

# IS FLANDERS IN NEED OF 'MORE'? AN EVALUATION OF INSTRUMENTS FOR THE PROMOTION OF TRAINING EFFORTS

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## 1. Abstract

This study addresses the training investments of companies and the participation in training of employees. More specifically it deals with the different ways in which authorities and social partners can affect both variables. It aims at listing the arguments in favour and against intervention in the training market, and seeks to offer an overview of intervention options. This information may serve to nourish and add nuance to the discussion about active stimulation in Flanders.

### **Key words:**

Training, employees, incentive measures

## 2. Objectives

This study was based on two objectives. First, it aimed at checking the importance of training efforts and finding out to which extent Flanders is in need of an incentive policy. The second aim was to list different types of incentive measures. For each type of measure, the research will list the pros and cons. Where possible, effect and evaluation studies will be involved as well. This brainstorming exercise and inventory provide a good insight into the different elements that must be taken into account when structuring the government policy concerning the promotion of training efforts in Flanders.

## 3. Methods and data

The study is based on a thorough literature study and a review of about seventy incentive measures from within and outside the EU15. The findings capture the main conclusions.

## 4. Findings

### **The importance of training efforts**

The literature study gives rise to the conclusion that there are multiple reasons for investing in post-school training and education. First of all, the investment yields an important pay-back effect, both in terms of higher productivity and competitiveness. Also, technological information and the introduction of new forms of organisation necessitate the need for training in order to stay on top of things. In the second place, intensive investments in education are indispensable in the broader pursuit of a dynamic labour market and mobile employees. After all, this assumes that employees possess sufficient transferrable competences, as well as adequate capacities for continued employability. In the third place, education is a key aspect in career end policy. The current older generation employees often had a limited level of education when they entered the labour market and given the rapidly changing demand, this increases the risk of "falling behind". Extending employment of the 50+ workforce comes with a price in terms of competence development. And finally, enhanced efforts in the area of post-school training and education have the potential to reduce exclusion and income disparity, at least insofar as they are rooted in differences in human capital or problems of employability.

### **The usefulness of an incentive policy**

Most of the points mentioned indicate positive external effects from education, in other words, the effects that benefit other actors than the parties immediately involved, such as the company investing in the education or the employee taking the training. These effects are not included in individual training decisions of employees or employers. They don't invest in education for the sake of society but instead aim at maximising their own usefulness. From a social point of view, this enhances the risk of underinvestment. A second element that might cause underinvestment in training is insecurity or a lack of information about the personal gain created by a training effort. Both companies and individual employees will have a hard time making an accurate estimate of the quality of the training content and the potential operational and financial benefits from additional education. The lack of information about social and individual gain constitutes a first argument in favour of active stimulation of investment and participation decisions of employers or employees.

Companies' pursuit of efficiency is a second argument. Interventions in the labour market are usually based on a fear of market failure. They revolve around the idea that the market in itself does not lead to efficient use of the available resources. In an ideal world, employers who invest in training also benefit from that investment: the enhanced human capital of the employees as a result of the training translates into increased productivity, and consequently, the employer earns back the investment. In reality, this is hardly likely to occur. The investment is being made in human capital, which is inextricably linked to the employee. That employee has legs and can be mobile. Chances are that the employee leaves the company *before* the training investment has paid back. It is hence not always useful for employers to invest in human capital, and providing incentives for training investments is therefore necessary.

A third and last argument involves the fairness objective. In this context, fairness implies that access to training depends solely on characteristics such as individual motivation to participate in training, or differences in individual commitment and effort. Practice shows that general biographical characteristics such as initial education level, age or gender, also affect the chances of receiving training. Particularly low-skilled and older employees fall victim to stereotyping, companies' pursuit of efficiency and dispositional barriers. Since a disadvantageous position in terms of training opportunities has adverse effects not only on individual wage and career development, but also on employability and job certainty, a correction via incentive measures could prove useful - both in terms of individual benefits for low-skilled and older workers (e.g. enhancing social inclusion and extending the employment period) and in terms of positive external effects (e.g. less - long-term - unemployment).

Based on the above arguments we conclude that an incentive policy can prove highly useful. The next part of this study contains an outline for an incentive policy and describes a few types of measures and their pros and cons.

### **Premises in the description of measures**

The description of measures will be limited to co-financing models targeted towards the demand-side. This is based on three reasons. First, the authors think that stimulating training demand must have priority over subsidising training supply, be it public or private. After all: employees' learning needs and objectives are subject to change and heterogeneous. This requires a highly flexible and differentiated training offer, which is not compatible with a model for direct funding of public or private training programmes. Hence the best option for stimulating training demand is to contribute to the demand-side. A second reason is the tight budgetary limits of the government. Given the limited financial space, a model of co-financing individual employees and employers is a better option than full funding. The third premise is in line with this. Even though broad participation in lifelong learning has considerable social advantages, in essence it primarily offers private added value for the participating employee, or the investing employer. As such it is only logical that employers and employees bear the largest part of the training costs (possibly with the exception of investments for specific target groups).

All the measures listed are targeted at employees. Some measures try to reach the employee directly, others run via the employer. The result of this particular focus is that all the measures that (1) support initial education, such as forms of alternating working or learning; (2) stimulate the integration or reintegration of jobseekers; and (3) support formal or informal learning, are not discussed here.

A few problems arose during the preparation of the list, the main ones being (1) a lack of complete information for each measure; (2) limited comparability of measures that seemed comparable at first; and (3) a shortage of methodologically well-substantiated evaluation studies. Due to the extensive heterogeneity of incentive measures, modalities and target groups and the lack of systematic evaluation studies, the standpoints following below sometimes balance on a thin line between 'scientific insight' and 'substantiated intuition'. The reader is forewarned.

### **An overview of types of incentive measures**

Incentive instruments may vary according to different criteria: (1) who is the financing authority (e.g. government, sector fund); (2) who is the recipient (employee, employer); (3) which type of funding mechanism is being used (e.g. financial mechanisms, time arrangements). Table 1 (in annex) provides a summary of the different types of measures. It shows both the basic principles, such as the recipient and the set-up, and the positive and negative effects of the systems. The overview of positive and negative effects is based on existing research.

### **An (international) benchmark: a few conclusions**

An overview of the incentive measures used in other countries shows that employer measures focus on fiscal benefits rather than direct funding schemes, such as vouchers. The opposite was found for individual employee incentives: they seem to concentrate on vouchers and individual learning accounts rather than on fiscal stimuli.

Some incentive measures aim at a wide target group and promote lifelong learning among the broad population. Other instruments target very specific goals, or were designed for a specific target group, either individuals or organisations. As far as the identified incentive measures are concerned, general measures seem to form the majority.

Seven to ten of all incentive measures, both for companies and for individual employees, target all employers or all employees, and sometimes include jobseekers. In the category 'specific' measures, the predominant employer target group is 'focus on SMEs or small companies' (without excluding the larger companies). Most targeted among employee groups are low-skilled workers and employees with a risk of unemployment, and in that order.

The above shows that there is no such thing as an 'ideal' incentive measure. Besides the obvious advantages, they always come with unwanted side-effects, a high risk of deadweight or a less than fair distribution of training opportunities. This is an important conclusion, more specifically to shed an accurate light on Flemish evaluation studies of the past ten years. These studies may have given the impression that we keep failing to stimulate training without the additional risk of considerable deadweight effects. This is not true. Not that the deadweight effects aren't real, but they are not unique for the Flemish measures. Similar measures in other countries usually record the same deadweight effects. In addition, most Flemish effect evaluations tend to rate a deadweight level of around 50% as ineffective or inefficient, whereas several international studies associate the same level with a substantial net effect. The existing effect studies allow for a few cautious conclusions.

As regards employer measures, the direct funding systems record the highest net-effects, although they still include deadweight estimates between 20% and 50%, usually with a bias towards the upper value. By contrast, preferential tax rates for companies record very high deadweights. This makes total sense: while the aim is to stimulate training investments via tax discounts, the regular training costs are also being deducted for tax. The limited net effect is countered by the relative simplicity of this type of incentive. The net effect could probably be enhanced by attaching strict conditions to the tax benefit, but this will *volens nolens* translate into increased complexity. Levying systems record very high deadweights and consequently, very frugal net effects. In fact, the levies companies pay to our sector funds have no direct impact on their training efforts and enterprises who ask for support from sector funds often do so for training programmes that would have taken place anyway - at least, that is what some of the foreign effect studies appear to indicate. As is the case for fiscal incentives, deadweights in excess of 50% or even 70% are common for levies. Here, too, however, that does not mean that they should be stopped immediately. After all: levy systems are largely built on self-financing, without the use of public tax money. Essentially, levies boil down to a reallocation of companies who make little training efforts to companies that make a high training effort. In that sense, one could see it as a sanction for free-rider-behaviour and hence as a correction of free market forces. In fact, however, it often also implies a reallocation of resources from smaller to larger companies.

## 5. Conclusions and policy implications

The above analysis leads to a number of conclusions that might provide direction to the incentive policy in Flanders.

The first conclusion is that there is no such thing as a perfectly balanced incentive measure. They all seem to include negative side-effects, such as considerable deadweight losses, substantial crowding-out effects or the set-off of additional costs as a result of levies imposed on wages. Efforts to limit these effects, if made at all, usually involve application of stricter inclusion criteria and, or consequently, enhanced administrative complexity. The latter unfortunately translates into an even greater participation difference between small and large companies, and between high-skilled and low-skilled people.

A second conclusion is closely related to the first and involves deadweight. The main learning point that emerges from the international analyses is that a deadweight share of around 50% is 'normal'.

The third and probably most important conclusion is that Flanders is the undisputed frontrunner when it comes to incentive systems. Several systems have already been tried and implemented; almost four out of five of the studied measures have already been implemented in some form in Flanders, or have been tried and abolished. The more effective incentives have been firmly incorporated in our system. For instance, our training cheques have provided us a leading position in voucher systems. Our ESF grant systems are geared to the type of company incentives that, ultimately, show the lowest deadweights. And the much scolded paid education leave enjoys a participation rate that is unrivalled at a global level. In short, the problem seems to lie rather in the efficiency and affordability of our incentive methods than in their effectiveness. In order to keep an effective system affordable, one must adapt the modalities: the description of the target group, the combination of input and output funding, the size of the incentives, etc.

On a final note, the authors ask the question whether expansion of the array of incentive measures would really improve things. It seems that we have already tried most 'best practices' one way or another. The sector, in particular, has been experimenting with a broad spectrum of funding and support systems, ranging from advice cheques, via learning accounts, to direct training support. So maybe investments should focus rather on studies into their practices, on enhancement of individual learning effects and on stimulating the weaker sector funds. The authors add that the best results can probably be expected from measures that are both specific and integrated. A focus on specific target groups, such as people with an occupational disability, small companies, or starters, usually goes hand in hand with higher net effects. Integration with other purposes, such as support of growth or innovation, employment or re-employment, reduces education back to its real status: that of a means instead of an end.

*Full reference of study report(s) and or paper(s) and other key publications of the study summarised here*

**Sels, L. (2009). *Heeft Vlaanderen nood aan 'meer'? Een evaluatie van instrumenten voor stimulering van opleidingsinspanningen*. WSE-report, 16-2009, Leuven: Policy Research Centre Work and Social Economy**

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**Table 1 Overview of types of incentive measures**

Type of incentive measure	Recipient	Modalities of design	Positive effects	Negative side-effects
Educational grants	Enterprises	Allocation of an amount to enterprises that is to be used for education. The grants usually involve the direct training costs. The indirect costs, e.g. reduced added value during training hours (so-called opportunity costs), come at the expense of the employer or employee. Grant systems may vary according to their amount and the target group.	It is generally assumed that grant systems can have a positive impact on certain types of market failure. For instance, they may boost the investment levels of companies that would normally tend to underinvest and limit their libertine attitude. At the same time, precisely for their direct impact on investing companies, these systems are assumed to sufficiently guarantee that the advantages of the training largely stay within the companies that are actually investing in the training programmes.	<p>Potential deadweight effects: if the increase in educational participation would also occur if no grants were awarded.</p> <p>Potential crowding-out effect: when public support for a specific (type of) company could crowd out educational participation in other (types of) companies.</p>
Tax advantages	Enterprises	Deduct educational expenses from taxable operational income. Fiscal benefit systems vary according to type (e.g. external training; external and in-house training) and the amount of training expenses that may be deducted.	<p>Same for educational grants.</p> <p>Relatively high amount of freedom in terms of training content.</p> <p>Some of the negative side-effects can be avoided by applying creative formulas, such as a cut of corporation tax, based on an increase of the educational expenses compared to a progressive reference base</p>	<p>High deadweight effects and potential crowding-out effects if the tax measure focuses on specific target groups.</p> <p>Strong focus on external training with the possible consequence that in-house training is totally replaced by external training programmes, whilst not leading to more training efforts in general.</p>

			<p>(e.g. the last three years) (formula 1).</p> <p>Or a tax cut based on the difference in educational expenses compared to a sector average (formula 2). The advantage of these formulas is that instead of charging the static education expenses (resulting in high deadweights), they reward the progress made as from a certain measuring point (formula 1) or the positive differentiation vis-à-vis a control group (formula 2).</p>	<p>Preferential treatment of large companies due to the complex tax legislation.</p> <p>No training during periods of economic depression (unless tax cuts may be deferred).</p>
Levies	Enterprises	<p><i>Train or pay systems:</i> a minimum level of educational investment is predetermined, usually expressed as a percentage of the aggregate wages. Companies can escape a levy (pay) or reduce its amount by actively investing in training its employees (train).</p> <p><i>Redistribution or levy reimbursement system:</i> wage contributions are collected by the government or sector foundations. The combined resources are subsequently allocated (redistribution) to companies in the form of grants or education allowances.</p>	<p>Levies ensure that companies contribute to the funding of training in any given way. This reduces the risk of 'poachers' and 'free riders'.</p> <p>In the case of substantial levies, the general investment level can be considerably higher than the level realised by the free market.</p> <p>It is often said that they can contribute to a real culture of education, particularly because of their 'levelling' effect on companies' training expenses.</p>	<p>Substitution effects: the levy replaces company-specific training investments that the company would have made anyway.</p> <p>Unfair outcomes:</p> <p>(1) A shift of resources towards large companies that disproportionately benefit from the redistribution systems.</p> <p>(2) Employers can charge the levy to their employees, for instance by slowing down the evolution of wages. In that case the entire staff contribute towards a limited group of employees, e.g. the productive, better educated and relatively young knowledge workers with a fixed</p>

			<p>Redistribution systems allow for adjustment of the quality and profile of training programmes, at least in those cases where the allowances are made subject to certain criteria.</p>	<p>employment contract in a large and stable company.</p> <p>Fixed levies ignore differences in real training needs and in potential added value of training programmes between companies and sectors.</p> <p>This may encourage companies to make random investments in training in order to minimise the levy.</p>
Schooling clause or pay-back clause	Enterprises	A schooling clause involves an employee's commitment to remain in the employment of the employer who funds their training for a defined period of time. The employee has the right to resign but in that case will have to pay back (part of) the training expenses.	<p>Protects employers</p> <p>Anticipates on free rider behaviour among employees</p>	<p>Problem of enforceability when the employee is short on cash.</p> <p>May undermine the willingness to participate, e.g. in the case of doubts about quality and relevance of the training.</p> <p>Potential abuse, e.g. the employer overestimates the training costs.</p>
Communication and supporting measures	Enterprises	These are measures that create the prerequisites for successful training investments, e.g. the Investors in People	The number of certified companies is growing.	Especially large companies.

		(IIP) label. Certification mainly seeks to ensure the quality of the training.		
Voucher systems	Employees	<p>Grant of an amount of money to individual employees to be invested in training.</p> <p>There are several conceivable scenarios, depending on (1) which costs should be covered: only direct, or (also) indirect costs; (2) the width of the target group; (3) the degree of autonomy in the choice of content and/or training provider; and (4) whether it mainly involves input funding, output funding, or both.</p>	<p>Simplicity.</p> <p>Strong signalling function with respect to the importance of lifelong learning.</p> <p>Differentiation between target groups is simple.</p> <p>It broadens the freedom of choice of individuals and indirectly promotes competition between training providers.</p>	The initially targeted groups (e.g. low-skilled workers) usually remain underrepresented in generally accessible systems.
Individual learning accounts	Employees	The basic idea is that individuals open a savings account specifically for the funding of training programmes and transfer amounts to it for that purpose. Third parties, e.g. the employer, government or sector fund, can also contribute by transferring money to the account.	Higher financial capacity due to the 'triple payer system': individual, government, sector and/or companies.	<p>High deadweight effect.</p> <p>Potential fraud, e.g. fake accounts and unauthorised withdrawals.</p> <p>Difficult to convince companies and sectors to contribute due to uncertainty that the training will actually benefit the company</p>



				and/or sector.  Complex from an administrative point of view and therefore possibly discouraging for certain target groups.
Time arrangements	Employees	<p>Various systems are in place. In short, time is being 'saved' (through overtime or saving part of the wages) or assigned for training purposes. Belgium has the BEV system - paid educational leave - allowing employees to take leave from work in order to take a certain training programme.</p> <p>The existing systems vary with respect to required length of service with the employer, the duration of the leave and the funding basis (government, employer, sector funds).</p>	International comparisons indicate that Belgium, together with Sweden, leads the way by a mile as regards the number of users of educational leave (BEV).	Allocation of BEV is neither adapted to recent developments in the area of lifelong and lifewide learning, nor to the flexible training needs of employees.