Enhancing employer expenditure in training

Andrew Smith (Charles Sturt University) and Stephen Billett (Griffith University)

Governments are keen to enact policies to secure greater contributions from Australian enterprises for the skill development of their employees. Drawing on a review of international literature and data from interviews, a series of policy options are discussed and evaluated in this paper. A number of funding models are described. However, before evaluating the applicability of particular models, the purposes that government is seeking to realise through policy measures need to be clarified. These purposes range from securing a greater private sector contribution to the cost of the vocational education system through to a focus on developing employees’ skills. Different purposes will warrant different kinds of action, kinds of expenditure and policy measures. In considering what policy options are most viable, evidence from the implementation of policy elsewhere is used to discuss and predict the viability and outcomes of those measures implemented here.

Increasing enterprise expenditure on training

Securing an increased level of spending by Australian enterprises on the initial preparation and ongoing development of their employees is no easy task, nor is it likely to be achieved in the short term. Although it is possible to compel enterprises to make contributions to the cost and provision of training, to date such actions have largely been unsuccessful and appear to erode existing enterprise commitment to and sponsorship of vocational training. For instance, the experience in Australia is that a national training levy in the form of the Training Guarantee Scheme succeeded in highlighting the cost of training by mandating a certain level of enterprises expenditure or having to pay the shortfall as a tax. Linking this Scheme to the tax system did little to persuade enterprises that, rather than just a cost for Australian employers; expenditure on training is a strategic and prudent investment.

The primary drivers for enterprise investment in training are internal - most commonly they have to do with making business sense. Smith and Hayton (1999) identified the main drivers for training provision in enterprises as being related to organisational change and the introduction of new technologies. Whereas change processes are an important factor in driving investment in training at the enterprise level, the critical factor in the process is the relationship of training to enterprises’ business strategy (Smith et al, 2003). Attempts to encourage employers to make greater investments in training will need to appeal to the strategic interests of enterprises if they are to succeed. Billett and Hayes (2000) reported that enterprises in the food processing sector, which has little history of structured training arrangements, would expend funds on staff meeting legislated requirements or when change to their manufacturing processes was required.

Nevertheless, in recent data on training practices, Australian employers nominate staff development and enhancing the skill currency of their employees as the main reasons for providing training (Australian Bureau of Statistics (ABS), 2003). It seems that enterprises and the national bodies that represent their interests would need to be convinced that expenditure on training would provide a direct return in terms of improved productivity or services. Such outcomes might be identified through cost-benefit analyses of training and vocational education. Yet, these have proved difficult and impractical. Enterprises have reported appropriate difficulty in identifying and appraising what contributions training makes to productivity or enhanced service (e.g.
Hedge & Moss 1996), let alone measuring those contributions (Bartels 2000, Robinson & Robinson 1989). However, the returns to training investments can be identified and quantified if the correct methods are used (Smith, 2001). Yet, currently it seems that, internationally, few enterprises use cost-benefit analysis to make decisions about expenditure on training (Carnevale & Schulz 1990, Coopers & Lybrand 1996). Instead, perceptions of its utility or capacity were used to achieve strategic goals (Davidson et al 1997). Consequently, enterprises’ views of the worth of training will likely determine their level of expenditure.

Some European countries appear to have a strong commitment to skill development that shapes enterprises’ expenditure on training, and obviates the need for cost benefit analysis. However, the motivation for this commitment can be to maintain enterprise control or to participate at a level to avoid external control of enterprises’ expenditure on training by government (e.g. Schweri 2002). The French experience (Giraud 2002) suggests that enterprises are reluctant to expand additional costs (e.g. worker absenteeism) once they have contributed to a levy system. Where there is evidence of a firm and enduring enterprise commitment to skill development, it is in those countries that have institutional sentiments and practices associated with a social charter of some kind (i.e. those with a tradition of social responsibility).

Overall, two broad categories of policy options are identified in the practices within Australia and overseas. These categories comprise either compelling or encouraging enterprise expenditure on their employees’ development. The first category is associated with the use of legislation and mandation to stipulate engagement in structured training, levy funds to cover the cost of training, or through requiring enterprise sponsorship of the certification or licensing of their employees’ skills. The second category focuses on changing employer views about expenditure on training in order to generate an ongoing voluntary commitment to and sponsorship of vocational skill development.

**Compelling enterprises to contribute to skill development**

Options for compelling enterprise contributions to skill development can be seen to be of two kinds. The first is about organising levies to cover the costs of training. The second is about mandating training for licensing arrangements and occupational certification. Both have different strengths and weaknesses and different prospects of enjoying employer acceptance.

*Levies*

Levies can take a number of different forms. The most commonly referred to kind are national or universal levies. Then, there are those that focus on the needs of a particular industry sector or are regional.

**Universal Levies**

Universal levies can be used to ensure that most or all enterprises contribute to the cost of developing workforce skills. A number of such levies have operated or continue to operate. These include the Training Guarantee Scheme (TGS) in Australia, the Skills Development Fund (SDF) in Singapore, the Human Resource Development Fund (HRDF) in Malaysia and the French levy system. In these schemes, most employers across the majority of all sectors of the economy are required to contribute to a training fund. The defunct Australian TGS was different in that it stipulated a level of expenditure and the levy was a penalty for non-compliance.

As a broad policy tool, levies are useful for either generating revenue or encouraging expenditure on training which was the intent with the TGS. They are welcomed by policy makers for their broad applicability, because they might be able to
shift part of the cost burden of vocational education from the public to the private sector, achieve greater equity in the distribution of the burden of the training effort across the nation's enterprises and, arguably, increase expenditure on training. However, they are not always popular or politically palatable. Moreover, the evidence suggests that the quality of vocational skill development that occurs under these arrangements may not be high. For instance, simply using participation in accredited training programs as measures of legitimate training can be misleading. In France, this type of scheme has failed to secure either a high level of employer commitment to training or the kinds of high skill jobs being sought in Australia (Hall, Buchanan & Considine 2002). Also, despite the levy system and its procedures being open to all employees, the reality is that the expenditure of funds within enterprises is ultimately subject to decision-making within enterprises. So, although having a national training levy, the opportunities for individuals to access training are shaped by workplace characteristics (e.g. size) and the worker’s standing within the enterprise. Moreover, because they are mandated, they are likely to be resisted or complied with only superficially. For instance, despite having a national training levy, only 58 per cent of French workers reported receiving further training compared with 84 per cent of workers in Germany, where no such levy is enacted (Giraud 2002). Therefore, there can be no guarantee that mandated levies will produce higher levels of participation in enterprise-based training.

A danger of using levies is that all forms of workplace support, as well as accredited vocational education programs, may increasingly subject to financial scrutiny. In short, levies may lead to the commodification of training, with all forms of assistance to learning being viewed as a cost. The French and Australian experience is that national levies become highly contested and induced little genuine commitment to vocational learning. Furthermore, given their inability to influence decision-making within enterprises, national training levies are likely to entrench existing disadvantages, except when they are specifically targeted as with the SDF. The evidence suggests that those most in need of training will remain minor participants in these enterprise-funded arrangements (e.g. Krueger & Rouse 1998).

**Sectoral levies**

Sectoral levies have been shown to work in some industry sectors (e.g. building and construction). It presents a more acceptable kind of levy to enterprises because it is sector specific and can be seen as coming from and being for the sector. The French experience with its national training levy suggests that enterprises are more accepting of localised and industry based levies, than a broad national levy (Brochier & Meiaux, 1997 cited in Giraud, 2002). However, an industry-based or sectoral levy is likely to be played out in different ways across different industry sectors. The contractual nature of the building and construction industry means that there is a reliance on the industry based workforce and a pool of skilled labour. Also, some governments have assisted the maintenance of the industry levy by demanding that contracts for public buildings include an industry training levy. A recent initiative in Victoria is quite strategic and provides funds for an area of skill development that has been long in decline, but now enjoys very high demand. Here, the Brick and Block Layers Association have collectively and voluntarily agreed to a levy being applied to all purchases of bricks and blocks for the purposes of sustaining skills that are disappearing with the retirement of an ageing workforce. Of course, in this case directly, and in others indirectly, the cost of this training is being passed on to consumers and customers. Yet, such levies are less likely in industry sectors dominated by a few major employers. So it should not be
assumed that the level of acceptance of industry-based levies have enjoyed in the building sector would be replicable in other sectors.

In policy terms, industry levies may promote the strategic goals of the industry and enterprises and coupled with a body (e.g. professional or trade association, guild) might promote the importance and standing of vocational skills. If the tangible benefits of industry specific training are demonstrable, this approach may even increase expenditure on training by enterprises. However, in terms of other policy goals, a levy on its own cannot guarantee improvements in the quality of skill development nor the equity of its the distribution within the workplace. Neither the mandated approach in Germany nor the legislated levy in France has been able to influence how funds are spent within enterprises (Giraud 2002). Again a useful counter-example is the Singapore SDF system targeted on low skilled workers.

Localised/regional levy
Levies operating at the local or regional level offer the prospect of being highly visible and pertinent to enterprises. If there are particular needs in particular communities, there may well be some consensus about the gathering and expenditure of funds, or at least directing common effort towards those goals. For instance, the viticulture industry in South Australia identified the shortage of workers in a particular region (Billett & Hayes 2000). Such was the concern of the industry that collectively they embarked on regional arrangements to encourage school leavers to consider working in the viticulture industry. However, there would need to be arrangements that could convince local enterprises of the need for such a levy. Enterprises demand direct involvement with its expenditure and administration, which they guard jealously (Giraud 2002). They also need to be able to witness its direct consequence for the skill base of their particular enterprises. Moreover, such arrangements are more likely to be successful in a community that has clearly identifiable physical or geographical parameters, rather than where the local area is ill defined. For instance, it may be easier to organise a local levy in an identifiable community like Gladstone in Queensland, which is separated from others by considerable distance and where there are a cluster of secondary processing companies that have a common sets of needs (e.g. engineering and production workers). Added to this is the containment of the workforce whose development is being sponsored across enterprises. Funds might be expended on individuals who then leave the area. These conditions are distinct from the more heterogeneous and dispersed sets of needs that might arise in large cities. So localised arrangements may shift and redistribute the cost of vocational skill development. If there is an identified need, an increase in expenditure may occur. However, taking the French experience the need for localised control and administration of such funds would seem to be an imperative (Giraud 2002).

In sum, compulsion on employers to increase their investments in training through the use of levies does not enjoy a history of success. They inspire superficial employer compliance and often-outright resistance. The more targeted the levy and the more localised its control and administration the more likely employers will accept it.

Mandating licensing arrangements and occupational certification
Another compulsory approach to increasing training investment is through licensing arrangements. Occupational licensing (e.g. plumbing, electrical work) usually exists because of inherent dangers, and where it is against the public interest for tasks to be undertaken without licensing (e.g. forklift, boiler operators) because of occupational health and safety requirements or where the work has particular requirements for care
(e.g. food handling). One measure of levering additional expenditure from enterprises is to broaden the bases for licensing and certification required in the workplace. In England, government often stipulates particular certification for workers engaged in publicly funded work (e.g. aged care), thereby ensuring employees undertake courses and assessment (Keep 2003).

In policy terms, if this approach was adopted, it may lead to the shifting of cost to the private sector, although it might be transferred either in part or in whole to the individuals who are to be certified or licensed. Increasing the range of licensed and certified occupations also focuses on the importance of the quality of the work to be done, rather than simply on cost issues. For those industries where there is little in the way of certification, such arrangements may also provide for much-needed formal recognition for the workers’ skills in those sectors. However, the need to licence has arisen for important social and environmental reasons. Therefore, it would be essential to ensure that these goals will not be compromised by broadening the licensing arrangements, which might lead to the reduction of the standards of licensing.

**Encouraging enterprise expenditure on training**
The second broad category is focused on changing employers’ attitude towards expenditure on training. The first strategy is making it more attractive to enterprises. The second is changing enterprises’ views of the value of vocational learning.

*Making training more attractive to enterprises*
Enterprises may be more willing to sponsor training when they identify its relevance to their needs. There are rationales for a more relevant system of vocational education. The workplace activities will always be some variation of vocational practice. The uniform provision of vocational education assumes that vocational practice is enacted in a unitary way, rather than being highly variable. In essence, this approach has already been part of the apprenticeship and traineeship system with the majority of the time spent in workplaces, each with their own unique experiences. Of course, there can be serious disadvantages to this kind of arrangement. Moreover, a system that is highly responsive to enterprises may disadvantage individuals who participate in vocational education. So in seeking to permit more enterprise specific skill development, the achievement of national goals for skill development need to be weighed against the prospect of greater enterprise sponsorship of the national vocational education effort, and realising the needs and aspirations of individuals.

*Sharing the costs of training*
One option could be to accept that there is a need to develop both industry-wide skills and enterprise-specific capacity and that the training system should reflect these twin goals. One approach would be for government to be concerned with national or industry wide skills needs and that enterprises sponsor and secure enterprise-specific skill development. Such arrangements exist in France where the government takes responsibility for general vocational education provision and retraining schemes, while enterprises take responsibility for training needs arising from technical and organisational change (Dubar 2000). Changes to the French training levy certainly reflect a need to distinguish between expenditure on national, regional and enterprise goals (Brochier & Meiaux 1997 cited in Giraud, 2002). However, in practice it may be difficult to isolate those learning outcomes and learning processes that are wholly industry-wide or wholly enterprise-specific.
This leads to the notion of ‘leverage’ or government spending to encourage greater financial and other contributions from employers. Examples in Australia include the “voucher” system developed in New South Wales in which small businesses are encouraged to use a $500 training voucher from the State government to buy training from the public VET system or the TAFE Queensland Mining Services venture in Queensland in which the TAFE system shares the costs of training in the mining industry with major employers. So there are precedents and interest in localised arrangements that include efforts to organise enterprise-specific VET provisions.

**Changing enterprise perceptions about expenditure on training**

There are differences across countries in the level of enterprises’ commitment and approaches to expenditure on training. In North America, there tends to be a higher expectation that individuals rather than enterprises will take responsibility for their vocational skill development, in ways that are remote from government policy. Bishop (1997) suggests most enterprise training in the US occurs in large unionised enterprises that are experiencing growth and increasing their use of technology or their output. The recipients of this training tend to be those who are well-educated, young, recently hired, male and white. There is also less of a vocational education system there than in many European countries. Yet, in Germany (Giraud 2000) and Switzerland (Schweri 2002) further training is also seen as the individual’s responsibility, whereas in France individuals look to the enterprise as a sponsor of that training: more so in the public sector than the private. Also, given the more contingent nature of the workforce in the US, the UK and Australia, employers may be less likely to expend funds on workers who are part-time and/or contractual (Vandenheuval & Wooden, 1999). In other countries, there is an expectation about the social commitment of enterprises to training workers. For instance, in Germany and Switzerland there is likely to be a strong social pressure for businesses to be involved in the training and ongoing development of their workers’ skills. In countries such as the Netherlands where there are strong labour laws, enterprises want to maximise the skills of their workers (which they are paying for) and, therefore, need little encouragement to invest time and effort in skilling their workers. In Scandinavia, there is a long-standing social consensus on the value of training to business and on the rights of workers to receive training from their employers throughout their working life. Employers in Denmark, Norway and Finland are not bound by central European style laws on training, but provide training as part of the employment contract with the employee, which is premised on a sentiment of social obligation.

In Australian enterprises, to increase the level of expenditure may necessitate building up the understanding about the importance of skills and their contribution to the ongoing development needed for enterprises’ economic viability, their communities and the country as a whole. In the shorter term, in attempting to achieve a more positive approach to enterprise contribution to their employees’ skill development, government might: (i) promote the need for equity in financial support for the national effort that is otherwise unfairly distributed across industry sectors; (ii) promote the importance of skill renewal to avoid problems of skill shortages for Australian enterprises; (iii) illuminate instances of the contribution of skills to enterprise success, thereby highlighting the shared national goal of highly skilled workforce; and (iv) in contrast to previous approaches government might need to build a consensus about and commitment to expenditure on training within Australia enterprises.

In the longer term, the goal might be to change the perceptions of employers about expenditure on training. Measures here might include: (i) government
championing the importance of vocational knowledge and skills and the significance of its acquisition for skilled work and national wellbeing; (ii) establishing the equivalents of trade associations and guilds to become the advocates for vocational knowledge and its development; and (iii) seeking the advice of enterprises in the formulation of the curriculum development planning process, including credentialling systems.

However, beyond the goals of enhancing enterprises’ commitment and contribution to the initial and ongoing development of their workers is an equally important goal. That is, for the expenditure on training by enterprises to be distributed more evenly across the workforce. Study after study (e.g. O’Connell 1999, Brunello 2001) from many countries (e.g. Groot, Hartog & Oosterbeck 1994) note that the distribution of training opportunities in workplaces is inequitable. Often it is those who are most vulnerable and precariously placed in the workplace that miss out on training. Those most likely to secure enterprise support are often the young, the well-educated, the mobile worker who is male and white. Yet, influencing practices in decision-making in workplaces seems to be beyond the scope of most of the processes described above. Both the mandated and regulated approaches adopted in France and Germany (Giraud 2002), as well as those in Australia, have been unable to address this issue. Even legislated requirements for enterprises to publish their annual training plans (as in Germany) or form bipartite enterprise committees to discuss training related matters often have little or no impact on enterprise decisions about how training opportunities will be distributed. It is only in Singapore, where there exists a targeted program that supports socially disadvantaged workers. It remains unclear whether such a scheme could attract interest in Australia and elsewhere.

Such an equity goal will be more likely to be achieved through a process of emphasising the need for ongoing development for all workers throughout their working lives. The need for learning for a working life is not restricted to the young, well-educated and mobile. All workers increasingly require assistance in learning for their working life. The workplace is often the only and sometimes the most appropriate place to learn what is required for transforming the nature of vocational practice (Billett 2002). Thus a key strategic policy goal is to enhance the standing of vocational practice, vocational knowledge and its ongoing development throughout employees’ working lives. The development of this regard for vocational knowledge might encourage a more mature approach to enterprise commitment to training. Ideally, this will avoid the need for compulsion and lead to a more balanced sharing of the cost of employee development that will bring obligations and commitments to enterprises. One possible mechanism to secure this commitment is through the establishment of professional bodies that can advocate, identify needs and play a role in policy formation.

In seeking to achieve this goal, the policy mechanisms for government might include: (i) acknowledging the richness and complexity of vocational practice; (ii) promoting in the community the attributes and significance of vocational practice; (iii) assisting the formation and continuity of professional bodies that seek to promote particular forms of vocational practice; (iv) engaging and accepting the advice of such professional bodies in policy formation; and (v) generating a climate in which the professional standing of vocational practice is held to be significant.

References


Brunello G (2001) On the complementarity between Education and Training in Europe. IZA discussion paper 309. (Forschungsinstitut zur Zukunft der Arbeit- IZA. (Institute for the Study of Labour)


