Making employers pay: how do they do it overseas?

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Abstract

It is generally assumed in the Australian VET policy community that employer investment in skill development lags well behind that of our major trading partners and competitors and that investment is falling in real terms. Whilst the ABS training expenditure survey suggests that employer investment decreased in the mid-1990s, data from other sources produces a more complex picture of employer training in Australia. Data from the training practices survey, the survey of education and training experience and the business longitudinal survey together show that 80 per cent of Australians receive some form of training from their employers, between a third and half of Australians take part in formal, structured training in the workplace and that over 85 per cent of Australian enterprises employing 10 or more people provide training for their employees. There are a number of approaches that governments around the world, including in Australia, have taken towards to creating a climate that is more conducive to employer investment in skills development. These include voluntaristic approaches such as the Investors in People scheme in the UK, the creation of industry training funds such as those in the Netherlands and the imposition of employer levies. Often these schemes are tightly bound to the social, cultural and economic contexts of their countries making them difficult to reproduce. This paper will discuss some of the major international approaches that have been developed towards increasing employers' investments in training and their successes and failures.

Making employers pay: how do they do it overseas?

The issue of improving employer investments in training has been the subject of an ongoing debate in Australia since before the introduction of the Training Guarantee Scheme (TGS) in 1990 and the findings of the first Employer Training Expenditure survey (ABS, 1991). This survey indicated that in 1990 Australian employers spent 2.6% of payroll costs on the training of their employees. However, in recent years, data suggests an apparent decline in training expenditure and in the hours of training provided to employees of Australian enterprises. In the wake of the abolition of the TGS have come claims that employers are reducing their commitment to training and that policies need to be devised to compel them to increase their investments in training (Hall, Buchanan and Considine, 2002). Similar calls have also been heard the UK where employers have been blamed for that country's apparent poor record on employer training (Keep and Payne, 2002).

However, it is by no means clear that Australian employers spend so much less than their counterparts in other developed nations as has been implied. Data from the European Union's Continuing Vocational Training Survey (CVTS II) show that Australian employers' expenditure on training lies towards the top end of the normal range of international comparisons at about 1-3 per cent of payroll costs. Table 1 combines data from CVTS II together with data from the American Society for Training and Development's (ASTD) 2002 International Training Trends report and the ABS to yield a broad comparison of Australia's training expenditure performance on CVT.

Table 1:

Percentage of wages and salaries spent by employers on employee training

Country	% payroll	Country	%payroll
United Kingdom (1999)	3.6	France (1999)	2.4
Singapore*(1997)	3.1	Norway (1999)	2.4
Denmark (1999)	3.0	Canada ***(1998-2000)	2.0
Netherlands (1999)	2.8	USA ***(1998-2000)	1.9
Australia (1996)**	2.5	Germany	1.5
Finland (1999)	2.4	Japan ***(1998-2000)	1.4

Source: 'Source: All figures derived from the Eurostat CVTSII database (new cronos) supplied by the Budesinstitut fuer Berufsbildung except those marked with asterisks.

* *Brown, Green and Lauder, 2001.*

** *ABS, 1997*

*** *van Buren, 2002*

Although these figures are only broadly comparable (e.g. CVTS II data includes the direct labour costs of participants in CVT which the ABS and ASTD data do not), it is nevertheless clear that assumptions that Australia lags well behind other developed nations in employer training expenditure are highly questionable.

Aside from the overall level of training activity as suggested by the training expenditure figures, there are many other reasons why governments in many developed countries have sought to introduce measures to regulate employer training. These include:

- Improving the distribution of the training effort between employers. In all developed countries, the distribution of training between enterprises is uneven. Large and medium sized enterprises spend more on training than small enterprises. Training is also skewed by industry sector, although EU data suggests that the degree of skewness is less marked in countries with higher levels of employer training expenditure (Nestler and Kailis, 2002). In Australia as in the EU and the USA, the financial services sector is a particularly high performer in training whilst the building and construction sector tends to spend less on training in most countries.

- Improving the distribution of training between different groups of employees. Certain groups of employees are more disadvantaged in terms of access to employer training than others. Older, less educated, blue collar workers and workers from a migrant background tend to receive less training than the younger, better educated and native workers. As above, workers in certain industries will tend to have greater access to training than those in other sectors.
- Increasing the national stock of skills. Employer training is often seen in the developed nations as a critical element in the formation of the national skills profile (Keep and Payne, 2002) and capacity to advance key economic goals (e.g. adding value to primary products). For instance, belief in the importance of skills to national progress has been at the heart of the efforts of some SE Asian nations – notably, Singapore, Malaysia, Taiwan and South Korea – to regulate the training activity of employers with mixed success (Ashton, Green, Sung and James, 2002).
- Increasing employers' contributions to the development of the VET system. Interest in the German "dual system" has often focused on the role of employers, particularly in their financing of the system (Berger and Walden, 2002). However, despite numerous efforts, it has proved very difficult for other countries to adopt the dual system approach. A key reason for this has been the reluctance of employers in other countries to finance initial vocational training in the manner of the dual system. In South America some success was experienced in the 1970s and 80s with the use of employer levies to finance the development of vocational training colleges (Gasskov, 2001) but these efforts have largely been abandoned in recent years.

There are, therefore, a variety of reasons, for policy interest in increasing employer investment in the training of their staff. A number of mechanisms or approaches have been developed to increase employer investments in training in different countries. However, governments have often been unclear in identifying their policy goals in this effort and have adopted models from overseas with little consideration given to their social, cultural or economic compatibility with conditions in the host country (Schmidt, 2002).

Approaches to increasing employer investments

In the countries covered in this study, which are largely industrially developed nations, four major approaches to the issue of employer investments in training were identified.

Laissez-faire systems. In these systems there are few regulations imposed on employer training activities. Employers are free to train or not in accordance with their perceived business needs. These countries include the English-speaking nations of Australia, Canada the UK and the USA. The laissez-faire approach has attracted much criticism in all these countries which have been famously characterised as tending towards a low-skill equilibrium (Finegold and Soskice, 1988) in which the need for skills is replaced by work simplification and deskilling in a mass production environment. More modern commentary has tended to repeat this theme, viewing the persistence of skills shortages in these countries as proof of market failure in training (Hall, Buchanan and Considine, 2002; Ashton and Green, 1996). However, as the figures presented in Table 1 suggest, employers in these countries do not appear to spend significantly less on training their workers than in countries with a more regulated approach.

In keeping with the laissez-faire notion, mechanisms to increase employer investments in these countries are usually voluntarist in nature. Perhaps one of the best known schemes of this nature is the Investors in People (IiP) scheme in the UK. This scheme operates in a similar fashion to ISO accreditation in the area of quality management but with a specific focus on human resource development practices in enterprises. Those enterprises meeting the IiP standard are permitted to use the IiP kitemark for publicity. It seems that IiP has gained considerable coverage. However, take up has been concentrated amongst large and, to a lesser extent, medium sized firms. In 1999, 22 per cent of enterprises with 50 or more employees were involved in IiP and 38 per cent of enterprises with 250 or more employees. Involvement by small business is far less (Keating *et al*, 2002). This seems to reflect the existing and common distribution of training amongst enterprises and has led commentators to remark that IiP has been used to highlight those enterprises that already invest significantly in training rather than encourage firms that do not invest to undertake more training of their employees (Goodwin, Hills and Ashton, 1999). Amongst enterprises that are involved with IiP, the scheme seems to have a beneficial impact on the nature and quality of the training they undertake. Despite these criticisms, an evaluation of IiP for the Institute of Employment Studies concluded that IiP had:

- Spurred employers to make changes to existing practices that would not have otherwise occurred
- Delivered improved training and skills that enhance business performance
- Added value to the enterprise above the costs of the scheme (Hillage and Moralee, 1996).

IiP appears to work in a similar fashion to ISO and other forms of quality accreditation – it improves internal processes for those already providing training but it is not clear that it increases overall employer investments (Emberson and Winters, 2000). IiP has been trialed on a limited basis in Australia through the Australian Institute of Management.

High employer commitment systems. There are two major international examples of high employer commitment to training – the dual system countries of Germany, Austria and Switzerland and the extensive on-the-job training systems of Japan.

The dual system is concerned with initial vocational training. The name derives from the combination of on-the-job training provided by the employer and off-the-job education provided through vocational training schools. A key element of the classic dual system in Germany is the fact that it is administered and largely financed by employers through Chambers of Commerce and Craft Guilds. Berger and Walden (2002) estimate that employers provide over 75 per cent of funding for the operation of the dual system. Widely studied and imitated, the dual system has rarely been successfully transplanted to other countries (Schmidt, 2002). The high level of employer commitment appears to be rooted deeply in central European traditions of apprenticeship. It appears that German employers view the dual system as their own creation and wish to retain control over it in order to ensure its relevance rather than hand control over to governments.

This is in marked contrast to the attitude of employers in many other countries. However, employer financial commitment to IVT in the dual system does not translate into a similar commitment to CVT. At only 1.5 pert cent of payroll, Germany and Austria are amongst the lower spending countries on CVT in the EU. CVT is largely unregulated in Germany and is viewed as an individual responsibility and expense. Hence, skilled workers wishing to obtain the "Meister" qualification largely do so in their own time and at their own expense. This is despite the fact that German enterprises cannot employ apprentices under the dual system without having a suitable number of meister on staff (Pischke, 2000). German unions have proposed that a levy be introduced on employers to finance CVT but his has been strenuously opposed by the employer organisations (Cockrill and Scott, 1997). Although participation in CVT is high in Germany at around 84 per cent (Giraud, 2002), individuals rather than employers finance much of this training. In the dual system countries, high employer investments in IVT are traded off against lower investments in CVT.

In contrast to the dual system countries Japanese skill formation is based on employer provided CVT in the workplace rather than on IVT. The Japanese system based on single points of entry into large enterprises with well-developed internal labour markets (Dore and Sako, 1989) involves structured in-house training, often in the workplace. However, estimates of employer expenditure on CVT in Japan do not capture the full extent of the Japanese system as so much of the training is delivered in the workplace and is built into everyday work practices. In Japan the preference is for the education system to focus on general educational goals and the enterprises to focus on specific job and occupational-related preparation. Like the dual system, the Japanese approach to training is highly culturally bound and whilst it has been the object of study in the past has rarely been successfully transplanted into other countries except through the establishment of Japanese enterprises overseas (Adler and Cole, 1993).

Sectoral Training Funds. Sectoral training funds involve the voluntary establishment of training funds through employer levies on an industry basis. The principal example in Australia of this approach is the construction industry training fund which is operated in a number of states. Overseas, the Netherlands operates a number of sectoral training funds. Established under collective labour agreements, the "development and training funds" (O+O funds) involve a levy on employers in the sector of between 0.1 and 1 per cent of payroll into a tripartite administered fund to which employers can apply for funds to facilitate CVT. About 70 O+O funds exist in the Netherlands covering most sectors. However, the impact of the O+O funds has been less than optimal. In 1996, O+O funds provided only 5 per cent of total funding for CVT in the Netherlands – most of the financing was provided directly by employers (50%) and individuals (30%). Many of the funds do not spend all or even the majority of the funds collected on training. On average about 40 per cent of O+O funds are spent directly on training (Romijn, 1999). Many enterprises do not apply to the funds and most of the funding goes to larger enterprises.

In Australia, the construction industry training funds are much smaller, typically funded by a levy of around 0.1-0.2 per cent on building value. In many cases these funds have been used to support apprenticeships in the industry and have not been used widely for CVT. However, it is not clear whether the experiences in an industry such as construction, which relies on an available pool of labour, would readily translate to other industry sectors.

Levy schemes. The most commonly quoted means of increasing employer investments in training are universal levy schemes in which all or most employers are required to pay into a training fund from which they can apply for funding to support training (levy-grant systems) or pay into a fund if they do not meet a pre-determined level of training expenditure (levy-exemption systems). In Australia, the Training Guarantee Scheme was a form of levy-exemption scheme. Although it appears that the TGS increased employer training expenditure for some time in the mid-1990s, evaluations of the scheme have found little evidence for its impact on increasing training activity at the enterprise level and have highlighted rather its effect in stimulating a wider interest in and knowledge of training amongst employers (Baker, 1994; Teicher, 1995)

Overseas, France is often viewed as having a successful system of training levies. The French system of levies on employers is complex and has evolved over a number of years. Aside from the apprenticeship tax of 0.5 per cent of payroll, French enterprises also pay a series of levies amounting to a total of 1.5 per cent of payroll to finance CVT. These levies are paid into over 100 local, industry based and other funds highlighting the localised nature of control over the levy funds. The funds are used to finance personal training leave, sandwich courses for young people and more general CVT for the existing workforce (Brocher and Meiaux, 1997 cited in Giraud, 2002). However, as Giraud (2002) points out, the French levy system has not necessarily led to better CVT outcomes. French enterprise expenditure on training remains at 2.4 per cent, lower than the UK that does not operate any levy system. Participation in CVT in France is around 58 per cent, considerably lower than that in Germany with little regulation of CVT and access to CVT remains highly skewed towards the well-educated, professional groups and those working in large enterprises.

A more successful example is, perhaps, the Singaporean Skills Development Fund (SDF). Introduced in the 1980s to encourage the training of lower skilled workers, the SDF involves a levy on low paid workers employed in all Singaporean enterprises (excluding migrant workers) of 1 per cent of payroll (Osman-Gani and Tan, 2000). Employers can only access the funds from the SDF for training for these lower skilled workers on approved government training programs such as Basic Education for Skills Training (BEST) and the Modular Skills Training Initiative (MOST). Brown et al (2001) conclude that the SDF with its targeted approach has worked well for Singapore, encouraging the multinational corporations that dominate the economy to train their workers for more highly skilled jobs and contributing towards the development of a high value added economy. Of course, the success the SDF must be viewed in the context of Singapore's highly centralised economic and political structures. The SDF played a key role in the centralised push by the Singaporean government in the 1980s to move into more highly skilled production and its consequent efforts to secure the supply of skills for the new economy (Ashton, Green, Sung and James, 2002).

Conclusions

There are a few key messages that arise from this review.

The schemes examined in this paper demonstrate that policies to improve employer training investment must suit the social, cultural and economic conditions of the country, or else try to generate the conditions under which those schemes might thrive (e.g. more localised decision-making and involvement). Efforts to import systems from overseas almost always fail. However, lessons can be learned from examining aspects of their operations.

There has been a confusion of aims in many countries with regard to policies to encourage greater employer investment in training. Voluntarist policies such as IiP may serve to improve the quality of the training that is already happening rather than increase employer investment. On the other hand, universal levies may increase total employer expenditure but not address existing patterns of disadvantage of access and the quality and relevance of the training undertaken. Policy aims need to be clear and the procedures implemented directed to best achieve those aims.

Universal levies of the kind of the Training Guarantee or the French levy system are quite problematic. They focus attention on the cost of training rather than the quality of training and access to training. There is little evidence that universal levies significantly increase investment in training by employers beyond the normal range of 1-3 per cent of payroll or improve the national stock of skills. Moreover, when seen as an impost they may erode existing enterprise support for training. Sectoral levies also suffer from a lack of targeting and may not serve to increase the total investment in training – especially CVT for existing workers – to any significant degree.

A key element in any policy prescription should be targeting and localised control. The Skills Development Fund in Singapore has enjoyed some success because it is based on targeting low skilled workers and resides within a national plan to move the economy towards more highly skilled production. The O+O funds are accepted by employers in the Netherlands because they are controlled by the industry and are focused on the specific training problems of the industry (a similar logic applies to the construction industry funds in Australia). French employers are agitating to change their system of levies to yield greater local control. In Australia, policies to increase employer investment in training might best be focused on:

- Particular regions with specific economic development needs
- Particular industry sectors with specific skill gaps or in the process of transition to a new skills base

- Particular groups of workers who may be disadvantaged under current arrangements.

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