HUMAN RESOURCE DEVELOPMENT - THE KEY INVESTMENT FOR A FIRM MARKETING SERVICES

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Abstract

An important element in marketing services is the human factor. Quality of services is subject to wide fluctuations depending on the ability, dedication and motivation of the employee providing these services. Human resources development as part of the investment in a business is discussed in this paper, including relevant calculations concerning the investment.

Introduction

Kotler (1984, p. 498) makes the point that services are highly variable. Service quality will depend on who provides the service and how that person feels mentally and physically while providing the service. Buyers of services are aware of this variability and are frequently apprehensive about buying services, particularly health, beauty and repair services.

Although particularly acute for providers of the services mentioned above, this problem exists with all services: lodging, transportation, entertainment, education, retailing, and so on.

A key element in services quality control is the employee providing the service. In manufacturing there is the possibility of correcting quality problems before the product reaches the customer. With services, the quality problem usually occurs at the point of contact with the customer and management may not even be aware of its existence.

This put a great deal of emphasis on the proper selection and training of employees. The purpose in presenting this paper is to discuss Human Resource Development (training and development) as an investment the service firm must make in the business. This type of analysis may be foreign to most marketing managers in the services industries.

Human Resource Development

American business and industry have long recognized the importance of training and development as a valuable employment activity. Billions of dollars are spent annually on programs to train people at all levels of the organization--from basic skills for entry-level employees to sophisticated management development for senior executives.

In light of this substantial investment in human resources development (HRD), a paradox exists in the manner in which HRD programs are viewed by management. In many organizations, training and development is viewed as a "stepchild" with little or no support from top management. This ludicrous view has a devastating effect on the well-being of the total organization. The socialization process is greatly hampered, career development programs are superficial, and premature employee turnover is accelerated.

The purpose in writing this paper is to show that it is in management's best interest if HRD be viewed as an investment. Human resources are the most important assets of any organization which contributes to long-run profits. Therefore, management should consider the future cash flows attributable to human resources as it does with other capital expenditures.

Human Resources Development and the Socialization Process

Just as a supervisor can make or break a newcomer's job experiences, a trainer can make or break a new trainee's learning experience. Part of the success of training depends on the trainer's ability to orient or "socialize" trainees to the learning environment (Sanders and Yanouzas, 1983, p. 14). Schein (1968, p 48) defines the socialization process as "the process by which new members learn the value system, the norms, and the required behavior patterns of the society, organization, or group which he is entering." Socialization encompasses the process or method the trainer adopts to inform trainees of expectations. Trainees must be made aware of what is expected of them, of the role of the trainer, and of the desired outcomes. A model HRD program is presented in Exhibit 1, which incorporates the socialization process.

Schein (1968, p. 51) suggests that one of the important functions of organizational socialization is to build commitment and loyalty to the organization. One way in which this is accomplished is to invest much time and effort in the new members and thereby build up expectations of being repaid by loyalty, hard work, and rapid learning. Another method is to get the new employee to make a series of small behavioral commitments which can only be justified by him through the acceptance and incorporation of company values.

Employee socialization is crucial to the well-being of any organization. Schein (1968, p. 52) points out three responses to socialization--(1) rebellion, which is rejection of all pivotal values and norms; (2) conformity, which is acceptance of all values and norms; and (3) creative individualism, where the employee accepts only pivotal values and norms, and rejects all others. The most desirable reaction is creative individualism, which contributes to innovation and creative thinking within the organization. If rebellion occurs, socialization has been ineffective, causing premature employee turnover, increased HRD costs, and turmoil within the organization.

Dealing With Premature Employee Turnover

Premature turnover of employee is costly. Minimal replacement costs exceed $3,000 for the lowest level employee (Seybolt, 1983, p. 107). For more valued employees, this cost can be much greater. Although most organizations are not concerned with turnover of all of their employees, they should be concerned when their valued employees leave prematurely.

EXHIBIT 1. MODEL HRD PROGRAM

Define and Specify
Job and Training Requirements

Develop Training Objectives

Develop and Test
Training Program

Select Trainees

Assess Socialization to Learning Needs:
A. Determine Pivotal and Peripheral Learning Values
B. Develop Socialization to Learning Strategy
C. Determine Learning Goals
D. Assess Extent to Which Prior Learning Must be Unfrozen
E. Initiate Learner to Learning Climate

Conduct Training

Evaluate Training

Modify Training

Re-Train if Necessary

Accountability of Trainee

Seybolt (1983, p. 108) presents a model for dealing with premature employee turnover which includes the following steps:
1. Categorize the organization's employees according to their organizational career stage or length of tenure and examine work-related attitudes of these different groups. Example:

Entry level:	Less than six months
Early career:	Six months - one year
Mid career:	One - three years
Advanced career:	Three - six years
Later career:	Over six years

2. Focus on the turnover intentions of these groups, both in terms of absolute level of these intentions and the relative levels of the intentions.
3. Dealing first with those groups with the highest levels of turnover intentions, examine the various dissatisfactions which are predictors of these levels of turnover.
4. Having signaled out the facets of dissatisfaction which best predict intentions, examine the factors in the work-role design which best predict those most important facets of work dissatisfaction.
5. Having identified those work-role-design factors which end to best predict the important dissatisfactions, try to design specific programs to deal with those factors which are most crucial.

For a firm marketing services, an additional step would be to identify those employees whose performance most directly affects the quality of employee-customer interaction.
Using this approach may help avoid a shotgun approach to employee turnover, trying to deal with all employees as one large mass. It focuses on specific factors in the work role design which are critical to employee turnover, factors which can be isolated and dealt with separately.

HRD - An Investment

Most organizations are sticklers for insisting on a fair return on investment. With billions of dollars being spent annually for human resource development, it is imperative that management adopt a system for measuring this investment. Following is a list of reasons for capitalizing HRD (Caplan and Landekich, 1974, p. 2):

1. Human resources provide benefits to an organization in a fashion similar to the manner in which financial and physical resources provide benefits.
2. The benefits associated with both conventional assets and human resources have value to the organization because these benefits contribute in some way to the accomplishment of the organization's goals.
3. The acquisition of human resources typically involves an economic cost, and the benefits associated with such resources can reasonably be expected to contribute to economic effectiveness. It follows, therefore, that

these benefits are essentially economic in nature and are subject to measurement in financial terms.
4. Since the usual accounting definition of an asset involves the right to receive economic benefits in the future, human resources can be classified as capital assets.
5. It is possible to identify and measure human resources costs and benefits within an organization.
6. Information with respect to human resource costs and benefits can be useful in the process of planning, controlling, evaluating, and predicting organizational performance.

Methods for Measuring HRD Investments

Measurement of an investment in HRD is somewhat elusive. Consequently, many organizations fail to measure the effectiveness of HRD. This problem further perpetuates itself in the organization's philosophy toward HRD, where this function is relegated to that of a "stepchild" within the organization.

However, there are methods available for quantifying the HRD investment. These include:

1. Earnings orientation (ROI) - A basic formula for rate of return is:

$$\text{ROI} = \frac{\text{dollar value of results}}{\text{program costs}}$$

When ROI's are calculated, they should be compared with a target ROI for such programs. Sometimes these targets are determined on the basis of company standards for capital expenditures. Others are based on what top management expects from an HRD program, or what level it would require to approve the implementation (Phillips, 1983, p. 17).
2. Human changes orientation - Monitor the change in turnover (reduced), improved performance and reduced grievances (Kaye, 1983, p. 137).
3. Time orientation - Time spent or wasted. Time spent in training new employees versus moving existing employees to new jobs, and time wasted due to turnover (Kaye, 1983, p. 137).

A somewhat more quantitative technique for measuring investments in human resources involves the use of human resource accounting. Human resource accounting (HRA) is the process of identifying, measuring, and communicating information about human resources to facilitate effective management within an organization (Brummet, Flamholtz and Pyle, 1969, p. 12). Two types of HRA models will be discussed: historical cost methods and adjusted present value methods.

Historical Cost Model

Historical cost models are structured to collect and record expenditures made on acquiring, allocating and developing people for the performance of tasks within the organization. The cost outlays are then amortized over appropriate periods. The most notable historical cost model is that of Brummet, Flamholtz, and Pyle (Stephenson and Franklin, 1981-82, p. 46). Another version of the historical cost model is the replacement value model which updates the historical model to reflect current value. The Whatchamacallit Corporation provides an example. Seven functional accounts are presently in use for accumulation of the costs that quality as investments, i.e., whose worth to the company exceeds the accounting period in which the costs are incurred. Both direct and indirect costs are included. The seven cost categories are as follows: (1) recruiting, (2) acquisition, (3) orientation, (4) training, (5) familiarization, (6) informal development, and (7) formal development (Caplan and Landekich, 1974, p. 91). (See Exhibit 2.)

Each operating manager receives quarterly reports on investments in each of the seven categories for employees in his area. Upon review of the report, the operating manager indicates any required write-offs due to expiration of the particular investments. Amortization of the costs recorded as investments in human resources is calculated in principle to reflect expirations as the expected benefits are realized over time. This means that the amortization schedule is determined in accordance with the expected useful life of the investment. If an employee leaves the firm, the balance in his account is written-off as a loss. Thus, at any given time, the sum of unamortized balances represents Whatchamacallit's "net investment in human resources"--that is, that portion of the total costs of hiring and training employees which have not yet been amortized as an expense or written-off as a loss.

The model attempts to answer the question posed by Rensis Likert and other researchers--How much would it cost to start from scratch and replace the human part of an organization? Likert and his associates estimate that it requires two to ten times the annual payroll of an organization to effect such a replacement (Likert, 1973, p. 10).

Adjusted Present Value Method

This method requires four steps in order to arrive at the value of the human assets (Caplan and Landekich, 1974, p. 80):
1. Estimate annual wages and salary payments for five years into the future.
2. Calculate the present value of the estimated wage and salary payments by applying a discount factor equal to the normal rate of return in the economy.
3. Calculate an "average efficiency ratio" based on the previous five year's performance. This ratio is found by dividing the actual

EXHIBIT 2

RESOURCE ACQUISITION AND DEVELOPMENTAL INFORMATION
Replacement Investment of Managerial Personnel at the Whatchamacallit Corporation
(January 1, 1984)

	A First-Line Supervisor	A Middle Manager	High-Level Manager	95 Manager	% of Total
Recruiting costs	$ 600	$ 2,000	$ 6,700	$154,100	(16%)
Acquisition costs	200	1,700	3,500	103,500	(10%)
Formal training and orientation	100	500	1,000	22,300	(2%)
On-the-job training	1,000	3,000	5,100	204,100	(21%)
Familiarization	1,900	6,800	10,200	399,000	(40%)
Development	200	1,400	2,000	103,600	(11%)
TOTAL	$4,000	$15,400	$28,500	$986,600	(100%)
Initial amoritization adjustment				458,300(-)	
"Book value" - January 1, 1968				$528,300	

Source: Edwin H. Caplan and Stephen Landekich, Human Resource Accounting: Past, Present, and Future (New York: National Association of Accountants, July 1974), p. 92.

earnings of the firm by normal earnings for each year and averaging the results.
4. Multiply the present value of the future wage and salary payments by the average efficiency ratio. The resulting figure represents the estimated value of the human resources.

Exhibit 3 illustrates this method. An efficiency ratio of 1 indicated that the firm's average rate of return over the five years is equal to the average normal rate of return for the economy. For purposes of this example, an efficiency ratio equal to 1.4 is assumed. The calculation of human asset value is as follows:

Multiply the present value of the figure wage (salary) payments by the efficiency ratio - $537,400 x 1.4 = $752,402. Thus, the computed value of the firm's human assets of $752,402.

Lev and Schwartz (1971, p. 103) presented the "classic" present value model. Using salaries as a surrogate for contribution, they calculated the value of the sum of the individual's projected future earnings. The future earnings were estimated by using census data for wage levels for specific skills in different age groups, races, locations, sex, etc. The summation was adjusted for the possibility of death before retirement by using a probability factor from insurance mortality tables.

EXHIBIT 3

COMPUTATION OF HUMAN RESOURCE VALUE USING THE ADJUSTED PRESENT VALUE PERIOD

Calculation of the Present Value of Future Wage and Salary Payments

Year	Estimated Wage and Salary Payments	Discount Factor at 6%	Present Value of Future Payments Discounted at 6%
1	$100,000	.943	$ 94,300
2	120,000	.890	106,800
3	135,000	.840	113,400
4	140,000	.792	110,880
5	150,000	.747	112,050
Total	$645,000		$537,430

Calculation of the "Average Efficiency Ratio" Based on Previous 5 Years' Performance

$$\text{Efficiency Ratio} = \frac{5\frac{R_{F_0}}{R_{E_0}} + 4\frac{R_{F_1}}{R_{E_1}} + 3\frac{R_{F_2}}{R_{E_2}} + 2\frac{R_{F_3}}{R_{E_3}} + \frac{R_{F_4}}{R_{E_4}}}{15}$$

R_{F_0} = The rate of accounting income on owned assets for the firm for the current year.
R_{E_0} = The average rate of accounting income on owned assets for all firms in the economy for the current year.
R_{F_4} = The rate of accounting income on owned assets for the firm for the fourth year previous.
R_{E_4} = The average rate of accounting income on owned assets for all firms in the economy for the fourth year previous.

Source: Edwin H. Caplan and Stephen Landekich, Human Resource Accounting: Past, Present, and Future (New York: National Association of Accountants, July 1974), p. 82.

BENEFITS OF HRD INVESTMENT

When HRD is viewed as an investment, the following benefits can be realized:

1. Socialization Process Improved - Management's concern for its investment in human resources assures that greater attention will be given to socializing the new employee, thereby making this process more effective.
2. Reduced Turnover of Recently Hired Employees as well as Established Employees - As the employee is socialized into the organization, frustrations frequently encountered by new employees are greatly reduced, improving the likelihood that the newly hired employee will remain in this new job for a longer period of time. Additionally, as management promotes

qualified employees from within, tenured employees will remain with the company for a greater time period.

3. Develop High Potential Employees More Quickly - With management's quest to reap maximum benefits from its investment in HRD, a concerted effort will be made to develop high-potential employees more quickly.

4. Increase the Overall Effectiveness of the Organization Through Greater Productivity - With a well-trained employee, mistakes are reduced, retraining is minimized, and the effectiveness of the organization is improved, which is particularly important in a firm marketing services.

5. Alter the Behavior and Attitudes of Top Management Toward HRD - Management places more importance on HRD, and views it as it does other investments.

6. Quality of Worklife Improved - When viewed as an investment, employees feel cared for. Relationships within the organization are built on confidence and trust, and company objectives are met through mutuality of purpose.

7. Reduced Recruitment and Placement Costs - Through reduced employee turnover, the need to recruit new employees is reduced, thereby reducing expenses associated with recruiting.

8. Maximize Use of Human Resources - When an employee is trained properly, fewer mistakes are made; and productivity is maximized. Additionally, a well-trained employee requires less direct supervision from superiors, which permits the superior to devote more attention to critical areas of concern within the organization.

Summary and Conclusions

The American Society for Training and Development supports viewing HRD as an investment. The study proves that human resources are the dominant factor accounting for growth in the national income; that since 1929, American workers have been learning to work smarter while increasing leisure time, wages and productivity; that with added training and job experience, young and female workers will have a positive impact on national income growth from the 1980's through the end of this century; that the human factor is the decisive component of productivity growth; and that because human resources are almost inexhaustible, there are no permanent limits to economic growth (Harris and Harris, 1983, p. 66).

When viewing HRD as an investment, the benefits provided to the organization far out-weigh any disadvantages. Techniques are available for quantifying the HRD investment. Therefore, management should adopt the attitude that HRD is indeed an investment. This is particularly true of management in the services industries where the employee personally provides the service and the quality of that service is determined at that specific point in time by the ability, dedication and motivation of the employee then and there.

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