

Bulletin

Institute for
Employment
Research

COSTS AND BENEFITS OF TRAINING IN EUROPE

Introduction

Despite the importance attached to training in promoting competitiveness, a precise measure of its contribution has proved elusive. Yet exhortations for employers, government and individuals to invest more in training, needs to be based on a careful assessment of the rate of return to each. To date the research base has indicated that such an assessment requires a better understanding of training from both a quantitative and qualitative standpoint. The IER study on 'The Costs and Benefits of Training in Europe' has provided such an analysis from the employer's perspective. The research consisted of forty-eight employer case studies conducted in six countries. The purpose of the case studies was not to compare one country with another but to explore the relationships between employer behaviour with respect to training and the net benefits of training outcomes in the light of differently designed national education and training systems and different overall economic and labour market conditions. The countries selected were Germany, Spain, France, Ireland, the Netherlands and the UK.

Training in Relation to the Company's Business Environment

In relative terms the recession appears to have helped to increase the status of vocational education and training. The more capital-intensive a company becomes, the more important it is to get as much out of the existing equipment when investment in new technology is being curtailed or is

under strong scrutiny because of economic and financial conditions. At least among the case study firms, this seemed to be a factor helping to defend the training budget, partly offsetting the impact of lower recruitment and some redundancy upon the requirements for training.

So whilst external labour market conditions might have been expected to generate the usual counter-cyclical discouragement to investing in training, other factors have intervened, at least to some degree. Moreover, there is some evidence to suggest that a greater awareness of long-term considerations may reinforce commitments to training after phases of re-structuring are complete. In a sense, companies are likely to need to adapt their organisations continually and this sets up a dynamic case for training rather than a periodic recourse to training when particular problems arise.

Nonetheless, there are also potential dangers in a situation where companies with previously strong commitments to training - usually where activity is related to the stages reached by employees in their career progression - are now targeting training more directly towards business needs. Sectoral training provision which arose as a by-product of generous (by present standards) training policies may be affected markedly. Thus those companies that have relied on others in their sector to produce, in effect, a surplus of trained people may find it more difficult to recruit trained personnel in the longer term even though present supply is sufficient because of recession and rationalisation.

In an era of more 'purposeful' training with some companies cutting back via targeting, there is a danger, too, that other companies may become complacent. For 'targeting' may be confused with short-termism and with the notion that training is a kind of fringe benefit which the company should not offer to its employers.

The Benefits of Training

At the same time, the existence of dynamic benefits from training should be emphasised. This comes through very clearly from the analysis of the implications of product market developments for the supply of skills and the need for training. The principal benefits arise when companies are trying to:

- improve competitiveness in emerging high value-added segments of markets where the organisation is already operating;
- develop flexibilities in the workforce in order to respond to changing product market developments;
- maintain a high degree of quality control in the production of goods or services.

The main point about the above benefits from training is that the circumstances calling for such strategies are continually arising; they do not amount to once-off adjustments.

This is not to say that those benefits described in the study as 'static' are unimportant:

- reductions in capital costs (via better utilisation rates through lower maintenance and/or organisational change promoting more intensive operation);
- reductions in material costs;
- higher productivity on main tasks;
- shorter lead times, firmer delivery dates;
- higher quality of final product/service.

However, considerable as the benefits from training are recognised to be, employers' remarks on the evaluation of costs and benefits of training raise another issue which has implications for national or EU attempts to foster more training through fiscal or regulatory means. This is the

inherent difficulty that employers have in monitoring the costs and benefits of training and the views they have on the pay-off from greater effort to improve the basis they have for evaluating decisions in this area. Particularly striking have been those case studies in which, despite it being easier to estimate costs, employers have focused more on the necessarily qualitative evaluations of benefits; this is simply because they view a better understanding of the benefits from different types of training to be of more significance to promoting better business performance. This calls into question strategies which base intervention in the training market on the assumption that the volume of employer training expenditure can be manipulated predictably without actually being known.

Organisational and Technological Contexts

The benefits of training also depend on the relationship between organisational and technological change. The study as a whole has pointed to the intriguing range of occupational structures found to be operating with essentially the same technology. Relatively low skill strategies appear to be workable but they tend to reap only the static benefits of training. So they meet the demands of the present without preparing a configuration of workforce competences which makes employees more capable of adapting to changes which promote product or process innovation required in the future.

It is in these circumstances, also, that the link between high skill approaches to the implementation of new technology and more general issues of organisational design can be made. High levels of staff motivation and job satisfaction may increase the company's performance under relatively stable conditions but a greater pay-off is likely to come in situations of change. The benefits from training across a broader spectrum than might be justified in the context of the individual's work in a particular job then come partly from a collective return which could not be captured in a very narrow individualised approach to staff training. Again, this is not to treat training as a fringe benefit but as part of a personnel strategy which stems from a certain view of the quality of activity that a company is trying to achieve as an aim in itself, albeit conditioned by the continuing viability of the enterprise.

The central implication of the above for national and EU-level strategies is that, as the demand for skills associated with higher level occupations increases throughout Europe, the relative roles of the education and training system will come under increasing scrutiny. The viability of dual systems and the reliability of educational programmes in

playing a greater supporting role for economic adaptation and development are particularly important issues.

Strategic Choices for National Governments and the European Union

Given that the employment cycle in European labour markets has roughly doubled at the same time as each recession has deepened, it is necessary to consider the long-term implications of opportunistic resort to the external labour market for recruits as opposed to maintenance of training through the internal labour market. Reliance upon employers to provide the backbone of vocational training may become increasingly unrealistic in certain sectors. It is here where the possible strategy of providing a strong external training market needs to be considered.

As regards the internal/external training market issue, there would appear to be two competing strategies. The first seeks to incorporate within the enterprise as much training and internal labour force adjustment as possible, believing that if externalised it is much more difficult to handle - responsibilities are given up by management and the available instruments of non-enterprise policy (labour market programmes for the unemployed, etc.) are much less direct in their impact. The second strategy seeks to unburden the enterprise so that management has maximum flexibility regarding whether to redeploy, train, or make redundant. Here, the pay-off is expected to come from higher productivity which will generate higher demand and more jobs than would otherwise be the case.

This presents a dilemma. Will the development of an external ET market, offering better quality training and wider access, undermine the internal labour market commitments of those companies which have historically formed the backbone of the vocational training effort in a sector or country? The unemployed, women returners, those threatened by possible redundancy, and other employed people who want to invest in themselves, independently of their current employer, should benefit from the external training market strategy. But will the strategy also provoke a further shifting of the burden of training and employment adjustment from employers to individuals and/or the state?

Notions of social partnership combined with regulated labour and training markets may be seen as an impediment to efficient market behaviour. They may also be seen as a way of ensuring that corporate resources and management expertise search out high quality employment

opportunities for longer than short-term pressures might otherwise allow them to do.

Taking into account the past experience, present performance, and future environments facing employers in member states, the crucial ingredients in any strategy will be:

- (i) promote a highly credible external training market;
- (ii) in order to achieve credibility, ensure that new qualification schemes are seen as part of a training strategy in which people's skills are to be increased sufficiently to warrant certification rather than as a certification strategy which might encourage more people to train once their low-level skills are at least recognised;
- (iii) seek to avoid the separation of training from wage bargaining and labour force adjustment within the organisation;
- (iv) promote transparent training within enterprises so that Member State and EU support is conditional on external certification;
- (v) underpin sectoral commitments by regulation, fiscal measures or both;
- (vi) work for the convergence of internal and external training systems so that they become mutually supporting and more integrated rather than creating 'insiders' and 'outsiders', respectively, in the labour force.

Essentially, at national level, a mixed strategy is required providing an external market route, especially for small and medium-sized enterprises and for individuals whilst reinforcing the internal labour market commitments to train and retain (sic).

At EU level, the same principles apply. First, some EU actions are already compatible with the priorities given above: a consequence of working for greater mutual equivalence of qualifications where possible, and stipulating modular equivalence between parts of qualifications where they cannot be reconciled completely, is that greater transparency at national as well as EU level will be promoted. However, more emphasis should be given to the aim to achieve equivalent status between internal and external market routes to a qualification.

Second, deployment of EU funds should seek to encourage not just investment in training that will yield static benefits but in training environments that will enable organisations to recognise and reach for the dynamic benefits. This concerns both the long-term policies of employers regarding training and staff retention and the role of the education system in providing vocational education which will promote capacities to learn and adapt. Where costs and risks of mobility discourage employers from investing in these capacities, some mechanism must be found for offsetting costs and risks through part-funding by individuals and the Member State or EU.

Third, the EU can keep active the idea that social partnership, in those industrial relations systems that allow for it, may be harnessed to improve training and shift the cost-benefit trade-off in favour of the benefits to companies and their employees. Moreover, experimentation with trade unions and professional bodies as training providers should be encouraged.

Finally, whilst the social partners represent best the interests of the majority of the organised employed, there is a need for watchfulness on the part of weaker work groups, especially women employees, the unemployed and women returners.

Research Team

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Supporting information for regional distribution of arts expenditure	The Arts Council of Great Britain	Anne Green
People and skills in the Derby Pride area	Derby Pride Ltd	Chris Hasluck
New horizons for women in the Eastern region	Employment Department (Eastern Region)	Anne Green
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Round tables on the European social dialogue	Commission of the European Communities	Robert Lindley

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