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## **Informal Training in Chinese Small- and Medium-sized Enterprises**

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## **Abstract**

Entrepreneurship in small- and medium-sized enterprises are significant contributors to economic development. The purpose of this research is to examine the extent and motives for the use of informal training in Chinese SMEs. Using case studies, we found that informal training is widely used and generally accepted in Chinese SMEs. We also uncovered three separate categories on the motives for SMEs in adopting informal training based on the financial and time constraints they face, the perceived outcomes of training activities in terms of organisational performance, employee turnover, and the development of guanxi and positive team cohesion, as well as the attitudinal aspects of both managers and employees that influence their intentions in adopting a specific training approach. Our study contributes to the literature of HRM in Asia, and has important implications for the government and institutions in emerging countries to support entrepreneurship and SMEs.

**Keywords:** *informal training; small and medium-sized enterprises (SMEs); HRM; China*

## **Introduction**

Training and development have often been viewed as playing an important role in creating and sustaining a firm's competitive advantage (Ji et al., 2012; Noe and Tews, 2012). Organisations need to invest in their employees as training and development are increasingly recognised as having a positive influence on organisational learning practices and innovative performance (Sung and Choi, 2014). However, numerous studies on training and development for improvisation have been largely theoretical (Ratten and Hodge, 2016) and focused on larger-scaled organisations in the Western context. While such a strategic view of training and development is relevant when it comes to analysing the link between training and development activities and organisational performance, our understanding of training and development in entrepreneurship particularly in small- and medium-sized enterprises (SMEs) and/or in emerging economies is still limited (Ratten et al., 2007; Storey, 2004; Suseno et al., 2017).

The few studies that have focused on training and development in SMEs are mainly on formal training and the impact of such training (e.g., Kotey and Folker, 2007; Macpherson and Jayawarna, 2007; Pajo et al., 2010). Formal training is defined as “planned learning activities that are intended to help individuals acquire specific areas of knowledge, awareness and skills useful to perform their job well ... formal training occurs in a context specifically intended for learning, which mostly suggests that the learning occurs away from the actual work setting” (Manuti et al., 2015: 4). On the other hand, informal training is defined as training that can “take place wherever people have the need, motivation, and opportunity for learning” (Marsick and Watkins, 2001: 28), where this often happens serendipitously and spontaneously without a priori learning outcome objectives (Manuti et al., 2015).

Surprisingly, although there is growing interest in exploring informal training and development activities in SMEs (e.g., Coetzer and Perry, 2008; Coetzer and Redmond, 2011;

Macpherson and Jayawarna, 2007), studies that have empirically examined such aspects are once again predominantly undertaken in Western developed countries. This makes us question the universal beliefs in relation to informal training and development in SMEs in other countries, particularly in fast-growing developing countries such as China.

Further, Stone (2013: 362) clarified the distinction between the terms ‘training’ and ‘development’, with training being defined as activities that focus on “immediate improvement in job performance via the procurement of specific skills”. Development, on the other hand, are activities that aim to “prepare the employee for future job responsibilities through the acquisition of new experiences, knowledge, skills and attitudes” (Stone, 2013: 362). As the scope of the study is on the improvement of present job performance (Stone, 2013), our emphasis is on training. In particular, in order to address the gaps in the literature, we examine *informal* training in the context of SMEs in a fast-growing developing country. As noted by Almeida and Aterido (2010: 7), “the systematic empirical evidence based on micro data on on-the-job training in the developing world is still scant.” Thus, the research questions of this study are “what is the *extent of use* of informal training in SMEs in a developing country?”, and if informal training is used, “what would be the *rationale* related to the use of informal training activities in these SMEs?”

To address these research questions the study draws on case studies of SMEs in China. The East Asian and Pacific regions are reported to have the highest ratio of employment in SMEs to total employment, with Chinese SMEs accounting more than 80 percent of total employment in the region (Kushnir et al., 2010). There are approximately 1 billion SMEs in China (Li, 2012), and while it is impossible to gather sufficient data to get the precise picture of informal training and development in all Chinese SMEs, we believe this study to be one of the first exploratory studies to explore the extent of use of informal training in SMEs, and uncover the rationale or motives of Chinese SMEs in their engagement in informal training.

This highlights the need to further progress our understanding of informal training in SMEs in a non-Western country with different competitive and institutional environments, to provide more representative conclusions. In addition, by focusing on the informal aspects of learning, we aim to bridge the gap in literature and practice in relation to understanding informal training in SMEs, particularly in emerging countries.

### **The Context of Chinese SMEs**

China's introduction of the open-door policy in 1978 has transformed the operations of Chinese organisations where the wave of change has enabled them to progress from a traditional personnel management that characterises many Chinese state-owned enterprises, to the establishment of many diversified market-driven enterprises that have slowly, yet increasingly, adopted systematic HR policies. Another striking feature of China's economic and social change following the transformation is the growing number of young people participating in higher education. However, this larger educated younger generation has not provided the necessary talent pool sufficient for the country's rapid development. Furthermore, the issue of many Chinese preferring to have jobs in foreign-owned, substantially larger, companies in China (Cooke, 2012), also presents a brain drain problem for smaller organisations, particularly those located in the relatively less developed regions of China.

Consequently, the Chinese government has placed the issue of talent loss and talent management high on the agenda by introducing various strategies for management training, development and education in schools, and has also initiated nation-wide skill training programmes through the enterprises. Specifically, the government has introduced a number of new training initiatives since the early 2000s, such as the 'professionalisation of occupation' in 2003, the 'eleventh five-year plan' in 2004, the development of 'HR

professional qualification accreditation system' in 2005, and the development of 'industrial relations competence' program in 2006 (Cooke, 2012). Additionally, there is also the 'National Outline for Medium- and Long-term Talent Development (2010-2020)' program that aims to raise the pool of Chinese talent from 114 million to 180 million in 2020, an increase of nearly 60% within 10 years' period (Xu and Qiu, 2012).

Although small business has been highlighted as being critical for China's economic growth (Dana, 1999), insufficient attention has been given to the study of HRM in SMEs in China (Cunningham, 2010, 2011; Cunningham and Rowley, 2008, 2010; Warner, 2008). Indeed, an extensive review on all HRM research in SMEs in China done by Cunningham and Rowley (2010) indicates that the area of study focusing on HRM, in particular training and development, in Chinese SMEs is indeed limited. For example, from 1988-1997, there were no Chinese SME-related HR articles, and from 1998-2008, there were only 16 studies of such. Within these 16 articles (e.g., Cunningham and Rowley, 2008; Ding et al., 2004; Ding et al., 2006; Ng and Siu, 2004; Zheng et al., 2009), only 7 exclusively studied SMEs, whilst another 9 considered SMEs as part of their broader studies. Additionally, even though there are several studies focusing on Chinese SMEs, these studies are more focused on the entrepreneurial aspects of developing business (e.g., Dai and Liu, 2009). Again, very few are in fact focused on exploring the training and development in those companies, let alone, the informal aspect of learning in these firms. Thus, taking a new approach, this study draws on the literature of informal training, in Chinese SMEs.

The definition of SMEs in the literature varies. There are some authors, for example Zheng et al. (2009) who have noted that, SMEs are companies that employ fewer than 100 employees. In this study, we adopt the definition provided by Sullivan-Taylor and Branicki (2011) as well as the European Commission (2009) that SMEs are those companies with less

than 250 employees. This is in consideration that SMEs in China are comparatively larger than in most Western countries given the country's population.

The SME sector in China is important in sustaining China's economic growth. Around 99.6% of all Chinese enterprises are considered as SMEs (Cunningham, 2010; Li, 2012), contributing to about 60% of the country's GDP, 50% of tax revenues and 68% percent of the country's exports, according to the China Association of Small and Medium Commercial Enterprises (Kumar, 2013). The Chinese government has also set policies to help SMEs including easy access to finance and support for innovation and training (Xinhua News, 2017, 22 June).

However, this growth trend is not without risks. Although this sector is crucial to China's growth, many Chinese SME business owners are fearful of the forecasted slower economic growth and the impact of that on their business. They also face an unprecedented struggle over the high cost of finance since they only use about 20% of China's financial resources (Perkowski, 2012). This prompts further studies examining the aspect of training and learning in Chinese SMEs to understand practices that could potentially sustain the country's economic growth.

### **Informal training in Chinese SMEs**

Entrepreneurship and SMEs are important for economic success as it facilitates job creation, develops skills and capabilities, together with creating wealth (Audretsch and Acs, 2003). While there are some studies that have examined entrepreneurship education (e.g., Dana, 2010; Gurău et al., 2012; Shinato et al., 2013), the focus of this paper is not on examining the entrepreneurial knowledge transfer or education *per se* but on the aspect of informal training that is critical in entrepreneurship and development of SMEs. Indeed, networks that provide mentoring and on-the-job training are important, particularly in Asia (Dana, 2001, 2010).

Contrary to the more formalised training, informal training is typically more spontaneous and unstructured (Manuti et al., 2015). It may occur anytime outside formal lessons or classes, either during chats or even through browsing social media (Carliner, 2013). Cross (2007) noted that employees seem to learn much more in the ‘coffee room’ as compared to learning in the classroom. Informal training may involve learning from colleagues, learning by doing, and learning from making mistakes. Informal training is thus very much driven by the requirements and needs of the job, in the hope that the activity or task associated with the job could be resolved quickly and efficiently through learning by doing (Marsick, 2009).

Informal training has been shown to bring numerous benefits for organisations. For example, Liu and Batt (2007) noted these in terms of: (1) the provision of skilled labour to satisfy demand, particularly for those companies that compete in a highly competitive and turbulent environment, (2) the provision of firm-specific knowledge and skills that are difficult to obtain outside the organisation, (3) the provision of context-specific learning to address an organisation’s needs, (4) the saving of cost due to the saving of time and additional savings on external course materials and instructors, and finally (5) the flexibility of informal training as compared to formal training. Similarly, Lukosch and de Vries (2009: 39) commented that “research has shown that there is a gap between the knowledge needed at the workplace and the knowledge and skills deriving from formal learning”. Therefore, it can be argued that formal learning is insufficient for organisations to react quickly to changes in the environment (Lukosch and de Vries, 2009).

The literature on informal training in SMEs has also highlighted several motives for its use, but these are not specific to the Chinese context (e.g., Storey, 2004). An early article by Storey and Westhead (1997) highlighted reasons of ‘market forces’ and ‘ignorance’ for the low take-up rate of formal training in SMEs where those for the former include factors such



as the lack of time and financial resources to engage in formal training, while reasons for the latter include managers' ignorance in recognising the positive outcomes of formal training on organisational performance. However, the study is not empirical and, as noted by Cunningham (2010), we need to question the universal beliefs of HRM that are mostly conducted in Western developed countries. Chinese SMEs, as noted earlier, struggle to obtain financial assistance from the state; hence, it is perfectly rational for Chinese SMEs to be more inclined to engage in informal training rather than adopting extensive formal training programs. However, do Chinese SMEs really take up informal training? If so, what are their reasons? Are they comparable to the views of Western-based SMEs as stipulated in the literature?

Our intention here is to explore the extent of use of informal learning, the rationale for the use of informal training in Chinese SMEs, and to further investigate as to whether the motives are in line with the general findings as highlighted in the literature. The data gathered in this study provide the basis of examination of informal training in the context of Chinese SMEs.

## **Method**

The use of the case study method is relevant and driven by our research in seeking to answer the 'how' and 'why' questions in exploring the rationale of informal training in SMEs. Specifically, this paper adopts the holistic-inductive qualitative approach based on open-ended interviews designed to yield in-depth and oral testimonies (Yin, 2017). This is in contrast to traditional, hypothetico-deductive quantitative research of the positivist paradigm (Dana and Dana, 2005; Dana and Dumez, 2015) that relies on inquiry where the research setting is naturally occurring with no manipulation by the researcher (Patton, 1982). Moreover, quantitative methods focus on the 'typical' entrepreneur by means of a large

sample and assumed parametric distribution, whereas qualitative research need not have a large sample of entrepreneurs resulting in descriptive richness and the facility to encompass both the typical and atypical entrepreneur (Dana and Dana, 2005).

Furthermore, this type of non-quantitative ethnographic strategy requires a flexible design that evolves given that pre-determined hypotheses should not be imposed with efforts to comprehend occurrences based upon the field research; hence, fresh questions should continually be framed based on each respondent's personal experiences and willingness to answer. Thus, researchers attain an understanding of the environment for entrepreneurship as well as the entrepreneur as an individual and thereby understand the entrepreneur's interaction with their environment (Dana and Dana, 2005).

Also, according to Yin (2017), the case study method is chosen if we would like to understand the contextual conditions as being relevant to the phenomenon under study. In addition, as noted by Yin (2017), case study research is implemented to obtain an in-depth understanding of a case in a real world context. Thus, 'detaching' a phenomenon from the real-world context as done in quantitative studies could potentially limit our understanding; indeed, as stated by Dana and Dana (2005: 86) in light of "its evolving research design and flexibility, qualitative research seems especially appropriate for exploratory studies in entrepreneurship research".

Hence, this approach was selected based upon the literature regarding the application of an inductive approach when utilising non-quantitative data where it possesses the advantages of learning directly from the research subject and so reducing measurement errors common in survey studies that frequently make assumptions, resulting in a deeper holistic understanding (Dana and Dana, 2005). In particular, this perspective lessens the possibility of Type III error (i.e. asking the wrong question) and Type IV error (i.e. solving the wrong problem).

Consequently, this research seeks to position itself with other studies of entrepreneurship research undertaken where understanding to the cultural setting is important (Dana, 2002).

More recently, however, the literature regarding qualitative research has begun to focus upon the notion of ‘comprehensive research’ whereby it is advised to define the “unit of analysis by specifying in an independent manner, the theories in terms of social mechanisms and the material in terms of coding, expanding the exploration of plausible rival hypotheses, process tracing and counterfactual reasoning” (Dana and Dumez, 2015: 154). Specifically, such comprehensive research needs to maintain the qualitative objective of understanding of the actors, often from a management situation (Girin, 2011) whereby it is only useful if it can show and analyse intentions, discourse, actions and interactions of actors in relation with objects and artefacts (Denzin, 1989) from their point of view and from that of the researcher (Dana and Dumez, 2015).

Consequently, we used a multiple case study approach by conducting in-depth examinations of two Chinese manufacturing SMEs. Our reason to focus on the manufacturing industry is that this sector has contributed greatly to the rapid development of the Chinese economy (Xinhua News, 2017, 9 April). We chose two companies that are different in terms of their businesses, and we also chose different locations of the companies. Case 1 (Company1) was founded in 1990 and is a family-owned firm producing cotton canvas for the rubber industry, and is located in a village. Case two (Company2) was established in 2002 and is a joint-venture firm producing cranes and electrical blocks, and is located in a city.

A multiple case-study approach possesses the advantage of not only allowing case comparisons, but also emerging themes across the case-studies to be drawn together. The different profiles of the two SMEs allow us to make comparisons between the two cases (family-owned vs. joint venture, village-located vs. city-located, owner-manager as the decision maker vs. ‘professional’ manager as the decision maker, an ‘informal’ structure of

an organisation with no HR department vs. a more ‘formal’ structure of an organisation with a HR department), and also permits us to draw out any similarities between the two cases. A multiple case-study approach thus offers more compelling evidence than a single case-study.

We conducted face-to-face individual interviews, 7 with each company, using a semi-structured format. However, we did not stop at 1 interview per respondent. There were several interviewees who were interviewed a number of times to seek further clarifications. Although we had 7 interviewees from each company, we had in total 28 interviews due to the multiple interviews conducted (12 interviews in Company1 and 16 in Company2). The average time for each interview was around 50 minutes. All interviews were audio-recorded to enable the data to be accurately transcribed and fully analysed.

Our sampling choice was purposive in that we considered the profile of the two SME respondents based on their hierarchy in the organisation, their roles and their demographic profiles. In this way, we were able to explore the topic of interest from across a range of job roles/hierarchical levels in each company – from the owner-manager, to supervisors, and to the employees. In Company1, there were 2 males and 5 females as our interviewees with the male respondents occupying higher positions in the company. In Company2, only 1 female was willing to be a part of the study, but she held a rather high position in the company, as a director in the company. We also ensured that the respondents in such a purposive sampling is also varied not only in terms of their hierarchy, roles and demographic profiles, but also the fact that some of the respondents have had informal training while some others have not received any informal training before. In addition, we ensured that the interviewees were comparable in the two cases in that they relatively occupied similar job positions. In our case, we were able to interview 2 managers in Company1 (one was the owner-manager), 2 supervisors, and 3 employees. Similarly, we interviewed 2 managers in Company2 (one was the HR director), 2 supervisors, and 3 employees.

In Company1, the owner is the main leader, taking sole responsibility for all business decisions as there is no HR department. It currently employs 140 staff, 89% of whom are engaged in producing cotton canvas where the majority are female. The remainder of the production employees are involved in the packaging and repairing divisions, while there are others that have duties in the staff canteen and driving trucks. The majority of employees have a low level of education with approximately 35% possessing no formal education, 45% only attained below primary school level and 20% only attained below high school level. The average employee turnover rate in the company is 24% since 2005. However, two of the supervisors who were interviewed as part of this study have worked in Company1 for more than 15 years.

In Company2, the manager who was interviewed was the largest shareholder among the four managers in the firm, with strong authority over all operational decisions. There is also an HR department comprising of a Human Resources director and two staff with specific roles to handle employee feedback and complaints. Company2 has nearly twice the number of employees as Company1 with the majority of employees (212 out of 245) are male and working on the production line, while the others are mainly involved in the marketing and technology departments. In Company2, the employees' education level is generally low with 20% with no formal education and 50% having education below the middle school levels. Nonetheless, four of the six staff members from the technology department are highly qualified, while another two have received formal training funded by Company2. In terms of their salary, production workers are paid both at piece rate and a base salary. Company2 has a marginally lower employee turnover rate of 20% on average since 2005. Two of the supervisors who were interviewed have worked in the company for more than 8 years.

Our interviews were supplemented by several company documents and reports provided by the companies. We went through the financial documents, employee records, and

numerous other documents about the company operations and HR records to ensure the construct validity in this case study research. Apart from using multiple sources of evidence, we also checked the interviews and case study report with key informants and also conducted follow-up interviews to once again ensure construct validity. In terms of ensuring the internal validity, we analysed the findings within the case and then did cross-case pattern matching. We assured the internal coherence of the findings by systematically analysing that the findings and concepts are categorised in themes. In terms of ensuring the external validity of the study, we not only defined the scope and boundaries of the research in terms of SMEs in China but we also compared evidence with extant literature (Riege, 2003).

Finally, in terms of assuring the reliability of our case study design, we developed the case study protocol and recorded observations and actions as truthful as possible. The interviews were audio-recorded to enable the data to be accurately transcribed and thoroughly analysed, together with ensuring its reliability. The interviews were conducted in Mandarin, as the interviewees are all Chinese nationals with the interview transcripts then translated from Chinese into English. In order to ensure the reliability of the study, each of the Chinese researchers independently translated the interview transcripts and cross-checked them to ensure their accuracy. We also paid close attention to the contextual conditions by thoroughly understanding the organisations where we collected the data from. We obtained information from the owner/leader of the organisation, and gained detailed knowledge regarding the structure, the employees and other relevant information about the company.

Our interview questions were open and probing as these were more likely to obtain more detailed and richer data. The questions included various aspects of training activities, the preferences for training activities and why such preferences, the effectiveness of informal training on organisational performance, the effects of employee turnover on training provision, and the drawbacks of informal training. Thematic analysis was used to summarise

the data and identify the themes (Corbin and Strauss, 2007). We first undertook an open coding to identify initial concepts in the data and group them into categories. This was followed by axial coding, wherein relationships between and among these categories were analysed, and then we grouped these categories into higher-order themes. Consequently, we ended up with three major higher-order themes of constraints, perceived outcomes, and attitudinal effects of informal training.

With 14 respondents and a total of 28 total interviews, we analysed the interviews until it reached theoretical saturation. We did the interviews and analysis almost in tandem to see when new information produces little or no change in the themes. We reached theoretical saturation by the time we analysed 14 interviews (from a total of 28 interviews), similar to Guest et al.'s (2006) study in that data saturation is reached by the time they analysed 12 interviews. As further indicated by Marshall et al. (2013: 20), case studies “should generally contain 15 to 30 interviews ... [and] we think it would be rare that additional interviews would be a wise time investment.” Marshall et al. (2013: 20) also noted that “too many interviews can be counterproductive” and in our case, additional interviews did not provide substantial new insight.

## **Findings**

Although the two companies differ in terms of their business types (family owned vs. joint-venture), size (one was comparatively larger than the other), and locations (village-based vs. city-based), our interviews and examination of the company documents revealed that both SMEs placed more effort on informal training, and offered limited formal training opportunities unless absolutely necessary. When formal training is required, these are often provided by external trainers, but on an irregular basis. At the time the interviews were conducted, Company1 had arranged for formal training by sending their employees to other

large firms for skills training (something that only happened on four occasions throughout the lifespan of the company), while Company2 had sent four of their employees on external courses at a technical school in recent years.

The provision of informal training in both companies, on the other hand, was more frequent involving tasks or issues on hand, in order for these to be solved quickly and more effectively. Employees learn from each other when solving problems so that they can quickly improve on their skills. They also do not need to wait until they are sent to formal training to learn something new or upgrade their skills. Both organisations adopted a variety of informal training methods including a one-month job apprenticeship of job induction, on-the-job instruction, job rotation, learning from colleagues during working hours, as well as coaching. For example, the owner of Company1 was able to encourage many informal training opportunities and create a culture where the more experienced employees were willing to impart their knowledge to the less experienced:

*“We often do on-the-job training, every novice follows one experienced employee to study their skills... When really necessary, such as buying new machines...we hired external trainers to provide structured training within the company.”*

The same view was apparent in Company2 with informal training happening all the time, as explained by a manager in the company:

*“Only on special occasions, we send one or two to study in a technical school ... We always carry out various informal learning during working time.”*

In essence, both companies valued both formal and informal training although the firm owner in Company1 and the manager with the decision-making power in Company2 noted that they emphasised the use of informal training. Both companies also created such a culture whereby everyone in the company was willing to help each other. Employees further



acknowledged that their superiors or more knowledgeable colleagues were always available for help.

We then probed the interviewees on their perceptions of both formal and informal training. Key accounts of interviewees' responses were grouped into three separate themes: constraints, perceived outcomes, and attitudinal. The constraints are regarding financial cost and time constraints. The perceived outcomes are related to the performance of the organisation, the turnover of employees in the company, as well as the perceived development of *guanxi* and positive team cohesion between employees. Finally, the attitudinal aspects refer to both the managers' and the employees' attitudes to training. The following section details our findings.

#### ***Constraint: Financial cost***

The strategic view of training and development may not necessarily be applicable to SMEs, given the fact that many of these firms are often concerned about their short-term bottom-line finances instead of strategically thinking too far ahead for their long-term viability. Thassanabanjong et al. (2009: 680), for instance, highlight that "a training budget is a significant matter for SMEs". In much the same way, Chinese SMEs also face insurmountable financial constraints given their inferior competitive position to state-owned firms in gaining access to financial resources and tax concessions. Chinese SMEs primarily rely on financial help from their families and to a lesser extent on financial institutions due to the various obstacles in accessing financial support such as bank loans, bonds and stocks (Hussain et al., 2006). In larger organisations, the often high fixed costs of formal training could be spread across a larger number of staff due to economies of scale, making the development and implementation of formal training programs rather cost-effective (Kok et al., 2003). In the case of SMEs, however, such economies of scale are not achievable. Given the

fact that SMEs are unable to spread the high cost of formal training, they tend to be more hesitant in adopting the more costly formal training programs.

All of the interviewees acknowledged that financial constraint is a determining factor in deciding the training provision in the company. For example, one of the managers in Company2 noted that:

*“Cost is an important matter for us ... Financial cost is an essential factor influencing informal training provision.”*

Other interviewees also recognised that financial cost is influential in deciding on the use of informal training, with comments such as “less cost”, “cheap” and “save money”. The remark from Company2’s HR director highlights the financial saving when it comes to the provision of informal training:

*“On-the-job training offered by internal employees requires almost no costs, except for paying half salary to novices when they work and learn skills in the first month.”*

The owner of Company1 reinforced the financial constraint that the company faced and preferred to not spend ‘unnecessary’ amounts of money on external formal training that may not be useful. He commented that it was more important for him to pay his workers their wages rather than spending a fortune on formal training that the workers may not even fully appreciate. He provided the following comments:

*“On-the-job instruction training is very cheap. It doesn’t need much money, only some extra salary, 200 yuan, for every internal trainer to motivate them to become greatly involved in providing training and to compensate them ... My aim is to reduce costs, but training is a cost.”*

Our interviewees further emphasised that formal training by external sources could incur tremendous financial expenses. The owner/managers in both companies commented that their SMEs have weak financial positions, with both firms relying more on their internal

funds rather than seeking external funding. Their net profit ratios were around 10.3% for Company1, and 8.9% for Company2 in recent years, indicating relatively low profits and limited financial resources for both firms. The owner/managers in both SMEs also noted that both the government and the banks tend to focus on large corporations, leaving them in financial distress. Both the financial costs of formal training and the limited financial resources of these SMEs consequently drive them to invest in the less costly informal training activities.

***Constraint: Time factor***

Formal training programs are often inflexible, requiring employees to be away from work for a period of time (Birdthistle, 2006). Often, SMEs with their smaller workforce and the unpredictable nature of the demand patterns for their products and services, perceive formal training programs as an unaffordable luxury. Formal training programs not only incur costly course fees (Kotey and Slade, 2005), but also entail opportunity cost for requiring employees to spend their working time off-the-job to receive such training (Coetzer and Perry, 2008). Formal training programs are also viewed as disruptive to the production or service cycle, leading to potential loss of outputs (Macdonald et al., 2007).

In contrast, informal training is flexible and often provided during working hours, with little or no disruption to the work process. It thus helps workers to assimilate their skills and experience during the regular working day (Klink and Streumer, 2002). While Holliday (1995) disputed that on-the-job training requires existing staff to also take time out of the production cycle to impart information and skills to other staff members, other researchers argue that informal training is still cost effective. Johnson and Devins (2008) suggested that such time is not even worth mentioning in comparison to formal training which requires employees to leave the workplace for a longer period of time. As such, the use of informal training

programs moderates the issue of time constraint faced by SMEs (Birdthistle, 2006; Kitching, 2007).

In our study, we found that the phrase ‘no time’ is used repeatedly by all interviewees due to the small workforce and heavy workload in both firms. One supervisor from Company2 remarked that “*production lines are very busy; we cannot find time for such off-site training*”. Company1’s supervisor agreed that “*our production workshop often lacks employees; before, one employee controlled two machines - now they control four*”.

Additionally, both firms explained that formal training have numerous opportunity costs in terms of disrupting the production outputs and triggering indirect losses to the company due to the unpredictable and variable demands for their products. As a manager at Company1 argued:

*“External off-site training caused employees to leave the workplace for a long time... We have shortage of employees, so every employee is very important. Their absence for training purposes seriously disrupts the production and produces less output. This causes huge losses. Employees’ time is a cost ... Due to the shortage of employees, it is difficult to allow employees to be absent for training.”*

A manager of Company2 similarly concurred to the above opinion:

*“The firm has a small number of employees; if one worker is absent for training purposes, this can greatly influence our production ... Employees’ time is very important to the firm - losing time is losing money. Our employees have heavy workloads and we often have unpredictable and urgent demand for cranes ... There is no time for off-site training.”*

Furthermore, all interviewees expressed the view that informal training can save time as it is often conducted during working time. Typical comments on informal training from respondents in both companies included: “*happens on the job, so it cannot waste time*”,

*“taken in working hours”, “occupies little time”, “following a senior employee at work for 15 days, I can do well”, “save time” and “it doesn’t influence our work”*. Our analysis of this theme highlights that employees in SMEs are generally time-poor with pressures and demands placed on them. All of the interviewees in our study, from managers to employees, are indeed more accepting of informal training that can save time and does not influence their production and work.

### ***Perceived outcome: Organisational performance***

When examining organisational performance, ten out of fourteen interviewees referred to the ineffectiveness of formal training, criticising it as being generic, theoretical and not very useful for the job. Typical comments of respondents from both companies were: *“very complicated content ... very intense and heavy-going”, “not relevant to job skill”, “too much information ... difficult to understand”, “no useful information and generic”, “didn’t really learn anything useful”, “basic and theoretical skills and knowledge”, “I still don’t know how to use the tools” and “no opportunity for practice”*. Other respondents further commented that there was little benefit received from formal training programmes to improve organisational performance. Several other comments of managers from both companies highlighted the perception of interviewees on formal training, ranging from the fact that *“external trainers do not know about my firm ... they cannot improve employees’ skills and performance in a short timeframe”*, to the fact that *“external courses lack practical implications and do not improve skills quickly” and “such formal learning is not effective in increasing employees’ output in the short term.”*

In contrast, the perceived outcomes of informal training, as expressed by all interviewees, was that it helped in resolving issues in daily job tasks. Hence, informal training is viewed as improving job-specific skills and quickly increases employees’ job

performance, thereby enhancing organisational performance and creating business returns in relatively shorter period of time. The owner of Company1 credited informal training as follows:

*“Internal trainers have much working experience and many skills; they understand the firm’s operation and know what I need ... Quick instructions can give employees particular skills and the quality of the canvas can be quickly improved ... This is a very cost-effective way.”*

The manager of Company2 provided the same recognition:

*“By following an experienced employee to study their skills during working time, new employees can grasp the skills they will need in their jobs quickly ... so they can produce more products quickly and increase productivity as a whole... Such informal learning is more focused and targeted... and it can solve pressing issues quickly.”*

Employees from both companies further supported the views that informal on-the-job training provided quick and effective solutions to problems and can have positive impacts on the performance of the firm. The improved short-term job performance is also evident through comparing some employees’ performances before and after on-the-job training, based on various reports/documentation from both companies. For example, after being involved in apprenticeships in the first month, the production level of many employees doubled or even tripled. Some of the following comments highlight this:

*“When I first came here, I produced only 500 metres of canvas in the first month; after a one-month job apprenticeship, I mastered the machines and produced around 1500 metres in the following month” (Supervisor of Company1).*

*“Asking and studying senior employees is really effective for solving various production problems” (Employee of Company2).*

Our findings indicate that informal training appears to be more relevant to the specific needs of the business and is a preferred method of SMEs to obtain quickly more tangible benefits such as improving their employees' performance and organisational performance.

### ***Perceived Outcome: Employee turnover***

There is evidence that SMEs in general face the issue of a high degree of employee turnover, which consequently leads to problematic consequences; for example, the issue of high employee turnover might discourage SMEs to invest in the more costly formal training program. Our review of both companies' documents suggests that there has been a relatively high rate of employee turnover over a long period of time for both firms. This unstable workforce is also evident in the interviews as illustrated in the following comments of respondents from both companies: *"every year, there are around 30 people leaving"*, *"such employees only worked one month and then left without informing us"*, *"every month, there are two or three employees leaving"*, *"I have faced high employee turnover for a long time"* and *"high employee turnover drove me crazy"*.

However, a closer analysis revealed that the causes were different for each SME. At Company1, the production line is mostly staffed by women who left for reasons such as *'marriage'*, *'giving birth'*, *'taking caring of family'* and *'family disapproval'* that was detailed in the following comments by respondents from Company1:

*"Women don't have freedom, their families always need them, and sometimes the family is against them working"* (A supervisor).

*"Most of them leave to marry and look after their family"* (An employee).

*"Employees always leave, some to marry, some to look after their children and parents, some because they are having babies ... I just hope they can come back"* (The owner).

A number of interviewees from Company1 also highlighted that some people left due to the poor working conditions and the heavy workload. The manager noted that “*some new employees complained about the heavy work; they could not do it ... so they left*” and one supervisor also reported that, “*some employees leave because they cannot bear the noise from the machines and it is very hot in the workshop.*” Employees from Company1 further commented that “*Here, we need men; we need men’s energy. Men can bear the great noise ... Some novices [females] cannot bear it and give up*”.

In contrast, the operations on the production line in Company2 were all operated by men. The high turnover in the company was primarily driven by the fact that many of these men left for better salaries and career advancement elsewhere. Typical comments of respondents from Company2 are illustrated below:

*“Many employees went to other large crane corporations for better prospects and salaries” (The HR director).*

*“Many staff complain about the low salary ... before long, they will leave” (A supervisor).*

Regardless of the reasons of the high employee turnover in these companies, this issue has certainly generated significant losses to the firms. It has also become one of the underpinning reasons for the informal training provision in both firms. As the owner of Company1 explained:

*“Due to uncertainty about employee retention and high employee turnover, I cannot provide costly formal training. If I did, I might not get the benefits of the investment in them and would incur losses if they left. However, on-the-job training is low-cost and effective, so I like providing it. This can avoid huge losses from formal training.”*

Similarly, the following comments from a top-level manager in Company2 illustrate the fact that, although the firm was willing to invest in training their employees, they perceived



that providing informal training appeared to be the only option due to the real fear of poaching and the potential loss of skilled employees after formal training:

*“Due to high employee turnover, I prefer to provide informal training. Even if they leave, the losses are much smaller than formal training ... If I were to fund some employees to attend formal courses, they would go to, or be poached by, other large companies when they gain qualifications and high skills ... So to avoid this loss from poaching and loss of talent, I do not really support formal learning” (A manager).*

Our data thus revealed that both firms experience a certain degree of turbulence in their workforce. The owner/managers and supervisors noted that turnover is high in both companies resulting from personal reasons or poaching of their skilled employees. Hence, to minimise losses from these uncertainties, both SMEs tend to favour informal training for their employees.

#### ***Perceived Outcome: Developing guanxi and positive team cohesion***

Our interviewees reported informal training enabling the socialisation processes of employees and creating a more collaborative organisational culture. All of the interviewees indicated that informal training was critical in ensuring that they would be able to do their job well because they knew that they were able to seek help when it was needed. Nobody in the two companies were isolated from each other whereby the culture in the companies were cohesive and supportive. Given that China is a culture that is characterised by high power distance (Hofstede, 2001), where there is a distinct hierarchical position and power between superiors and subordinates, this was an interesting insight. Informal training seems to be utilised in both companies in order to create positive socialisation processes and collegial organisational culture.

All our interviewees commented that colleagues in their companies were always willing to help when needed. Thus, they felt the need to be grateful for the job and the person(s) who have helped them in the workplace. We understood this as a result of *Guanxi* as a motivating factor in ensuring that everyone in the company helps each other out. Personal connection or *guanxi*, defined as “the exchange of gifts, favours and banquets; the cultivation of personal relationships and networks of mutual dependence; and the manufacturing of obligation and indebtedness” (Chen, 1995 cited in Xiao and Tsui, 2007: 2-4), has been noted as playing an important role in doing business in China (Xiao and Tsui, 2007; Dana, 2010). This was certainly is the case in the two companies where managers built close relationships with their employees who were also not hesitant in helping others out. The employees also went their way to ensure that they did a good job knowing that their managers/supervisors made efforts to guide them in their work, as highlighted in the following comment:

*“I did not know anything when I started working in this firm. My supervisor taught me from the really basic skills, and then he told me all the skills and knowledge to do my job. I did my job very well. I feel he really trusts me because he gave all his knowledge to me so that I can improve my skills. I like working with my supervisor. I feel like I am an insider. He looks like an elderly brother .... When he gave me tasks, I will try to work and complete this task that he assigned, as I admired and trusted him. Otherwise, I will feel so sorry and bad.”*

Managers of both companies commented that informal training indeed enhanced the interactions between employees, and further enhances a sense of togetherness or group identity as problems were resolved quickly with employees helping one another. The respondents at the higher levels of hierarchies (managers and supervisors) gave us the impressions that they valued informal training as it allowed their employees to be a part of

the team of the company. The following comments highlight the perceived outcome of informal training in creating harmonious relationships in the company:

*“The on-the-job learning and training can reduce conflicts between employees, because they need to learn from one. They have to respect each other. This on-the-job learning provides opportunities to communicate with each other, and understand each other” (Supervisor of Company1).*

*“On-the-job training and leaning is a process for employees to communicate and interact. Through this process, they can know their colleagues better and build good and strong relationships with them ... The informal learning and meeting between the different teams are important to promote the harmonious relationships between them.” (Manager of Company2).*

We then checked the views of those at the lower level of hierarchies – the employees themselves, and interestingly all of them perceived that informal training also built positive team spirit or cohesion. These employees are guided by the more experienced staff members; they feel they can communicate freely with their managers/supervisors and other colleagues; they are able to share their problems and issues; and they feel they have built the sense of trust and understanding of one another. All of the respondents in both companies cited this intangible perceived benefit of informal training in terms of the development of social relationship in creating *guanxi* and positive team cohesion. The views below represent the employees’ views in both companies:

*“The on-the-job training and learning can really promote the relationships between employees ... Four of us become a team ... We look like a small family. Now, we always communicate the experiences and barriers we meet in the work and learn from each other ..... We respect and trust each other” (Employee from Company1).*

*“On-the-job learning gave us more chances to communicate and interact. We can better understand the personality and preference of our co-workers, supervisors and managers. This can help us to build good relationships with them ... I feel the workplace has a more homely feeling, as my colleagues always share their experiences and skills with me. We make many good friends here” (Employee from Company2).*

Consequently, from our observations and interviews with managers, supervisors, and employees in the two organisations, we can infer that informal training helps promote socialisation processes of employees and enable the creation of a more collaborative organisation. Our respondents view that informal training is perceived to help create *guanxi* (harmonious working relationships) and develop positive team cohesion.

#### ***Attitudinal: Managers’ and employees’ attitudes***

A considerable body of evidence has demonstrated that managers in SMEs play a significant role in determining HR practices including employee training and development (e.g., Panagiotakopoulos, 2012). However, managers in SMEs frequently have limited abilities in identifying employee training needs and evaluating training options and are often unaware of the formal training options that are available (Panagiotakopoulos, 2011).

This appears to be the case in China where managers in most SMEs often possess relatively low levels of education, knowledge and managerial skills. Their prior experience of training and education, preferences, ideologies and values, influence the extent to which they value training (Birdthistle, 2006). This may consequently lead them to favour informal training (Yin, 2017). The owner/managers also gave us an impression that they themselves paid little attention to the importance of their own training. They highlighted their reluctance to undertake managerial training. This implies that owner/managers at the upper level of the

organisations may lack the necessary managerial skills and have low awareness of training needs, both of their own as well as their employees' needs. As Company1's owner stated:

*"I never attend any management training. My managerial skills were accelerated from experience. Sometimes, I feel a little difficult in managing employees. I ask employees to do something, but they always do it the opposite way... ... I admit that I lack some skills on planning training and making training decisions."*

This issue was also a concern to Company2's HR director when reflecting on his/her role:

*"I am the HR director, but I don't take responsibility for everything concerning HR. I only deal with the feedback from employees... I don't have management skills ... For our SME, production and money are more important; training is a small thing."*

The unfavourable views toward formal training are not only expressed by the owner/managers of both companies but also, the employees. One employee at Company1, for instance, commented that formal training not only costs the company money but also imposes financial burden on the employees themselves, as this comment highlights:

*"Once, the owner sent three of us to a big firm in Suzhou to study their skills for 20 days ... While paying our salary, the owner also charged for our expenses at 6000 yuan for living, transport, food. In the last ten years, we have used this kind of formal training activity only two or three times."*

Employees from Company2 expressed similar views in that they were reluctant to leave the hometown and go somewhere else to attend a formal training, as illustrated below:

*"I don't have time for off-site training, because I need to look after my children."*

Our findings thus indicate that the managers' attitudes to training, due to perhaps their backgrounds, their relatively low levels of education, and their lack of awareness of training needs, have influenced their preference for informal training. The owner/managers appeared to prioritise short-term gains that coincide with the often quicker method of informal training.

This approach might result in them failing to recognise and visualise the long-term returns and benefits of formal training. In addition, employees were also unhappy if they were to be sent on external formal training programmes for reasons primarily due to the financial burden being imposed on them and their parental duties or obligations at home. Subsequently, formal training is not viewed as something that is favourable for all employees in both SMEs - from the owner/managers to the production workers on the production lines.

### **Discussion and Conclusion**

Research on Human Resource Management practices, particularly training and development, in SMEs in emerging economies is a relatively neglected field of study. As noted by Manuti et al. (2015: 13), research should investigate “workplace learning *in practice* .... not just in theory”. In an attempt to fill the research gaps, this study provides several contributions to the literature. First, the present study seeks to explore the state of informal training in practice in SMEs (Almeida and Aterido, 2010), given the fact that studies in relation to training and development in SMEs are not as extensive.

Second, the study contributes by examining informal training in SMEs in a fast-growing developing country that has not received much coverage in the literature. Specifically, the study is focused on examining informal training in the context of SMEs in China. In doing so, our study is different to the many studies that have been conducted in mainly larger-scaled organisations in Western countries. This study enables us to question the universal beliefs of informal training (Cunningham, 2010), and its application in an Asian country with different competitive and institutional environments. The empirical evidence from this study helps to further progress our understanding on HR practices in Asia (Budhwar and Debrah, 2008).

Although several studies on HRM in China have been published (e.g., Cunningham and Rowley, 2008, 2010), there is still insufficient attention given to investigate HRM in SMEs in China (Cunningham and Rowley, 2010). With around 80% of SMEs in the East Asian and Pacific regions being located in China, this certainly provides an impetus to explore a largely under-researched topic of informal training in such an interesting research context. Our study to uncover the motives of Chinese SMEs in their engagement in informal training and the extent of use of informal training in Chinese SMEs attempts to offer contributions to the literature.

Using case studies, we examine the extent of our respondents' experiences and identify the rationale related to the use of informal training in the companies. While our findings corroborate Cunningham's (2010) earlier study in that informal training is often employed in Chinese SMEs, the companies as our cases are in fact much agreeable to the idea of training in general. Even though the managers in Chinese SMEs tend to prioritise informal training, both firms have actually sent their employees to undergo formal training activities. These provide evidence that Chinese SMEs are starting to realise the value of training and development, and are much willing than in the past to engage in such activities if they are able to. In addition, our results indicated that investments in formal training programs does not necessarily lead to an improved organisational performance. It also does not help in creating an effective culture in the organisation, supporting socialisation processes of employees in SMEs.

We uncovered three separate themes on the motives for SMEs in adopting informal training based on the constraints they face, the perceived outcomes of training activities, and the attitudinal aspects of both managers and employees that influence their attitudes towards training. Both financial and time constraints limit the adoption of formal training in SMEs in China due to the fact that most SMEs face a constant uphill battle to secure funds and to

manage their time more productively with a much smaller number of employees. The high cost of formal training is frequently cited, which triggers owner/managers' reluctance in employing formal training. In addition, employees noted their lack of available time and they also view the time-saving nature of informal training.

The perceived outcomes related to organisational performance, employee turnover, and the development of *guanxi* and positive team cohesion further led to a higher use of informal training in Chinese SMEs. Respondents often did not see the value of formal training on organisational performance, and felt that informal training was in fact more valuable in increasing productivity and subsequently, improving the performance of the companies. The concerns of poaching and the high turnover rate in companies were often highlighted as factors that make managers in Chinese SMEs hesitant in adopting formal training in the companies. Interestingly, our study has uncovered another reason for the use of informal training in that owner/managers of SMEs perceive a relationship between informal training and the development of *guanxi* and positive team cohesion. Members helping one another in informal training enhance the building of personal connections that are helpful in promoting positive team spirit or team cohesion. This is one rationale that is important from the perspective of SMEs, in terms of their focus on informal training.

Finally, the attitudes of managers and employees themselves influence the extent to which informal training is adopted in Chinese SMEs. Based on a combination of factors such as their educational background, work experience, knowledge and managerial skills, and their perceptions of power and control, managers in Chinese SMEs prefer to use informal training in their companies. At the same time, employees are also reluctant to undertake formal training (which often requires them to be away from their villages/towns) due to the financial burden that is often imposed on them as well as their parental obligations at home.



Despite the willingness of Chinese SMEs to engage in informal training, managers in Chinese SMEs certainly need further guidance and leadership from the government. Not only do these firms increasingly face the shortage problem of talented skills, further efforts to increase investments in training and development, are limited. Merely providing informal training for employees is insufficient as this possesses clear limitations. Their decisions to discount the use of formal training might also result in the firms failing to reap the benefits of formal training in the long-term.

The implications of this research are applicable to practitioners to consider potential remedies that could be investigated to facilitate SMEs in developing a more balanced approach to training. For instance, the SMEs' weak financial base and limited financial resources have been indicated as crucial barriers to formal training in SMEs. This could be alleviated through the availability of greater financial support from both government and banks. Despite the fact that the Chinese government has taken a proactive approach in recent years by introducing various initiatives in promoting training and development, the uptake has not been successful because these initiatives are not exclusively designed for SMEs. Rather than having general campaigns geared toward companies of all sizes, the initiatives must be catered to the needs of SMEs, together with the allocation of specific funds to aid SMEs' training provision. Further, the government could provide incentives such as reducing the commercial tax, sales tax and land tax on SMEs to ease their financial burden. Similarly, banks could also take a more proactive approach in helping SMEs. Domestic and foreign banks could facilitate easier access to finance for those SMEs with trustworthy records by offering special financial packages; for example, by reducing the strict conditions and rules on repaying loans or debts, together with the introduction of lower preferential (promotional) interest rates.

Our findings further highlight that managers in Chinese SMEs frequently possess relatively poor educational backgrounds and low managerial skills. It would therefore be beneficial for the Chinese public-sector organisations, larger private sector companies and the government to work together to devise plans that would allow SME managers to undergo either state-sponsored or industry association-based training to improve their knowledge and practices. These training activities could certainly help in increasing the managers' awareness and ability to assess the training needs of the organisation and their employees. SME managers could further realise the benefits of training by considering their employees' training needs while pursuing business profits. Chinese SMEs could benefit by developing their HRM practices; for example, training and development programmes need to be implemented right at the start of the staff induction stage while career development plans should be frequently discussed during the employees' performance appraisals. Only through establishing a systematic training system would Chinese SMEs benefit from the long-term value of training. Consequently, they would be in a better position to manage their employees more effectively, motivate their employees, and reduce the risk of poaching and high employee turnover.

The study, however, suffers from several limitations. One is the cross-sectional nature of the study and the fact that we do not investigate the tangible outcomes associated with the use of informal training in the companies. We asked respondents on the impacts of informal training on their outputs, but we did not witness the tangible outputs ourselves. Future research could certainly be conducted to examine the relationship between informal training and its tangible and intangible outcomes. Second, our findings are limited by the number of companies as our cases, and the number of respondents. With 14 respondents and 28 interviews, we do not claim for any generalisations across SMEs in China. However, we attempted to counteract this issue by ensuring that we use two cases to compare and contrast

the views and perceptions of respondents to draw together any emerging themes, and to ensure the reliability and validity of the study.

In conclusion, informal training is often used in Chinese SMEs, but the primary task of SMEs in China is still to transform their organisations from traditional personnel management to contemporary HRM at a strategic level. The transformation of Chinese SMEs requires managerial mind-set changes about the value of HR, particularly the impact of training investment on their employees. Both formal and informal institutions in China, or Asia as a matter-of-fact, need to be developed further to provide much needed support in enabling SMEs to access greater resources and financial bases and the upgrading of their HR practices. The future of SMEs in a fast developing country like China is promising, with them appearing to be willing to undertake informal training and also invest in formal training when necessary and feasible. Hence, with appropriate government and institutional support SMEs in developing countries could be further assisted to achieve a balance between formal and informal training for an improved organisational performance.

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