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Human Capital Matters

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Prior research has argued that the financial return on training investments depends on whether the type of training conducted is firm-specific or general. Firm-specific training develops human capital that is unique to the firm, whereas general training develops human capital that provides value to any firm. Thus, firm-specific training is typically linked with providing competitive advantage for firms, whereas general training is not. Consequently, training departments have struggled to obtain buy-in for investments in general training, largely because the link between general training and return on investment is fuzzy.

Key Takeaways:

- Both firm-specific and general training may provide financial returns for firms
- Recognition for training investments improves firm performance
- Investments in R&D, physical capital, and advertising efforts enhance financial returns tied to training investments

Research that appeared in the Strategic Management Journal this year finds evidence that investment in general training does, in fact, provide financial returns. The authors found that firms who received a "Training Top 25" award from Training magazine received a mean cumulative abnormal return (CAR) of 1.67%, using a 15-day window. This finding suggests that investments in both general and firm-specific training enhances firm performance. Furthermore, they find that this effect is more impactful among firms that also invested in R&D, physical capital, and advertising efforts.

These results were based on an analysis of 222 firms that received a "Training Top 25" award by Training magazine during 2005-2008. The authors suggest that future research should investigate the training activities in more detail so as to determine the types of general activities that are most likely to generate positive financial returns.

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