’s efforts to improve quality. The organization ensures a better quality of work life (QWT - quality of work life) and gives better training to employees to get efficient and effective results in the form of growth and profitability for the organization (Yadav, R., et.al, 2019).

2. FORMULATION OF HYPOTHESIS

In view of this research, we have formulated the following hypotheses:

***Hypothesis 1:** Companies that invest in employees' training will have better results in terms of employees' satisfaction and performance than those with lower training and development investments*

***Hypothesis 2:** Companies that invest in employees' training will have better results in terms of profitability than those with lower training and development investments.*

3. METHODS OF ANALYZING DATA AND TESTING HYPOTHESES

In our research we have analyzed those studies that examine the effect and returns of employee training in companies' profitability and employees' satisfaction and performance. More precisely, three studies have been taken in consideration as point of view for our research, Schmidt, (2004), Al-Saudi et.al (2016), and Spasova E., (2018).

For our survey we have done an empirical analysis. As the basis of this research, a survey questionnaire was constructed for a period of about 3 weeks. The questioner was formulated based on a similar questioner used by Schmidt (2004) for the "The Job Training and Job Satisfaction Survey". Our survey uses a six point Likert scale. Respondents are asked to rank the degree to which they agree or disagree with the statement posed. The questionnaire was fulfilled online. The hypotheses formulated, were tested using data obtained from a questionnaire distributed to 150 employees in different companies in North Macedonia. We collected the responses within a period of one month. A total of 85 questionnaires were valid. The data has been analyzed according to the SPSS computerized statistical program in order to find out Spearman Correlation. This will be needed for identifying the relationships between independent and dependent variables in order to determine the independent variables affecting the dependent variables.

Our questioner is mainly focused in job satisfaction and performance, whereas data about influence of the training and development on the profitability of the companies is taken as a secondary data from a previous research realized by Spasova E. (2018).

4. DISCUSSION

4.1. Correlation between training and development and job satisfaction

Regarding the **Hypothesis 1**, before giving conclusions about our survey, we will give some explanations about the two studies have been taken in consideration about job satisfaction as point of view for our research.

"The Job Training and Job Satisfaction Survey" by Schmidt (2014), can be used to measure employee attitudes and beliefs about on-the-job training and overall job satisfaction. It can also measure the relationship between satisfaction with on-the-job training and overall job

satisfaction. It can be used in all workplaces. The Survey consists of 43 statements regarding various aspects of the job followed by a series of demographic questions about the on-the-job training employees receive. In summary about job satisfaction, opportunities and rewards include satisfaction with pay, pay raises, promotion opportunities and rewards given for good performance. There are twelve items on the instrument relating to this construct. Satisfaction with supervision examines employees' feelings about his/her immediate supervisor. This construct is measured using four items. The instrument also includes four items measuring each of the following constructs: satisfaction with fringe benefits, satisfaction with coworkers, and satisfaction with the nature of the work performed by the employee. Satisfaction with operating conditions, including rules and procedures, is also measured using four items. The Job Training facets of this survey measure employee satisfaction with on-the-job training. In this part is measured organizational support for training, employee feelings about training, and employee satisfaction with training. Additionally, the survey contains five questions regarding training methodology, training content, and time spent in training. Schmidt's survey uses a six point Likert scale. Respondents are asked to rank the degree to which they agree or disagree with the statement posed.

Regarding the second survey taken in consideration by Al-Saudi et.al (2016), the study population consists of 100 officers working in the Department of Lands and Survey / center of the circle (Public Legislators). The sample was given 100 questionnaires to fill. The final total of questionnaires subjected for the study was 83. The study focused on trainees who were enrolled in training courses in a specific period of time is two years. The question that needed to be answered in this survey was "Does training have an effect on the development and the performance of employees in the department of Lands and Survey?". Study objectives of the survey were identifying the effect of training on job stability and employee loyalty, clarifying the impact of training on employee attitude and behavior, and statement as to whether the return on investment in training is higher than the budget spent on training. After processing the data received from the questioner, these are the conclusions that can be summarized as follows:

1. Giving employees the opportunity to apply what they learned in training courses improves performance.
2. There is a strong desire among staff to apply what they have learned during the training.
3. Employees feel after training that they have more ability to be creative with their expressions as well as come up with new ideas solve their work problems.
4. The majority of staff feels that they make fewer mistakes, at work, after returning from training.
5. The majority of employees feel that training programmers lead to improvements in their attitudes, behaviors and skills.
6. The majority of employees feel that training programs contribute to improving the overall climate for employment service and create a positive relationship between the service and its staff and help to develop a spirit of cooperation and coordination among them.

Variables

Hypothesis 1

Independent variable: On the job training

Indicators: Respondents' statements

Dependent variable: Usage of OTJ training.

Independent variable: Training opportunities

Indicators: Respondents' statements

Dependent variable: Satisfaction in salary upgrade

Independent variable: Planned learning.

Indicators: Respondents' statements

Dependent variable: High satisfaction in promotion.

Correlations

			On the job training	Usage of OTJ training
Spearman's rho	On the job training	Correlation Coefficient	1,000	,578
		Sig. (2-tailed)	.	,000
		N	80	80
	Usage of OTJ training	Correlation Coefficient	,578	1,000
		Sig. (2-tailed)	,000	.
		N	80	80

** . Correlation is significant at the 0.01 level (2-tailed).

There is a positive correlation between On the job training and usage of OTJ training. As the OTJ training level rises, so does the level of usage of the OTJ knowledge goes up. Employees taking part in OTJ training are more self-confident about their performance after completing the training, so that reflects on the usage of the same skills learned.

Correlations

			Training opportunities	Satisfaction in salary upgrade
Spearman's rho	Training opportunities	Correlation Coefficient	1,000	,544
		Sig. (2-tailed)	.	,000
		N	80	80
	Satisfaction in salary upgrade	Correlation Coefficient	,544	1,000
		Sig. (2-tailed)	,000	.
		N	80	80

** . Correlation is significant at the 0.01 level (2-tailed).

There is a significant correlation between training opportunities and satisfaction in salary upgrade. Therefore, with increasing opportunities for training, the satisfaction level for salary upgrade rises as well. Well trained employees are a very strong asset for a company, so when a company invests in training and developing its human resources, it automatically reflects on their job performance in a positive way. Taking this in consideration, it is well expected that performers with higher level of working knowledge, have higher chances for getting a salary increase.

Correlations

		Planned learning	High satisfaction in promotion
Spearman's rho	Planned learning	Correlation Coefficient	1,000
		Sig. (2-tailed)	,407
		N	80
	High satisfaction in promotion	Correlation Coefficient	,407
		Sig. (2-tailed)	1,000
		N	80

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation between planned learning and satisfaction in promotion is a positive one, letting us know that in a working environment where there is planned training and development there is a higher level of satisfaction in promotion. Employees with higher level of knowledge about their job, have higher chances of getting a promotion.

4.2. Correlation between training and development and organizational profitability

Hypothesis H2, which says that “*Companies that invest in employees’ training will have better results in terms of profitability than those with lower training and development investments*”, is verified taking in consideration collected data from the author Spasova E. (2018). In order to prove her hypotheses, the author uses a survey questionnaire of 26 questions. In the empirical part of the research, the author used a survey method - a procedure that, based on a survey questionnaire, will investigate and collect data, attitudes, information and opinions about the subject of research and content analysis. There has been used as well the interview method - the managers were interviewed and their views regarding the subject of research were analyzed. Her research went through 3 phases. First of all, finding organizations that have human resources department, ensuring consent from responsible staff from the organizations for conducting the survey, preparing the questionnaires and ensuring a sufficient number of them for conducting the survey (1 week). Secondary phase was realization of the research: implementation of the survey (15 days), and final phase was analysis of the results of completed survey questionnaires (4 weeks). According to the collected and analyzed data by Spasova E. (2018), these are the conclusion regarding the impact of employee training and development on the company’s profitability.

1. Respondents believe that inadequate employee training has a negative effect on the organization (75% gave a positive answer) and that the lack of properly qualified workers leads to a decrease in organizational growth (75% gave a positive answer).
2. Appropriate training and development of employees results in a high rate of performance that results in organizational growth, the largest number of employees agree (73% gave a positive answer).
3. Poor performance of workers is the result of inadequate orientation by the organization (60% gave a positive answer), and their inadequate development has a negative impact on organizational competitiveness (63% gave a positive answer).
4. Appropriate trainings contribute to the reduction of production costs by reducing waste (70% gave a positive answer) and by minimizing the cases of work accidents (79% gave a

positive answer), but they also contribute to reducing the abandonment of the organization, and therefore reducing costs for new hires (72% gave a positive answer).

At the end of her research she states that, training has an impact on the organization as a whole and its advantages are reflected in the improvement of organizational performance: profitability, efficiency, productivity, cost reduction, improvement of quality and quantity, reduction of employee turnover and so on.

5. FUTURE RESEARCH

In our country, there are not enough studies regarding how the training of employees affects their performance and the well-being of the company in general. Considering the fact that the data regarding the impact of training on the company's profitability are taken as secondary data from previous studies, our future focus will be on structuring a research based largely on how employee training affects the profitability of the company. The main idea is that in the future a questionnaire will be compiled which will be distributed only to the managers of the companies that are directly connected with the company's financial income, so that we can receive the most accurate data regarding this part.

6. CONCLUSION

Both of research hypotheses are verified and supported. The first hypothesis which says that *"Companies that invest in employees' training will have better results in terms of employees' satisfaction and performance than those with lower training and development investments"* is supported taking in consideration the results from correlation of the variables explained above.

The second hypothesis which says that *"Companies that invest in employees' training will have better results in terms of profitability than those with lower training and development investments"* is supported as well, taking in consideration the previous research done by Spasova E. (2016).

We came to the conclusion that employee training and education is one of the key methods for a successful operation of a company. The training should be designed in such a way that the need for training should be identified primarily, which employee needs training and what training method should be implemented, depending on the needs. It has been unequivocally proven that, a company with properly trained staff in terms of customer behavior, customer service, the way that the company sells its products/services, as well as other aspects that directly affect customers, will have a much higher success in attracting new customers and retaining existing ones. Based on the literature reviewed for this paper, the main conclusion is that employee training and development are very important factors that influence the overall well-being of a company. There is no doubt that a well-programmed training program for new, as well as existing employees, will have positive effects on the performance of employees, and consequently on the success of the company. Apart from the financial benefits, companies with various programs for training and development of employees, as well as their support, will also have benefits in retaining the most valued resource for work, actually the human resource, while remaining competitive in the market with strong human

capital. Apart from the organization, employee trainings have a positive contribution for the employees themselves. The training gives them the opportunity to perfect themselves in what they do, and precisely because of this employees do their work with great pleasure in a totally independent way, which results in keeping their jobs. Without specialized training programs, employees would not be able to use their full potential to complete their activities. By investing in employee training, they are helped to become more professional, more productive and more motivated in the workplace. Training is very important for any organization. There is no doubt that any investment in employee training and development is worthwhile and has a huge positive impact on the organization, whether it is a small, medium or large organization. Both methods of training, on-the-job or off-the-job have their own contributions to the improvement of employees.

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