CHAPTER 1
INTRODUCTION

Changing face of industry from product oriented to customer oriented has led to changes in the way organizations treat their customers. In this changed scenario, for organizations to deliver effective service to their customers, employees are a critical link (Snow and Yanovitch, 2003). A key challenge for future is how to train staff and create differentiation (Barlow and Dianna, 2000). As quoted by Baldwin and Danielson (2003), training and learning is a key weapon in war for talent.

Though training has been identified as a vital element of any corporate strategy (Buckly and Capel, 2000), evaluating the effectiveness of training has emerged as a critical issue (Suri, 2005). According to Leiserson (2005) in almost 80% of cases, no analysis on ROI on training is done (even in developed economies) and in cases where impact of training is evaluated, Rowe (1996) found that most organizations use ‘happiness sheets’ only, which are focused on training, training methodology and the organization of training facilities, not on learning and impact of training.

Zalman (1991) defined training as, “the transfer of defined knowledge or skills that result in improved performance in an on-the-job situation.” Hence, while evaluating effectiveness of training one needs to evaluate increase in knowledge and skill level, as well as improvement in performance, while isolating the impact of extraneous factors.
Background

Emergence of service industry

According to Wikipedia (2003), there has been a substantial shift from primary and secondary industry to tertiary sector in industrialized countries. The importance of service sector is increasing across the globe. The service sector is by far the largest component of the U.S. economy, accounting for 81 percent of private sector output and for 84 percent of private non-farm employment (International Trade Administration, US Department of Commerce, 2006). According to ABS (2002) report, in Australian economy, services embraced 65.5 per cent of all businesses and more than 73 per cent of total employment (Nankervis, 2005). In India, value-add of services as percentage of GDP has increased from 41.1% in 1990 to 48.42% in 2001. Also, the percentage of people employed in services has increased from 17.3% in 1990 to 20.3% in 1995 (The Economic Survey of India, 2002). As per the survey, ET 500 (2006) by, The Economic Times' of top 500 Indian companies, five companies out of top ten are from service sector. This demonstrates the importance of service sector as an engine of economic development.

In service industry, where intangible component is high, customer loyalty is a key ingredient of firm profitability due to high cost of acquiring new customers (Reichheld & Sadder, 1990; Srinivasan, Anderson, & Ponnavolu, 2002). Reich (1999) at Harvard Business School notes “a five percent improvement in customer retention can result in a 75 percent
increase in profitability”, as “the cost to attract a new customer can be as much as six times the cost to keep a current one” Rosenberg and Crepe (1984).

Lawfer (2004) observed that loyal customers are easier to do business with, are more predictable, and don’t carry the expense associated with attracting new customers. Companies with a loyal customer base enjoy greater profitability in good economic times and depend on their loyal customers to help them survive difficult financial conditions. As stated by Freemantle (1998) in his book, “customer loyalty can be achieved by consistent exceptional service”. Research has estimated that a 1% cut in customer service problems could generate an extra $25 million in profits for a typical medium size company over five years.

Hence, customer is not only source of organization revenues, customer is a financial asset that companies and organizations should measure, manage, and maximize just like any other asset (Blattberg, Getz and Thomas, 2001). In this changing environment, customer service is not only a focus of organizations in service industry, but also of manufacturing industry, which recognize the potential of service as one of the few sustainable competitive advantages they can develop. This has led organizations in manufacturing sector like automobile companies to focus on services to increase customer loyalty and probability of repeat purchase (Zeithaml, Valarie and Bitner, 1996).
Carlzon (1987) while sharing his experience during turn-around of SAS airlines asserts that, SAS is not just a collection of material assets, but of millions of customer contacts with SAS employees every day. The quality of the contact between an individual customer and the SAS employees who served the customer directly (also called as ‘Moment of Truth’) is most important (for success of SAS airline).

To conclude, customer loyalty is important to organization profitability and employee participation is one of the critical factors to ensure service quality (Brown, 1992), as ‘people do business with people’ (Lawfer 2004).

**People – Key Differentiator**

As Kotler (2003) has stated, “The main marketing trends that I see is from product-centric marketing to customer-centric marketing, where the shift is from make-and-sell marketing to sense-and-respond marketing.” The customer-economy customer is different from the mass-economy customer (Wreden, 2002). To serve this customer, knowledge is the potent symbol of the new millennium. The only way an organization can strive to excel is to realize that the success today is not a function of financial muscle of physical assets but of competent work force (Gatewood, Robert and Field, 1998). In a competitive world it is relatively easy to copy product and price, but it is virtually impossible to copy people Freemanle (1998).
John (Jack) Potter, Postmaster General during reorganization of U.S. Postal Services, stressed, he needs people: trained people who can transform the postal service from the inside and stated that “developing people is one of the keys to our future success” (Delahoussaye, 2002). According to Heneman and Heneman (1994) employees have become central to success or failure of an organization; they are the cornucopia of ideas. So it is high time the organization realize that “train and retain is the mantra of new millennium.”

Training not only happens in organizations and nations, training as an activity is going on ever since couples begot children and growing children began to work (Lynton and Pareek, 1990). Training is used to handle challenges on vide variety, including ethical conducts; as announced by LRN (2005), that its more than 200 client companies have completed more than 11 million courses on business ethics (http://www.lrn.com, 2005). Importance of training is highlighted by studies which have highlighted correlation between individual knowledge with their eating habits (Pirouznia, 2000), safety habits (Wong, Chien. Luh, Lin, Wang and Cho (2004)) and even having proper medication (Pickney and Arnason, 2005).

Hence, the organization needs to consistently train talent and, at regular intervals. (Beverly, and Evans, 2003). Importance of people is not only recognized for making organizations successful, but quality of human capital will tilt balance of power between countries. Carnevale (2005) said
that competition (between economies) will really come down to who can educate, train and retrain the best human capital.

According to Lynton and Pareek (1990), even though, training as a distinct field with its own roles, structures and budgets, training is still young, importance of training has been well recognized. This is evident from the fact that Membership of American Society for Training and Development has increased from 15 in 1943 to 15,000 presently across 100 countries (http://www.astd.org, December 2003). Training requirement has been recognized in developed countries like U.S. where $10 billion spent on training in 1967 has increased to $90 billion in 1990, in developing country like India training spent has increased from $6 billion to $45 billion over similar period. (Lynton and Pareek, 1990). The membership of Indian Society of Training and Development founded in 1969 has over 220 institutional members and 39 chapters across the country. (http://www.istddiploma.org/institution.asp, June 2002). In India, in private companies, percentage of payroll spent on training has increased manifold, from 0.3% to 1.1% from 1990 to 1999. (Yadapadithya, 1999), where as in an annual review reported by The American Society for Training and Development (ASTD)' noted that training costs climbed from 1.8% of annual payroll in 1999 to 2.0% in 2000 (Buren and Erskine, 2002). This clearly shows the high focus on training in developed economies.
Importance of training can be assessed by the fact that 'National Training Policy' of Department of Personnel and Training, Government of India, 1996 clearly mentions, “Training is one of the effective and tested tools for performance enhancement, as well as up-gradation of knowledge and skills of the personnel” (National Training Policy, 1996). Reforms have enhanced the focus on training and development of manpower. This is evident from the creation of first ever, ‘National Training Policy for the Power Sector’ in 2001 (National Training Policy for the Power Industry, 2001).

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**Problem Statement**

When Mark Twain made his famous statement, "everybody talks about it but nobody does anything about it," he, of course, was referring to the weather. He could also have been referring to evaluation of training programme—well, not exactly, but almost (Kirkpatrick, 1998).

Phillips (2003) has clearly stated that, even though executives intuitively feel that there is value in providing learning opportunities, logically anticipating a payoff in important bottom-line measures such as productivity improvements, quality enhancements, cost reductions, and time-savings. Yet the frustration comes from the lack of evidence to show that the process is really working.
According to McArdle (1999) very little of investment in training is returned to the workplace. Similar view is also shared by Rothwell (2002) that managers complain that training is not as effective as they would like it to be in changing employee behaviour or improving work results. Adelsbarg and Trolley (1998) noted that even an organization like Dupont in 1998 identified that it offered thousands of open enrolment courses, but the training department in itself had no proof that any course in itself delivered real business value because it only measured level of activity (example number of employees trained) rather than business impact.

According to Bedinham (1997), human resource specialist have struggled to prove that training in non-technical training like interpersonal skills or problem solving, can bring real value for the company and the trainee and agreed that ‘even those which are committed to training will consider that evaluation of training is difficult and time consuming – and difficult to carry out.” “If trainers are going to be successful, they have to be able to demonstrate the outcomes generated as a result of training,” says Rhoda Weiss (Caudron, 2001).

Recent SHRM study by Evakalan-Leiserson (2005) has revealed that even today in almost 80% of cases no analysis of ROI on training is done. In cases where impact of training is evaluated, Rowe (1996) found that, most organizations use “happiness sheets”, level 1 evaluation for delegates to complete at the end of training programmes – and do not tell
anything about how effectively delegates have digested the material and will apply it in the workplace.

Rao (2001), in his article comparing management training in Indonesian and Indian health care system echoed similar views, he observed that seldom are efforts directed to evaluate the understanding of participants. The feedback from the participants is usually focused on trainer, training methodology, and the organization of training such as classroom facilities, boarding and lodging. For improvement of training programs in health care in India, the author suggested, evaluation of the participants to see the change in knowledge and awareness. Now, the emphasis has shifted to using data to monitor the efficiency and effectiveness of learning function, says Brenda Sugrue (Davenport, 2006).

Some studies have been conducted to evaluate the impact of training on learning. This is evident by the study conducted by Singh (2001) of 27 supervisors from 10 mills, concluded that as compared to control group, learning scores for training group has improved significantly, demonstrating, training did result in learning.

Research conducted by Sengupta (1999) found that after change in training methodology, there is significant improvement in teaching skills of experimental group of 14 trainee teachers, when compared with control group of 14 trainee teachers. Study conducted by Pattanayak (1998), comprising 1200 employees concluded that while training programs are successful to help employees understand their job...
requirements and responsibilities (72% of respondents agreed) and effective in developing interpersonal skills (50% of respondents agreed). however, training is not fully effective when it comes to practice what one learns in the day-to-day job.

These studies demonstrate that training has been effective in improving knowledge and some skills of learner; no conclusive evidence is available to evaluate impact of training on business performance in India. Even in developed countries, only 30% of respondents evaluate their training (in relation to) behaviour-job impact (Berk, 2004).

The present study examines the impact of training on business performance parameters in service industry, where non-technical knowledge and skills of employees play a critical role. Specifically, this study addresses the following aspects concerning the impact of training on business performance parameters. Does training bring about substantial changes in the knowledge of employees? Does training bring about substantial changes in on-the-job skills of employees? Are the gains in knowledge and on-the-job skills of employees, who were trained higher than of those, who were not trained? Does training bring about substantial change in business performance? Are gains in business performance for those who were trained higher than of those, who were not trained? Is there improvement in business performance with gains in knowledge and skills of employees?
This study seeks to address such aspects as those above may puzzle organizational leaders and training professionals, who seek to develop employee knowledge and skills to enhance business performance.

**Delimitations of the Study**

Evaluating the impact of training on key performance parameters is a vast area of study. But an experimental investigation needs a specific theme, with well-defined samples and tools. The study is thus, being delimited to service industry. The sample consists of executives performing sales and customer service role in service industry. The focus has been kept on sales and customer service roles, because the investigator has experience in sales and customer service and would find it more convenient to understand and study the impact of training.

Target group has been taken as customer facing executives, as executives at different hierarchy require different sets of competencies. So, taking them together would mean dilution of focus. Thus for the sake of comprehensiveness, roles of sales and customer service executives in service industry are included in sample. The study was conducted within National Capital Region of Delhi.

**Justification**

Despite the potential usefulness of training to achieve organizational strategy and business results, managements are not willing to invest
resources for training and impact of training is always open for
discussions. There is little empirical research in India, to evaluate impact
of training on business results, even though the first model for training
evaluation was developed over 40 years back. Research focused on
evaluating impact of training on business performance, will be helpful to
training professionals and management by providing information in area
of impact of training on business performance, resulting in business
focused training, enhanced management commitment for training and
use of training as key strategic tool available to management.
This study is thus, a step towards putting the training evaluation
techniques to good use in professional environment.

Research Objectives

The overall purpose of this research is to evaluate link between training
interventions and key business performance parameters in service
industry. To accomplish the research objective, the following objectives
have been formulated. The objectives are to determine, for employees in
service industry:

1. To find out whether training bring about substantial changes in the
knowledge of employees

2. To find out whether training bring about substantial changes in on-
the-job skills of the employees
3. To compare gains in knowledge and on-the-job skills of employees, who were trained with that of those, who were not trained

4. To assess whether training bring about substantial change in business performance

5. To compare gains in business performance for those who were trained with that of those, who were not trained

6. To compare gains in business performance with gains in knowledge and on-the-job skills of employees

**Significance of the Study**

Once, the linkage between training and key business performance parameters is established, this has the capacity to revolutionize approach of training towards skill enhancement and way organizations value training. Interviewing various training professionals and organizational heads further corroborates this viewpoint. However, interviews are subjective and theoretical inputs, which needs to be experimented on to provide concrete proof and confirmation. This study aims to provide this proof and confirmation.

To achieve this objective, two organizations from service industry were selected, by simple random sampling (draw of lots). This study has used quasi-experimental research methodology where pre-training, post-training performance comparison has been made by selecting two groups; a control group and an experimental group. While experimental
group was provided with training, there was no training input to the control group. Since, both the control group and experimental groups were working in same environment; hence impact of any extraneous factors was neutralized.

Data was collected from secondary sources of books, journals, existing dissertations and theses and internet. Primary data is collected using pre-designed questionnaires (written test and observation schedule), on which validity and reliability test were done by respective organizations. Data was collected for employee knowledge score and on-the-job skill evaluation scores, and ultimate business result of sales productivity and customer satisfaction scores. These scores were compared for employees who were trained and employees who were not trained. Correlation was calculated between intermediate results of training and ultimate business results. Data was analysed manually using single factor ANOVA. Details of data and analysis are given in chapter IV and chapter V.

The results demonstrated that training has an impact on business results in both experiments. These results demonstrated that all null hypotheses except one were rejected and all alternate hypotheses except one were accepted, which were also supported by other case studies. Details are mentioned in conclusion chapter number VI.