INFORMATICS JOURNALS

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SHRI-LEKH (Multi-disciplinary Research Journal) Vol 1(1), June 2025, p. 41-44

Online ISSN: 3139-5694

DOI:10.18311/SHRI-LEKH/2025/v1i1/49909

Evaluating the Impact of Training Expenditures on Employee Skill Development in MSMEs: An Empirical Analysis

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Abstract

This study examines the critical role of training expenditures in enhancing employee skill development within Micro, Small, and Medium Enterprises (MSMEs). Grounded in Human Capital Theory and the Resource-Based View (RBV), the paper investigates how strategic investments in training contribute to both individual and organizational performance. Drawing from empirical data and global case studies, the analysis reveals a strong positive correlation between training initiatives and skill advancement. On-the-Job Training (OJT) emerges as a particularly effective and resource-efficient approach for MSMEs. The study also highlights the importance of Training Needs Assessment (TNA) in aligning training programs with organizational objectives. Additionally, it emphasizes the influence of organizational culture and leadership in amplifying the effectiveness of training interventions. The findings underscore that MSMEs can achieve significant productivity gains and competitive advantage by embedding structured, context-specific training strategies into their operational framework. The paper concludes with practical recommendations for MSMEs and policymakers to optimize training outcomes through continuous learning environments, technological integration, and targeted capacity-building efforts.

Keywords: MSMEs, , Employee Skill Development, Training Expenditures, On-The-Job Training, Human Capital Theory, Resource-Based View, Training Needs Assessment, Organizational Performance, Productivity, Leadership in Training

INTRODUCTION

The role of training expenditures in enhancing employee skill development within Micro, Small, and Medium Enterprises (MSMEs) has garnered significant attention in recent years. MSMEs are critical to economic growth, employment, and innovation, yet they often face challenges in competing with larger firms due to resource constraints. This section explores the empirical evidence on how training expenditures impact employee skill development in MSMEs, drawing from a comprehensive review of relevant research papers (see Table 1).

Theoretical Framework

The analysis is grounded in human capital theory, which posits that investments in employee training and development enhance individual and organizational performance (Atiase & Botchie, 2018; Dammert & Nansamba, 2019). The Resource-Based View (RBV) further supports this by emphasizing the role of training as a strategic resource that aligns employee skills with organizational objectives (Yertas, 2024). These theoretical underpinnings guide the evaluation of training effectiveness in MSMEs.

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Empirical Evidence on Training and Skill Development

1. Positive Correlation between Training and Skill Development

Numerous studies have established a positive correlation between training expenditures and employee skill development. For instance, research on micro and small enterprises in Rio Grande do Sul, Brazil, found that companies investing in professional training outperformed others in areas such as marketing, sales, and production planning (Colet & Liotto, 2016). Similarly, a study on Indian IT services firms revealed that training investments significantly enhanced human capital, leading to increased revenue per employee (Mehra *et al*., 2014).

2. Types of Training and Their Impact

The effectiveness of training programs often depends on their type and relevance. On-The-Job Training (OJT) has been identified as particularly effective for MSMEs, as it allows employees to acquire skills in real work settings (Israr, 2021). Conversely, Off-The-Job Training (Off-JT) has been shown to raise earnings by 21% for informal workers in Kenya and Tanzania, highlighting its value in diverse contexts (Torm, 2024).

3. The Role of Training Needs Assessment

Training Needs Assessment (TNA) is a critical factor in optimizing the impact of training expenditures. A study using data from 424 Tanzanian firms found that TNA moderates the relationship between training intensity and firm performance, with technical skills being the primary mediator (Robert & Mori, 2024). This underscores the importance of aligning training programs with specific skill gaps and organizational objectives.

4. The Impact of Training on Productivity and Financial Performance

Training not only enhances individual skills but also contributes to organizational productivity and financial performance. Research on Vietnamese industrial zones demonstrated that internal training programs significantly improved labor productivity, with direct and indirect effects mediated by training frequency and financial investment (Thu, 2024). Similarly, a study on Nigerian SMEs found that training, along with finance and infrastructure, was a key driver of organizational performance (Sani *et al*., 2015).

5. Regional and Contextual Variations

The impact of training expenditures can vary significantly across regions and contexts. For example, a study in northwest Mexico found that training had a strong positive effect on organizational performance, with each additional unit of training increasing performance by 0.453 (Vásquez-Torres *et al*., 2021). In contrast, research in Vietnam showed that training had a positive impact on household businesses but not on formal sector firms, highlighting the need for context-specific training strategies (Duy & Oanh, 2015).

6. The Role of Organizational Culture and Leadership

Organizational culture and leadership play a crucial role in maximizing the impact of training expenditures. A qualitative systematic literature review emphasized the importance of a supportive organizational culture and leadership engagement in amplifying the effectiveness of training programs (Yertas, 2024; Dammert & Nansamba, 2019). This aligns with findings from a study on Liberian small businesses, where training in business-management skills led to improved business outcomes, including higher revenue and customer retention.

Practical Implications for MSMEs

1. Align Training with Organizational Objectives

MSMEs should ensure that training programs are tailored to their strategic goals and employee needs. This involves conducting regular TNAs to identify skill gaps and designing programs that address these gaps effectively (Robert & Mori, 2024; Atiase & Botchie, 2018).

2. Invest in On-the-Job Training

Given the resource constraints of MSMEs, on-the-job training (OJT) is a cost-effective and highly impactful approach. OJT allows employees to acquire practical skills in real work settings, enhancing both individual and organizational performance (Israr, 2021).

3. Leverage Technology for Training Delivery

The digital transformation of industries has reduced the half-life of skills, making continuous training essential. MSMEs should adopt digital tools such as e-learning platforms and virtual simulations to enhance the scalability and relevance of their training programs (Yertas, 2024).

4. Foster a Supportive Organizational Culture

A supportive organizational culture and active leadership engagement are essential for maximizing the impact of training. MSMEs should create an environment that encourages continuous learning and aligns training initiatives with strategic business objectives (Yertas, 2024; Dammert & Nansamba, 2019).

CONCLUSION

The empirical evidence overwhelmingly supports the positive impact of training expenditures on employee skill development in MSMEs. By aligning training programs with organizational objectives, investing in on-the-job training, leveraging technology, and fostering a supportive organizational culture, MSMEs can optimize the returns on their training investments. Policymakers and practitioners should prioritize initiatives that enhance access to affordable and relevant training programs, ensuring that MSMEs can compete effectively in an increasingly competitive global economy.

Table 1. Summary of Key Findings

Region/Context	Key Findings	Citation
Rio Grande do Sul, Brazil	Companies investing in professional training outperformed others in marketing and sales.	(Colet & Liotto, 2016)
Indian IT Services Firms	Training investments significantly enhanced human capital and increased revenue per employee.	(Mehra et al., 2014)
Vietnam Industrial Zones	Internal training programs improved labor productivity through training frequency and investment.	(Thu, 2024)
Nigerian SMEs	Training, along with finance and infrastructure, drove organizational performance.	(Sani et al., 2015)
Northwest Mexico	Training increased organizational performance by 0.453 units per additional training investment.	(Vásquez-Torres et al., 2021)
Liberian Small Businesses	Training in business-management skills led to higher revenue and customer retention.	(Dammert & Nansamba, 2019)

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