

HUMAN CAPITAL INVESTMENT THEORY AND THEORY OF REASONED ACTION: THE INFLUENCE OF ORGANIZATIONAL TRAINING ON EMPLOYEE TURNOVER

Raushan Gross

School of Business and Economics, Greensboro College, Greensboro, USA

Raushan.Gross@Greensboro.edu

Abstract

This paper examined employee voluntary turnover as a factor stemming from organizational investment in human capital. The approach displayed in this paper gathered samples from quantitative studies that used both human capital theory and theory of reason as the main foci under review. The connection between these two theories are evaluated by the study sample sizes; although, there were not enough studies that used these two theories to make a solid judgment on the effect of human capital investment [training] and its impact on organizational voluntary turnover. This paper developed a framework for future research. I reported in this study that further empirical testing is needed to find if there is a significant impact of human capital investment on voluntary employee turnover in contemporary organizations.

Keywords: Human capital theory, Reason action theory, Employee training, Employee turnover, Organizational development, On-the-job training, Human resource management

INTRODUCTION

This study examined both human capital investment theory and employee reasoned action theory attempting to find influence of organizational training on employee turnover. Through this approach, I considered how employees leave organizations due to decreased human capital investment, which could influence employee turnover [or reasoned action]. The purpose of this study is to thrust the theory of human capital investment and its influence on the theory of reasoned action [employee turnover] forward. The independent variable is human capital investment; this is when organizations invest in employees through either internal or external

training in an attempt to develop employees' skills to become more knowledgeable and efficient. These investments made by organizations serve employees by allocating internal resources to drive employee performance and productivity. The dependent variable, theory or reasoned action, is used in this paper as, employee turnover, and is often described as a process that employees take when they intentionally make a voluntary decision to leave an organization, and, in this study it is referred to as employee turnover. I ask whether or not employee voluntary turnover is influential in an employee's voluntary decision to leave an organization? Also, what level of human investment capital by an organization is needed to reduce employee turnover.

LITATURE REVIEW

This literature review elaborates on the areas of organizational human capital investment via training, and employee voluntary turnover by using studies that are quantitative in nature. The electronic database searches included: EBSCOhost, Psycnco, ScienceDirect, Business Source Complete, ABI/Inform Complete, and Emerald Management XTRA. Sources in the reference sections of cited works were included; as I searched for similar studies that met the overall criteria. The data-range for cited sources was between 1980 –2014. Therefore, human capital theory data closer to 1980's and mid 90's were used most frequently in this study. Articles selected for inclusion were further discerned for meeting the methodological criteria of a sample size greater than (n=100).

Human Capital Theory

Boullillon, Doran, and Orazem (1996) measured human investment capital and linked it positively with long-term return on investment for the organization. A sample of (n=260) firms with employee training policies an investment was examined; however, the sample firms viewed training as an asset [in accounting terms] which thus presumably causes firms to lower the incentive to spend money on employee training. Boullillon et al. agreed with (flamholtz, 1985) who asserted that there are three conditions organizations need in order to record "human capital" as an investment asset: future potential, the benefit must be subject or controlled by the firm, and the benefit must be measurable (Boullillon et al.,1996). Placing a value on human capital was found difficult to measure in terms of assets with an immediate return, both future and present. Boullillon et al. asserted that "if a worker engages in training, the employee will have to take time away from production hours" (p. 31). This idea hinges on the theory that was developed by (Becker, 1962) who explained how human capital investment is and should be distinguished, that is, between general and specific employee training. The sample compiled for this study came from listings of organizations on the Security Exchange commission (SEC).

This data were merged with COMPUSTAT along with other listed financial firms with related SIC codes. As measures, 10 year averages were used such as: ratio, cash flow data on amount of quits, separation ratios, and chief executive tenure (in years) before becoming CEO. The f-test and correlation test were used to find the significance between both variables employee training and company investment-over time.

Barron, Burger, and Black (2000) examined a model that supported the notion of on-the-job training and its impact on human capital investment. The potential impact was shown to effect employee production, organizational growth, and ability to harness sustained employee long-term retention. The model reflected the seminal works of (Becker, 1962, 1964; Mincer, 1962, 1974) who purported that training on the job is a determinant of wages. A(1992) data set from a survey of firms funded by the Small Business Association (SBA) was used. This data set contained measures of on-the-job training for newly hired employees. They tested another data set funded by the Employee Opportunity Pilot Program (EOPP). These two data sets had four common measures of human capital training investments: time spent in formal training programs, time spent in informal training by employee supervisors, training with co-workers, and time spent watching others performing job-related task. Sampling was stratified with a sample response of (N= 756) workers from the (SBA) and (N= 1323) from the 1982 (EOPP) pool of employees. The sample respondents completed the instrument at 23 different sites across the United States. According to the (EOPP) mean data report-- 19.5% of training was conducted during work time, while the (SBA) reported the mean statistic which showed that 23.15% work related training was completed on the job. These data were analyzed using Chi-square. The concluding result of this study noted that training was positively correlated with employee productivity and long-term organizational growth.

Ashar, Ghafoor, Munir, and Hafeez (2013) study focused on training employees so to increase their work performance, and to gauge whether the training influenced employees' work commitment. Employees' ability to receive the internal training is a mechanism that serves to increase employee production and create organizational competitive advances. As such, Ashar et al. (2013) reported that, "training can be used as an example of human resource practices that contribute to attain advantage over competitors" (p. 75). Human Capital investment is neither duplicated nor purchased on the open job market; therefore, training investment provides knowledge and skills that enhances performance. Ashar et al. referred to (al-Emadi and Marquardt, 2007) who agreed there is a relationship between training benefits and employee commitment, which is positively related to the level of human capital investment provided. Human capital investment for organizational members can be a perilous investment, because the investment in training between employee and organization is inseparable, which

garners greater need for employees to stay committed to the organization. Moreover, employee uptake in organizations when employers do not invest in human capital decreases with time. Investment in terms of training creates a dependent relation between organizations and employees, because employers are able to give the perception that they care about employee development. The sample participants were 65% male and 32% female. The data were gathered with a scale developed by (Newman, Thanacoody & Hui, 2011). There were a total of (n=123) sample respondents that were usable to analyze the final results. With (n=123) useful sample respondents at an 82% response rate, the authors used the Pearson Moment Quotient and linear regression to analyze the relationship between training and affective commitment. There was as a positive significant relationship between employees training provided by the organization and effective commitment, and a negative affective commitment between training and employee turnover.

Human capital theory presents the notion that employees are considered human capital and in maintaining valuable capital, organizations decide whether or not to pay the investment for training, essentially investing in employee education. Interestingly, education is directly linked with employee's income and income potential as mentioned in the human capital investment literature (Strober, 1990). The on-the-job training investment is another form of education that increases skills which, in turn, increases employee's value and productivity, thus higher productivity is rewarded through higher earnings (Becker, 1964; Mincer, 1974; Strober, 1990). Employers educate employees via on-the-job training if the external cost of the same training is higher. This type of training develops human skills but is only (of use at a particular company) unless the training is specific, unlike generic training. Human capital theory is a supply-side theory that runs against the demand-side labor force which ultimately dictates to the extent employees receive training linked to employee turnover; which diminishes the firm's competitive advantage (Strober, 1990). In the same vein, Hatch and Dyer stated that, "firms with high turnover will suffer a significant competitive disadvantage relative to firms with more stable workforces where human capital can be developed and deployed" (p. 1161). According to the (Hatch and Dyer, 2004) study that analyzed data using regression analysis, which supported the notion that companies defects and errors increases when turnover increases due to the lack of human capital investment. This confirms that due to the decreased amount of human capital investment, employee turnover can be attributed to the level of human investment.

Theory of Reasoned Action

Ajzen (1991) conducted a seminal work associated with reasoned behaviour resulting in planned behaviour (turnover) by employees within organizations when training provided by

organizations are nonexistent. The (Ajzen, 1991) study is used as grounding mechanism; proposing that one's intent to perform behaviours of varies kinds can be predicted with an attitude toward that behaviour. In this theory, the use of "intent" in reasoned theory is an employees' intent to leave an organization due to insufficient human capital investment training. Simply stated, an organization that does not offer capital investment is predicted to have higher employee turnover.

Employee turnover

Krueger and Rouse (1998) study focused on the effects of workplace education training on turnover outcome variables. They expressed how recent policy pronouncements have called for more private-sector training. It was, however, expressed in this study that on-the-job training data has been unreliable because of the diversity in the many training programs offered across various industries and organizations. Again, this study primarily focused on standardized job training programs offered by two midsized companies with respondent samples comprised of (N=800) employees located in the state of New Jersey. In supporting the data analysis, the researchers used data from the firm's administrative records along with completed instruments. The questionnaires were distributed to employees at the manufacturing plant. Krueger and Rouse stated that "representatives of the manufacturing company stressed that frequent absenteeism and tardiness were common employee problems" (p. 66). Along the same lines, there was an expectation that there would be an increase in employee turnover if training was not provided by the employer. The analysis showed that sample respondents who participated in the organizational training were less likely to leave the company when compared to those who did not receive company training (Krueger & Rouse, 1998). The conclusion of the study revealed employees who had not received organizational training did leave the organization, voluntarily. However, Krueger and Rouse also stated that, "Participants were less likely to be laid off or discharged, suggesting that the training may have an effect on employee behavior or that the employer valued these employees more highly" (p. 80).

Fey, Bjorkman, and Pavlovskaya (2000) study sampled (N=101) foreign firms by testing human resource outcomes [as a mediating variable] between HRM practices and Performance. The HRM human resource management outcome variables from this study are (retention, motivation, and employee development). The authors agreed that if, "the company is able to retain its employees, it will not be able to capitalize on the human assets developed within the organization" (p. 2). Fey (2000) assertion paralleled that of (Shekshnia, 1994) who reminded that when there is a shortage of skilled employee labor, turnover is ever prominent, especially in a foreign context. Contrarily, firms with good technical and non-technical training programs,

employees are more likely to realize that their market value develops more favorably than in other firms” (p.3). From the overall sample respondents (N= 101) were usable, which resulted in a 25 percent response rate. The data sample respondents were generated from a variety of manufacturing and service industries. The sample respondents consisted of firms that led an operation in two major cities with at least 15 employees. The sample respondents were mostly comprised of senior managers who were given a questionnaire at their place of operation. The two variables (human resource training practices and firm performance) were correlated (managers= 0.747, non-managers 0.733). Regression analysis was used to analyze the data as it was considered significant with adjusted R2 of 0.467 and 0.245 respectfully.

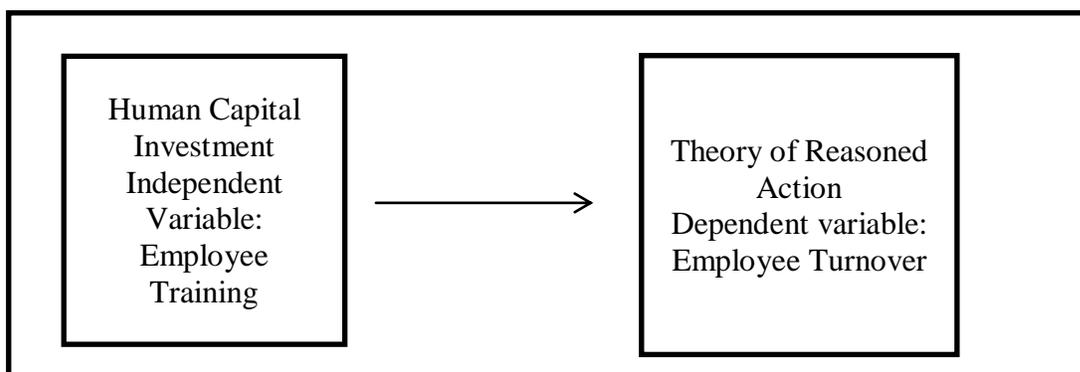
Tharenou, Saks, and Moore (2007) study advanced the notion of the effects of training on organizational-level outcomes, and if they are positively related to employees’ attitudes and human capital investment. Employee turnover related to training is important, as training in the workplace is linked to performance and retention (Tharenou, Saks, & Moore, 2007). Organizations are places of continuous learning and improvement in order to remain competitive in a knowledge-based economy. This particular study echoed that of (Haccoun and Saks, 1998) who stated “it is not surprising that employee training is a multi-billion dollar industry world-wide” (p. 252). Formal training development programs are initiated with the expectation of return on investments leading to improvements in organizational performance. It has been reported, there is a sense of skepticism on the linkage between training and results criteria, as it pertains to higher investment in human capital and employee retention. Thus, literature about the effectiveness of training on employee results and retention, remain sparse (Tharenou, Saks, & Moore, 2007). However, this study purports that there is an increasing concern in organizations that training investment is justified in support for investment with a high return on employee attitudes and performance (see: Salas & Cannon-Bowers, 2001). They unearthed 67 studies regarding the influence of training [investment] on employee retention. The sample size for analysis was (N= 271) which they considered a small sample size for this study; however, they had 100 percent participation from sample respondents. The outgrowth of this study suggested that “training was positively related to lower labor turnover and higher retention, training was measured as ‘development,’ ‘opportunities,’ ‘extensiveness,’ and ‘comprehensiveness,’ likely creating a positive climate within the organization, which should enhance retaining employees” (p. 263). The authors further suggested that organizations that invest in human training have higher levels of retention, skills, and motivation. They assessed the relationship between training and three meta-categorical organizational-level outcomes: HR outcomes, performance outcomes, and financial outcomes. The effect sizes for the organizational outcomes were reported as: HR= .201 performances = .212, and financial= .151.

Moreover, the overall effect size for relationships between training and HR outcomes was (.20); however, it was (.17) for objective measures, and (.17) for perceptual measures (Tharenou, Saks, & Moore, 2007).

Sahinidis and Bouris (2007) study was based on employees perception of quality training which in turn was a predictor of turnover intention. This quantitative study questioned (N=134) managers who worked for a Greek organization after they had completed external work-related training. Sahinidis and Bouris echoed (Bowling, 2007) who expressed the dire need for research that address the relationship between training effectiveness and employee satisfaction, motivation, and employee commitment, thus reduction of turnover. Training is an activity in which an organization equips employees with skills that enable them to perform their jobs, that is, to optimize workers potential (Sahinidis & Bouris, 2007). There are organizations that train employees to meet long-term goals requiring new skills to be competitive in a new external environment. This, however, serves as a motivator to employees, which can prevent turnover. The authors explained how training was a positive impact on both motivation and employee commitment “(p. 64). If training is perceived by the employee to be effective, then employees’ commitment increases in strength. As mentioned by (Gaertner and Nollan, 1989; Lang, 1992) training practices heighten employees commitment associated with both perceived and actual training effectiveness, and the organization effectiveness. This study showed significance that supports the notion of high-level training [see Tai, 2006] as a mechanism to higher job commitment of employees, that is, when training is perceived to be effective. The correlation was evident between employee perception of training effectiveness and employee job commitment. The correlation test showed that (PTE) perceived training effectiveness and employee (CO) commitment (R-Spearman 0.32, Z- Critical Value 3.137).

Theoretical Interaction Model

Figure 1: Interaction of the influence of human investment in training on employee voluntary turnover



The above model explained the influence of training on employee turnover by linking the independent variable to the dependent variable. Employee turnover is influenced not by the degree of training, or outcomes related to measure if the training was instrumental in the attempt to gain employee commitment; rather, the foci is based on samples that can infer overall influence of whether employees leave their organizations when there are no investment opportunities in human capital training. Reasoned action is an important factor in purporting this framework, because leaving [turnover] is a voluntary action on the part of the employee, and thus is not forced action by the organization. The notion that employees leave organizations based solely on training is the aim of this theoretical model. However, due to the many potential confounding variables, this study does control for age, gender, pay, job position, and tenure with the organization.

A number of studies were vetted for inclusion based on the stated criteria. The author conducted both electronic database searches and article reference searches. From the literature review, gathered were seven studies with a total of (n= 3,768) sample size across the reported studies. These studies met the inclusion sample size, and quantitative approach criteria.

Table 1: Human Capital and Reasoned Actions Included Studies

<i>Study</i>	<i>Sample Size</i>	<i>Study Analysis</i>	<i>Theory</i>
Ashar et al.(2013)	N= 123	Quantitative/ Correlation Coefficient	HC
Boullillion, Doran, and Orazem (1996)	N= 260	Quantitative/Archival Data Compustant	HC
Barron, Burger, and Black (2000)	N= 2,079	Quantitative/ Archival census data from SBA	HC
Krueger and Rouse (1998)	N= 800	Quantitative/Archival administrative company records data	TRA
Tharenou, Saks, and Moore (2007)	N= 271	Quantitative/ survey data	TRA
Fey and Pavlovskaya (2000)	N= 101	Quantitative/ regression	TRA
Sahinidis and Bouris (2007)	N= 134	Spearman Correlation/ Quantitative	TRA

Discussion

The data collected from included studies were presented to show the various forms of samples related to both [human capital investment and employee turnover] variables. When analyzing the data, it needs to be put through a series of statistical test (Kerlinger and Lee, 2000) to measure the effect size for both human capital investment and employee turnover. Also, the samples should be analyzed by the Pearson Correlation, and t-test (Pallant, 2010). The use of parametric test does allow for [large] samples that meet the required criteria for a meta-analytical approach. Pallant (2010) suggested the use of Partial Eta Squared to measure effect sizes for samples provided. Once the data is analyzed it reports descriptive effect sizes (correlation coefficient) and includes distribution graphs (Rosenthal, 1995).

CONCLUSION

The conclusion of this paper displayed framework purporting a causal relationship between human capital theory and reasoned action theory. The samples gathered from various studies were robust enough to support the notion that human capital investment could influence the reasoned voluntary action of employees creating turnover organizations (Bouillon, Doran, & Orazem, 1996; Flamholtz, 1985; Barron, Burger, & Black, 2000; Ashar, Ghafoor, Munir, & Hafeez, 2013). There is, however, a necessary call for further research to fill this gap by providing a quantitative analysis to address the notion of these two concepts being correlated. Through empirical data, that is, these concepts are tested more rigorously through statistical data analysis. This paper addresses this gap by purporting a need for further quantitative inquiry using methodology that teases out the causal links between employee turnover and decreased organizational investment in human capital. Also, there is quantitative support needed to understand the current organizational point of view pertaining to human capital; this inquiry needs data drawn from a reliable and valid survey instrument and interpreted with statistical analysis. The statistical analysis needs to include both descriptive and causal-comparative design techniques, which establishes cause and effect interaction between variables.

Voluntary reasoned action could primarily be caused by employees' reaction to the lack of or insufficient training; whether it is on-the-job or external training (Barron, Burger, & Black, 2000). However, human capital investment, from the employer's perspective needs three conditions to meet the status of being an "asset" to the organization. The condition for human capital investment employee training is that it must be measurable, controlled by the firm, and linked to the long-term strategic plan. It would entice employees to stay with their employer if training was provided. This translates to the fact that training needs to be skill-based, and knowledge-based to support long-term organizational retention in an affect to reduce employee

turnover. As it was mentioned by (Boullillon, Doran, and Orazem, 1996) who explained that human capital investment is seen as an asset and is positively linked with long-term return on an organizations investment. Moreover, capital investment should be viewed in terms of education, skills-based training, and knowledge transfer – that keeps employees productive. Moreover, human capital investment is needed to develop employees' skills for the demand of a global environment (Becker, 1964; Mincer, 1974; Strober, 1990).

Organizations that invest in employees have the potential to become a competitive sticking point, as for now employees have options on the open labour market. It seems that since training does influence organizational turnover, the human capital theory should be revisited for further research. This theory needs further scrutiny as to reflect today's labor force. Reasoned action theory suggests that as long as employees have options in the labour market, turnover continues as a mechanism for employees to exercise their voluntary actions (Sahinidis & Bouris, 2007). On the other end of the continuum, there is trepidation in organizational commitment to capital investment because employees gain training only to leave to a competitor. Schultz (1961) seminal work explained how human capital investment is important to the wealth of nations. It is known to many economists, such as (Schultz, 1961) how employees receive investment from the employer or could use personal investment to further their knowledge will see a return overtime. Thus, from the organizations perspective, it is the yield that is monitored and measured and not so much the costs, although costs is a factor in human capital investment (Schultz, 1961).

REFERENCES

- Al-Emadi, M. A., S., Michael J. Marquardt, MJ 2007. "Relationship between Employees' Beliefs Regarding Training Benefits and Employees' Organizational Commitment in a Petroleum Company in the State of Qatar. *International Journal of Training and Development*, 11(1), 49-70.
- Ashar, M., Ghafoor, M., Munir, E., & Hafeez, S. (2013). The impact of perceptions of training on employee commitment and turnover intention: Evidence from Pakistan. *International Journal of Human Resource Studies*, 3(1), Pages-74.
- Barron, J. M., Berger, M. C., & Black, D. A. (1997). *On-the-job training*. Books from Upjohn Press.
- Becker, G. S. (1962). Investment in human capital: A theoretical analysis. *The Journal of Political Economy*, 9-49.
- Bowling, N. A. (2007). Is the job satisfaction–job performance relationship spurious? A meta-analytic examination. *Journal of Vocational Behavior*, 71(2), 167-185.
- Fey, C. F., Björkman, I., & Pavlovskaya, A. (2000). The effect of human resource management practices on firm performance in Russia. *International Journal of Human Resource Management*, 11(1), 1-18.
- Flamholtz, E. (1996). Effective organizational control: a framework, applications, and implications. *European Management Journal*, 14(6), 596-611.
- Gaertner, K. N., & Nollen, S. D. (1989). Career experiences, perceptions of employment practices, and psychological commitment to the organization. *Human Relations*, 42(11), 975-991.

- Haccoun, R. R., & Saks, A. M. (1998). Training in the 21st century: Some lessons from the last one. *Canadian Psychology/Psychologiecanadienne*, 39(1-2), 33.
- Hatch, N. W., & Dyer, J. H. (2004). Human capital and learning as a source of sustainable competitive advantage. *Strategic management journal*, 25(12), 1155-1178.
- Kerlinger Fred, N., & Lee Howard, B. (2000). *Foundations of behavioral research*. New York.
- Krueger, A., & Rouse, C. (1998). The effect of workplace education on earnings, turnover, and job performance. *Journal of labor economics*, 16(1), 61-94.
- Mincer, J. (1962). On-the-job training: Costs, returns, and some implications. *The Journal of Political Economy*, 50-79.
- Mincer, J. (1970). The distribution of labor incomes: a survey with special reference to the human capital approach. *Journal of Economic Literature*, 8(1), 1-26.
- Mincer, J. (1974). Schooling, Experience, and Earnings. *Human Behavior & Social Institutions* No. 2.
- Newman, A., Thanacoody, R., & Hui, W. (2011). The impact of employee perceptions of training on organizational commitment and turnover intentions: a study of multinationals in the Chinese service sector. *The International Journal of Human Resource Management*, 22(8), 1765-1787.
- Pallant, J. (2010). *SPSS survival manual: A step by step guide to data analysis using SPSS*. McGraw-Hill International.
- Rosenthal, R. (1995). Writing meta-analytic reviews. *Psychological bulletin*, 118(2), 183.
- Sahinidis, A. G., & Bouris, J. (2008). Employee perceived training effectiveness relationship to employee attitudes. *Journal of European Industrial Training*, 32(1), 63-76.
- Salas, E., & Cannon-Bowers, J. A. (2001). The science of training: A decade of progress. *Annual Review of Psychology*, 52(1), 471-499.
- Schultz, T. W. (1961). Investment in human capital. *The American economic review*, 1-17.
- Shekshnia, S. (1994), 'Managing people in Russia: Challenges for foreign investors', *European Management Journal*, 12: 298-305.
- Strober, M. H. (1990). Human capital theory: Implications for HR managers. *Industrial Relations: A Journal of Economy and Society*, 29(2), 214-239.
- Tharenou, P., Saks, A. M., & Moore, C. (2007). A review and critique of research on training and organizational-level outcomes. *Human Resource Management Review*, 17(3), 251-273.