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Luqman Hakim Satiman Nur Naha Abu Mansor Nadiatulhuda Zulkifli

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Luqman Hakim Satiman is a PhD Candidate and Nur Naha Abu Mansor is the Director based at the Department of Human Resource Development, Universiti Teknologi Malaysia, Johor Bahru, Malaysia.
Nadiatulhuda Zulkifli is a Senior Lecturer based at the Department of Communication Engineering, Universiti Teknologi Malaysia, Bahru, Malaysia.

Introduction

Malaysia envisions to become a developed, high-income nation by the year 2020. To realize this, it is vital that Malaysia has a reliable private sector as the primary engine of economic growth. As the biggest part of the private sector (97.3 per cent of the total number of establishments), small and medium enterprises (SMEs) are expected to contribute effectively to the nation's economic growth (NSDC, 2013). In the recent Malaysian SME master plan 2012-2020, targets were set that SMEs need to provide 41 per cent of total gross domestic product (GDP) contribution, 62 per cent of total employment and 25 per cent of total export by 2020 (NSDC, 2013). In reality, Malaysian SMEs are still lagging behind other advanced nations, such as Germany and Japan where the current GDP contribution, employment and exports are around 32.7, 57.4 and 19 per cent, respectively (Ho *et al.*, 2013; NSDC, 2013).

With only six years remaining until 2020, the problem areas in Malaysian SMEs need to be identified and resolved. In the context of training and development, one area that requires significant attention is the lack of highly skilled labor and low productivity levels. While training is accepted as an important means to improve organizational profitability and productivity, formal training and development are dismissed from the agenda, as resources are normally devoted to other strategic issues (Klaas *et al.*, 2010). At the same time, most SMEs also fail to fully utilize the government's subsidized training programs. Here, the absence of empirical data to correlate training with business success is identified as the key issue (Hashim and Wok, 2013). The existing reports on the success of government investment in SMEs training programs also have limited usefulness, as they lack performance indicators. These include reports on the number of organizations that have enrolled in training programs rather than organizations that have achieved increased profitability, productivity or competitiveness after attending training programs.

Importance of ROI in SME's training

The under-appreciation of training programs by SMEs is disappointing, as the Malaysian government has invested significantly to empower SME workforces with improved knowledge and skills. Thus, an urgent solution needs to be sought to convince the SME owners/managers on the benefits of training to their business success. A reliable training evaluation tool such as ROI, for example, will be able to ensure that the decision to adopt a training practice is the right one, as it provides input on an organizational return for any given investment in a training program.

In essence, ROI serves as an ultimate measure of accountability that compares the net benefits of a training program to its costs (ROI = [program benefits – program costs]/ program costs × 100 per cent) (Phillips *et al.*, 2007). Training costs, whether direct or indirect, can incur in all the following stages: analysis, development, delivery and evaluation. Direct costs are expenses dedicated for a training program, e.g. salaries of employees involved in a training program and training room facilities. Whereas, indirect costs refer to the expenses that are not directly billed to any specific program, e.g. office facilities and supplies.

Meanwhile, program benefits are the values that an organization gains from a training program and need to be converted to monetary value for ROI calculation purposes. Program benefits can be distinguished in the form of hard or soft data. Hard data are easy to measure with simple conversion to monetary value in contrast to the soft data that are more subjective in nature and, thus, involve more difficult conversion procedures. Examples of hard data might be amounts manufactured or absenteeism levels. Positive soft data that is too complicated are known as *intangible benefits* and can be presented together with the ROI as an added value to the training impacts.

One of the potential ROI applications in resource-limited SMEs is the ROI forecast. Two programs, *A* and *B* with their projected costs and benefits, are used here to illustrate the worth of ROI forecast.

Program *A*'s costs and benefits are $1,000 and $1,500, and Program *B*'s costs and benefits are $5,000 and $10,000, respectively. A solely cost-based selection favors the first program but at the expense of lower profit gain. Selection on the ROI basis results in the latter program is being chosen, as it has 100 per cent ROI compared to the former at 50 per cent. This shows how superior the ROI is as an alternative performance indicator of a training program, as it offers more relevant information that links to the organizational goals, i.e. profitability and productivity. Moreover, ROI success is already proven with worldwide implementation in over 5,000 organizations, including small organizations with as few as 50 employees (Phillips *et al.*, 2007).

Determinants of ROI adoption

Given the significance of ROI implementation, it is vital for researchers and policy makers to identify the factors that can encourage or hinder adoption by SMEs managers and owners. In addition, we believe that a study on the adoption of ROI measures among Malaysian SMEs is timely and relevant, as our extensive review indicates that the topic has yet to be addressed. Consequently, this paper proposes the following four most important factors: management support, policies and regulations, competitive pressure, and customer expectation.

Management support

Management support reflects the management's commitment to and involvement in the adoption of new practices, e.g. ROI in an organization's training and development process. It is needed to approve the resources required for the implementation of all ROI phases. Without adequate management support, training programs often fail to be executed and/or cannot achieve the objectives (Phillips *et al.*, 2007). In small organizations, it is typical that the primary decision maker is the owner of the business; hence, his or her vision on the use of ROI practices will determine the level of support for adoption. It is argued that management support largely depends on the manager's experience, knowledge and skill. Exposure to formal human resource management (HRM) practices with the right knowledge and skill is crucial, given the benefits of HRM practices that are not immediate in nature. Therefore, it is recommended that the government and related agencies educate the SMEs owners/managers on the benefits of ROI through subsidized training programs and awareness campaigns.

Policies and regulations

Without doubt, policies and regulations are important drivers that could force or encourage SMEs to adopt ROI approaches to adhere to the requirements from the governing or funding bodies. In general, policies exist in two forms – stick or carrot. In the context of SMEs in Malaysia, a "carrot" policy is more favorable, as the implementation of new HRM practices consumes resources where support from the government is needed. In addition, Malaysia has always been supportive to SMEs who fail to implement unpopular policies. In contrast, a "stick" policy may not be effective, as monitoring a vast number of SMEs can be a huge challenge. As a matter of fact, penalties are more usually levied on larger organizations rather than SMEs.

Competitive pressure

Competition is an important factor that could influence an organization to adopt ROI. If a new HRM practice is perceived to provide an organization with competitive advantage, top management will be more supportive toward its adoption. Ideally, the strategic move to adopt a new practice depends on how it influences the organization's activities and performance. However, it is also possible that a new practice is adopted simply due to its widespread implementation among competitors, known as the *bandwagon effect*. The *bandwagon effect* can be misleading, as the new practice adopted might not contribute much to an organization. In the context of resource limited business environments like SMEs, ROI has huge potential to provide competitive advantage, as it helps organizations to dedicate valuable resources to training programs which contribute the most to organizational performance.

Customer expectation

Unlike the above factors, customer expectation poses secondary impact on the adoption of ROI. It is very unlikely that customers will demand the use of a specific training evaluation method. Customers merely expect high-quality products or services at the lowest possible price, where its influence is more significant with increasing competition. In such an environment, organizations need to be highly innovative and this can be only realized through the presence of a dynamic and skillful workforce. Here is where properly designed training programs fit the purpose as a means to empower SME workforces. With the use of ROI, outcomes from training are measured against its expenses to justify the rationale of choosing a specific program.

Conclusion

In conclusion, this study sets out to determine the organizational and environmental factors that can influence the adoption of higher-level training evaluation ROI in SMEs in Malaysia. Today, SMEs are forced to face numerous challenges such as a low-skilled workforce, limited resource availability and fierce competition whether locally or from abroad. Malaysian SMEs have no option but to seek innovative ways to survive and compete with other industry players. Based on extensive review, this paper suggests four factors that could influence the adoption of ROI measures in the sector: management support, policies and regulations, competitive pressure and customer expectation.

Keywords:
Skills,
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About the authors

Luqman Hakim Satiman currently is a PhD candidate in the Faculty of Management, Universiti Teknologi Malaysia with management and engineering educational backgrounds. His research interests are human resource development (HRD), training evaluation and SMEs. His work experience includes manufacturing industry in both SMEs and multinational organizations. Luqman Hakim Satiman is the corresponding author and can be contacted at: lhakim32@live.utm.my

Nur Naha Abu Mansor works as an Associate Professor with the Faculty of Management, Universiti Teknologi Malaysia. Currently, she also holds the post as the Director of Universiti Teknologi Malaysia – Community Transformation Centre (UTM-CTC). Her research interests are the strategic role of HRD, creativity, networking, HRD and lifelong learning.

Nadiatulhuda Zulkifli is a Senior Lecturer in the Faculty of Electrical Engineering, Universiti Teknologi Malaysia. Her research interests cover optical communication and networking, mobile commerce and innovation adoption.

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