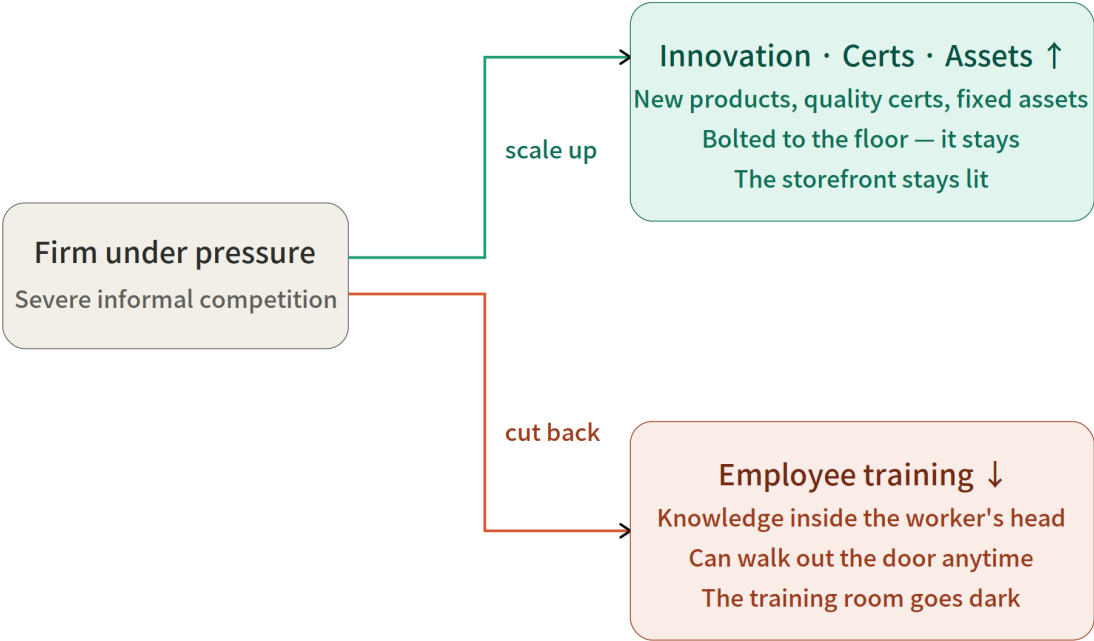


1 **Grow What's Visible, Reduce the Workforce:**  
2 **How Informal Competition Quietly Reshapes**  
3 **Firms**

4 Chungil Chae

5 Mon, 29 June 2026



6  
7 Original Paper: “Competency Enhancement Without Workforce Development Under  
8 Severe Informal Competition” (Lu, Xu, Chen, Jin, Wang, Wu, & Chae — Wenzhou-Kean  
9 University / UCL)

11 **Introduction: A Scenario**

12 There is a registered company. It pays taxes, complies with labor laws, and maintains proper  
13 documentation. But across the street is a competitor that avoids paying a significant portion  
14 of those costs: unregistered businesses in the informal sector. More than 60 percent of global  
15 employment falls within this informal sector, and in low-income economies, the figure approaches  
16 90 percent (ILO, 2018).

17 This is not a competition played by the same rules. It is a competition where **the rules themselves**  
18 **are different**.

19 Every year, the CEO of this company faces the same questions: Should we spend money on  
20 employee training? Should we buy new machinery? Should we pursue quality certification? This  
21 article traces the patterns behind those choices. And those patterns turned out to be the exact  
22 opposite of what we initially expected.

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24 **Question 1: What is happening?**

25 Common sense suggests that when competition intensifies, companies do one of two things: they  
26 either **invest everything** to survive, or they pull back and weather the storm. Whether it's  
27 training, innovation, or assets, investments in capabilities **move as a single package**. This has  
28 long been a fundamental assumption in strategic HRD research (Garavan et al., 2016; Mathias et  
29 al., 2021).

30 The data has unraveled that bundle.

31 Faced with intense informal competition, companies did not stop upgrading. They launched new  
32 products, obtained quality certifications, and purchased fixed assets. However, **they quietly cut**  
33 **back on just one thing—employee training**.

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What We Expected	What the Data Showed
Under pressure, companies cut investment across the board	Innovation, certifications, and assets remain unchanged; only training is reduced
Training and upgrading move in tandem	The two diverge (selective decoupling)
Only weak, cash-strapped companies fail to invest in training	In fact, high-performing companies cut back even more

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34 This is the term the study coined: **selective decoupling**. They expand what's visible and cut  
35 back on people.

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37 **Question 2: Why Does This Happen?**

38 The answer boils down to one word: **appropriability**—can I retain the fruits of my investment  
39 until the very end?

40 Here comes the most accurate analogy in this article.

41 New machinery is bolted to the floor. Quality certificates are issued in the company’s  
42 name. However, training is **stored in employees’ minds, and they can walk out**  
43 **the door at any time.**

44 Let’s map this out one-to-one.

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Concept	Analogy
Non-HRD upgrading (innovation, certification, assets)	A machine bolted to the floor — it won’t leave
Formal training	Knowledge in an employee’s head — it walks out the door
Low appropriability	There’s a hole through which the fruits can leak out
Rule-asymmetric competition	The wind that widens that hole

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45 Training is expensive and time-consuming, and when skilled employees leave, that value leaves with  
46 them. In an environment where low-cost, informal competitors are squeezing margins, a CEO’s  
47 calculations become cold and calculated. **“Even if we train them, nothing remains once**  
48 **that employee leaves.”**

49 That’s why companies don’t cut investment—they **reallocate** it. From channels prone to leakage  
50 (training) to channels that can retain talent (assets and certifications). This is not incompetence  
51 but a **rational choice**. And this is precisely where the theory comes into play.

52 Meyer & Rowan (1977) demonstrated that an organization’s outwardly displayed formal structure  
53 can be separated from what actually happens inside. Bromley & Powell (2012) refined this as  
54 **means-ends decoupling**. While the end (visible performance) remains on display, the means  
55 (internal capabilities) needed to support that end are being hollowed out. This research translated  
56 that abstract theory into **specific expenditure items**. Ends = visible upgrading. Means =  
57 investment in people. The decoupling was taking place on the accounting books.

58

59 **Question 3: Under what conditions does this occur?**

60 Here, the most subtle distinction emerges. **It is not exposure, but severity.**

61 It is one thing to say that an “informal competitor exists,” and quite another to say that it is  
62 “perceived as a serious obstacle.” Just as seeing rain is different from getting wet.

63 [Claim] Mere exposure changes nothing

64 → Exposure-training correlation  $r = +0.028$  (small, and actually positive)

65 → The mere fact of "competing with informal competitors" does not reduce training

66

67 [Claim] Severity creates a penalty

68 → Severity-training correlation  $r = -0.069$  (negative direction)

69 → Exposure and severity are related but not the same ( $r = 0.303$ )

70 Here’s the picture in numbers. Only **12.7 percent** of all companies provide formal training. 22.1  
71 percent of companies report being exposed to informal competition, and 17.7 percent perceive this  
72 as a **serious** obstacle. Training is already rare, and serious pressure makes that rarity even more  
73 pronounced.

74 And the pressure doesn’t end within the company’s walls. When other companies in the same  
75 region and industry are all suffering from the same low-cost competition—a condition this study  
76 refers to as a “**field-level low-road ecosystem**”—the training penalty grows even larger. In a  
77 neighborhood where the store next door, and the one next to that, aren’t investing in their people,  
78 it becomes increasingly difficult to justify being the only one who does.

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80 **The Most Surprising Twist: Who Is Cutting Back on Training?**

81 Common sense tells us that it’s the small, struggling companies with limited resources that can’t  
82 afford to provide training.

83 The data pointed to the exact opposite.

84 The training penalty was greater among **companies with websites, companies with quality**  
85 **certifications, and larger companies**. The more market-oriented, capable, and well-prepared a  
86 company was, the more it cut back on training.

87 Why is this decisive? If only weak companies had cut back on training, we could have brushed it  
88 off as “a lack of capability.” **But successful companies are cutting back even more.** So this  
89 isn’t a matter of incompetence. This is **the economics of competition**.

90 The smarter the company, the more accurately it calculates which investments will leak away and  
91 which to retain.

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93 **Five Witnesses: The Narrative of Convergence**

94 A single analysis may be subject to doubt. However, when different methods point to the same  
95 conclusion, it becomes difficult to refute. This study presents witnesses one by one, all pointing  
96 toward the same conclusion.

97 Witness 1 (Main Analysis): 187,000 firms, weighted linear probability model  
98 → Severe competition = lower training, higher non-HRD upgrading  
99

100 Witness 2 (Alternative Measurement): Even when severity is treated as a continuous variable, or 1  
101 or redefined as "the biggest obstacle" → the decoupling pattern persists  
102

103 Witness 3 (Placebo): What if we substitute finance, corruption, and electricity as obstacles?  
104 → The same pattern is not reproduced (= a mechanism unique to informal compet  
105

106 Witness 4 (Boundary Conditions): When broken down by website, certification, and scale  
107 → The penalty is more pronounced among stronger firms  
108

109 Witness 5 (Field Level): If the entire neighborhood is in low-cost competition → the penalty is a  
110

111 Witness 6 (Time Validation): 7,012 cases from the ECA panel + 2,644 cases from the MENA panel  
112 → Severe competition at time t predicts lower training at time t+1  
113 → The reverse direction (training → competition) does not hold

114 Witness 3 (Placebo) is particularly astute. It refutes the counterargument—"Didn't they just  
115 cut back on training because business was tough?"—by placing other types of difficulties—such  
116 as finance, corruption, and electricity—in the same position. Those difficulties did not create a  
117 decoupling pattern. The only factor that created the pattern was **rule-asymmetric informal**  
118 **competition**.

119 Let's add one more figure. The training coefficient ranges from  $-0.012$  to  $-0.017$ . For a single  
120 company, this represents 1.2 to 1.7 percentage points—which seems negligible. However, compared  
121 to the baseline rate of 12.7 percent, this is a **relative decrease of 9 to 13 percent**; when  
122 accumulated across numerous economies where intense competition prevails, it results in a significant  
123 aggregate shortfall in the formal sector's human capital development capacity. There is a difference  
124 between something that is small but negligible and something that is **small but systematic**. This  
125 distinction shapes policy.

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127 **So What Is the Risk?**

128 Selective decoupling is not a free ride. It is a trade-off where **costs are deferred and spread**  
129 **across people**.

130 Companies that have modernized while cutting back on training appear to be doing just fine in the  
131 short term. They have new products and certificates to show for it. However, the **capacity of the**  
132 **people needed to sustain that modernization** is dwindling. The foundation for absorbing the  
133 next technology, maintaining quality systems, and keeping improvement routines running is drying  
134 up. It's as if the storefront has been refurbished, but the lights are out in the employee training  
135 room behind it.

136 This is where the message for policy diverges. Training subsidies and skills vouchers lower the  
137 **direct costs** of training. However, they cannot change the **competitive environment** in which  
138 the returns on training are evaluated. As long as the CEO believes, "It's over anyway once that  
139 employee leaves," training will not increase even with subsidies. What is truly needed is enforcement  
140 that narrows regulatory asymmetry, consortia that share costs, and retention mechanisms to keep  
141 employees—interventions that fill the very gap in appropriability itself.

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### 143 **Conclusion: Not an Answer, but the Next Question**

144 What this study reveals is a landscape. Companies did not retreat in the face of pressure.  
145 They simply **reorganized** their capacity-building efforts—growing what is visible while reducing  
146 investment in their workforce.

147 However, this landscape closes without having opened two doors.

148 First, while this study knows whether companies **do** or **do not** provide training, it does not know  
149 **what kind** of training they are cutting. Are they cutting compliance training, or are they cutting  
150 strategic skill development? These are two entirely different matters.

151 Second, all of this stems from the CEO's internal calculations. Yet we have never looked directly  
152 into those calculations. How do managers actually weigh the returns on training against the risks  
153 of employee turnover and appropriability?

154 That is why this article ends with a question mark, not a period.

155 **When companies cut staff while expanding visible operations—should we prevent that**  
156 **choice, or should we first change the rules that make that choice inevitable?**

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### 158 **Addendum: But why is this an "HRD story"?**

159 It uses World Bank data, addresses informal competition, and runs regression analyses. Some might  
160 ask, "Isn't this development economics, not human resource development (HRD) research?"

161 No, it isn't. This research precisely fills a **gap that HRD has long been aware of but left**  
162 **unfilled.**

163 The starting point of HRD is simple: “Good training improves performance.” However, HRD  
164 attached an uncomfortable caveat from the very beginning: the benefits are realized **only as long**  
165 **as the employee remains with the company**. After all, the value of training resides in the  
166 employee’s mind, and they can walk out the door at any time.

167 In other words, HRD was aware that “training can leak out.” **However, it always kept the**  
168 **question of what actually triggers that leakage** in the background. This paper puts a name  
169 to that trigger—**competitors operating under different rules**. In the face of competitors who  
170 pay no taxes and face no regulations, investment in people becomes the hardest investment to  
171 recoup.

172 And it goes one step further. Strategic HRD textbooks have long taught that **“training and**  
173 **other investments move as a single bundle.”** This paper captures, through data, the **moment**  
174 **when that bundle breaks apart**. Training was not an inseparable part of the bundle, but rather  
175 **one player competing for space with other channels** within the portfolio.

176 Therefore, the significance of this study does not lie in “identifying yet another obstacle to training.”  
177 It lies in **redefining the boundary of “when formal workforce development survives”**.  
178 Adding another line to a list of obstacles is entirely different from redrawing the scope of a theory.

179 Three points support this claim.

- 180 • **Strong companies, not weak ones, cut back more.** If only small, struggling firms had  
181 reduced training, it would have been dismissed as simply “a lack of funds.” However, thriving  
182 companies—those with websites and certifications—cut back even more. This is evidence  
183 that it is not a matter of incompetence.
- 184 • **It was validated in the context where over 60 percent of the global workforce is**  
185 **employed.** Most HRD theories are built on the formal sector of developed countries. This  
186 study brings those theories into a reality where informality is the norm and tested them on  
187 187,000 companies.
- 188 • **It rewrites policy prescriptions.** Training subsidies merely lower the price of training; they  
189 cannot change the competitive environment in which the returns on training are evaluated.  
190 Unless regulatory asymmetry is addressed first, subsidies will hit a wall.

191 In a nutshell:

192 This paper takes the **problem that “training leaks out”**—**which HRD has always**  
193 **known but pushed to the background**—and adds the trigger of **competitive**  
194 **structures** that sets it off. As a result, it overturns **HRD’s long-held assumption**  
195 **that “training and upgrading go hand in hand.”** So this is clearly a story about  
196 HRD.

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198 **One-Sentence Summary**

199 Under intense informal competition, a company's investment in capabilities is not a  
200 matter of "having it or not," but rather depends on "**whether it can be retained or**  
201 **not.**"

202 **Quick Glossary of Key Terms**

- 203 • **Informal competition:** Competition with unregistered businesses that evade tax, labor,  
204 and regulatory costs
- 205 • **Exposure vs. Severity:** Whether competitors "exist" vs. whether they are "perceived as a  
206 serious obstacle"
- 207 • **Appropriability:** The extent to which one can retain the fruits of one's investment until  
208 the very end
- 209 • **Selective Decoupling:** A pattern of separating investment in people while maintaining  
210 visible upgrades
- 211 • **Low-Road Competition:** A competitive strategy relying on cost avoidance and low  
212 investment