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RELATION BETWEEN PROFITABILITY AND INVESTMENTS IN TRAINING AND DEVELOPMENT – A COMPARATIVE STUDY OF MANUFACTURING AND SERVICE SECTORS IN INDIA

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ABSTRACT

Training is an important aspect of not only employee development but also organization development. Investments in training of employees is necessary for improved performance of the organization. However in these competitive times, every investment has to be measured in terms of its contribution to the profits. This paper studies the relation between investments in employee training and profitability. The study compares the correlation between training expenses and profitability between a manufacturing sector company and a service sector company in India. The results indicate that while training expenses and profitability are positively correlated , the same is negatively correlated in the manufacturing sector.

KEY WORDS : Training, Investments, Profitability

Introduction

It is an accepted fact that training improves performance and through improved performance, the productivity goesup which goes a long way in improving the profitability of the organization.

Profitability can be improved either by increasing the selling price and maintaining the same cost or retaining the same selling price and reducing the cost. In a competitive business environment, the second is more likely to happen. With training , by whatever methods, employees are better equipped to complete their assignments and thus there is scope of reducing the cost. Training basically enables an employee to reduce the time taken to complete, reduce wastage work more efficientlyand ultimately by giving value addition and quality to the product / service. Training also imparts necessary skills on how to improvise, think about ways and means of reducing cost and in many cases shows the effect of good or bad workmanship on the financial health of the organization. Training also helps employees in understanding the current developments in their field of activity and adopt and adapt themselves to the new developments in their field of activity. This adoption and adaption also contributes to the improved productivity of the employee undergoing training.

It also has to be borne in mind that organization profitability is also a function of several other factors like market demand,supply competition, pricing power, regulatory constraints, cost of production etc.

Review of Literature

Kim and Ployhart (2014) had studied the effect of staffing and training on the profit growth of organizations before, during and post the great recession. The study examined whether firms that use rigorous staffing and training out perform those that do not use training. The study concluded that firms using training outperform others, Another conclusion was that the effect on profit growth occurred due to their effects on productivity.

Sheika and Khrawish studied the relationship between profitability and employee training in Jordan. The study included 30 companies in Jordan. The study revealed that there is significant relation between existed between profitability and employee training.

Regan et al had analyzed the relationship between training and profitability in SMEs in UK. The study was conductedin the manufacturing sector and having fewer than 250 employees. The study revealed that the profit to training ratio was 83:1 for the upper profit quartile and 12:1 for the lower quartile.

Organizing the paper

Section II of the paper provides methodological issues, Section III gives the analysis, Section IV deals with the interpretation and Section V discusses the policy implications.

Section II

Objective

To continue the contribution to the literature, in this study the author examines the relation between investments in training and financial performance (training).

Sample

For the purpose of this study, a sample of two companies, one in the manufacturing sector and another in the services sector has been selected. The companies have been selected based on the availability of information, stature of the company and possibility of comparison. The companies selected are Tata Consultancy Services (TCS) and ABB Limited.

Data

The data for the study comprising of the net profit of the selected companies and the training expenses for the particular year are obtained from the annual reports of the respective companies. In the case of TCS, due to shift to a different accounting regulations, the data for training in the year 2017 has not been given directly and hence an assumption has been made on the increase over the previous year in the same percentage as that of their operating expenses.

The data for the study has been collected for a period of 6 years from 2012-2017in the case of TCS and 2011 – 2016 in the case of ABB. The difference in the period is due to the fact that while TCS follows fiscal year i.e. April to March, ABB follows calendar year i.e. January to December for reporting their annual figures.

For analyzing the data, correlation coefficient has been computed using the formula

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

The correlation coefficient shows the relationship between two variables and the strength of relationbetween the variables. The coefficient can be positive or negative and the closer it is one, the stronger is the relation.

Section III

Data Analysis

The training expenses and the profit after tax details are given in Table 1 and 2.

Table 1: Tata Consultancy Services (Rs. Crores)

Year	Training expenses	Profit After Tax
2012	170	10976
2013	166	12786
2014	205	18475
2015	235	19257
2016	270	22883
2017	287	23956

Source: Annual Reports

Fig1: Training expenses and PAT of TCS

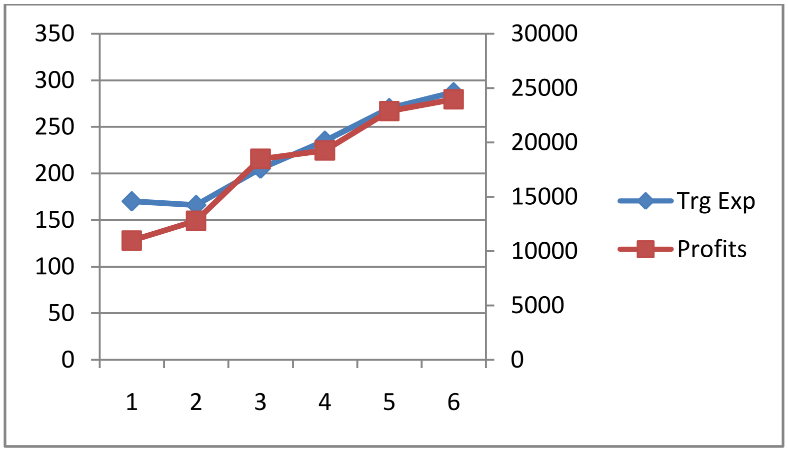
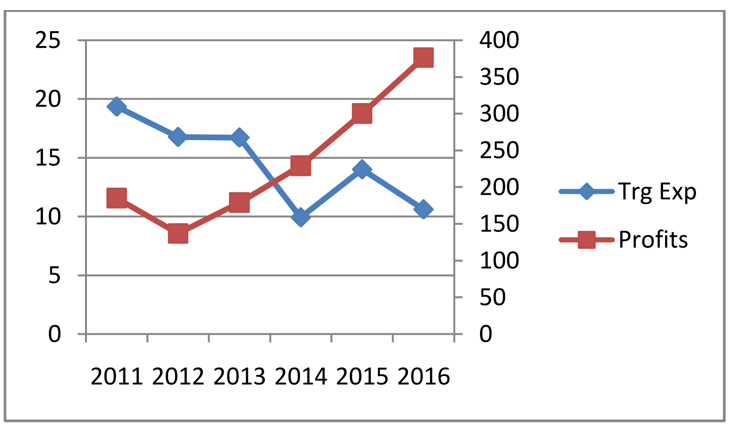


Table 2: ABB Ltd (Rs. Crores)

Year	Training expenses	Profit After Tax
2011	19.35	185
2012	16.77	137
2013	16.72	179
2014	9.93	229
2015	14	300
2016	10.61	376

Source: Annual Reports

Fig 2: Training expenses and PAT of ABB



Section IV

Data Analysis and interpretation

The coefficient of correlation between profit after tax and training expenses are given in table 3

Table 3: Coefficient of Correlation

Company	Coefficient of Correlation
TCS	0.96
ABB	-0.68

Source: Author's computation

The coefficient of correlation in the case of TCS has been found to be 0.96 and in the case of ABB it has been found to be -0.68.

In the case of service sector represented by TCS , the coefficient of correlation is very close to 1 with a positive sign which indicates that there is strong relation between employee training and profitability in the service sector.

In the case of manufacturing sector represented by ABB, the coefficient of correlation is -0.68 indicating that there is a mild negative correlation between profitability and training in the manufacturing sector.

Section V

Policy implications

The results of the analysis point to important implications for policy makers. Investments in training of employees is more productive in the case of service sectors. Logically also, due to fast paced developments in the technology field, employees need to undergo training constantly and continuously to keep themselves abreast of the latest developments and also offer solutions to customers needs.

In the case of training in the manufacturing sector, the results indicate that the effect of training may produce results in the long run. Added to that, the technology and processes do not change so fast as in the case of service industry. Hence the mild negative correlation.

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