

Firm-level training in local economic systems Complementarities in production and firm innovation strategies

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Abstract

The paper presents a conceptual review over the main aspects concerning the role of human capital investments and training activities within production processes, followed by empirical evidence on two local economic systems in Northern Italy, based on recent survey data. Theoretical and empirical considerations are brought together in order to provide new insights on the role of training and the factors associated to training activities at firm level.

The potential driving factors of training here analysed compounds structural characteristics, labour demand dynamics, human resource management practices, workforce features, and firm performances. We observe that training activities emerge positively associated with high-performance practices, innovative labour demand features, workforce skill level, firm size, and are affected by labour flexibility in various directions. Empirical evidence confirms most previous results but also adds further important insights. The analysis suggests that a widening gap, between few innovatively evolving and many stagnant firms, could characterise the future dynamics of the Region. The high relevance of structural variables, labour demand factors and HRM/innovation practices shows that regional industrial policies and labour policies should be jointly implemented for increasing potential firm productivity. This is a key concern for the current debate on local systems economic development in the European and Italian environment.

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1. Training in firms: a theoretical framework

1.1. Introduction

In his seminal contribution in modern economic theory about training in firms, [Becker \(1975\)](#) drew the crucial distinction between specific and general training and analysed its consequences. Assuming perfect competition in both the labour and the product market, perfect information and perfect mobility of productive factors, Becker shows that no employer is available to fund training of employees for the acquisition of skills/knowledge that affect positively employees' productivity in the firm financing training, as well as in other comparable firms; namely no employer funds general training. On the contrary, employer's financing is available for specific training, namely the acquisition of knowledge/skill that affect positively employees' productivity solely in the firm providing the financial means supporting this training programme. In the case of specific training the burden of financing is sustained not only by the employer, but also by the employees benefiting from training support, who share with the employer direct training expenses and opportunity costs.

Departing from Becker's treatment of human capital, the economic literature has focused on three different approaches. The first one is strictly theoretical and aims at investigating the consequences of relaxing some of the assumptions on which Becker's model is set up. The other approaches are mainly empirical and are devoted to investigate three different issues related to provision of training and accumulation of human capital in firms, namely: (a) the propensity of employers to fund general training of employees; (b) the structural determinants of firms associable to provision of any form of training; (c) the effect of training on the level of both absolute and relative wages.¹

The paper is divided as follows. Next sections of part I present a critical conceptual framework regarding training and skills as critical elements in the analysis of production processes. Section 2 then presents empirical evidence, which grounds on recent survey data, for the critical factors correlated to firm training strategies in a local industrial system. Section 3 concludes by examining the main implications of empirical results and providing suggestions for regional policy.

1.1.1. *Developments in human capital theory after Becker*

Taking into account this general model of training provision, [Acemoglu and Pischke \(1999\)](#) stress three different sources of deviations from the model of perfect competition in the labour market. Firstly, they show how the presence of turnover costs for both employees and employers limits employees' mobility and, hence, makes room for the two types of rents to raise. Secondly, they focus on two different sources of imperfect information, which are related to classical problems of adverse selection and moral hazard. In the case of adverse selection the problem arises because potential employers, who did not pay for training, cannot appraise perfectly the individual productivity of potential employees. Since the effect of training on individual employees depends on their individual characteristics, and is not the same for all trainees, then potential employers can monitor imperfectly individual productivity *ex ante*. Accordingly, employers financing general training programme are not forced to equal marginal productivity to wage rate and can enjoy benefits from their rent seeking activity. As to moral hazard, the problems of asymmetric

¹ Since this important topic does not deal directly with provision of training in firms, this strand of the literature will not be discussed further on.

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