Training Employees

• There are two types of training
  – General training
  – Specific Training
• Who pays for what?

An Example

• Helen Jones will work Now and Later.

An Example

• Helen Jones will work Now and Later.
  – Her VMP now is $30,000.

An Example

• Helen Jones will work Now and Later.
  – Her VMP now is $30,000.
  – General training now increases her VMP next period to $40,000. Her wage rate next period will be $40,000.

An Example

• Helen Jones, will work Now and Later.
• If the training costs $5,000, her firm will offer the choice
  – Pay for the general training herself
  – Accept a wage rate this period of $25,000
Part Time MBA Programs

• Employers often pay for some general training like a part time MBA program, (They will not pay for programs unlikely to have payoff for the worker’s VMP.)

Specific Training

• The training will increase Helen's value to her firm only.
  – In theory, the firm should offer to pay for all of it and not give her any extra pay, but she has no incentive then to get the training.

Specific Training

• The training will increase Helen’s value to her firm only.
  • The usual deal is that Helen Jones pays for part of the training and her firm pays for the rest.
    – If she invests, say $100, perhaps with her own time, she will expect compensation in the future with a discounted present value exceeding $100.
Training Employees

Turnover and Training

• Employee turnover is a factor.
• The firm must make a calculation of the likelihood of the worker remaining with the firm.

• The lower the employee turnover, the more attractive is investment in employees.

• Japanese firms with low turnover relative to their American counterparts invest more in their workers than do American Firms.
• Large American Firms with lower turnover than small firms invest more than small businesses.

End

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