



# Training Model for Business Performance Improvement: the Case of Iran

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## Abstract

*In today's knowledge based economy training is a significant factor for sustainable success of enterprises. However, in spite of the importance of training, the unskilled workforce is one of the most problematic factors for doing business in Iran. Therefore, the current paper aims to introduce a new training model the application of which will improve the training state and the performance of Iranian SMEs. To achieve the goal of the research first, the factors for increasing training motivation have been identified. Second, performance indicators have been selected. Third, the questionnaires have been prepared in a way to obtain data on the motivation factors and performance indicators. Further, a survey of 714 Iranian SMEs has been conducted. The collected data have been analyzed to test the relationship between training and motivation; training and performance. Finally, a three-dimensional training model has been introduced based on the analysis results.*

**Keywords:** Training, motivation, SMEs, performance.

## Introduction

Training programs should cover issues that develop social, environmental and economic awareness and skills of employees<sup>1</sup>. Training is crucial for sustainable success of SMEs in today's knowledge-based, fast changing economy. However, the situation of SMEs in Iran, in terms of training, is characterized by a paradox. On the one hand, continuous learning is considered as an important factor for competitiveness in the globalizing market. On the other hand, however, statistics indicate that training and uneducated workforce is one of the most problematic factors for doing business in Iran. There are many institutions in Iran providing training services and most of them are free of charge. However, the rank of Iran for staff training is 133 out of 142<sup>2</sup>. Considering that training problem in Iranian SMEs is neither connected with financial issues, nor with the scarcity of training opportunities the lack of motivation has been chosen as the main obstacle to training for the current research paper. If organizations motivate their employees by satisfying their needs, the employees will be willing to learn more and perform better. Therefore, in the current research the motivation factors have been identified according to the Maslow's Theory of motivation. Then, the relationship between them and training has been tested to evaluate whether these factors have positive impact on training. Further, considering the limitations of the previous researches on the relationship between training and business performance, the link between performance and training also has been tested in the present paper. The performance indicators have been identified according to the Balanced Scorecard.

The novelty of the current research consists in the fact that it tests the impact of training on the performance from three perspectives: internal-business, customer, and financial. It

should be noted that previous researches have focused on testing the impact of training on financial performance. The performance from internal-business and customer perspectives has been left out of researchers' attention, where as financial performance efficiency is based on them.

The data on motivation factors and performance indicators have been collected from the survey of 714 Iranian SMEs. The results of the data analysis have revealed that motivation has highly positive impact on training, and training has positive effect on business performance. Finally, a new three dimensional model has been introduced with the aim to increase training motivation of employees in SMEs and to improve their business performance through human resource development.

**Literature Review: The Impact of HR Practices on Firm Performance:** Many researches have been conducted in recent years with the attempt to find out whether human resource practices make a positive impact on business performance and if they do so, how the impact is achieved.

According to Huselid<sup>3</sup>, employee skills have positive impact on financial performance, while productivity is influenced by employee motivation. Further, Ulrich<sup>4</sup> states that human resource practices are supposed to have impact on firm performance. Many survey results have proven the relationship between them. However, this relationship is sometimes complicated as they differ according to the sample size and measures applied. Patterson et al.<sup>5</sup> points out that training, i.e. acquisition and development of new skills, plays significant role in changes of profitability and productivity. Later Thompson<sup>6</sup> after conducting a survey of 623 firms confirms that HR practices have been the main differentiating factors between more or less successful firms. Guest et al.<sup>7</sup> provides a model

indicating that HR practices lead to the improvement of financial performance.

Furthermore, there is a disagreement among researchers that these practices are always successful.

Ferris et al.<sup>8</sup> implies that the relationship between human resource practices and firm performance is that of the “black box”. More concretely the problem is that if there is an impact of human resource practices on firm performance, how this impact occurs, i.e. what are the tools and methods by which these practices influence business performance measures. An attempt to reply these questions has been made by Snell et al.,<sup>9</sup> who states that this impact can be achieved through organizational learning, which becomes a competitive advantage for the organization. Researchers generally agree that organizations learn only through individuals who learn. “Individual learning does not guarantee organizational learning, but without it no organizational learning occurs”. Thus, it is suggested to focus on learning which will help achieve organizational goals. According to Snell et al. employees contribute to organization when they have the knowledge and skills required by the company, and have motivation to make use of them.

Furthermore, organizational learning improves financial performance<sup>10</sup>. The results of an empirical study conducted by Ellinger et al.<sup>11</sup> suggest a positive relationship between the organizational learning and the firm’s financial performance.

Nevertheless, the number of researches on the relationship between training and firm performance seems to be limited. Furthermore, researches are limited to the firm performance measures. Most of them focus on the relationship between financial performance and learning, while performance from customer and internal-business perspectives is not considered.

**Motivation and Training:** Motivation plays significant role in learning. Individuals must be motivated to learn. To be motivated, they must be satisfied with learning.

However, in spite of the significance of motivation in learning, researchers have only recently turned their attention to training motivation<sup>12</sup>.

Researchers generally differentiate between two characteristics, individual and situational, that can influence training motivation<sup>13</sup>.

Individual characteristics influence cognition and behavior of individuals. According to Mathieu et al.<sup>14</sup> ambitious trainees are more motivated to learn. Nervousness decreases training motivation<sup>15</sup>. Individuals with high internal locus of control are more willing to training as they realize that training will result in tangible benefits<sup>16</sup>. Other individual characteristics that may influence training motivation found in different studies include

desire for dominance<sup>17</sup>, sensitivity<sup>18</sup>, competitiveness<sup>19</sup> and creativity<sup>20</sup>.

As it has been already mentioned training motivation can also be influenced by situational characteristics. James and Jones<sup>21</sup> point out that such organizational characteristic as structure, size, goals, mission, or culture influence behavior and motivation of employees. Others have suggested situational factors that can be connected with job<sup>22</sup>, leader<sup>23</sup>, or coworkers<sup>24</sup>.

Tracey et al.<sup>25</sup> have studied the impact of organizational environment on training motivation. The main features of a positive organizational environment may include suitable resources for trainees, opportunities to transfer their knowledge and skills to the job they do and adequate feedback<sup>26</sup>. Further, researchers have studied that manager or peer support also increases motivation to participate in learning activities<sup>27</sup>.

Previous researches have revealed that training motivation is also linked to job, organization and career, such as job involvement, organization commitment, and career exploration<sup>28</sup>. Employees who are highly involved with their jobs are more likely to be motivated, because participation in training can increase skill levels, improve job performance, and increase feelings of self-esteem. The higher employees’ level of organizational or career commitment, the more likely they are to perceive training useful for themselves and organization.

Career exploration helps employees to recognize their strengths, weaknesses and interests. Employees having high level of career exploration are likely to have high training motivation since they can realize clearly the relation between training and the development of their strengths and weaknesses.

Researcher have suggested that training motivation is influenced by the desired outcomes of training. As it is stated by Mathieu et al. the training motivation can be influenced by higher salaries and greater potential for promotion. Employees are more motivated for training if they expect desired outcomes related to learning.

## Research Methodology

To achieve the goal of the research, Maslow’s theory of motivation has been used to identify the factors which may raise training motivation of employees. These factors are as follows: salary increase (to meet physiological needs), insurance and pension plan (to meet safety needs), teamwork (to meet social needs), honors and awards (to meet self-esteem needs), promotion opportunities (to meet self-actualization needs).

Then, the balanced scorecard system has been applied to identify the indicators for measuring five-year performance of the surveyed companies from financial, customer and internal perspectives.

After identifying the corresponding factors and indicators the survey instrument has been prepared in a way to obtain the data about the motivation factors and the performance indicators.

The questions were Likert scale type-response questions designed to measure the intensity of the respondents' answers.

The survey has been conducted by in-office interviews. The managers whom we failed to meet have been later connected by phone. The target population for the current research survey is manufacturing and service SMEs. SMEs for the current research are defined the firms with less than 250 employees. The target sample size was 1500 manufacturing and service SMEs. The actual achieved sample size was 714, i.e. 47.6%.

To understand whether the questions in the questionnaire all reliably measure the same latent variable, a Cronbach's alpha has been run on the data. The tables 1 shows the results of Cronbach's Alpha.

**Table-1**  
**Reliability Statistics**

Cronbach's Alpha	N of Items
.974	28

**Table-2**  
**Case Processing Summary**

		N	%
Cases	Valid	714	100,0
	Excluded	0	,0
<b>Total</b>		<b>714</b>	<b>100,0</b>

0.7 is an acceptable reliability coefficient. The alpha coefficient of our data is 0.974 which shows that all the variables are perfectly measured.

Finally, the following hypotheses have been formulated and tested by SPSS 16 (statistical package for the social sciences): Hypothesis one: The identified factors have impact on training motivation. Hypothesis two: training has impact on business performance from internal perspective. Hypothesis three: Training is related to business performance from customer perspective. Hypothesis four: training has impact on business performance from financial perspective. Hypothesis five: Training has relationship with the overall business performance.

The statistical tools applied for testing the hypotheses are linear regression model and Chi-square test of independence.

## Results and Discussion

**The Impact of the Motivation Factors on Training:** To evaluate the impact of the motivation factors on training, the following hypotheses have been tested:  $H_0 \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$

$H_a$  One or more of the parameters is not equal to zero.

According to the results of the multiple regression analyses  $H_0$  is rejected as  $p - values < .05$ , i.e. there is a relationship between five factors and training.  $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  are greater than zero, which means that the relationship between all five factors and training is positive. The correlation coefficient ( $R = .877$ ) shows that these five factors have very high impact on training. In addition, R square is equal to .769, which indicates that 76.9% of the variability in training is explained by the relationship between the identified motivation factors and training.

**The Relationship between Training and Performance:** To test the relationship between training and performance from internal-business perspective the following hypotheses have been formulated and tested by Chi-square test of independence.  $H_0$  There is no relationship between training and performance from internal perspective.  $H_a$  There is a relationship between training and performance from internal perspective.

The results of the analysis indicate that training is related to all of the indicators of the performance from the internal-business perspective. According to the values of correlation coefficients of all indicators it can be concluded that training has rather high impact on performance from internal-business perspective.

Further, the influence of training on performance from customer perspectives has been evaluated by testing the following hypotheses.

$H_0$  There is no relationship between training and performance from customer perspective.  $H_a$  There is a relationship between training and performance from customer perspective.

The null hypothesis is rejected according to the chi-square values which are more than critical value, and p-values which are equal to .000, i.e. they are less than predetermined significance level. Hence, there is a positive relationship between training and performance from customer perspective as correlation coefficients of all the indicators are high.

Then, the following hypotheses have been tested to estimate the relationship between training and financial performance:

$H_0$  There is no relationship between training and financial performance.  $H_a$  There is a relationship between training and financial performance.

Table 7 indicates that  $H_0$  is rejected as the chi-square values of all the indicators are greater than critical chi-square value and p-values are less than .01. According to the resulted correlation coefficients training has positive impact on the financial performance as well.

Finally to test the effect of training on the overall business performance, the following hypotheses have been tested by simple linear regression model:  $H_0\beta_1 = 0$ ,  $H_a\beta_1 \neq 0$  ( $R^2 = .555$ ) of the overall performance variation is explained by the relationship between training and performance.

The results indicate that the overall performance is highly dependent on training ( $\beta_1 = R = .745$ ) and that 55.5% improvement is introduced below.

Considering the total results of the analysis a new three-dimensional training model for business performance improvement is introduced below.

**Table-3**  
**Coefficients<sup>a</sup>**

	Model	Unstandardized Coefficients		Standardized Coefficients	T-value	p-value
		B	Std. Error	Beta		
1	(Constant)	-,621	,100		-6,209	,000
	Promotion policy	,145	,052	,117	2,780	,006
	Salary increases	,360	,032	,274	11,158	,000
	Honors and awards	,131	,038	,109	3,442	,001
	Teamwork	,423	,040	,415	10,548	,000
	Health insurance and pension plan	,092	,036	,082	2,523	,012

a. Dependent Variable: Training status

**Table-4**  
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,877 <sup>a</sup>	,769	,767	,579

a. Predictors: (Constant), Health insurance and pension plan, Salary increases, Honors and awards, Teamwork, Promotion policy

b. Dependent Variable: Training status

**Table-5**  
**Chi-square test results and correlation coefficients of performance indicators from internal-business perspective**

Dependent variables	Pearson's Chi Square Values	Pearson's R	DF	p-value
Enhanced research to identify customer needs	549.570	.762	16	.000
Intensified research to develop new products	512.308	.722	16	.000
Improved development process of products	548.530	.756	16	.000
Quality improvement of products	492.869	.690	16	.000
Sales growth from new products	393.640	.691	16	.000
Improved relationship with suppliers	497.932	.673	16	.000

Independent variable: Training, Significance level:  $p=.01$ : Reject  $H_0$  if  $p - value \leq .01$ , Critical value:  $\chi^2 = 32$ ; Reject  $H_0$ : if  $\chi^2 \geq 32$

**Table-6**  
**Chi-square test results and correlation coefficients of performance indicators from customer perspective**

Dependent variables	Pearson's Chi Square Values	Pearson's R	DF	p-value
Facilitated online shopping	477.449	.665	16	.000
Enhanced post sale service	604.946	.719	16	.000
Decrease of customer complaints	585.874	.663	16	.000
Increase of customers	414.463	.667	16	.000
Increase of customer satisfaction	518.371	.736	16	.000

Independent variable: Training, Significance level:  $p=.01$ : Reject  $H_0$  if  $p - value \leq .01$ , Critical value:  $\chi^2 = 32$ ; Reject  $H_0$ : if  $\chi^2 \geq 32$

**Table-7**  
**Chi-square test results and correlation coefficients of performance indicators from financial perspective**

Dependent variables	Pearson's Chi Square Values	Pearson's R	DF	p-value
Revenue growth	336.930	.633	16	.000
Market share increase	413.712	.683	16	.000
Increase of revenue per employee	592.358	.799	16	.000
Operating costs decrease	401.329	.614	16	.000
Effective use of assets	461.472	.655	16	.000

Independent variable: Training, Significance level:  $p=.01$ : Reject  $H_0$  if  $p - value \leq .01$ , Critical value:  $\chi^2 = 32$ ; Reject  $H_0$ : if  $\chi^2 \geq 32$

**Table-8**  
**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T-value	p-value
		B	Std. Error			
1	(Constant)	,297	,094		3,171	,002
	Training status	,784	,026	,745	29,796	,000

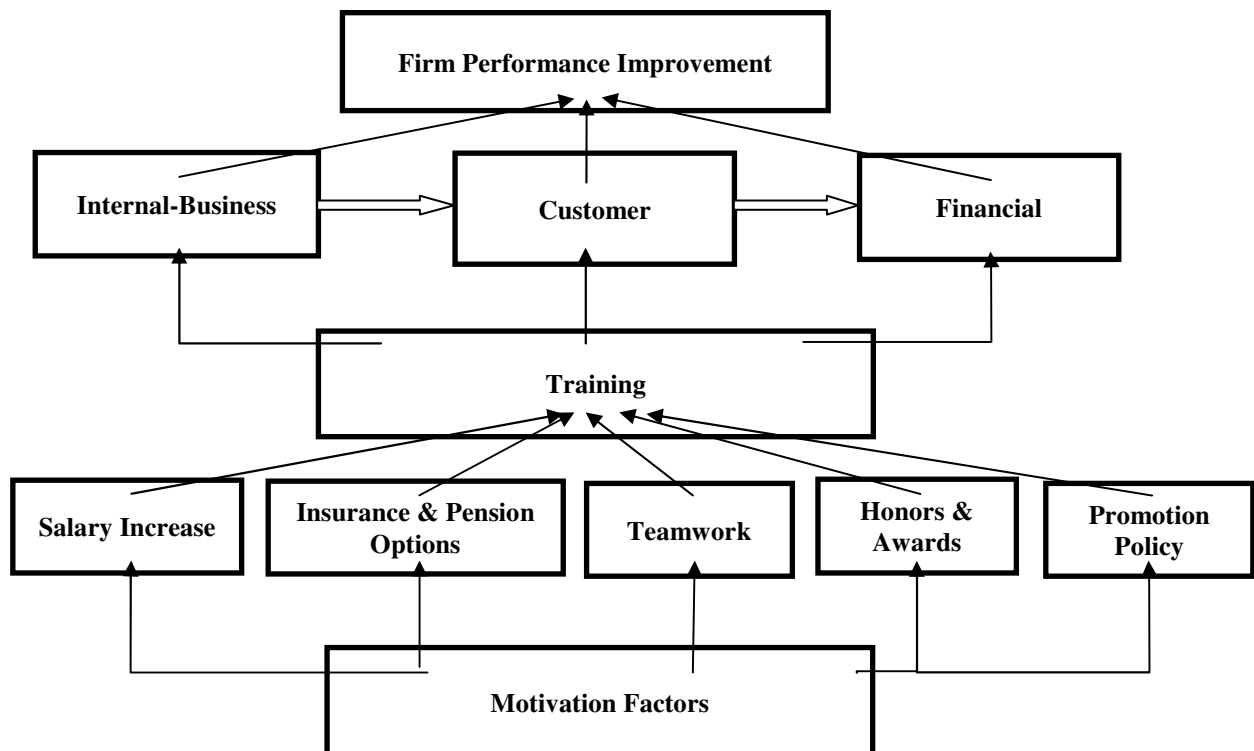
a. Dependent Variable: Overall performance improvement

**Table-9**  
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,745 <sup>a</sup>	,555	,554	,844

a. Predictors: (Constant), Training status, b. Dependent Variable: Overall performance improvement

**Figure-1**  
**Training model for performance improvement of SMEs**



## Conclusion

The paper tested the relationship between five situational factors and training motivation. The relationship between them proved to be positive which supports the findings of the previous researches. Further, the paper tested the relationship between training and business performance. However, unlike previous researches it tested the impact of training on performance from three perspectives. The findings indicated that training has highly positive impact on firm performance not only from financial but also from internal and customer perspectives. Finally, based on the analysis output the paper introduced a new model the application of which will increase training motivation of employees and will lead them to continuous learning, which in its turn will contribute to the improvement of firm performance.

The situational factors in this research are selected in a way to increase training motivation through satisfying human needs. The satisfaction of one need generates another need, and this process is continuous. Consequently, by providing employees with the opportunities to satisfy their needs as they arise, organizations can lead their employees to the continuous learning. In addition, understanding and meeting employees' needs will lower employee turnover rate. Employees who are valued in the organization are more committed to it and are less likely to leave the company. Moreover, valued and satisfied employees work with greater enthusiasm and responsibility toward an organization's objectives. People, their talents, their skills and knowledge are the ultimate foundations of organizational performance. Therefore, leaders should integrate people, their needs and values into the organizational goals to assist companies to increase their intellectual capital through training and development<sup>29</sup>. This research paper tried to introduce the ways through which enterprises can increase their intellectual capital and thus, performance effectiveness and efficiency.

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