

An Experiment in India Shows How Much Companies Have to Gain by Investing in Their Employees

Harvard Business Review July 25, 2017

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For many low-wage workers in India, basic skills training can be the difference between economic empowerment and persistent poverty. It may seem that the employers of such low-wage workers — who focus mainly on keeping costs down in order to survive in a relentlessly competitive industry — would have no incentive to provide such training or resources for personal development. But our research suggests that a better way to manage low-wage workers in developing economies is to invest in them, which is good for both worker welfare and the company's bottom line.

In July 2013 we implemented a [randomized controlled trial](#) in five factory units in Bangalore operated by Shahi Exports Pvt. Ltd., India's biggest garment export firm. The trial covered 2,703 workers who initially expressed interest in the program and involved the administering of the Personal Advancement and Career Enhancement (P.A.C.E.) training, a life skills course for female garment workers designed by Gap, Inc. P.A.C.E. teaches communication, time management, decision making, problem solving, and financial literacy through weekly group sessions in the workplace. Workers within and across production lines were randomized into treatment (P.A.C.E. training) and control (no P.A.C.E. training) groups. We measured the impacts of soft skills training on workplace outcomes such as retention, productivity, and salary, using the firm's administrative data along with changes in knowledge, behaviors, and personality traits of workers. We then computed return on investment by combining our impact estimates with data on programmatic costs. The experiment was designed to determine both whether workers benefit from the training and whether it pays for firms to invest in such training for their workers.

P.A.C.E.-trained workers displayed higher self-regard and sociability. They were more likely to save for their children's education and use state-sponsored health care and pension schemes. They were 15 percentage points more likely to request training in technical skills, and 7.7 percentage points more likely to report that they expected a promotion within the next six months.

Treated workers were also more valuable employees: They were more productive by seven percentage points post-training, and the average complexity of the sewing operations to which they were assigned rose considerably. Moreover, treated workers' retention was three percentage points higher during the program, as P.A.C.E. training was akin to an in-kind transfer from the firm to the workers.

Nine months after program completion, we calculated the net rate of return to the company's investment in P.A.C.E. training for workers at roughly 250%. The high return to the program can be explained by the fact that the modest cumulative costs stopped accruing after program completion, while the benefits (mostly from productivity increases) continued to rise. That is, total costs peaked at \$90,285 after 11 months, while the gains continued to grow (up to \$321,145 at 20 months from the start of training). Additionally, there was a significant spillover effect, with untrained workers on

the same production lines as trainees being 6.5 percentage points more productive than control workers and working 7.8 days more over the duration of the program.

Our study begins to build the case that programs like P.A.C.E. have the potential to both increase the skill sets of workers *and* be profitable for firms. Nearly 60,000 workers across 12 countries (including over 26,000 in India) have already been trained in life skills through P.A.C.E., which former President Bill Clinton referred to in [Time](#) as an idea that is changing the world. Furthermore, results of the study have contributed to Gap Inc.'s goal of reaching 1 million women and adolescent girls in the program by 2020.

With an increased focus on soft skills training, in both [India](#) and the [U.S.](#), the results of our study provide a rigorous evidence base for benefits from government collaboration with the private sector to reach scale. For example, the Indian government's efforts to train 10 million youth by 2020 in areas such as financial and digital literacy, entrepreneurship, and soft skills can be significantly bolstered by the involvement of the private sector, given the potential for business returns demonstrated in this experiment.

Our study confirms that a firm's investments in its workers can improve worker welfare while contributing measurably to the bottom line. This dual benefit can be seen directly in the lives of the workers themselves. For example, Prabha, a 43-year-old widow from Bihar, was psychologically distressed and economically constrained after the death of her husband. She signed on as a low-level machine operator at a Faridabad factory in 2012, but working in the formal sector for the first time was fraught with challenges. She often felt too intimidated to address her supervisors if she encountered a problem with her work, and would bring family members along when she had to ask for time off. Today she exudes confidence on the factory floor, participates in group discussions at work, thinks positively, and saves for retirement. She attributes these changes to the P.A.C.E. training, and her work reflects this transformation. She is happier now. And her managers are, too.