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Evidence Report 10
November 2009

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Launched on 1st April 2008, the UK Commission for Employment and Skills is a key recommendation in Lord Leitch’s 2006 review of skills Prosperity for All in the Global Economy: World Class Skills. The UK Commission aims to raise UK prosperity and opportunity by improving employment and skills. Its ambition is to benefit individuals, employers, government and society by providing independent advice to the highest levels of the UK Government and Devolved Administrations on how improved employment and skills systems can help the UK become a world class leader in productivity, in employment and in having a fair and inclusive society.

Research and policy analysis plays a fundamental role in the work of the UK Commission and is central to its advisory function. In fulfilling this role, the Research and Policy Directorate of the UK Commission is charged with delivering a number of the core activities of the UK Commission and has a crucial role to play in:

- Assessing progress towards making the UK a world-class leader in employment and skills by 2020.
- Advising Ministers on the strategies and policies needed to increase employment, skills and productivity.
- Examining how employment and skills services can be improved to increase employment retention and progression, skills and productivities.
- Promoting employer investment in people and the better use of skills.

This report is one of a suite of outputs of the Review of Employer Collective Measures study. The study reviews the effectiveness of levers to increase employer investment in skills on a collective basis, such as levies and tax incentives, in order to provide advice to Ministers on which collective levers might be most effective to introduce or expand.

In undertaking the study we have conducted extensive reviews of the relevant literature and reviewed relevant UK and international policies to inform our conclusions and advice. We have worked with a consortium of leading experts in the field and drawn on wider panels of experts, in the UK and internationally, to inform our analysis and advice. Almost 100 stakeholders attended a series of Prioritisation Events in spring 2009 and we also received good response to an initial Call for Evidence in summer 2008 and a further on-line consultation in July 2009. We are grateful to all those involved for their commitment to the study and to taking forward this complex agenda.
This report is the final report in a series of five, which report on the different stages of the Collective Measures study. All reports are published as Evidence Reports in our series and are available in the publications pages of the website at www.ukces.org.uk. This paper draws together the study as a whole and presents advice on policy development options in light of the existing evidence. We believe that the advice offered represents the most effective means of implementing collective measures to increase employer investment in skills. Our next steps in this important area of work are highlighted in the final chapter of this report.
We are grateful to a number of people and organisations for their input to this study: members of the project Advisory Group, with representatives from Welsh Assembly Government, Scottish Executive, Department for Employment and Learning Northern Ireland and Business, Innovation and Skills, helped steer the project, provided advice and guidance at critical stages in development and helped to organise the Policy Prioritisation Events in Scotland, Wales and Northern Ireland; the wider group of stakeholders who attended the Policy Prioritisation Events, drawn from Sector Skills Councils, other employer representative organisations, trade unions, our Expert Panel, UK Commission staff and Commissioners; and the respondents to our on-line Call for Evidence and consultation. We are also grateful to the consortium which conducted the literature reviews and facilitated the Prioritisation Events, providing the robust evidence base on which to produce this report: the Institute for Employment Studies; the Warwick Institute of Employment Research; the Policy Research Institute; Ipsos MORI and SKOPE. Finally, Roger Tym and Partners who conducted the initial economic appraisals.
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Introduction

At first glance, the UK seems to have relatively positive levels of employer provided training, with 65% of employers providing training to their staff and international surveys suggesting the proportion of establishments which provide training is higher than in other EU nations. However, almost a quarter of establishments have never funded or arranged training for their staff; less of this training is certified when compared to other EU nations and training also accounts for a lower proportion of labour costs compared to the EU average. Businesses that employ few people and establishments in certain sectors are least likely to fund or arrange training and these patterns have been true for a number of years. Whilst there are a range of reasons why some businesses do not train their staff, there is evidence that those which do, enjoy considerable benefits relating to survival, productivity, employee job satisfaction and lower absentee rates.

The Collective Measures Study

It is in this context that the UK Commission for Employment and Skills was asked to review the range of policy levers designed to encourage employers to train on a collective basis (Collective Measures), such as levies and Licenses to Practice. The UK Commission undertook extensive literature reviews, on-line consultations, policy prioritisation events with stakeholders and initial economic appraisals, to inform the advice presented in this report.

The work began with a review of the conceptual literature on the optimal level of employer investment in skills and training and whether public policy could be used to move closer to these levels. It finds that there are a number of factors which can lead to sub-optimal provision at firm and sector level and that this provides a case for State intervention, providing the benefits of doing so would demonstrably outweigh the costs. It suggests that sectoral intervention is probably the most important way of stimulating skills development in the UK: there is a commonality of skill needs; the likely returns to increasing the pool of skills at the sector level are higher; employers would benefit most from an increased pool of sector skills and should contribute to it; employers are best placed to define skill needs within the pool and a sectoral approach reduces the impact of poaching. It is because not all of these benefits are currently realised, that State intervention is justified.

The conceptual review also identified a number of barriers to optimal investment in skills or training such as imperfect information about the quality or content of training; lack of management skills or management time; and employee reluctance to train. The empirical review assessed the extent to which the conceptual barriers are realised in practice. The empirical review reports that, while the barriers are experienced to varying degrees by employers, a key barrier is the lack of demand for training. It also identifies the greater difficulties for small firms, who are likely to experience all potential barriers to training more. The policy review reports on the implementation and impact of ‘Collective Measures’ both in the UK and internationally. Levies, Licenses to Practice, Tax Incentives, Inter Employer Collaborations and Quality Standards are amongst the policies reviewed.
Developing Policy Advice

The conceptual, empirical and policy reviews led to the prioritisation of four potential policy options for the purpose of discussion with stakeholders and further testing. The four were: inter-employer networks; extending occupational licensing; modifying accountancy standards and layering the Investors in People (iIIP) Standard. The evidence suggested these policy options provided the most effective means of raising employer investment in skills. Other policy options are not discounted as potentially valuable, but were not prioritised. For example, levies were not prioritised at this stage as the evidence suggests they work only in quite specific sectoral circumstances, developed in consultation with employers.

The four policy options were discussed at a series of stakeholder events in March 2009 where potential advantages and disadvantages were discussed. Inter-employer networks attracted the most support from these events, with more mixed responses to the other three options and a number of points were raised with regard to the design and implementation of the policy options which have subsequently been followed up. As there was sufficient information on the design of inter-employer networks and occupational licensing, initial economic appraisals were conducted to assess, as far as possible, the likely costs and benefits of these. Further development work was undertaken to address the issues raised at the events around modifying accountancy standards (such as the feasibility of enforced reporting standards on training) and layering iIIP (such as the new approach to iIIP introduced in May 2009).

Taking forward Collective Measures

The study suggests that inter-employer networks are likely to be the most effective mechanism for enhancing training for the benefit of the firm, overcoming a number of the barriers, such as the cost of training and information imperfections. This is supported by the conceptual, empirical and policy reviews, the views of stakeholders we have spoken to and the initial economic appraisals. International evidence points to the potential gains of a government supported approach, especially for small firms. Our advice is that the UK governments consider establishing a fund, on a pilot basis, to support networks which have a specific training focus. Employer-led networks could bid to the fund and, providing they adhered to certain criteria, they could receive support for the administration of the network and for some types of training.

The literature reviews concluded that occupational licensing might be effectively extended but only where there may be a specific need identified (such as where it is in the public interest). This was tested within the initial economic appraisals, although there was limited data available to enable us to fully test impact on training, wages, employment and quality. In reviewing the case for occupational licensing, case-by-case assessments should be undertaken which consider the specific circumstances leading to the demand for occupational licensing. If the risk (e.g. with regard to barriers to employment or the cost of enforcement) is deemed too great, a system of certification that is widely recognised and accepted as a mark of quality can have the same effect, especially if adopted and promoted by market regulators or trading standards services.
The evidence quite strongly suggests that tools which assist with employer decision making around training may enhance skill formation by breaking down barriers related to a lack of information about training availability and the benefits of training. Two such tools are identified as potentially important in this regard: Investors in People and Accountancy Standards or Human Capital Reporting.

A new approach to Investors in People was launched in May 2009, which included increased flexibility and additional recognition for additional achievement. This could be developed by expanding the reach of the Standard and by making it a requirement for large firms seeking public contracts. A thorough evaluation of the new approach would enable assessment of the most effective approach, including reviewing the different ways it is implemented across the UK. The impact of current advice with regard to procuring government IT and Construction projects, which asks Departments to consider skill related requirements, should also be assessed to inform the development of IiP (and procurement practice more generally).

Another tool is that of developing accountancy standards for training or the reporting of human capital more generally. The introduction of such methods requires commonly agreed definitions and measures and is therefore long-term in nature. The UK Commission proposes to undertake further work to explore different approaches to developing the reporting of human capital ranging from regulation (the accountancy standards, as initially articulated) to encouraging changes in behaviour. The outcomes of this work should be taken forward by a Task Force of accountants, human resource professionals, employers, investors and others, convened by Government.

The levers which the evidence suggests would be most effective are voluntary ones, statutory measures generally only being effective where there is a common support for their introduction (such as with occupational licensing and levies). Where there is such a demand we would advocate a responsive legislative framework to enable the demand to be met, advice to ensure the precise policy design and implementation is appropriate and evaluation to track the impact of the regulation.

Over-arching principles

In addition to the four policy options, the evidence points to a number of over-arching principles in the design of employer facing training levers, which would enhance the implementation of such levers:

- The encouragement of a workplace ‘dialogue’ on skills so as to engage employees as much as employers;
- Consider the wider aspects of training such as the use of acquired skills in the workplace and links to the broader business strategy;
- Addressing the issue of deadweight and the need to focus on ‘hard-to-reach’ employers;
• Ensuring that more effective evaluations are in place for assessing the effectiveness of policies;

• Establishing a process of gradual change which will ultimately lead to higher demand for skills through building a persuasive narrative around skills and a positive training culture.

Next steps

The Collective Measures study points to some potentially effective policy levers, but to ensure the best implementation of these, we propose to build on the work to date and develop the policies further and, in the case of employer networks, we advise piloting the policy to learn what works and yields best value for public money. The study has provided a strong steer as to the direction to take, but also highlights that there is not a simple, or single, policy solution that will most effectively raise employer investment in skills. Indeed, there are a range of policy levers that might be effective, provided the design and implementation of the policy is appropriate and suitably supported. Thus, we intend to develop the themes further as we take forward this important area of work.
1 Introduction

1.1 Employer provided training in the UK

At first glance, the UK seems to have relatively good levels of employer provided training:

- Around 65% of employers provide training to staff over a 12 month period and many of those that do not provide formal training, do provide informal training in the workplace (Shury, et al., 2008);

- Training expenditure in England is increasing and stands at around £2,775 for each trained employee (Hogarth, Bosworth et al., 2009);

- The proportion of employers which train is higher than any other EU 27 nation (90 per cent of UK establishments provided vocational education or training) (Hogarth, Bosworth et al., 2009, based on provisional EU data).

However, these figures mask some significant concerns:

- Almost a quarter (23 per cent) of establishments in the UK have never funded or arranged training for their staff.

- The employers that do not train can be identified by key characteristics which have been consistently identified in employer surveys over a number of years. Small employers may necessarily train less because they have fewer staff to train, however, there is also evidence that the cost per trainee is higher amongst small employers as they have less opportunity for economies of scale and this may inhibit formal training processes. In itself, this masks considerable variation in training levels within 'small employers' according to their size, sector and business strategy;

- Employers in certain sectors, such as parts of manufacturing and construction are less likely to provide training to their employees (Hogarth, Bosworth, et al.). These sectoral differences have been apparent for many years;

- Less innovative firms are less likely to train their employees whilst innovative and rapidly growing small firms often have a training performance that is similar to large firms (Rabemananjara, 2005)

- Training in the UK is less likely to lead to a formal qualification than most European countries, despite having the largest proportion of employers training staff. The UK ranks 11th of 27 EU countries on the certification measure (UK Commission for Employment and Skills, 2009a);

- Although employers in the UK are more likely to provide training, UK training costs accounted for 1.3 per cent of labour costs compared to a EU average of 1.6 per cent, raising concerns about the quality of training provided (Hogarth, Bosworth et al., 2009);
• There are benefits to business from training which are not shared by those which do not train. Non training firms are twice as likely to close down as training firms and training firms are associated with higher levels of job satisfaction, lower absenteeism and quit rates. It is not just direct training which yields these benefits, employers with a more skilled workforce also demonstrate improved productivity (more productive companies in the UK had workforces with, on average, 2 years more schooling than less productive firms) (Hogarth, Bosworth et al., 2009).

Thus, whilst on some measures, there may be high levels of training in the UK, not all measures consistently point to ‘optimal’ levels of training across employers in general; there appear to be persistent pockets of lower levels of training and questions over the quality of the training provided.

1.2 The ‘Review of Employer Collective Measures’ Study: Definition and scope

It is within this context that the UK Commission for Employment and Skills was asked to review policies designed to encourage employer engagement in skill development on a collective basis. The project was defined in the first year business plan as:

Engage with employers and provide a view to the UK Government and Devolved Administrations on the levers available to stimulate employer investment in skills and the cost/benefit of the options, including advice on whether there is a need to update and streamline the 1982 ITB legislation for levies and ...a new framework to support licences to practice. (UK Commission for Employment and Skills, 2008).

Additionally, the UK Commission is tasked to conduct a Review of Entitlement to Training in 2014, and this study will form a contribution to that review. During the period of this study, all four UK governments have consulted on introducing a Right to Request Time to Train for employees, broadly along the lines of the Right to Request flexible working.

The focus of the study is on ‘collective measures’ to enhance employer investment in skills. The term refers to measures that are designed to impact on a large number of employers as a collective or group, rather than on employers as individuals. A further aspect is those interventions that are most likely to predominantly benefit the firm: assessing the evidence through the lens of optimal investment for the firm and taking the view that such measures might more effectively engage employers. It should also be noted that ‘investment’ refers not to just financial outlays, but also to investment of time and other resources (i.e. indirect as well as direct costs) on skill-related activities other than the recruitment of skilled staff.

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1 It should be noted that ‘training’ is not consistently defined across different research sources and can range from formal off-the-job training to informal training measures, thus adding to the complexity of the analysis. The Study takes these issues this into account in coming to its conclusions.
The study forms the basis of advice to UK governments on the policies most likely to address quantitative and qualitative shortfalls in employer investment in their workforce within the scope defined above, subject to limitations in the available evidence, e.g. inconsistencies in approaches to policy evaluation.

The study adopted the following approach:

- An initial open Call for Evidence;
- A review of the conceptual evidence with regard to employer investment in skills and why that investment might not be at an optimal level, in particular when considered from the perspective of the firm;
- A review of the empirical evidence on the extent and nature of training and on the barriers and motivators to employers to undertake skill development in the workforce;
- A review of the implementation and impact of existing ‘collective measures’ policies, implemented with the intention of enhancing employer investment in skills on a broad basis, including evidence of application in other countries;
- A series of 10 Policy Prioritisation Events (PPEs) with stakeholders across the UK to identify the preferred policy options;
- Further development of the aims and objectives of the proposed policies and initial economic appraisals to provide an indication of the costs and benefits of some of the proposed policies.

Over the 12 month period of the study, the position taken regarding different policies has evolved. From suggestions received in response to the Call for Evidence, the policy review identified a core number to focus on in depth. Some of these were prioritised for still further examination. However, policies are seldom entirely free-standing or without value in some specific application if the design and implementation is appropriate. Thus, our advice actually broadens out again to ensure that the potential value of the ‘non-prioritised’ options in specific circumstances is not lost.

Box 1 illustrates the scale of the policies reviewed at each stage of the study and how they were funnelled. A wide range of policy suggestions were made in the Call for Evidence, informing the selection of a focussed number of policies in the Policy Review. This, together with the other literature reviews, led to the prioritisation of four policies for closer scrutiny. The final advice incorporates wider considerations and principles garnered during the course of the study.

The range of policies suggested in the 2008 Call for Evidence is illustrated in Box 2, with the most frequently cited policy suggestions in larger font. The wide range of suggestions, some complementary, some contradictory, is illustrated here. Some form of collaboration within sectors emerged as most dominant, with tailoring, Government funding/incentives and a demand-led approach also frequently cited.
Box 1.1: Scale of Collective Measures

CALL FOR EVIDENCE SUGGESTIONS

POLICIES REVIEWED

PRIORITISED POLICIES FOR CLOSER SCRUTINY

ADVICE AND GENERAL PRINCIPLES

Box 1.2: Call for Evidence policy suggestions

Image created by http://www.wordle.net/
The approach taken to the Collective Measures work reflects the ROAMEF approach to policy development, by detailing the rationale for action through the conceptual, empirical and policy reviews; by defining and developing objectives of the proposals consistent with the issues identified in the reviews and in discussion with stakeholders at a number of significant points in the study and by appraising the options before presenting our advice. Our advice is also to ensure rigorous piloting and evaluation, which would enable the later stages of the ROAMEF approach (monitoring, evaluation and feedback) to be implemented.

This study has benefited from other projects taking place simultaneously within the UK Commission and which have contributed to the final advice presented in this report. These are:

- **Employee Demand** – a review of the empirical evidence and of the implementation and impact of policies designed to encourage employee investment in skill development. This study has lent an employee perspective to the development of our advice on employer collective measures (Johnson, Sawicki et al., 2009);

- **Skills Utilisation** – a review of the evidence and of the implementation and impact of policies designed to stimulate Human Resource practices in workplaces which treat training as part of a package of measures designed to facilitate the more effective use and application of skills in the workplace. This is very closely related to the collective measures study which finds a lack of demand for skills to be one of the key barriers to greater engagement (Belt and Giles, 2009);

- **Simplification in England** – proposals developed to simplify the skills and employment system in England for the benefit of employers and individuals. Not adding to this complexity has been a guiding principle in the development of our advice (UK Commission for Employment and Skills, 2009b);

- **Ambition 2020** – a review of progress toward the 2020 skills targets set in the Leitch Review which took a rounded picture of progress and the factors impacting. The first annual review of progress was published in May 2009 (UK Commission for Employment and Skills, 2009a).

### 1.3 Report Structure

The remainder of the report is structured as follows:

- Chapter 2 describes the current UK policy landscape, with regard to employer ‘collective measures’ to provide the context for the study;

- Chapter 3 summarises the results of the literature reviews and the evidence regarding a range of ‘Collective Measures’ policy options and summarises the outcomes of the PPEs;
• Chapter 4 details the short and medium term policy advice of the UK Commission;

• Chapter 5 concludes with overarching principles in policy development and implementation and areas of further work, building on gaps in our knowledge highlighted through this comprehensive review and providing steps towards the 2014 Review of Entitlement to Training.
2 The UK ‘Collective Measures’ policy environment

2.1 The Objectives of UK Skills Policy

Skills are widely recognised as a valuable means through which employment and productivity, and thus prosperity, may be raised. However it is also recognised that skill levels within the UK need to be further raised from their current levels if they are to attain World Class levels and if they are to satisfy the policy objectives of governments in the UK (UK Commission for Employment and Skills, 2009a).

The responsibility for strategy, administration and funding for skills policy across the United Kingdom is devolved to each of the national governments, enabling each to allocate resources to the particular challenges within each nation, leading to some variation in the policy levers employed to stimulate employer investment in training, as well as differing institutional structures.

As the study is concerned with Collective Measures, as defined in Chapter 1, the report begins with a brief overview of the range of Collective Measures employed in the UK to stimulate employer investment in skills\(^2\). These are categorised along two axes, based on the degree of compulsion (ranging from legally enforced regulation to entirely voluntary agreements) and whether the cost of the policy falls mainly on the employer or the public sector\(^3\). Figure 2.1 illustrates the broad division of policies along these two axes, although it should be noted this is not designed to be precise, merely illustrative of the relative balance along the two axes. A brief overview of the implementation of the policies in the UK follows the illustration.

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\(^2\) Many employer facing policy levers are not included such as IAG and subsidies because they are not defined as Collective Measures in this study.

\(^3\) The costs of implementation may not always be monetary as employers may incur costs through employees taking time off for training or through providing the facilities for training.
The absence of policies in quadrant 4 is a reflection of the UK approach to policy, where publicly funded compulsory programmes are likely only where the benefits to society are significant yet unattainable without significant coordination (an example of a policy that falls in this quadrant is compulsory school education). In these instances the policies relate directly to education/training undertaken by individuals rather than employers. Using the framework in Figure 2.1, we are able to map the UK policy framework to provide the background for the review of policy options in chapter 3. We take each quadrant in turn.
2.1.1 Compulsory, majority employer resourced training

Compulsory, employer funded policies are most appropriate for addressing consumer or worker rights where the absence of some degree of enforcement might lead to detrimental outcomes. The introduction of compulsion can also serve to remove problems of coordination. The following is an overview of the policies that occupy this section of the UK policy framework and are majority (but not necessarily wholly) employer resourced.

The right to ask for time off to train

Forthcoming legislation providing employees with the right to request time for training is expected to stimulate employer investment in training, at the very least through investment in kind, by increasing the amount of time off allowed for training. All four UK governments have consulted, or are consulting, on the introduction of a right to request time off work for training.

On introduction, this right will be universally applicable to all individuals in employment and forms a basic pillar to ensure employer (and employee) awareness of training.

Occupational licensing/Licenses to Practice

The existence of occupational licensing can introduce a minimum standard of training that is required to perform the occupation, and stimulate employer investment in the workforce in order to continue trading. Legislation has been introduced for some sectors which required employees to be qualified and to obtain a ‘license to practice’. Sectors that have experience of this include Care, Security and Construction, as well as gas and heating engineers, albeit covering a far smaller proportion of the workforce than in other countries such as the US and Canada.

Levies

The main training levy schemes currently running across the UK, in some instances managed separately by the devolved administrations, cover the Construction industry, Engineering Construction industry and the UK film industry. In these sectors, levy systems facilitate the delivery of training whilst maximising economies of scale, through removing coordination issues associated with the high number of self-employed and small operators in the sector. Outside of these sectors, levy coverage in the UK has been limited since the abolition of the Industry Training Councils in the 1980's.
2.1.2 Voluntary, majority employer resourced training

Policies in this quadrant form the pillar of the UK policy framework that aim to change employer culture where appropriate and encourage greater levels of training through altering perceptions. It should be noted that some of the underpinning training may be funded, in some form, by the state.

*Investors in People*

Investors In People (IiP) is a quality standard which provides organisations with a framework to help them improve performance and ensure the skills and capabilities of its staff are maximised.

While IiP is a UK wide initiative, governments' approach toward the programme varies across the nations, in part as a result of the different local funding availability, strategic emphasis and institutional delivery structures.

*Information Campaigns*

Information campaigns to encourage employers to train might be specific to government supported training, such as Train to Gain and apprenticeships, as well as the more general ‘Now is the Time’ campaign run by the UK Commission.

*Commitments to Train*

Welsh Assembly Government founded the Basic Skills Employer Pledge in 2004 to encourage employers to address basic skill needs within their workforce and this is supported by a grant on completion of an action plan. The Skills Pledge in England is, similarly, a voluntary agreement by employers to government to guarantee their staff the right to train to Level 2. Both encourage employers to publicly sign and demonstrate their commitment.

*Procurement*

The use of procurement to raise skill levels is increasing, particularly in England where the government and partners committed to address basic skill needs of service provider's employees through the 2008 Joint Statement (Office for Government Commerce, 2009). This has been expanded with a commitment for Departments and Agencies to consider, on a case by case basis, whether there should be a requirement for successful contractors for construction projects to have apprentices as a proportion of their workforce. In May 2009, this was followed by a further commitment for Departments and Agencies to consider requiring successful contractors for IT projects to have a workforce development plan in place (Department for Business Innovation and Skills, 2009). A recent paper by the Skills Utilisation Action Group in Scotland suggested that Skills Development Scotland could consider how skills utilisation might be included within the legislative requirements of procurement for a 6 month period (Skills Utilisation Action Group, 2009).
2.1.3 Voluntary, majority publicly resourced training

This quadrant of the UK policy framework is dominated by the drive to ensure that the design of qualifications and publicly funded training meets the needs of employers. This drive, together with the mechanisms set up to deliver this, gives employers significant leverage over a large proportion of the UK’s publicly funded adult training expenditure. Policies aimed at employers as individuals and therefore not included in our analysis, but which would also fit here, include advisory services and subsidies.

Qualification Reform and demand led provision

Sitting behind the publicly funded policies designed to both incentivise and expand take-up of training is a programme of qualification reform to ensure the ‘products’ on offer fit the requirements of the employer. The key feature of many policies in this quadrant is the drive for the provision of public services in employment and training to be ‘demand led’, both through direct input into the structure of qualifications, and also as consumers in the UK training market.

Within the UK Vocational Qualification Reform Programme, Sector Skills Councils research and articulate employer needs in their Sector Qualification Strategies. These strategies identify and shape which vocational qualifications should be priorities for public funding. Sector Skills Councils are also central in the delivery of a number of other ‘demand-led’ initiatives such as the National Skills Academies in England and are charged with building a skills system that is driven by employer demand.

Enhancing college responsiveness is also a major feature of demand-led provision. In Northern Ireland, for example, Further Education Means Business brought together a range of measures to improve what the sector can provide to its customers. This included the merging of 16 colleges to 6 ‘Super Colleges’ in 2007, and changes to governance and quality and performance measures.

2.1.4 Compulsory, majority publicly resourced training

As noted above the final quadrant of the UK employer related policy framework remains empty. However, in a representation of the UK’s wider educations and training framework, this quadrant includes the UK’s compulsory education system.
2.2 Conclusion

The typology of skills interventions in this brief overview demonstrates that most of the Collective Measures within the UK are based on a voluntary engagement of employers, with specific exceptions in particular sectors or occupations. Most of the activity is centred around improving responsiveness of public provision to employer need which is increasingly expected to be guided by employers through their engagement in the design and delivery of vocational qualifications. As noted, policies aimed at individual employers, rather than employers in a collective sense, are not included in scope of this study, although they encompass significant public spend, e.g. in subsidies and advisory services.

The next chapter will summarise the evidence reviews undertaken for the Collective Measures Study, which includes an examination of policies not currently implemented in the UK within the definition of ‘collective measures’.
3 Findings of the Collective Measures study

3.1 Introduction

This chapter summarises the findings of the Collective Measures study including the three literature reviews and the Policy Prioritisation Events which formed the initial phase of the Collective Measures study. It outlines the facilitators of, and barriers to, training identified in the Collective Measures study and discusses how far each could be tackled by different policy options. It then provides the rationale behind each of the policy options identified as a means of increasing employer investment in workforce training. It outlines some of the opportunities, and risks, associated with each and uses the available evidence to explain why particular options were put forward for detailed appraisal, while others may yet play a role as part of a broader suite of measures.

The four reports on which this chapter is based are:

- A review of conceptual literature (the ‘Conceptual Review’) focused on defining an optimal level of training, reviewing what economic theory tells us about how firms make decisions to train and the factors that discourage or support firm investment in workforce development (Bosworth, 2009).

- A review of empirical evidence of factors which facilitate or discourage investment in training (the ‘Empirical Review’) (Hogarth, Bosworth et al., 2009).

- A review of literature which has evaluated or otherwise analysed the impact and outcomes of policies to stimulate employer investment in training (the ‘Policy Review’) (Cox, Sumption et al., 2009).

- The report of the Policy Prioritisation Events (Devins, Nunn et al., 2009)

3.2 Decisions about training investment

Chapter 1 highlighted some key data relating to the incidence of training as reported in the empirical review (Hogarth, Bosworth et al., 2009) showing that the incidence of training is not uniform across employing establishments but varies by size, sector and level of innovation, for example. The empirical review includes a much fuller analysis of the factors which appear to facilitate training within the firm, summarised in Box 3.1 below.
Box 3.1: Facilitators of Employer Provided Training: A Summary

<table>
<thead>
<tr>
<th>Factors facilitating training</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal factors:</strong></td>
<td></td>
</tr>
<tr>
<td>Strategic choices</td>
<td>In producing goods or services employers have some choice about technology, work organisation and skill levels used. Technical change tends to increase need for higher skills but may de-skill some workers</td>
</tr>
<tr>
<td>Inter-linking human resource and product market strategies</td>
<td>To turn training inputs into productive outputs a human resource strategy is required which is capable of meeting the needs of the product market strategy. Training tends to be an important element of effective high value-added human resource strategies</td>
</tr>
<tr>
<td>Benefits to the business</td>
<td>Econometric evidence is variable but generally supports the view that training improves productivity and that the employer benefits from this (i.e. all the gains are not appropriated by higher wages)</td>
</tr>
<tr>
<td>Normative values</td>
<td>Some employers value training in its own right because it generates a social good for the employer and for the employer’s local area and community</td>
</tr>
<tr>
<td>Workforce planning</td>
<td>Econometric evidence shows that training reduces labour turnover. Other evidence shows that it increases the bond between employee and employer through the signals it conveys to the workforce</td>
</tr>
<tr>
<td>Reporting and human capital accounting</td>
<td>No information available about the extent to which employers’ training decisions are influenced by the way they report on their training activities in annual accounts</td>
</tr>
<tr>
<td><strong>External factors:</strong></td>
<td></td>
</tr>
<tr>
<td>External labour market</td>
<td>Excess external labour market demand pushes employers towards training, but excess external labour market does not necessarily negate the need for training because some employers prefer to train their own employees</td>
</tr>
<tr>
<td>Social partnership and other Institutional Arrangements</td>
<td>Acts to facilitate training through engendering a joint commitment to skills and training by both sides of industry. Drives up demand for training where the union wage premium needs to drive up productivity levels to be sustainable over the long-run</td>
</tr>
<tr>
<td></td>
<td>There are a range of institutional forums where the social partners are engaged in promoting training. Little evidence about the effectiveness of these organisations in raising training levels due to methodological problems</td>
</tr>
<tr>
<td>Funding or subsidies</td>
<td>Evaluative evidence suggests that, in general, the demand for training is increased but can be high</td>
</tr>
<tr>
<td>Inter-firm collaboration</td>
<td>There is potential for these to create momentum in relation to innovation and productivity improvements, which creates an increased demand for training. They also have a role in lowering the cost of training (as employers club together to provide training), and are a source of information, advice, and guidance on training matters which can facilitate training</td>
</tr>
<tr>
<td>Regulation and standards</td>
<td>A statutory requirement to be qualified in a given occupation creates a demand for training. Similarly the adoption of standards – where the employer regards these as beneficial - also creates a demand for training to ensure that standards are obtained and maintained</td>
</tr>
</tbody>
</table>

Hogarth, Bosworth et al., 2009
Conceptually, optimal investment in training occurs when the total future benefits and the costs of initial and ongoing investment are equal to each other (Bosworth, 2009). This means that firms and individuals are spending no more and no less on training than they will recoup in benefits. Factors which lead either to under-training (and thus not fully reaping its benefits) or over-training (spending more on training than returned in terms of benefits) have been removed or neutralised. In perfect market conditions, all firms are equally powerful and face no other competing influences or adverse structural constraints on rational decision-making. In practice, however, firms and individuals face a number of problems in reaching optimal decisions about training. There are two main types of inhibitors to investment. The first is information barriers to making rational decisions about training which might include information about the precise costs and benefits. The second is the presence and absence of incentives which may cause firms to under- or over-invest in training even though this is not consistent with optimal investment behaviour. These are the factors which are to be discussed in the rest of this chapter.

3.3 Why is there a need for state intervention to influence firms’ training activities?

The rationale for state intervention to influence training activity undertaken by firms lies in a number of dimensions of market failure which are explored in turn. Some factors which facilitate or hinder investment in skills by individual firms are internal to the organisation and some are external. These are summarised in Box 3.2 below
Box 3.2: Potential barriers to optimal training behaviour

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital market imperfections</td>
<td>Organisations may find financial institutions are reluctant to lend money for investment in training.</td>
</tr>
<tr>
<td>Short-termism</td>
<td>Evidence shows that it typically takes a long time to recoup the benefits of investment in training. Firms which choose or are required by institutional investors to make profits which are calculated over a short period of time may find it more difficult to justify investment in training.</td>
</tr>
<tr>
<td>Bounded rationality</td>
<td>Faced with a large number of pieces of (partial) information, managers may find it simply too difficult to judge the costs and benefits of training investment accurately. Beliefs and assumptions may help guide their decision-making.</td>
</tr>
<tr>
<td>Management education</td>
<td>The level of education managers have and their level of knowledge about training may influence investment decisions.</td>
</tr>
<tr>
<td>Imperfect information</td>
<td>Evaluating the benefits of training is difficult so training tends to be viewed as a cost, which can discourage investment. Employers may find the vocational educational, training and qualifications system difficult to access and understand.</td>
</tr>
<tr>
<td>Poaching</td>
<td>Some firms may not train their own staff if they can simply recruit workers trained by other organisations. In turn this can discourage organisations from investing in training, if they fear they will lose trained workers to other firms.</td>
</tr>
<tr>
<td>Transaction Costs</td>
<td>The cost to firms of sourcing and organising training.</td>
</tr>
<tr>
<td>Staff willingness to train</td>
<td>Staff may need to perceive a personal benefit of training to be willing to participate.</td>
</tr>
<tr>
<td>Access to suitable training provision</td>
<td>Firms which have specific training needs, operate in sectors which have few training suppliers or are based in remote geographical locations may find it difficult to find suitable external training providers.</td>
</tr>
<tr>
<td>Releasing Staff to Train</td>
<td>Enabling staff to leave the workplace to undertake formal training is identified as a particular problem for small firms.</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>The greater the number of staff to be trained, the lower the costs of investment in training per head.</td>
</tr>
<tr>
<td>Spillover benefits of training between firm</td>
<td>Firms may indirectly benefit from training done by others, for example, through the creation of a pool of skilled workers for the labour market, or through shared knowledge about the supply, costs and benefits of training.</td>
</tr>
</tbody>
</table>

Each of these barriers will now be briefly considered, including the evidence of their prevalence and the policy options which might tackle the particular characteristics of the barrier. Table 3.1 presents the policy options considered within the Policy Review together with a summary of their effectiveness in tackling each of the barriers identified. Much more detail is provided in the Conceptual, Empirical and Policy Reviews which are available separately.

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1 This is being addressed through UKCES Skills Simplification project in England and the UK Talentmap, while BIS is undertaking significant work in this area through its Business Support Simplification work in England.
# Table 3.1: Barriers to train and relevance of Collective Measures

<table>
<thead>
<tr>
<th></th>
<th>Capital market imperfections</th>
<th>Short-termism</th>
<th>Bounded rationality</th>
<th>Management education</th>
<th>Imperfect information (on quality and supply of training as well as benefits)</th>
<th>Poaching</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Levy</strong></td>
<td>Places onus on business to fund own training, but does not address business shortages in funding</td>
<td>May increase investment in training but will not necessarily encourage firms to invest in training with long payback period</td>
<td>Yes, by removing decision about training from employers</td>
<td>No guarantee that managers will make optimal investment in training as a result</td>
<td>Possibility of raising awareness of training benefits indirectly</td>
<td>Raising volume of skilled workers may tackle this, if levy covers shortage occupations</td>
</tr>
<tr>
<td><strong>Occupational licensing</strong></td>
<td>Depends on funding of occupational licensing; if businesses are required to fund, does not address their capital shortages</td>
<td>Yes, via compulsion of investment and requiring re-licensing</td>
<td>Yes, by removing decision about training from employers</td>
<td>May indirectly lead managers to appreciate benefits of training</td>
<td>Possibility of raising awareness of training benefits indirectly and improving quality of training through requirement to meet standards</td>
<td>Raising volume of skilled workers may tackle this, if licensing covers shortage occupations</td>
</tr>
<tr>
<td><strong>Human Capital Reporting</strong></td>
<td>Possibly through improving evidence on benefits of training but no evidence available</td>
<td>May help businesses calculate long-term value of training</td>
<td>Could be helpful</td>
<td>May lead to greater management understanding of benefits of training</td>
<td>Should produce beneficial impact but no policy evaluation available as untested policy option</td>
<td>Impact unlikely</td>
</tr>
<tr>
<td><strong>Individual right to request training</strong></td>
<td>No likely impact unless employees or state fund training</td>
<td>May help if individuals pursue training for long-term career objectives</td>
<td>Yes, by removing decision about training from employers</td>
<td>No direct effect, but management understanding of benefits of training to individuals in particular may improve</td>
<td>No direct effect likely</td>
<td>May encourage mobility of workers between organisations</td>
</tr>
<tr>
<td><strong>Review of Investors in People</strong></td>
<td>No likely impact</td>
<td>Could help to encourage long-term business planning</td>
<td>Yes by improving management education about the benefits of training</td>
<td>Possible impact on management understanding of benefits of training</td>
<td>Impact unlikely</td>
<td>Possible impact if training volume increases and numbers of skilled workers increases</td>
</tr>
<tr>
<td>Table 3.1 (continued): Barriers to train and relevance of Collective Measures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------</td>
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<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td><strong>Transaction costs</strong></td>
<td><strong>Staff desire for training</strong></td>
<td><strong>Access to suitable training provision</strong></td>
<td><strong>Releasing staff to train</strong></td>
<td><strong>Economies of Scale</strong></td>
<td><strong>Spillover benefits of training across firms</strong></td>
<td></td>
</tr>
<tr>
<td>Levy</td>
<td>If organised sectorally, may be helpful</td>
<td>No direct effect</td>
<td>Provides incentives to seek training provision but does not guarantee optimal choice of training</td>
<td>Partially overcome through compulsion, but training may be offered on the job</td>
<td>Partially overcome through compulsion, and levies organised sectorally may further increase these, but employers may be reluctant to invest in expensive training for small numbers of staff</td>
<td>Possibly if organised on sectoral basis</td>
</tr>
<tr>
<td>Occupational licensing</td>
<td>No direct effect</td>
<td>Tackles reluctance through compulsion</td>
<td>Should address training quality through standards-based approach and increase supply by driving up demand</td>
<td>Overcome through compulsion</td>
<td>Overcome through compulsion</td>
<td>Likely if organised collectively and should raise volume of skills in specific occupations</td>
</tr>
<tr>
<td>Human Capital Reporting</td>
<td>Impact unlikely</td>
<td>No direct effect</td>
<td>No direct effect</td>
<td>No direct effect, but management education effects may help</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
</tr>
<tr>
<td>Individual right to request training</td>
<td>Reduced if employees responsible for organising training</td>
<td>Should help overcome this, but considerable IAG needed and limited evidence of policy impact</td>
<td>No direct effect</td>
<td>Directly solves this problem</td>
<td>Impact unlikely</td>
<td>Possible impact if individual moves jobs as a result of training</td>
</tr>
<tr>
<td>Review of Investors in People</td>
<td>Impact unlikely</td>
<td>No direct effect</td>
<td>Brokering element of service may offer this</td>
<td>No direct effect, but management education effects may help</td>
<td>No direct effect</td>
<td>Impact unlikely</td>
</tr>
</tbody>
</table>
### Table 3.1 (continued). Barriers to train and relevance of Collective Measures

<table>
<thead>
<tr>
<th></th>
<th>Capital market imperfections</th>
<th>Short-termism</th>
<th>Bounded rationality</th>
<th>Management education</th>
<th>Imperfect information (on quality and supply of training as well as benefits)</th>
<th>Poaching</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Procurement policies</strong></td>
<td>Places onus on business to fund own training, but does not address business shortages in funding unless subsidies for e.g. L2 qualifications accessed</td>
<td>Could overcome short-termism through compulsion, but depends on design of policy</td>
<td>Yes, by removing decision about training from employers</td>
<td>May indirectly lead managers to appreciate benefits of training</td>
<td>Indirect impact possible</td>
<td>Raising volume of skilled workers may tackle this, if policy covers shortage occupations</td>
</tr>
<tr>
<td><strong>More and better employer networks</strong></td>
<td>Could make training more affordable through economies of scale in sourcing provision</td>
<td>Possible effect through management education about benefits of training</td>
<td>Likely to improve management education and therefore tackle this problem</td>
<td>Widespread evidence of beneficial impact</td>
<td>Likely to improve access to training suppliers and provide intelligence on quality standards</td>
<td>May reduce poaching through closer social bonds between employers, raising volume of generic transferable skills, inhibiting adverse behaviours</td>
</tr>
<tr>
<td><strong>Subsidised training</strong></td>
<td>Yes, provides alternative funding source</td>
<td>Possibly, depending on conditions of subsidy</td>
<td>No direct impact</td>
<td>May indirectly lead managers to appreciate benefits of training</td>
<td>Impact possible where subsidy accompanied by brokerage services</td>
<td>Raising volume of skilled workers may tackle this, if generic skills shortages reduced</td>
</tr>
<tr>
<td><strong>Tax breaks</strong></td>
<td>Possibly, degree of impact depends on level of tax break</td>
<td>Possibly if over a long-term period</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
</tr>
<tr>
<td><strong>Loan guarantees</strong></td>
<td>Possibly helpful but limited evidence on this</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
<td>Impact unlikely</td>
</tr>
<tr>
<td><strong>Improving management/ Employee dialogue on training</strong></td>
<td>May be helpful if alternative sources of funding identified</td>
<td>Possible indirect effect through management education about benefits of training</td>
<td>Possible indirect effect through management education about benefits of training</td>
<td>Possible increase in management understanding of benefits of training</td>
<td>Possible information on sources and quality of training through union networks</td>
<td>May increase worker commitment to employer</td>
</tr>
</tbody>
</table>
Table 3.1 (continued): Barriers to train and relevance of Collective Measures

<table>
<thead>
<tr>
<th>Procurement policies</th>
<th>Transaction costs</th>
<th>Staff desire for training</th>
<th>Access to suitable training provision</th>
<th>Releasing staff to train</th>
<th>Economies of Scale</th>
<th>Spillover benefits of training across firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact unlikely</td>
<td>No direct effect</td>
<td>May increase supply by</td>
<td>Overcome through compulsion</td>
<td>Overcome through</td>
<td>Indirect effect</td>
<td>through raising volume of skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>driving up demand</td>
<td></td>
<td>compulsion</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Access to suitable training provision</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More and better employer networks</td>
<td>Costs of training may be shared through employer networks</td>
<td>No direct effect</td>
<td>May offer insights into accessing high quality suitable provision</td>
<td>Collective power of employers may encourage providers to organise training in a way that tackles this</td>
<td>Likely to help through encouraging employers to resource training needs collectively</td>
<td>Likely to yield benefits of network and social capital, as well as develop transferable skills through collectively identified training</td>
</tr>
<tr>
<td>Subsidised training</td>
<td>Brokering services may reduce transaction costs of organising training</td>
<td>May overcome cost barriers</td>
<td>Brokering element of service may offer this</td>
<td>No direct effect</td>
<td>No direct effect</td>
<td>No direct effect</td>
</tr>
<tr>
<td>Tax breaks</td>
<td>Impact unlikely</td>
<td>No direct effect</td>
<td>No direct effect</td>
<td>Could help if cover indirect as well as direct costs of training</td>
<td>No direct effect</td>
<td>Impact unlikely</td>
</tr>
<tr>
<td>Loan guarantees</td>
<td>Impact unlikely</td>
<td>No direct effect</td>
<td>No direct effect</td>
<td>Could help if cover indirect as well as direct costs of training</td>
<td>No direct effect</td>
<td>Impact unlikely</td>
</tr>
<tr>
<td>Improving management/Employee dialogue on training</td>
<td>Possible cost savings if employee representatives assist in co-ordinating training provision</td>
<td>May be helpful in overcoming staff fears leading to reluctance to train</td>
<td>Possible information on sources and quality of training through union networks</td>
<td>May enable joint solutions to be found</td>
<td>May help identify cost effective ways of meeting training needs</td>
<td>Possibly through employee representative networks</td>
</tr>
</tbody>
</table>
3.3.1 Capital market imperfections

Firms which operate on low margins in markets which are price sensitive may find it difficult to secure investment in training. This is especially problematic for businesses which do not have assets or profits against which loans can be secured, even though they might be most in need of investment, such as new or small growing enterprises. Difficulties in proving the benefits of training and calculating risks of the investment for investors also contribute to reluctance to invest. Policy options which have most likelihood of addressing these barriers are those which improve the quality of information about benefits to training, provide sources of funding or indirectly reduce costs of training to businesses. These include developments in human capital reporting techniques, subsidies to firms and tax breaks or loan guarantees. Very little evidence seems to be available on the impact of policies such as human capital reporting requirements or loan guarantees for training in the policy review, but subsidies appear to have a valuable role to play in skills development in small firms. There is evidence that the quality of training provided might be lower in their absence and that some firms would simply lack the capacity to provide training (CRG Research limited, 2009;EKOS Consulting, 2009).

3.3.2 Short-termism

Businesses which choose, or are required by institutional investors, to make profits which are calculated over a short period of time may find it more difficult to justify investment in training. Individual managers who are short-termist will be more risk averse to investments such as training which have a long payback period. The empirical review found equivocal evidence on whether capital markets are themselves short-termist. But it found that individual managers within organisations sought high rates of return on investment over a short period of time to meet their perceptions of capital market expectations. Policies which enable firms to measure the long-term value of training more accurately, such as human capital reporting, may help tackle this problem, as well as management education which enlightens and enables employers to take a long-term view of business strategy and skills development. Policies which compel businesses to invest in training, such as occupational licensing, should also overcome this problem by removing decisions about training from employers. Levies may also increase investment in training, but will not necessarily encourage employers to invest in training with a longer-term payback period. Tax breaks over a long-term period could encourage managers to evaluate training over a longer time scale, but evaluations of tax break policies do not address this question directly.

3.3.3 Bounded rationality

This problem occurs when managers are trying to make decisions about whether to invest in training. The risks and future benefits of training are difficult to evaluate and information on them, and the quality of available training, is often incomplete. For managers, this means that they have to process a large number of partial pieces of information. In these circumstances, managers may prioritise what they consider to be the most significant factors and support their reasoning with beliefs and
values as a shortcut to decision-making. Bounded rationality in relation to the value of training could be overcome by improving the quality of information that employers have on the impact of training through policies such as human capital reporting, but the empirical evidence review and policy review finds no evidence of this being deployed as a policy (Hogarth, Bosworth et al., 2009) (Cox, Sumption et al., 2009). However, because organisational decision-making relies on beliefs and values as well as empirical data (Hogarth, Bosworth et al., 2009), tackling bounded rationality by improving employer decision-making may also benefit from persuasive narratives which employers are likely to acquire through first hand accounts of the benefits of training from other employers. These may be indirectly derived from membership of inter-employer networks.

Policies which compel organisations to invest in training such as levies, occupational licensing and public procurement requirements could also overcome the problem of bounded rationality by removing the choice about investment in training from individual organisations. Investors in People accreditation may help overcome bounded rationality by improving the quality of information used in decision-making about training. Policies which offer financial incentives for training such as tax breaks or loan guarantees may overcome bounded rationality for some employers but are more likely to be attractive to employers who are already committed to training. There is no direct evidence of the impact of tax breaks on employer investment in training. The complexity of scheme design may serve to confuse targeted groups such as SMEs (Stone and Braidford, 2009), and complexity in the policy option is undesirable since it compounds rather than reduces the problem of bounded rationality.

3.3.4 Management education

The impact of management education on training takes a number of forms. The empirical review found that management education was especially important in influencing organisational strategy. Here, lack of management education might limit aspirations to competing in higher value-added markets, which often leads to demands for higher level skills and consequently investment in staff development, or failure to recognise basic training needs in lower value added market. For organisations which trade internationally, relative levels of management education are important, and Tamkin et al. (2006) show that not only do UK managers tend to have lower levels of qualifications, but they rate management training as less important than experience compared to managers in other countries, and also have a weaker career infrastructure. In these circumstances, managers are also less likely to use a developed human resources management strategy with an explicitly articulated approach to skills development, which, in turn, is likely to inhibit training. A further important dimension of management education is their social capital in terms of ability to communicate successfully with others – including their network - which may provide access to solutions to business problems and new markets.

Indirect financial incentives such as tax breaks and loan guarantees tend to have little impact on management education about training benefits, as they are more likely to appeal to firms which are already interested in developing their staff. Policies which increase investment in training through compulsion, such as levies, do not guarantee that managers will make optimal investments as...
a result (Billet and Smith, 2005; Dar, Canagarajah et al., 2003). **Occupational licensing**, which directly specifies the nature of the investment required, may indirectly lead managers to appreciate the benefits of training. Evidence shows that **inter-employer networks** can both expand managerial networks and demonstrate the connections between training and the solution to business problems in a way which managers find persuasive - that is, because it is communicated by other managers, who are considered to be more credible than third parties (Cox, Sumption et al., 2009). Where **Investors in People** accreditation is undertaken thoroughly, this is likely to result in managers having a greater understanding about the role that training plays in contributing to business performance. **Improved dialogue** between managers and employees may serve to enlighten employers about the potential benefits and consequences of training versus not training employees.

### 3.3.5 Imperfect information

Imperfect information on the benefits of training is not simply a problem in itself but also contributes to short-termism, capital market imperfections and bounded rationality. The empirical review (Cox, Sumption et al., 2009) found evidence of difficulty in evaluating the impact of training on workplace performance, although there would also appear to be an absence of any negative effects. A number of studies show positive associations between training and share price; training and workplace survival and employee productivity (e.g. (Collier, Green et al., 2009)). Improving measurement methods is mostly likely to improve data quality, but this would need to take a form which is readily accessible to managers. In policy terms, there is no evidence of the impact of human capital accounting methods on training (Hogarth, Bosworth et al., 2009), in part because no cases were found where this was fully deployed as a policy. Policies which compel employers to train such as occupational licensing, public procurement or levies might indirectly raise employer awareness regarding the benefits of training. Employers may also acquire enhanced understanding of the benefits of training through complying with legislation that confers training rights on individuals, but the degree to which this convinces organisations that training is a worthwhile investment will depend upon the extent to which managers perceive that employers, as well as individuals, benefit (Gasskov, 2009). The process of acquiring **Investors in People** accreditation may often lead to plugging information gaps on internal processes relating to training and the benefits of undertaking them.

Information supply on sources of training may also be important in influencing the training decision. It is one of the main reasons reported as a barrier to conducting more training (Shury, Davies et al., 2008). Here, the empirical evidence review suggests that **inter-employer networks** can be beneficial in helping employers gain access to information about training and in particular in navigating vocational education and training systems through trusted advisers (Hogarth, Bosworth et al., 2009). Financial incentives such as **tax breaks** and **subsidies** will not address information shortages unless accompanied by a **brokering** mechanism (as with Train to Gain).
3.3.6 Poaching

Economic theory predicts that poaching of trained workers by other employers has the potential to reduce investment in skills which are particularly attractive in the labour market. The forms of training most affected will therefore be those which generate transferable skills that can be used by other employers. The consequences of poaching are more damaging for high tech, high skills organisations than for low skilled, low tech firms as it is more difficult and more expensive for them to replace staff. The implications are that employers may need to develop policies to bind individuals to organisations through attractive human resource practices or impose penalties on individuals who receive training and leave before their employer has reaped the full benefits. The empirical review found that employers in locations with high business population density gave less training because employers could hire skilled workers more easily than in other geographical areas. The implication may be that poaching is more likely to occur in these areas.

Measures which compel employers to invest in training (such as levies, occupational licensing and public procurement policies) may reduce the incidence of poaching by raising the volume of skilled workers in organisations, and removing the need for employers to ‘buy in’ skills - assuming that these policies raise the volume of skills which are in short supply. Policies which encourage employers to act collaboratively when investing in skills such as inter-employer networks are also likely to reduce poaching activity. This is because, firstly, in prioritising training, employers are likely to invest in skills which are of collective value through their transferability and, secondly, networks may produce social bonds between employers which inhibits adverse behaviour between members of the network. Provision of subsidised training might also reduce poaching if the subsidised training develops generic skills in occupations which are in short supply.

3.3.7 Transaction costs

The costs of sourcing and organising training provision represent a cost to management time and the maximum rate of economic expansion of organisations is dependent on management capacity to train staff. The availability of management resources, how managers prioritise their time, and the degree of attention they give to planning staff development are significant in supporting investment in training. Lack of training for lower skilled staff may also mean that managers spend their time solving problems or doing tasks below their capability. This is shown to be a particular characteristic of work organisations in the UK when compared to other countries. Some efficiency gains may come from absorbing some transaction costs for businesses which develop an internal labour market. Firms which seek to create a long-term career structure for their staff may find the benefits offset the investment of management time.

Policies which reduce transaction costs associated with organising training include those which offer external sources of support. This includes brokering services which are part of subsidised training provision and inter-employer networks where costs may be shared or absorbed through accessing training as part of a larger group of employers. Training developed collaboratively, at sectoral level
for example, in response to a levy policy, could also reduce transaction costs. **Improved dialogue** between managers and employees on training, for example, through employee representatives, might enable creative ways of reducing transaction costs in the organising of training to be identified. Financial incentives in the form of tax breaks and loan guarantees do not directly overcome this problem. Granting **rights to training** for individuals places the onus of responsibility on the employee to source and organise their own training and thus overcomes this problem by removing it from managers. However, such systems reduce organisational influence over the content of the training which means that firms may not reap the full benefits.

### 3.3.8 Staff desire for training

Economic theory suggests that people will rationally weigh up the benefits of training using criteria such as the likelihood of gaining promotion and/or higher wages before deciding to participate. The degree of staff motivation affects the take up of training and empirical evidence shows that over one-third of employers surveyed named staff reluctance as a barrier to training (Shury, Davies *et al.*, 2008). Wider literature notes particular reluctance among those with low or no skills or qualifications, and among those with negative experiences of formal schooling. The policy option of conferring **individual training rights** may help to overcome rationally founded staff reluctance to train by offering better alignment between training content and individual interests and aspirations. However, evidence from the policy review showed that take up of individual training rights in European countries offering them is very low. This may be due to reluctance to lose income where time off to train is unpaid, because employees are satisfied with training provided by their employer or because they do not seek additional learning opportunities. The Employee Demand study conducted for the UK Commission (Johnson, Sawicki *et al.*, 2009) showed that major barriers to individual learning were lack of interest and preference to spend time in other ways. Considerable effort in the provision of information, advice and guidance may therefore be needed to stimulate employee demand for training. **Improved dialogue** between managers and staff, potentially through the involvement of employee representatives, may help alleviate staff apprehension about the content and purpose of training and raise awareness of the benefits.

### 3.3.9 Access to suitable training provision

This barrier has a number of dimensions, including practical problems for organisations or individuals in remote geographical locations, the convenience of timing and scheduling of courses and, indeed, what is defined as ‘suitable’ training. There is also a longstanding trend for employers and learners to seek specific training provision which is more customised to individual and firm needs and delivered in smaller units of time and content. Using financial policies, such as **levies**, which drive firms to invest in training may incentivise them to seek out provision, but may also result in spending on most convenient rather than optimal provision. **Subsidies** which cover investment in general training may overcome any employer reluctance to invest in training which builds transferable rather than firm-specific skills. Policies involving support or **brokerage** such as **subsidies** and **inter-employer networks** may provide insights into best ways of obtaining high quality customised training provision.

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1 The launch of the Adult Advancement and Careers Service provides an opportunity to tackle this issue.
3.3.10 Releasing staff to train

Enabling staff to leave the workplace to undertake formal training is identified as a particular problem for small organisations which, by definition, have less organisational slack to cover absent staff. For some sectors or occupations regulation or workplace practicalities may require minimum numbers of staff at any one time. Policies which involve compulsion for individuals overcome this barrier to training. This includes occupational licensing, public procurement policies and compulsory individual rights to training or time to train. Policies such as inter-firm networks which enable employers to exert power over training providers to organise training in a way that is most convenient to them may also tackle this barrier. Improving dialogue between managers and employees over training might enable the creation of joint solutions to enable workers to train. Financial incentives would need designing to cover eligibility of indirect as well as direct costs of training in order for them to tackle this barrier.

3.3.11 Economies of scale

Greater benefits are likely to accrue to the firm from training when it is cost effective. This is in turn dependent on the cost per person of training activities. For small firms, capital investment in equipment needed for training may be prohibitively expensive if very few staff need it. Policies which offer financial support for training in the form of subsidies or tax breaks may help to offset these costs. Other policies which compel firms to train such as public procurement requirements, bypass the barrier but, with the exception of occupational licensing covering affected groups, may not guarantee that investment will be made in staff whose training is expensive when calculated per head. Practical solutions to generate economies of scale may be obtained through policies which encourage employers to pool training resources or commission provision collectively. These might include some forms of levy system and inter-employer networks. The policy review (Cox, Sumption et al., 2009) provided a number of examples of inter-employer collaboration in training provision where small firms gained access to the training facilities of larger organisations.

3.3.12 External spillovers of training between firms

The Conceptual Review drew comparisons between the benefits of training spillovers and those of R&D spillovers. In the context of training, the conceptual review notes that it is not clear to what extent employers rather than individuals benefit from the spillovers of training activity. However, a reduction in poaching behaviour is likely to occur as a spillover benefit of having larger numbers of trained workers within any given labour market recruitment pool. For firms which are trading with each other through supply chain or product market networks, a better trained workforce may lead to improved product quality.

Policies likely to generate external training spillovers are those which encourage inter-employer collaboration through learning networks or through collaboration on the implementation of training arrangements to meet levy or occupational licensing requirements. Policies which act on employers as individual organisations such as tax breaks or loan guarantees are less likely to have this effect. Policies which affect individual workers such as individual training rights may confer direct albeit unintended benefits on organisations if the individual moves jobs as a result of the training.
Box 3.3: The Case of Small Firms

‘Small firms are a microcosm where a wide variety of (the) barriers are brought together, management skills and time, access to funding for training, etc. There is the cost to employers of giving low skilled staff time off work as well as the lack of time for training due to work pressures’ (Bosworth, 2009). Whilst all the factors discussed in this section apply to small firms, they will apply differently according to the size of the business (even within ‘small firms’ and particularly ‘small and medium sized enterprises’, there are significant differences in size); sector; ownership (e.g. whether part of a larger firm or a single site business); and business strategy (‘Small employers with more ambitious strategies – based on innovation, growth and higher value production – engage more intensively in training, in spite of the constraints’ (Stone, forthcoming). In policy terms, it is important to understand the differences within ‘small firms’ and to provide the conditions likely to facilitate training in small firms. For example, small firms might pool resources and work collaboratively to address obstacles and there are many examples of this activity in the UK and abroad, e.g. Skillnets in Ireland with 55 sector or area based networks in operation, all focused on small firms (Stone, forthcoming).

3.4 Barriers to Implementation and Success of Potential Policies

In selecting policy instruments to address the various factors creating market failure which are discussed above, it is necessary to be aware of potential barriers which might influence the relative success or failure of different policy options. This section reviews potential barriers for each policy option in turn. The policies reviewed are plotted in Figure 3.1 using the same typology as in the discussion of current Collective Measures in Chapter 2.
Figure 3.1: Policies reviewed within Collective Measures

Note: As in Figure 2.1, the positioning is illustrative and not designed to be precise. Some policies identified in Figure 2.1 are not included in the review because there is little information or because the policy is in development, such as Sector Skills Councils, which were subject to re-licensing at the time of the review.
3.4.1 Levies

The policy review considered a substantial body of evidence on levy systems. Despite the relatively promising potential of levies to tackle some of the barriers to training identified earlier in this chapter, levy systems appear, in practice, to be relatively unsuccessful due to a number of operational barriers (Cox, Sumption et al., 2009). Evidence suggests that levy systems often do not succeed in allocating funding for training to targeted employer groups such as small and medium sized firms and incur significant administration costs and manipulation/compliance problems. Pre-existing strong tripartite relationships at sectoral levels are a feature of successful levy systems, but these are not, overall, a feature of the UK economy. Levies can be deeply unpopular with employers and a number of such systems have been abandoned as a result. There are a limited number of circumstances in which levies may have a useful role in stimulating employer investment in training. These conditions for success include fragmented and geographically dispersed industries, consisting of many small organisations in sectors where training may be resource/capital intensive, and where there is a general employer consensus that levies are essential to ensure an adequate minimum level of training within the sector.

3.4.2 Individual training time rights

While rights to individuals should overcome employer reluctance to train, there is evidence from overseas that take up of individual training time rights is very low relative to the proportions of eligible employees (often less than one per cent). Individuals intending to change careers are among the groups most likely to make use of the right, thus meaning that their current employer may receive little benefit, while there is mixed evidence on whether employees from vulnerable labour market groups make use of their rights. To address this sub-optimal impact, significant investment in a resource-intensive individual information advice and guidance service specifically dedicated to ensuring that employees make use of training rights appropriately would be required.

3.4.3 Occupational Licensing

Occupational licensing requires employer support for the principle, and may be regarded as an undesirable regulatory burden, creating a need to persuade employers of the case for its benefits. Employers and employees may be concerned about how costs of training, assessment and re-licensing are apportioned and the schemes require careful design to ensure this is equitably shared. The selection of occupations for licensing is critical and co-ordinating arrangements for training may be difficult if relevant occupations are fragmented or distributed across multiple sectors. Effective enforcement mechanisms would be required such as monitoring and an agency to impose and administer sanctions for non-compliance. Fraudulent production of licenses is a risk that would require detection and deterrents.
3.4.4 Modifying Accountancy Standards

Modifying accountancy standards is a complicated task which would require collaboration among a number of different stakeholders. For multi-national organisations which have to meet reporting requirements in a number of different countries, it is necessary to consider any impact that a UK change would have. Making these changes needs to be considered within the broader debate on human capital reporting. It requires development of definitions of training and appropriate means of measuring and estimating the value and impact of different forms of training. This is a challenging activity which may take some time, and it will be important to maintain momentum behind the policy options in this area while they are being explored.

3.4.5 Public procurement policies

Using public procurement policies to drive up investment in training may enable policy to target groups who are least likely to receive training from their employer. Current EU procurement rules and the national UK procurement policy permit using development of workforce skills as a criterion for awarding contracts to suppliers when skills are relevant to the goods or services supplied and can increase value for money obtained for the public purse. There is very limited evidence on the impact of public procurement policy on training (Binks, 2006). Current use of public procurement policy to promote training focuses primarily on plugging basic skills gaps, which currently receive public subsidy in England. The explicit purpose of the collective measures study is to identify policies which will encourage employer investment in skills as opposed to further state investment in skills, so further work would be required to assess the implications of withdrawal of subsidies for Level 2 qualifications for firms seeking or holding government contracts and the potential of public procurement policy to encourage employer investment in higher level skills. Public procurement regimes would also need careful monitoring and scrutiny of the quality of training provided to ensure they do not become a bureaucratic process. The quality of training given may also be variable unless audited.

3.4.6 Loan guarantees for training

Loan guarantees for training are intended to help overcome costs as a barrier to investment, particularly for small employers or those facing high costs of materials/equipment etc. In practice, loan guarantee schemes are rarely used explicitly for training, with approximately two-thirds of them being used for investment in physical assets and one-third for working capital or cash flow. One barrier to their impact is that the individual decision of whether or not to lend money rests with the financial institution rather than the government. Given the problems identified in the conceptual review in making the case for training as an investment rather than a cost and the short payback expectations from financial institutions for loans made (Bosworth, 2009), loan guarantees for training would benefit from further research to understand how their operation might be optimised. Current difficulties in the financial system are leading to reluctance among investors to lend to organisations, so timing for launching such a scheme would need to be propitious. More fundamentally, investor reluctance to loan funds for training is partly connected to the current system of accounting standards and their treatment of human capital. This policy may therefore be more suitably implemented after measures to support human capital reporting are developed.
3.4.7 Improving dialogue on training between employers and employees

Evidence from other nations illustrates the potentially powerful role that dialogue between employees and employers, facilitated through employee representatives, can have on stimulating investment in, and take-up of, training. This is especially notable when training is incorporated as a focus of institutionalised collective bargaining. However, in the UK, effects of such social partnership on training appear to be relatively limited due to the erosion of trade union representativeness, reflected in low membership levels and the decline in collective bargaining. Unions have made strong efforts, in particular through the work of Unionlearn, to advance the learning agenda and case study work has illustrated the impact of Union Learning Representatives in stimulating demand for, and take-up of, training among workers with low skills or no previous qualifications. However, union coverage is higher in parts of the economy where organisations are most likely to train staff, such as the public sector and manufacturing, and lower in SMEs and private sector services. While there is clearly potential for unions to champion investment in skills, this is contingent upon them representing a wider proportion of the workforce than currently is the case. This is likely to require alterations to the framework for employment regulation and a fundamental shift in collective relations between employers and employees, which currently represents a major barrier to implementing this policy.

3.4.8 Layered Investors in People Accreditation

Investors in People is a well recognised and clearly understood scheme. Changing the model of Investors in People accreditation creates the risk of diluting the clarity of the brand and its purpose. Careful communication would be needed to ensure it is understood by all stakeholders including employees and organisations which use IiP as part of their contracting criteria. The design would need to be particularly carefully developed to ensure it is transparent for small firms and incentives may be required to encourage larger firms to gain higher level accreditation, otherwise they may not seek it. Using incentives or compulsion mechanisms to encourage large employers to make greater investments in training as a component of the standard also fundamentally alters the nature of the standard from its underpinning voluntary principles and would require detailed assessment before such a change.

3.4.9 Inter-employer networks

There is a large number of positive narrative accounts of the benefits of inter-employer networks (Cox, Sumption et al., 2009). However, inter-employer networks are demanding in the support required for their operation and require considerable commitment from employers. Competitor organisations may not wish to collaborate with each other, therefore requiring careful selection of network participants, and it can take time to build up sufficient trust between organisations to generate optimum benefits from networks. There may also be difficulties in generating interest in networks from an appropriately diverse group of employers and significant marketing effort may be required. This may involve face-to-face contact to persuade small employers to participate and may require time and effort from larger employers to exert influence through supply chains or among their local employer community. Enabling employers to work together effectively also demands support from a highly skilled and credible network facilitator.
3.4.10 Standalone government subsidies for training

Government subsidies for training are a very widespread tool. However, some policy evaluations conducted suggest that they increase the volume of training but not the amount of employer investment. This is because more sophisticated organisations which already have well developed training systems and are astute in claiming government subsidies tend to make use of subsidised training. Subsidies may, however, be required for specific groups of employers who would be genuinely unable to train without them, such as small organisations. Designing and administering a system of subsidies therefore is likely to require significant time and effort in targeting them appropriately, which requires significant investment in addition to the cost of the subsidies.

3.4.11 Tax breaks

Tax breaks for training and R&D were considered in the policy review. There is very limited evaluative evidence of the impact of tax breaks on employer spending on training compared to the evidence base on the impact of tax breaks on R&D. This study suggests it is likely that: 1) tax breaks would need to be relatively generous in a low tax economy to stimulate employer action, 2) differential tax rates would be needed to target specific groups appropriately (which would increase costs and reduce system transparency), 3) the tax break would need to be targeted at additional or specific types of training (again increasing administration costs and reducing transparency) and 4) employers are often able to manipulate the system to maximise the financial benefit to them.

While much of the evidence on R&D tax breaks is positive, the policy review concludes that R&D tax breaks are targeted at firms which have a pre-existing commitment to, or interest in, R&D. The employers targeted by Collective Measures are a much wider and more diverse group. The empirical evidence review noted that many employers do not train because they do not perceive training needs to exist in their workforce. Tax breaks are unlikely to drive up employer investment in training as they do not tackle employer motivation to train, but simply reduce the barriers for employers in circumstances where an employer demand for training is present. Tax breaks may therefore be a useful mechanism to stimulate engagement among limited groups of employers (e.g. small entrepreneurial firms).

3.5 Policies under consideration

The review of policy options reveals that there is no ‘magic bullet’ which will achieve the policy objective of increasing employer investment in training. The evidence base was wide ranging but stronger in support of some policies than others and this was taken into account in selecting four policy options for testing with stakeholders through a series of Policy Prioritisation Events. The policies selected were, nevertheless, chosen according to their relative likelihood of success. This involved consideration of policy options on the basis of available evidence which would lead us to conclude that they will work better than the alternatives in addressing the issue, even though they are unlikely to provide the solution in all circumstances and for all firms.
The policy options are now presented in two sections. The first consists of policies which were not prioritised within the study but remain open for future consideration. The second section describes the policies which were taken forward for consideration in the Policy Prioritisation Events.

### 3.6 Non-prioritised policy options

The barriers discussed in the section above lead this report to conclude that a number of options attract a lower level of prominence and priority. These are levies, individual training time rights, standalone government subsidies for training, tax breaks, public procurement policies and loan guarantees for training.

### 3.7 Recommendations of policies for further consideration

The following policies were identified in the policy review as worthy of subjecting to more detailed appraisal and discussion with key stakeholders in the Policy Prioritisation Events. In the case of inter-employer networks, there was substantial and consistent evidence to suggest this policy should be pursued. In the case of occupational licensing, this option has the potential to tackle skills deficits in particular occupations directly. There is limited available evidence of the potential development and adoption of methods for valuing human capital and the benefits of training, especially through modified accountancy standards, however, the recurrent significance of this problem as a barrier to training identified in the conceptual and empirical reviews suggests that it should be prioritised. The potential of Investors in People as a training related quality standard to alter employer behaviour was also recognised as potentially powerful and worthy of further investigation. This is summarised in Table 3.2 below.

#### Table 3.2: Level of support for different policy levers

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<thead>
<tr>
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<tr>
<td>Inter-employer networks organised by geography/sector/supply chain</td>
<td>✓ (sectoral) (and (some overlap with neighbourhood policy measures?))</td>
<td>✓</td>
<td>✓ ✓ ✓ (strongest evidence found)</td>
</tr>
<tr>
<td>Modifying Accountancy Standards</td>
<td>✓</td>
<td>Not implemented</td>
<td>Not implemented</td>
</tr>
<tr>
<td>Occupational licensing</td>
<td>✓</td>
<td>✓</td>
<td>✓ but limited likely application</td>
</tr>
<tr>
<td>Investors in People</td>
<td>✓</td>
<td></td>
<td>May focus investment on training rather than increase levels of training</td>
</tr>
</tbody>
</table>

The rationale for considering each of these policy options within the Policy Prioritisation Events (PPEs) and the articulation of the policy options at these events is presented in sections 3.7.1 to 3.7.4 below. Section 3.8 outlines general conclusions of the PPEs and describes the process of selecting policies for appraisal. Chapter 4 reflects on the outcomes of the PPEs and appraisals for each policy option.
3.7.1 Policy 1 – Extending better inter-employer networks

Inter-employer networks have the potential to overcome a number of problems and barriers to training identified in the conceptual and empirical evidence reviews (Bosworth, 2009; Hogarth, Bosworth et al., 2009). These include: networking to solve business problems which may result in identifying management and leadership skills as an issue and appropriate training as a solution; information asymmetry on the benefits of training; difficulties in sourcing and accessing appropriately tailored learning through lack of economies of scale (which may be particularly acute for small firms and geographically dispersed organisations); and fear of poaching.

Although there are a number of existing networks, many do not possess the characteristics of successful training networks, e.g. led by a relatively small and focused number of employers; organised on geographic, sectoral or other lines as defined by the employers concerned and flexible to this; and focused specifically on the development of skills. The Employer Learning Networks funded by Government between November 2000 and July 2001 present an example of how the networks might be distinguished from existing networks, but allowing a more significant period of time for testing and evaluation to determine the effectiveness of this approach.

Considered within the PPEs were a series of sub-options, associating networks with a further range of policy options in specific circumstances: sectoral levy (where the sector has a high proportion of small employers, is geographically dispersed and/or fragmented); a tax break (where innovation is linked to additional training); subsidy (where funding acts as a ‘carrot’ to encourage additional training).

3.7.2 Policy 2 – More extensive occupational licensing

Occupational licensing has the potential to overcome a number of barriers to training identified in the conceptual and empirical evidence reviews (Bosworth, 2009; Hogarth et al., 2009). In particular, it directly tackles market failures that affect the demand for training, has the potential to level up training received among an occupational group, thus reducing fear of poaching among employers, and could compel suppliers of training to invest in provision in under-resourced subjects or occupational areas.

The proposal in the PPEs was to extend occupational licensing to a broader range of unspecified occupations.

3.7.3 Policy 3 – Layering Investors in People Standard

IiP has the potential to overcome a number of barriers identified in the study. Because of its link to the business strategy, it embeds training within the wider strategic goals of the firm and thus engages, and should inform, managers and encourage a longer term focus. It is distinct from other quality standards because of its focus on training.
Following a recent review of the Investors in People Standard, a new approach was launched in May 2009, introducing a layered approach with additional recognition for additional achievement and a more flexible approach which may encourage engagement from SMEs. This shares many of the features of the Investors in People policy option discussed at the Policy Prioritisation Events, although the new approach does not include an element of ‘requirement’ for example, for larger organisations seeking public contracts nor does it necessarily seek to focus on businesses which are not already engaged in training (i.e. enhancing breadth as well as depth of training activity). However, at the time of the PPEs, the discussion was focussed on the original policy option and the imminent launch of the new approach was not raised.

3.7.4 Policy 4 – Modifying Accountancy Standards

The purpose of this policy option is to make it easier for employers to invest in training by making it a less risky form of expenditure when judged from an accountancy perspective and to overcome information asymmetry on the benefits of investment in training and to help evaluate its impact more accurately. The conceptual and empirical evidence reviews for this project noted that conventional accountancy methods tend to regard training as a cost rather than an investment, and may therefore discourage employer investment in skills. There is also limited evidence of organisations undertaking thorough cost-benefit analyses of training interventions which they provide to staff.

The proposal discussed in the PPEs was to modify accountancy standards to introduce a consistently applied and required accountancy standard for training and to treat training as an asset not a cost.

3.8 Policy Prioritisation Events and Initial Economic Appraisal

A key stage of the Collective Measures study, the Policy Prioritisation Events, enabled us to ‘test’ the outcomes of the literature reviews and the subsequent prioritised policy options with a range of stakeholders at a series of 10 PPEs across the UK (see Devins, Nunn et al., 2009, for full details of the outcomes of these Events). The PPEs highlighted a number of conclusions and implications, including:

- there was widespread support for some change in the policy framework, though there was not consensus on what that should be;
- the preferred policy option presented at the Events was inter-employer networks, with more mixed and cautious support for the others;
- there was some disappointment that more radical options had not been presented, although it was also acknowledged that no alternative policy option was apparent;
- careful policy design and implementation was essential to ensure the success of any policy option (again, there was not always consensus on what this would look like);
• a need to ensure that any policy option should be consistent with the simplification agenda and sensitive to the UK context.

As no policy option was discounted at the PPEs, though concerns were raised about the specific design, it was decided to make progress with all four options since they all had a potential to enhance employer investment in skills. However, given that at this time IiP UK launched the new approach to the Standard and that further detail was needed on the feasibility of modifying accountancy standards, the decision was taken to progress with initial economic appraisals for inter-employer networks and occupational licensing only, whilst undertaking further investigations into modifying accountancy standards and IiP.

The outcomes of this further development work are detailed in the presentation of the policy advice in the next chapter, where it will be apparent that in response to the PPEs and subsequent research, some modification to the policies as originally articulated was required.

3.9 Conclusion

This chapter has illustrated the prevalence of a wide variety of barriers to investment in training and the potential of different policy options to address them. The rationale for policies which have not been prioritised for immediate development within the study has been presented and the prioritised options identified. The outcomes of the development of those prioritised options are outlined in the next chapter.
4 Collective Measures: Policy Development

4.1 Introduction

The Review of Employer Collective Measures study has illustrated the variations in levels of investment in skills, the possible reasons behind that variation, and the difficulty in identifying simple policy levers to encourage greater investment in skills which would effectively tackle the barriers faced. Therefore, the study cautions that while no one solution will be sufficient, neither should a number of policies be implemented on a blanket basis. Rather the study advises that tailored and targeted interventions, in a mutually re-enforcing manner, are likely to most effectively enhance workplace training and skill levels.

“Collective Measures and collective self-organisation run counter to many of the assumptions on which British firms operate and on which British public policy has long been based. But the ideas are not entirely foreign. What is needed...is an approach (to Collective Measures) that is consistent with British traditions.”

ACADEMIC INSTITUTION
RESPONSE TO CALL FOR EVIDENCE

This chapter presents our advice with regard to the four prioritised policy options outlined in section 3.7. All the advice is 1) based on the evidence collected through this review; 2) is mindful of current policy initiatives (as outlined in Chapter 2); 3) is consistent with the scope and design of the study and 4) is informed and refined by the extensive consultations and appraisals we have conducted.

The advice is detailed below, with the policies categorised in terms of those that could be implemented in the short-term and those needing further development for implementation over a longer time frame. For each policy, a discussion of the design of the policy is followed by a brief assessment of risks and benefits. A series of over-arching design principles with regard to the development and implementation of employer facing policy levers, aimed at enhancing training, are provided in the next chapter.
4.2 Short-term implementation

4.2.1 More and better Employer Networks

The governments in each nation of the UK could consider establishing, on a pilot basis, a fund to support and sustain new and existing employer-led networks with a focus on enhancing training and skills.

Discussion

Strengthening existing inter-employer networks and establishing a more comprehensive spread of networks appears, from the evidence, to be the most effective route to securing greater employer investment in training. This is based on evidence from the literature reviews and the views of stakeholders captured through the policy prioritisation process.

As noted in 3.7, inter-employer collaboration in networks has the potential to overcome some of the key barriers to training identified in the conceptual and empirical evidence reviews (respectively by Bosworth, 2009 and Hogarth et al., 2009). In particular, such networks can address market failure in relation to employer demand for training (of various kinds). Through encouraging training to be regarded as a ‘collective good’, networks can diminish fear of poaching among employers, while exchange of information relating to the availability and benefits of training, quality of supply, etc., can similarly help reduce reluctance to undertake investment in skills. Factors that tend particularly to discourage the level of training in smaller firms - relating for example to customization and economies of scale - can also be addressed through firms working together. Moreover, networks can give rise to spin-off benefits that impact positively upon innovation and productivity as a result of information exchange and knowledge transfer and more ready dissemination of good practice. Risks of network activity include a diversion of focus away from transferable/generic forms of training, difficulties in securing engagement of employers beyond the willing, low quality network facilitation (giving rise to weak engagement and restricted training results), and sustainability of the network when funding ends. Other risks are associated with anti-competitive behaviour by employers within networks.

Training networks are relatively common internationally. The Policy Review (Cox et al., 2009) shows how such activity covers various stages of training (from setting of standards, training delivery, monitoring of progress, and assessment and certification), and identifies evidence suggesting that networks enable employers to undertake training they did not previously carry out, or would find it difficult to do so without network support (i.e. find it too difficult to organize as individual employers). Training in small firms has been found especially responsive to membership of wider networks, which is of particular importance in light of the additional challenges faced by small firms highlighted in this study.

In the UK, employer-initiated Group Training Organisations (GTOs) operate, particularly within some sectors and regions, using monies available from government for particular types of training. Evaluation of the Employer Learning Networks, piloted by the Department of Employment & Skills in 2000-01, suggested that there were lasting value-added effects, including many firms reporting they had adopted training programmes specifically as a result of their involvement with the network.
State intervention and networks

In spite of the potential benefits, employers often find it difficult to collaborate voluntarily and spontaneously. Reflecting this, states often introduce specific initiatives providing institutional support and coordination for such inter-employer networks. These initiatives take a variety of forms and are funded in different ways. Thus, unlike in the UK (where members of group training organisations pay a fee), GTOs in Australia are state funded. State-initiated networks include the Workforce Skills Initiative (WSI), in Canada, which provides funding to stimulate employers to develop networks to address their HR and skills issues. Like Ireland's networking initiative to support workplace learning (organised through a specific body, Skillnets), the WSI operates through competitive bids to a national fund. In the case of Skillnets, this pot of money is derived from an employer payroll levy. Germany's inter-company vocational training partnerships are organised by the Chambers of Commerce, based upon compulsory fees received from their members. Supply chain collaboration is a common basis for networks, for example in South Korea, where training for (actual and would-be) small and medium sized suppliers is commonly delivered via the facilities of large companies, and where, again, funding is provided via a payroll levy.

The key issues for consideration in developing the employer collaboration model to enhance investment in skills are: the focus of network activity; the policy they should be delivering; the level and nature of likely costs/funding mechanisms required and timescale for implementation; and any evidence on the parts of the UK economy in which networks should be targeted. Thus, in commissioning initial economic appraisals, the UK Commission has developed some of this detail in consultation with experts in this field. For the purpose of this discussion, we refer to this policy as 'Training Network Pilots'.

Key aspects of policy approach

From an assessment of the evidence, the Policy Review concluded that strengthening existing inter-employer networks (e.g. those based on supply-chain or innovation initiatives) and establishing a more comprehensive spread of networks (via new networks in low training sectors or among geographically localised groups of employers) is likely to be the most effective route to securing greater employer investment in training. This view was reinforced by the stakeholders in the Policy Prioritisation process, contributors to which stressed the importance of increasing both the quantity and quality of networks (Devins et al., 2009). However, although reviews of existing employer networks suggest that they might be successful in stimulating employer action around training, there is a lack of adequate evaluation and none which reliably indicates the extent to which they make a difference to training levels. In the light of this it is proposed to develop carefully evaluated pilots of employer training networks.
Network leadership

Networks need a dedicated champion with the skills and credibility to assemble and co-ordinate the involvement of partners (especially learning providers) and employers. The most common form is that of a series of meetings facilitated by an independent project organiser or intermediary, with a lead employer steering the network and drawing upon input from members to define network needs and appropriate activities for meeting them, including sharing information and solutions on common problems, developing diagnostic tools for skills/business improvement, and sourcing and delivering training inputs. Agencies already exist (including RDAs, Chambers of Commerce, Business Link, SSCs, Skills Academies, Workforce Development Forums in Northern Ireland, and Sectoral Relationship Managers in Wales) which are potentially in a position to take a lead in setting up collaborative networks, through linking with key bodies that are involved in formulating and implementing skills policies and channelling public funding. Such agencies are also in a position to encourage involvement by employers, although others might be encouraged - especially if they are able to tap into a pool of harder-to-reach employers. The involvement of an employer (or employers) in a leadership role is desirable from the perspective of employer engagement, and as a clear demonstration that this is an ‘employer-led’ approach.

Membership

Networks can be organised along sectoral, sub-sectoral, supply chain or geographical lines. The Policy Review recognised that experience shows that competition and commercial sensitivities may inhibit participation in some sectors, making it necessary for networks to be carefully structured and targeted in order to optimise employer engagement. It will also be important to have clearly defined boundaries to establish eligibility for public support. Evidence indicates that a core of 15-20 active member employers is typically needed to make networks effective. However, a wider set of firms that is associated, if less involved, with the group is also worthwhile - either because they can be progressively drawn into training activities or, by accessing training on a selective basis, they reduce unit costs for the group as a whole. Given the positive relationship between network membership and the incidence of training among small and medium sized firms, to ensure this group of employers is reached, the inclusion of a minimum number of small firms should be a requisite in network applications for public resources. Additionally, it is important that membership of networks is led by senior managers in the firm, to ensure the impacts of the network are integrated to the whole firm.

Funding system

Rather than opting for a specific network model or models, the Policy Prioritisation Process determined that, for networks to take the form most appropriate to sectoral circumstances and its membership profile, a system should be adopted that permits flexibility and customization. This is best facilitated by the establishment of a fund for each of the UK nations with a remit to award grants to networks through a competitive bidding process. Funding for the support of training activity would thus not be provided directly to the businesses involved, but to the intermediary that provides the support on behalf of all the members of the network. Selection of intermediaries would be undertaken at UK
nation level through competitive procurement or through processes compliant with procurement and state aid legislation. As noted above, this should be introduced via a pilot stage, which would allow appropriate funding criteria, evaluation success factors, etc. to be developed which take due account of the potential diversity of network forms and their relative effectiveness in raising training levels.

We recognise the need for simplifying the skills and employment system for employers (a particular emphasis in England and Wales) and not introducing additional complexity. Where appropriate, existing networks with creative and innovative ideas can be encouraged to bid. However, it is important that the policy is implemented to take account of the evidence which suggests how these networks might best encourage an aspirational approach. Although Business Collaboration Models in England provide a potential implementation vehicle, the distinguishing characteristics of Training Pilot Networks should be maintained in order to ensure the pilots are really testing out the full potential of networks, as seen internationally.

**Administrative structure and support role**

We propose that the UK governments consider setting aside a sum of money to subsidise the establishment and administration of employer networks. The subsidy should last for 3 years and the money can be bid for against a set of criteria (discussed below) some of which will be consistent across the UK, others might be variable, reflecting their different overall approaches to skills development. The networks will be facilitated by highly skilled individuals, engaged in active outreach to encourage bids from unlikely sources. These individuals will be able to draw on each others’ experience through a hub or virtual network operating across the UK. A series of learning seminars should also be held for them to enable them to be experts in this field and to encourage high quality networks.

**Funding criteria**

A flexible fund to which collaborative organizations make applications is proposed. Such a fund is a useful device for maximizing added value from public expenditure, and addressing risks such as deadweight costs. The criteria for assessing bids for funding can influence the scale and form of training envisaged, and (as is often the case in existing schemes), encourage networks to focus on particular target groups or types of training.

**Shared criteria** for all networks would include:

- demonstrating the expected increase in employer investment in skills (directly or indirectly)
- experience and capacity of facilitating organisation and partners
- the extent of leverage or matching funding (including employer contributions)
- approaches to achieving sustainability following the expiry of public funding
• extent and nature of employer leadership

• extent of small and medium sized firm membership, and

• plans for outreach to employers who do not engage, or engage only minimally, in training.

Such a funding system can readily accommodate bids from existing as well as new networks. Existing networks would need to show the additional benefits likely to be achieved through accessing the fund. From a criteria perspective, this may usefully be informed by looking at Ireland’s Skillnets initiative, which has developed recently a second-tier bidding feature. Supporting existing networks may offer relatively high returns in terms of additional training for specific units of resource. Indeed, supplementing the activities of existing networks – for example, those based around supply chains or innovation – with skills development is potentially a useful means of gaining ‘quick wins’ for this particular policy approach to training.

Preference in criteria might be given by the individual UK national funds, for example in relation to:

• low training sectors and little previous engagement in network activity;

• growth/innovative sectors;

• specific government priorities (e.g. priority sectors in Wales or related to other policy areas such as the low carbon economy);

• cross-sector collaborations by inter-linking with groups in related sectors within the same region or elsewhere;

• management and leadership development;

• activities linking training to high performance working practices and

• networks developing shared facilities.

Each fund might consider allocating minimum amounts (or proportions of the funding pot) consistent with adopted criteria. For example, existing networks may practically be advantaged, compared with entirely new networks, with respect to organising an effective bid. The extent and focus of outreach work associated with the fund should operate to address any such imbalance, but reserving a proportion of the fund for new networks may be necessary to ensure a desirable mix of networks/network activity is achieved.
Subsidies

Most existing schemes demand a funding input from employers of at least 25%, but this proportion would be expected to vary according to the type of training, being less than that figure for employees with lower skills and higher for the more skilled workers. Research for the Policy Review suggests that subsidy is particularly important to the training investment decision of small firms. Targeting of social groups and types of firms can also be especially effective if supported by specific subsidies. For purposes of subsidy, small businesses can be defined as having 25 or fewer employees, which is a commonly used cut-off in establishment provision of training. The subsidy would not be tied to existing policies, but made available for employers engaging in activities developed and delivered by the network.

The scale and focus of subsidies would need to be determined at the level of UK nations, where both support regimes differ and training priorities can also be expected to vary. Since the Training Network Pilot will not replace existing subsidies, careful evaluation across the four nations should increase understanding of the different ‘pull’ factors affecting employer decisions on training.

Timing and duration of funding

In preparation, a number of processes need to be set in place (the design of funding criteria, preparing application procedures, developing information, advice and support capability/materials, establishing monitoring and review processes etc.), and lead organisations would then need time to assemble networks and prepare their bids. Allowing for time needed to carry out this work, it is anticipated that the successful network bids would be known from around mid-2010. Similarly, individual networks themselves will take time to become fully operational, given their need to recruit members and learn how to effectively work together; and indeed for facilitators to identify the most effective modes of working. A term of funding for networks needs to be determined that will give successful bidders an adequate time-frame in which to develop their own momentum, based upon demonstrating to participants the practical benefits of collaboration. Funding for a period of three years is suggested in the Policy Review document, with the pilot running therefore from 2010 to 2013.

Longer-term sustainability

The Policy Review evidence relating to inter-employer network schemes suggests that a degree of ongoing support will be needed for some networks to achieve sustainability over time. Those networks that have been found from experience to more readily become self-supporting after the initial period are largely in the public sector (e.g. health), where the demonstrable value of training undertaken in collaboration with other employers justifies reallocation of training budgets to maintain the activity when the period of network funding expires. A three year funding arrangement offers a good opportunity to build the foundations needed for sustainability, but some degree of ongoing support may be justified, especially for those networks whose training substantially addresses those with lower skills or has a significant involvement of harder-to-reach firms. Indeed, if the benefits of the network are sufficiently evidenced, then employers may consider levies or other fee arrangements to support the long-term sustainability of the network.
Scale of pilots

We recommend that the pilot seeks to establish/support around 25 networks across the UK, appropriately divided among the four nations. This figure will allow for meaningful evaluation across the nations. It will also permit a mix of differently focused networks in each of the nations and thus inform future policy.

Evaluation

Some overseas network initiatives have been developed in distinct stages (via distinct calls for bids), with ongoing evaluation, to allow experimentation and incorporate learning from early experience into the project as it evolves. In the pilot system being proposed for the UK, there is expected to be experimentation simultaneously within different spatial units, with local variation in the approaches adopted. An evaluation should be conducted, properly coordinated in terms of assessing the overall effects of the intervention. Importantly also, it should be sensitive to instances of national variation and experimentation, with a view to identifying relevant lessons (including best practice methods) for future network policy. The costs of an effective evaluation should be allowed for in estimates of administration costs used in the initial economic appraisal.

It is with these design features that we conducted initial economic appraisals to test the potential costs and benefits of the introduction of this policy option in the UK. The outcomes are outlined in the following section.

Economic Impact

Estimating the economic impact of any policy proposal is a key element of the overall policy development process to answer two important questions: is the proposal the most effective ways of meeting the policy objective; are there more effective ways of allocating resources.

The competitive bidding element of the Training Network Pilots proposal makes full appraisal of the difficult as the many of the details of implementation that are needed to form estimates of the likely economic benefits and costs are only known at the point of receiving bids.

However, one key benefit of a policy of this type is the ability to set minimum levels of required performance against which bids will be considered. This ensures that, based on best estimates, the projects generate enough value to at least cover costs. Using evidence on the costs of a number of similar programmes run both in the UK and internationally, it is possible to derive estimates of the likely costs of any network. These ranged from £5.3 million to £9.8 million per annum for 25 networks, depending on the source, and serve as useful benchmarks when considered against the potential benefits that might be reaped through enhanced training and increased productivity. Although there is no direct evidence of the nature of existing networks, some estimates were made
on the basis of research which finds that a 1% increase in the proportion of workers trained in an industry leads to a 0.6% increase in value added per worker (Dearden, Reed et al., 2000). Using this proportion, the number of additional workers that would need to be trained as a consequence of network activity in order to yield the output needed to offset the cost was estimated. Taking the medium estimate of £7.4m p.a., for the costs to be recouped through training-related productivity gains alone (regardless of any other knock-on effects of the networks), a 0.4% increase in output is needed. Estimates suggest that for an average sized network, a 0.6 percentage point increase in the proportion of workers being trained would be necessary to generate this value.

Evidence collated on the performance of other networks suggests that this level of performance is feasible. Previous evaluations of similar programmes run in Ireland (Skillnets) and the Group Training Associations set up to deliver apprenticeships provide evidence of significant increases in the proportion of firms training their staff - for example, a 44 per cent increase in training has been reported in the evaluation of Skillnets, although it is not clear how much of this is additional investment. This lack of appropriate evidence reinforces the need for a full pilot of this policy.

Despite the raft of literature on the inter employer networks, limitations of the data mean that we are unable to explore the likely impact of any variation across sectors, size band and geography, variations that will certainly lead to differences in performance and impact. As these variations are likely to play a central role in determining whether the networks policy is appropriate to be rolled out nationally, overcoming these limitations in the data through an effective evaluation of the pilot programmes is an essential element of the policy advice.

To conclude this discussion, the evidence suggests that well designed and implemented Training Network Pilots could achieve additional investment in skills by employers, but the option needs to be carefully piloted in the UK to test its full potential.

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6 Based on an assumption of training within 20 participating firms employing 44,000 staff. Estimates are rounded.
Benefits of this policy

- The evidence suggests that employers could be significant beneficiaries of this policy as a number of the barriers to investing and benefiting from training can be overcome through collaboration:
  - Reducing the risk of poaching among employers;
  - Providing information on the available training and the quality of supply;
  - Promoting the benefits of the training to employers;
  - Reducing the cost of training through the development of economies of scale.
- The pilot approach allows government and employers to test this mechanism to deliver an innovative approach to addressing skill needs and consider the best way forward with regard to networks in the future.
- As a voluntary mechanism, employers are able to bid for the fund if it is consistent with their business needs.
- Beyond setting core criteria to help ensure that the pilot networks are working toward the overall objectives of the policy and evaluated to test value for money, the leadership, functions and activities of the network will be flexible to best meet employers needs.
- Networks will help engender a culture of learning across businesses, adding to the ‘persuasive narrative’ for change and tackle a significant number of barriers, especially for small employers, to training.
- International evidence suggests that networks of this nature can be particularly effective in addressing the challenges faced by small firms (e.g. through enabling economies of scale in purchasing training).
- Although the available evidence for this policy falls short of allowing a full economic appraisal of the option, initial economic appraisals suggest the pilot networks offer a good opportunity to encourage employer investment in training.

“We need to capture evidence of impact on employers and use this to promote the message (that training pays)”

PARTICIPANT, PPE8
Risks of this policy and means of mitigating

- If the funding for the networks are not made available across the UK there will be no opportunity to test networks in different policy contexts. The UK Commission will seek to secure UK wide support for this policy.

- Too many networks are dominated by existing networks/employers and the potential to reach out to ‘newer’ employers is lost. Equally, there is a danger that too much emphasis could be put on hard-to-reach employers. If the piloting is to be truly effective, it must at least have a balance of both types of employers to demonstrate the potential for networks. This will need to be carefully worked through in the detailed design of the policy.

- Employers may not wish to collaborate with businesses they are in competition with, whilst this may be a difficult risk to mitigate, skilled facilitation and time to build up the networks may help. Anti-competitive behaviour by networks should be monitored through the regular applicable channels.

- It may be that the networks do not lead to greater investment in skills because the state funds the networks and the training supplied to networks (especially may be the case in England through Train to Gain). Including plans for long term sustainability of the networks as part of the core bidding criteria should help overcome this as should evaluation – where the networks are able to demonstrate the value of what they do to employers.

4.2.2 Extended Occupational Licensing/Certification

Occupational licensing presents an opportunity to enhance training on a collective basis. The introduction of occupational licensing, or more voluntary certification schemes, should be reviewed on a case-by-case basis to assess where and how such schemes might credibly add value. Such reviews should be supported by Regulators and Trading Standards Services, for example, to further support and embed the introduction of licensing or certification.

Discussion

The policy review concluded that there may be scope to introduce occupational licenses as a means to drive up productivity within certain occupations and industries where the market failures that deter employers from investing in their workforce are particularly prominent. During consultation on the proposed licenses, the general response was that licenses can work well for specific occupations, but that the scope for application more widely was limited and introduction would depend on the outcomes of a case by case review.

Occupational licensing has the potential to raise the volume of training in an occupation by placing a requirement on employers and individuals to acquire and maintain a standard of skill needed to retain a license. In cases where the license is well designed, requiring individuals and firms to update
their skills base with new developments that benefit the employer and the consumers, the license can have a positive impact on quality and productivity. Through the continuing requirement to update the licences, the policy also enforces the requirement to learn and in some cases provides stronger career paths.

At present in the UK, occupational licensing is most prevalent amongst occupations where the substandard delivery of a service or product can have significant adverse consequences on the consumer. Examples of this might be the risk of injury through substandard heating or gas fitting, or scarring that might result from poor quality surgery. This imbalance in cost can result in the employer funding sub-optimal levels of training to control against the risk of these adverse outcomes. In this instance, compulsory licensing can serve to minimise the risk of these adverse consequences.

The correction of this market failure, through better equating private and social costs, leads to improved outcomes overall. However, the precise impact on the occupation depends significantly on the design and implementation of the license - such as the curriculum and associated enforcement mechanisms - and is also affected by the skill level of the occupations being licensed.

“When proposing measures, it must be established that they will not inadvertently create major barriers to individuals or firms wishing to enter an occupational area.”

GOVERNMENT DEPARTMENT, CALL FOR EVIDENCE

Economic Impact

As noted, the introduction of an occupational license serves to increase the volume of training in an occupation directly, via legal requirement. It is also clear the increase in this training will have a number of economic costs and benefits falling on different participants within the economy. These costs and benefits are likely to be distributed as follows:

**The Individual**

The individual receiving training stands to benefit from both increased wages and greater employability through reduced time spent out of work. S/he is also likely to benefit from improved health and a number of other benefits that are associated with higher levels of income.

The individual is likely to experience some significant costs through the proportion of the training and licensing fees they will be expected to pay (which might include some degree of borrowing) and the loss of time devoted to the learning needed to acquire the license.
The Employer

The employer is likely to benefit from the introduction of a license through maintaining a more productive workforce (where the license in question provides the worker with skills that deliver higher value production in comparison to those who do not have the license) and will also benefit through the improved business survival prospects. The employer may also benefit from the additional ‘signal’ the license represents in being able to identify the skills and abilities of any prospective job candidate.

The costs to the employer are likely to include the financial cost of paying for the training as well as the opportunity cost of any in-kind support provided by the employer. Employers are also likely to bear the cost of a reduced labour supply and the likely impact of this upon wages.

The Consumer

As with other economically valuable training, the consumer stands to benefit from the improved levels of productivity that it brings - although the extent of the gain is dependent on how well the content of the training delivered can be used to improve production. Consumers are also likely to benefit through higher quality goods or lower prices. Where licensing has been introduced to occupations to enforce health and safety standards in the UK, consumers also benefit from the reduced risk of adverse consequences that are associated with poor quality provision. However, one of the costs associated with licensed provision may be the reduction in choice.

Indirect economic effects and unintended consequences:

Alongside the direct costs and benefits incurred by those affected by the license. The evidence suggests that licensing can have a number of significant indirect effects that impact on the overall costs and benefits to society. We examine each of these in turn.

Employment effects

Almost by implication the introduction of a license will reduce the number of individuals employed in the occupations concerned, as those who are unwilling or unable to pass the licensing procedure are unable to continue practicing. This reduction in employment creates greater competition amongst unemployed people, and may displace people who, in the absence of a licensing arrangement, would have found work more readily. The exact scale of this impact on employment is a feature of both the occupation concerned and the nature of the licensing arrangement as well as the efficiency of wage adjustment processes.
Licenses as a barrier to entry

The requirement of having a license to work in a particular occupation reduces the flows into and out of the occupation and as a result reduces the speed with which the occupational supply of labour changes to reflect increases in demand. In these instances the upward movement of wages brought about by demand outstripping supply should encourage more individuals to enter the occupation. The reduced mobility caused by a license dampens the ability of the market to equate supply and demand.

This reduction in labour mobility can also serve to reduce the degree of competition within the labour market and give rise to anticompetitive behaviour, an issue that seems prevalent from an examination of US and Canadian evidence on occupational licensing. Several such studies show that the introduction of licenses can lead to an increase in prices without a consequent increase in quality, creating a loss of economic welfare that can outweigh any gains from increased productivity.

Evidence on the economic impact of Licensing

Although there are a number of occupations already licensed in the UK, including doctors, gas fitters and some care workers, there is little literature available on the levels of training and overall economic impact to result as a consequence of these licenses, or indeed the economic impact of them. As a result, we are forced to rely on the literature from the US and Canadian schemes, where occupational licensing is far more prevalent.

Of the reviews of occupational licensing carried out, very few actually note the impact on training and even less quantify the impact of licenses on training levels. However, US assessments do show that, where licensing has been applied, the overall result has been little change in the levels of quality of the services or products supplied. This suggests that, in these cases, the effects of reduced competition outweigh any increases in productivity brought about by increased training. While the US findings generally illustrate the adverse risks associated with introducing an occupational license, we have also uncovered evidence that there are routes by which these adverse consequences can be minimised, most clearly through the content of the license being designed to add meaningful value to the production of employers. Differing regulator arrangements can also limit the possibility of anti-competitive effects and maximise welfare gains.

Further avoidance of the risks (and reduction of the costs of enforcement), can be achieved through, instead of licensing, adopting a system of certification that is widely recognised and accepted as a mark of quality. There are no barriers to entry, thus minimising the risks of anti-competitive behaviour. Consumers who choose to use the services of an uncertified provider are better aware of the increased risk, and, in turn are likely to pay a lower price. The acceptance of standards could be emphasised if the systems of certification were adopted and promoted by market regulators and trading standards services during their investigations. Feedback from these investigations could also be used to develop the certification systems to ensure the benefits of training are maximised in productivity. Such certification schemes exist - for example, Construction Skills Certification Schemes. These factors should be considered on a case-by-case basis for each occupation concerned.
Thus, having explored the potential costs and benefits of introducing occupational licenses, we have identified some risks to introducing occupational licenses and suggest a number of means by which these risks might be mitigated against, one of which is the consideration of certification schemes, alongside licensing, on a case-by-case basis for each occupation reviewed. Licensing would better address the barriers to training identified in this review where compulsion was necessary, and so would be preferable where risks could be mitigated against.

**Benefits of this policy**

- Effective reviews of the imperative behind the introduction of licenses and an assessment of the costs and benefits will result in the most effective solution being identified, whether certification or licensing, and this process can build consensus with a range of partners to enable delivery.

- The flexibility of this approach (i.e. enabling voluntary certification or enforced licensing) should meet employer needs through testing, on a case-by-case basis the most appropriate avenue to progress.

- A thorough approach, from establishing the case to the design of the curriculum and the design of the certification/licence, should ensure the introduction of schemes which convey the full potential benefits of this policy, tackling market failure in the demand for training, reduces the risks of poaching and could compel suppliers to invest in under-resourced areas.

**Risks of this policy and means of mitigating**

- If the licence/certification is not accepted as an industry standard, then there may be little take-up in training to meet the standard. This should not be the case where there is articulated support for the policy from employers and where this is reinforced by regulators or Trading Standards Services etc.

- The scheme may not be implemented properly and simply adds to the complexity of the qualification system which again should be mitigated against through careful design and through the inclusion of existing mechanisms, e.g. Sector Qualification Strategies.

- This section has included a lengthy consideration on the risks of introducing occupational licences and means of mitigating, for example, the risk of barrier to entry (overcome by introducing certification schemes where that is appropriate) and not increasing productivity (overcome by careful design of the curriculum).

- Whilst we advocate a careful approach to identifying licences or certification schemes to ensure the most appropriate course of action is taken, we do note that there is a lack of evaluation of existing schemes to provide some of the evidence that is required and we suggest existing schemes are reviewed in order to address this. Failure to do so may result in the wrong option being progressed.
4.3 Medium term implementation

The policies in this category require further development or monitoring of existing developments before the nature of the advice can be finalised. This is to ensure that the policies are able to fully meet their potential and represent the best use of investment on introduction.

4.3.1 Monitoring the developments in Investors in People

The UK Commission will work with Investors in People UK to monitor and evaluate the new approach to the Investors in People Standard in light of the findings of this study and in particular with regard to the extent to which the Standard supports the objectives of this Study – to identify collective levers to encourage investment in skills

Discussion

Investors in People is proposed as a policy option because it is strongly connected to the rationale for intervention highlighted in the conceptual and empirical evidence reviews around the need to strengthen management capability and understanding the links between organisational performance and workforce competence. It can also be linked to the adoption of higher value added business strategies which can increase demand for skills and is much more explicitly about training as a potential business solution than other quality standards.

It is noted that a new approach to delivering Investors in People (IiP) was launched in May 2009 and bears some similarities with the policy option developed through the Collective Measures study in terms of introducing a layered approach with additional recognition for additional achievement and a more flexible approach which may encourage small firms to participate.

However, the study also found limited evidence of the expansion of take-up of IiP amongst small firms and other firms which train less and of the impact of IiP in terms of the level of training undertaken by employers. This may, in part, be due to the Standard being more concerned with wider business strategy rather than the increase of training levels itself. However, to encourage a wider reach of IiP in order to influence attitude to training, the recommendation for IiP as discussed in the Policy Prioritisation Events (and before the launch of the new approach) was that IiP should develop in a number of ways:

- To layer the Standard for large and small employers, with the current Standard being applicable for small (less than 250) employers;

- To stretch larger employers by having a tougher standard which would require them to conduct audits of training volume along the same principles as gender pay gap audits and to attain equality in provision of training across all staff groups (subject potentially to a pro rata basis of distribution to allow for differences in working-time, e.g. part-time/full-time and differences in skill levels and needs between occupational groups);
To encourage collaboration between employers by accrediting employers at a higher level who share training facilities and resources with other (especially smaller) employers, consistent with the remit of the Collective Measures study (which may also form part of the basis for a bid to the network fund);

The review found that a potential risk of changing the IiP standard in this way, in addition to diluting brand clarity, is that some larger organisations may not wish to pursue the standard at the higher level. This could be addressed by public procurement policies which would require large organisations seeking public contracts to attain the higher level of accreditation.

Given the new approach to the Standard and that the management of the Standard is currently in transition to the UK Commission for Employment and Skills, the advice moves to one of review and evaluation and in particular:

- IiP UK should set in place a comprehensive evaluation of the new approach with a stronger focus on training outcomes and in particular the impact on: widening the penetration of IiP and the take up by small firms and other low-training firms; business and training outcomes, which must include evaluation of additional impact; the longer term change in business culture and attitudes to training generated by the Standard. This will mean enhancements to the current plans to evaluate the new approach, but could provide a platform from which to re-invigorate, and further demonstrate the value of, the IiP Standard.

- The evaluation should also include consideration of the varying support and funding approaches to IiP across the UK (e.g. what difference is made by the links to National Training Awards or the ‘reward’ of IiP on Northern Ireland; what difference is made by the Government funding of advice in Wales?).

- The new approach should be assessed alongside findings from the UK Commission’s Skills Utilisation project to consider whether further review needs to be made of the role of the Standard in stimulating the use of skills in the workplace.

- Additionally, given there is a suggestion to include IiP as a requirement for larger organisations bidding for public contracts, current advice and practice on skill related procurement, as outlined in section 2.1.2, should be monitored and evaluated.

- If no short or longer term improvements are apparent over an initial 12-24 month period, then the Standard should be reviewed to assess its ability to deliver a longer term change in training behaviour, attitudes and practice amongst employers. Further options to consider at this time may include:
- Ring-fenced focused support for small and other low-training firms to take up the Standard;

- Enhancing the ‘reward’ culture around the achievement of IiP, e.g. as in Northern Ireland;

- A requirement for large organisations seeking public contracts to attain the higher level of accreditation;

- A more explicit focus on engaging non-training employers to allow a wider range of firms to benefit from the adoption of the Standard.

**Benefits of this policy**

- The IiP Standard has the potential to improve the quality (focused skill development with an emphasis on links to wider human capital practices and business performance) and quantity of training (through widening participation and reach).

- It complements findings from the Skills Utilisation study, around the need to improve the use of skills in the workplace.

- Although again requiring a longer term approach, careful evaluation may help build a stronger case for the promotion of the IiP Standard and particularly for potentially introducing it into public procurement requirements, for larger organisations at least.

- It has strong links to other recommendations, for example around networks, as leading a network which reaches out to a wider range of employers, sharing facilities etc, could be a more stretching criteria within the layered approach to IiP.

**Risks of this policy and means of mitigation**

- As discussed above, the possible tiredness of the IiP brand is a potential risk, but which could be assessed within the evaluation and the means of addressing this.

- Insufficient resource is made available to conduct a proper evaluation and thus provide a solid basis for re-invigorating IiP.

- Insufficient resource is available to target hard-to-reach employers, or to otherwise encourage the engagement of employers which are less involved in training.
4.3.2 Reporting on training and Human Capital at firm level

The UK Commission will undertake further appraisal work around the options for developing human capital reporting and a review of existing reporting practices (which may lead to the development of a ‘Human Capital reporting award’). It is suggested that this reports to a Task Force, or similar, established by UK Government, with representation from accountancy bodies, Human Resource professional bodies, employers, investors, academics and other stakeholders to commence a programme of further work (as appropriate) which would facilitate better recording and reporting of training and wider human capital practices by businesses.

Discussion

This policy recommendation stems from the Conceptual Review which considered employer decision rules concerning investing in training and addressing barriers linked to imperfect information and aiding management decisions.

Whilst the original policy recommendation, discussed in the Policy Prioritisation Events, focused upon the development of an Accountancy Standard for training, subsequent discussions have led us to conclude this is problematic. Problems arise because of the nature of training as an intangible asset and difficulties concerning the portability of skills if staff leave the training organisation (whilst the organisation would be demonstrated as a training organisation, it may not be able to value the ‘asset’ [trained staff] according to basic accounting principles). There are also complexities in amending international accounting standards.

Additionally, we are aware of the ‘Accounting for People’ Taskforce and its recommendations around the reporting of Human Capital Management within firms.

In 2003, the then Department for Trade and Industry set up the ‘Accounting for People’ Task Force to consider how organisations in the public and private sectors might improve reporting of their Human Capital Management (HCM) practices\(^7\). This was a recommendation of the 2001 Kingsmill Review into women’s participation in the labour market and the pay gap between men and women. This Review reported that, while good HCM was important in an organisations performance and productivity, it was under-reported and therefore was not transparent as a practice within the business to investors, stakeholders and shareholders more generally (Task Force on Human Capital Management, 2003).

The Task Force concluded that there were a number of compelling arguments for the improved reporting of organisation HCM, including: aid employees, and prospective employees’, to understand how they are valued and improve recruitment and retention; shareholders’ benefit from the demonstration of good management practices and an improved understanding of the factors that can influence future

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\(^7\) While no generally agreed definition of HCM was found, the Task Force used it to denote a strategic approach to people management that focuses on issues critical to the success of an organisation. Effective HCM develops the relationship with people through motivation and retention, skills development and organisational culture, among others.
performance. Such an approach can help address the concern that company accounts fail to capture the true value of companies as a result of the increasing significance of intangible assets. Although some organisations reported concern about revealing data that might be helpful to competitors, or that the data might be misinterpreted or unhelpfully reported in the media, the Task Force concluded that the time had come for improved HCM reporting.

The Task Force recommended an evolutionary approach to HCM reporting, building on current practice and working with the then Standards Board to develop guidance on materiality (definition and indicators) and ensuring that good practice is disseminated through a programme developed by Government with employers, investors, professional organisations and other stakeholders. It also recommended that HCM should be included as part of Companies’ Operating and Financial Review (OFR). In 2005, the Government issued a statutory regulation amending the Companies Act (1985) to require quoted companies to prepare an OFR which should include employee matters for all financial years commencing after 1st April 2005. However, it decided not to implement these regulations and the requirement for quoted companies to produce OFRs was repealed.

Many organisations continue to report on HCM though, and the Accountancy Standards Board (Accounting Standards Board, 2007) in a review of company reports in 2006 found an increase in the reporting of employee issues, although the reporting lacked depth. The ASB reviewed company reports against its own best practice template for OFRs, which companies are not obliged to use.

Despite these difficulties and the history behind the reporting of human capital, the weight of evidence in this Study supports an approach which attempts to counter information failure and a lack of demand for training through the reporting of human capital. We have found a consistent general support behind some attempt to move the debate forward and to move toward an increased and shared understanding of the value of training, but in the context of the need to conduct further exploratory work. In response, we will conduct appraisals of a series of options, ranging from regulation to culture change to explore the potential for each option to provide a tangible and achievable way forward. The appraisals consider existing regulation/practice; how that regulation/practice came about; how it currently is practiced and the impact on businesses, together with a timeframe for potential introduction. The options we will explore are:

• Regulation: testing the original policy option with regard to introducing an Accountancy Standard for training and whether the Standard would solely provide a consistent and agreed definition of training or consider the treatment of training as an asset in accounting terms.

• Code of Practice/Best practice guidance: The Combined Code on Corporate Governance offers an example of how all companies are encouraged to comply with a certain practice.

• Public opinion/Cultural shifts: The rise of Corporate Social Responsibility, for example, demonstrates the changes in practice that can follow cultural shifts and consumer and shareholder expectations of business.
Alongside the options appraisal we will also conduct a review of current practice in the field of reporting training in the public, private and voluntary sectors. This should also include the reporting of other human capital practices to bring a wider focus to the work and consistent with findings from the study and other work by the UK Commission regarding the demand for and use of skills in the workplace.

This work will provide a solid foundation for the work of a Task Force to continue and decide on the most effective means of progressing this important issue. We propose this multi-disciplinary group undertake further work likely to be needed to underpin any changes to reporting practice. This work is:

• development of ‘training’ as a concept relevant to all types of business. This would include the broadest definition of workplace training activities and types of training activities, such as ‘informal learning’ and management and leadership to consider the range of training activities which potentially yield a benefit to the firm and the nature of that benefit. It would also need to review the extent to which benefits are retained by the firm due to lower labour mobility and the extent to which the knowledge is kept in-firm through internal knowledge spillovers;

• development and testing of reliable measures of training and of training benefit in order to operationalise the concept(s) developed at a firm level. As above, this scoping work would need to take account of existing concepts and measures such as those developed by CEDEFOP, OECD, IiP UK, CIPD, ISO 9000 and other non-compulsory measures currently adopted in firms.

As these are all likely to be medium- to longer-term developments, the review of current practice might lead to a shorter-term introduction of an award for excellence in human reporting activities, such as the Times Top 100 best companies to work for. This would provide a relatively quick-win and start to build a positive culture around human capital reporting.

“I like the language of investment it brings…. The concept could be right for businesses whose primary asset is its people…. look at football clubs and the way that they have used it.”

PARTICIPANT, PPE 7

Benefits of this policy

• Building on the options appraisal work gives a clear direction of travel for the Task Force, can help to secure immediate commitment from key players and help to build a consensus in the movement toward enhancing reporting practices.

• Securing some form of change to reporting practices by regulatory or voluntary means could yield a number of benefits:
**Firm benefits**

- provide a focus on training for the firm at management level, as it would provide an imperative for the reporting of training activity;

- provides a bridge for HR professionals and accountants to work together within firms to develop more effective training practices and to better present the value of firms' human resources;

**Stakeholder benefits**

- investors and shareholders would have a clear guide to the levels of training expenditure within a firm which may guide investment decisions in the stock market;

- in non quoted companies, other stakeholders could benefit from this information such as public funders, communities, customers;

**Policy development benefits**

- knowledge of existing levels of training within each organisation would enable the introduction of more sophisticated incentives (e.g. the introduction of tax breaks on new, additional training expenditures) that avoid deadweight welfare losses;

- over time, it could add to the evidence relating to the benefits of training more generally and contribute to the on-going work of presenting a business case to employers of the value of training as a means of driving up demand;

- the scoping work, and development of measures, could help inform work to develop a more sophisticated analytical tool for the assessment of the effectiveness of policy intervention in skills and training by providing a framework for the measurement of training inputs.

- Whilst focused on training in individual organisations, this work could also input to building a broader understanding of the impact of intangible assets on productivity. In 2006, HM Treasury published a report (HM Treasury, 2006) which sought to take into account intangible investment in productivity figures, in seeking to understand the UK’s low productivity growth rate given the strength of knowledge intensive industries. It identified indicators for a range of intangible assets, including firm-specific training. To measure firm-specific training it used employer training spend data from the National Employers Skills Survey in England. The debate about the treatment of intangible assets in national accounts is increasing as concerns are raised that traditional measures of investment may not be capturing the growing importance of knowledge-intensive industries. Tackling this measurement issue from both firm level and national level would enable shared learning about the measures.

- By also linking training to wider Human Capital practices, we bring a focus onto concerns about the need for training to take place with a context of the adoption of wider Human Capital practices within a firm.
Risks of this policy and means of mitigating

- The programme of work we propose for the Task Force is quite significant and complex (a lack of consistency and agreement about concepts, definitions and measures is a deep rooted issue for ‘training’) and may take some time to complete. This may mean that the impetus behind this study and the recommendations are diluted before reporting. However, there are a number of organisations interested in developing this for intangible assets more generally, presenting a potential wave of activities to maintain momentum.

4.4 Conclusion

This chapter has presented the policy options most likely to enhance employer investment in skills on a collective basis. What will be evident is the complexity in ensuring the careful design and implementation of any policy option to ensure it is effective and is appropriate to the need it is seeking to address. The advice in the chapter is re-presented diagrammatically in Figure 4.1, which follows the same format as Figures 2.1 and 3.1. What the diagram demonstrates is the dynamism in the proposals, (e.g. networks receiving state support initially but moving toward self-financing) and the need to do more development work in certain areas (e.g. around appraising options for human capital reporting, which could develop on a compulsory or voluntary basis). The diagram also presents existing levers, since no policy operates in isolation and is dependent on the success of other existing and emerging policies.

For example, a firm may be IiP accredited and involved in a supply chain inter-employer network, opening up its training facilities to smaller firms in the chain. This collaborative behaviour helps the firm gain a higher level of IiP accreditation, which becomes a requirement of public procurement for a firm of its size. The network with which it is involved identifies the need for a license to practice for a certain occupational group and seeks more general support for a levy to partially finance this and the on-going maintenance and development of the network, as the evaluation of the pilot network has demonstrated improved profitability and product quality through engagement in the network.

Another example might be that of a smaller firm, encouraged to join a network by a larger local firm with the promise of access to more cost effective training. The owner-manager of the small firm takes the opportunity, through the network meetings and events, arranged at their convenience, to develop their own skills as a ‘people developer’ and is considering encouraging their staff to take qualifications/credits developed by their SSC through the Qualifications Reform programme.
These relatively simple illustrations attempt to show the synergies between the different policies discussed, which is especially essential as the evidence has shown that the levers most likely to be effective are voluntary levers, around which the need to build a persuasive narrative is crucial, as is the effective implementation of these enabling policies. The persuasive narrative and the establishment of key overarching principles to inform the development and implementation of Collective Measures are now discussed in the next chapter.

Figure 4.1: Prioritised Policy Options in UK Context

- **Quadrant 1**: Employer Resourced
  - Accountancy Standards
  - Levies
  - Right to Time Off
  - To Train
  - Occupational Licensing

- **Quadrant 2**: Compulsory Involvement
  - Reporting HCM
  - Commitments to Train
  - Procurement
  - Workplace Dialogue
  - IIP

- **Quadrant 3**: Voluntary Involvement
  - Reform of Public Provision
  - SSCs
  - Training Network Pilot
  - Tax Breaks
  - Subsidies

- **Quadrant 4**: Publicly Resourced
  - Key:
    - Red: Not Prioritised, or On-Going Policies
    - Orange: Prioritised Policies
    - Blue: Potential to Move to Compulsion if Procurement Requirements for Larger / 'Gold Std' Firms
    - Green: Option to Be Reviewed
    - Yellow: Potential for Greater Sustainability
5 Conclusions

5.1 Introduction

This report concludes with some over-arching principles in the design, development and implementation of Collective Measures, which have been demonstrated through our review of the evidence, and summarises further work to be taken forward to progress this agenda and build towards the 2014 Review of Entitlement to Learning.

5.2 Design principles in the development and implementation of Collective Measures

This section reflects on some overarching design principles in the development and implementation of Collective Measures, as suggested and supported by the evidence reviews and our engagement with stakeholders.

5.2.1 Responsiveness to demand

It is apparent from the findings of the Collective Measures Study and the advice provided that there is little appetite for ‘compelling’ employers through the introduction of levies or licences to practice on a wide scale without a significant business case being made. The evidence on compulsory levies is mixed and suggests that compelling employers to behave in a particular way will not necessarily lead to the desired outcomes (e.g. enhancing investment amongst those employers who may be currently under-investing in skills). However, where compulsion occurs (as in Extending Occupational Licensing) there should be a sound public interest need or it should be generated from employers themselves. Where that interest is generated and demonstrated by employers, Government must ensure a responsive legislative framework so that sectors which want to introduce levies or other statutory instruments are able to do so as efficiently as possible and with sound advice on the most effective means of implementing that instrument.

5.2.2 Securing a dialogue in the workplace

To tackle some of the issues employers report concerning staff reluctance to train, and barriers reported by individuals concerning the perceived negative attitude of their employer to training (Johnson, Sawicki et al., 2009) we believe a more collaborative approach to training might be fostered through ensuring policies directed at employers include a specific element focused on employees and vice versa. Such an approach is advocated in ‘It’s Time to Talk Training’ (CBI, TUC et al., 2009) which we would also support. Employer-facing skills and training policies should ensure a consideration of impact on employees to encourage mutual understanding of the benefits of training and break down some of the reluctance of staff to engage in employer provided training.

5.2.3 Developing employer demand

It is apparent that, in terms of the policy advice we present, most approaches are concerned with building a more effective case for investment in training by employers, whether through enhanced
evaluation of LiP to demonstrate the benefits to organisations; or through developing work on reporting. The Evidence Review (Hogarth, Bosworth et al., 2009) pointed to the lack of demand for training as being the key barrier and reason for under-investment. To be effective, policies need to build this factor into their design. Employer-facing skills and training policies should also consider wider aspects of training interventions such as the use of skills, links to the broader business strategy and maximising the impact of the training delivered.

5.2.4 Maximising the impact of training policies

The emphasis on tackling persistent pockets of lower than average investment in skills, rather than blanket under-investment, means that employer-facing skills and training policies must specifically consider how to counter deadweight and focus on the hard-to-reach employers or areas of greatest need – small employers, single-site organisations, low training sectors and management skills are all identified in this report as potential areas of specific policy focus.

“The emphasis should be more on directing available resources more efficiently.”

SSC RESPONSE TO CALL FOR EVIDENCE

5.2.5 Embedding and evaluating policy

Linked to this is the need to allow existing policy the time to embed and allow a reasonable time for the achievement of objectives. Many skill related policies are likely to take some time to demonstrate a change of behaviour. For example, reforms to vocational qualifications may not impact on employer decisions about the take up of vocational qualifications until they have been proven. We would emphasise the importance of allowing a suitable time period for policy to achieve its objectives.

Furthermore, we would also argue that policy interventions are effectively evaluated, so that lessons can be identified regarding the process and the resulting outputs – including longer term outcomes in terms of changes to levels of training investment. The Policy Review (Cox, Sumption et al., 2009) noted that many evaluations of existing policy failed to do this and that perhaps some effects were not being measured, pointing to the need for better evaluation of existing initiatives and more piloting, with sufficient time for pilots to report on longer term outcomes before decisions are taken for continuation or termination of a particular policy line.
5.2.6 Growing a learning culture

Finally, it is important to note that our advice will not yield quick wins or wide scale change. Rather, the nature of the problem identified is complex, long-term in its persistence and is concentrated in particular types of firm. *We advocate a process of gradual change which will ultimately lead to a higher demand for skills from employers through a process of learning from their peers and better demonstration of the positive effects of investing in training – the development of a persuasive narrative for training. It is part of the building of a generally more positive culture in relation to skills development and skills use in the workplace.*

“The alternatives to direct carrot and stick involve persuasion and greater collective engagement in terms of driving home the business case for skills investment and encouraging a learning culture.”

SSC RESPONSE TO CALL FOR EVIDENCE

5.3 Further work

The analysis undertaken and summarised here provides clear directions for developing particular activities to ensure the most effective Collective Measures are in place. The Study and the further work we propose to develop is an important stage in a broader programme of work intended to inform the 2014 Review of Entitlement to Training which the UK Commission for Employment and Skills has been charged to deliver. This broader review will consider whether further compulsion is needed in the vocational education and training system.

Much of the further work the UK Commission will undertake in developing this programme has been detailed in the advice on policy development above, however, to briefly re-iterate, this work will:

- Conduct options appraisals regarding the reporting of human capital by firms;
- Conduct a review of current human capital reporting practices;
- Work with Government to establish a Task Force to further progress work to inform advice on reporting human capital;
- Monitor the evaluation of the new approach to liP;
- Review the potential of procurement to enhance employer investment in training by reviewing current practice and any evaluation thereof.
In addition, we will monitor other developments, such as the development of piloted employer skill networks which will enable a rigorous testing of the value of this intervention and the development of occupational licensing or certification schemes.

However, our reviews also identified a number of other research gaps which will be considered as we develop our forward work programme. These include more rigorous empirical testing of the conceptual barriers presented and undertaking exploratory work for the development of an appraisal framework for skills policy where the outputs might be ‘intangible’, (such as the Quality Adjusted Life Years framework in the Health sector), which assesses the relative outputs of differing interventions. This may also be useful in providing a template for assessing the introduction of licences.

The Collective Measures study did not cover policies aimed at individual employers such as subsidies. In developing the work programme for the 2014 Review we would suggest exploring the relative success of subsidies as a policy to enhance employer investment in training. Subsidies are a major source of funding in England and Wales and should be considered against other forms of financial support (such as loans or tax incentives) due to the high levels of deadweight identified in this Study.

To inform the 2014 review, we will take stock of the implementation of current policy and how this is progressing through our annual Ambition 2020. This will inform us as to whether we are on track to meet the 2020 skills ambition and if additional interventions are needed (or, indeed, fewer). We will also monitor developments around other areas of the UK Commission’s work, as highlighted in Chapter 1, concerning Employee Demand for Skills, Skill Utilisation in the Workplace and Simplification.

Additionally, our work relating to maximising the leverage of the employer voice, and our on-going work to promote the case for skills, will all help inform our Strategic Objective of Increasing employer ambition, engagement and investment in skills.

We hope to work with governments and other stakeholders to ensure we get the right level, mix and implementation of policies and programmes to encourage employer investment in skills and raise UK skills to match the best in the world.
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Executive summaries and full versions of all these reports are available from www.ukces.org.uk

Evidence Report 1
Skills for the Workplace: Employer Perspectives

Evidence Report 2
Working Futures 2007-2017

Evidence Report 3
Employee Demand for Skills: A Review of Evidence & Policy

Evidence Report 4
High Performance Working: A Synthesis of Key Literature

Evidence Report 5
High Performance Working: Developing a Survey Tool

Evidence Report 6

Evidence Report 7

Evidence Report 8

Evidence Report 9
Review of Employer Collective Measures: Prioritisation Events
Evidence Reports present detailed findings of the research and policy analysis generated by the Research and Policy Directorate of the UK Commission for Employment and Skills. The Reports contribute to the accumulation of knowledge and intelligence on a range of skills and employment issues through the publication of reviews and synthesis of existing evidence or through new, primary research. The Evidence Reports are accompanied by Executive Summaries, presenting the key findings of the main Evidence Report. These and other outputs in the Research and Policy Analysis series can be accessed on the UK Commission’s website www.ukces.org.uk

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