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Citation:

Devins, D and Nunn, A and Stewart, J (2009) Review of Employer Collective Measures: Policy Prioritisation. Project Report. UK Commission for Employment and Skills.

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Document Version:

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UK COMMISSION FOR  
EMPLOYMENT AND SKILLS

# Review of Employer Collective Measures: Policy Prioritisation

Evidence Report 9  
November 2009

# **Review of Employer Collective Measures: Policy Prioritisation**

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**UK Commission for Employment and Skills**

**November 2009**



## Foreword

Launched on 1<sup>st</sup> 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 Employer Review of 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 existing literature and reviewed relevant UK and international policies to inform our advice and recommendations. 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.

This report is the one of a suite of outputs reporting on the Review of Employer Collective Measures study and reports on the series of Policy Prioritisation Events held across the UK in spring 2009. Senior government officials and officials of government agencies; representatives of employers and employees and academics attended and input to the Events to help inform the progress of the study and to test our evidence-based

recommendations with people with a high degree of experience and responsibility for implementation of these types of initiatives. This was a crucial stage in the project and we would like to thank all those who participated in those events and thus, helped to shape our final recommendations.

The report was completed in July 2009 and does not reflect developments in the study since. The final report presents the recommendations and conclusions to the study. This and the other reports in the Collective Measures study are also published as Evidence Reports in our series and are available in the publications pages of the website at [www.ukces.org.uk](http://www.ukces.org.uk). The recommendations will be put to Ministers across the UK and we will monitor developments toward the implementation of the recommendations we propose here.



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Director of Research and Policy



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Deputy Director and Head of Research

## **Acknowledgements**

The authors would like to thank all the stakeholders who gave their valuable time by agreeing to contribute to the deliberative research workshops. We would particularly like to acknowledge the help and assistance provided by Ruth Bennett and Tim Devine (Northern Ireland), John Provan (Scotland) and Alison Rees (Wales) in engaging stakeholders and providing a venue for the workshops in the devolved administrations. We would also like to recognise the facilitation expertise provided by Sam Mclean (IPSOS MORI) throughout the project. We are also grateful for the help and guidance provided by Carol Stanfield at the UK Commission and the rest of the Collective Measures Study Research Team.

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# Executive Summary

## Introduction

This report has been prepared to inform the Collective Measures Study (CMS) being undertaken by the UK Commission for Employment and Skills (UK Commission). The Policy Research Institute and IPSOS MORI were commissioned as part of a wider research consortium to undertake a policy prioritisation exercise to ‘test out’ policy options and inform UK Commission decision making in terms of employer investment in skills. The CMS reflects an evidence informed approach to policy development, based on a five stage approach to identify a strong conceptual and theoretical base, marshal the empirical evidence and identify the policy levers that have been adopted to encourage employer investment in skills in the UK and beyond. This report presents the findings of a deliberative research exercise and informs the identification of policy options to be considered for economic appraisal.

## Methodology

The aim of the research is to work with key stakeholders to assess the relative merits of the policy options identified in the CMS Policy Review. In order to achieve this the project has the following specific objectives:

- To present an accessible summary of those policy options selected in the Policy Review project to key stakeholders. This will need to include a robust but concise summary of the relative strengths and weaknesses of each policy option (what works and what negative implications might arise), alongside important contextual factors (for who, in what circumstances and why).
- To conduct deliberative research with key stakeholders on these policy options, ensuring that full and informed consideration is given to the evidence collected in the Policy Review process.
- To summarise the findings from the Prioritisation Exercise and recommend options to be progressed to the Economic Appraisal project as well as identifying the reasons why some options will not be recommended for progression.

The Deliberative Research exercise was undertaken through ten ‘Policy Prioritisation Events’ (PPEs) arranged to engage stakeholders in England and the Devolved Administrations in evidence based discussion of the policy options identified in the CMS Policy Review. They took place in February-March 2009 and almost 100 stakeholders attended.

## The Policy Options

The Policy Review examined a range of potential policy levers; Inter- employer networks (IEN), Extended Occupational Licensing (EOL), Layered Investors in People (LIIP), Modified Accountancy Standards (MAS), levies, general subsidies for training, tax breaks, individual rights for training, procurement and quality standards. The first four of these were selected for further consideration at the PPEs. The remainder were not considered as standalone policy options however there were not ‘rejected’ merely ‘set aside’ to be brought back into discussion if required by stakeholders participating in the PPEs or in combination with other policy options. The deliberative research process is dependent upon participants being informed in advance of the issues and the associated evidence base and participants were provided with the following information at least one week before the PPE:

- Copies of the full reports and Executive Summaries for the three literature reviews (Conceptual Review, Empirical Review and Policy Review);
- Paper outlining the reasons for the choice of the policy options to be considered at the PPE;
- Summaries of each of the policy options to be considered at the PPE.

## Key findings emerging from the PPEs

The key findings for each of the policy options are summarised in the table below.

<b>Inter Employer Networks</b>	
Description	An employer network is defined as any situation where two or more firms co-operate in the organisation of training. This may cover various stages of training – defining training needs, setting of standards, sourcing of trainees, delivery of training, monitoring of progress and assessment and certification
Initial reactions	<ul style="list-style-type: none"> <li>• ‘Better’ rather than simply more are needed</li> </ul>
Strengths	<ul style="list-style-type: none"> <li>• Employer-led</li> <li>• Generate economies of scale</li> <li>• Contribute to knowledge transfer and spillovers</li> <li>• Effective delivery vehicle</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Uncertain performance</li> <li>• Engage the ‘willing’ (with considerable potential of deadweight)</li> <li>• Dependent upon public funding</li> </ul>
Policy design	<ul style="list-style-type: none"> <li>• Clear aims and objectives</li> <li>• Identifiable ‘hook’ (or incentive) – funding flexibility</li> <li>• Supporting infrastructure and facilitation</li> <li>• Time to develop and engage employers</li> </ul>

<b>Extended Occupational Licensing</b>	
Description	Occupational licensing can be defined as a process whereby practitioners must demonstrate a minimum degree of competence or suitability for an occupation, in order to be granted permission to practice. It is concentrated mainly upon professional groups such as lawyers or accountants or occupations where there is some element of health and safety risk such as healthcare and some lower-level occupations such as gas installers and security personnel. It affects a limited proportion of the workforce
Initial reactions	<ul style="list-style-type: none"> <li>• Mixed response with a minority in favour and the majority equivocal or unconvinced that this option would lead to increased employer investment in skills</li> </ul>
Strengths	<ul style="list-style-type: none"> <li>• Potential to impact on training and qualifications</li> <li>• Directly relates to skills and competencies</li> <li>• Addresses employer skills gaps</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Limited to a small set of occupations</li> <li>• May increase costs without improving productivity</li> <li>• May be paid for by the individual or state rather than the employer</li> <li>• Potential to limit labour market mobility</li> </ul>
Policy design	<ul style="list-style-type: none"> <li>• Targeted industries and occupations</li> <li>• Seek to overcome general problems associated with competency based systems</li> <li>• Connection with SSC Qualification Frameworks</li> <li>• Further research and development work required</li> </ul>
Prioritisation	<ul style="list-style-type: none"> <li>• Mixed view favoured in some PPEs but not in others</li> </ul>
<b>Layered IIP<sup>1</sup></b>	
Description	This policy option would involve several important amendments to the current IIP standard. First, it would involve the modification of IIP so that there were different and graduated layers to reflect different degrees of quality assurance and differential costs associated with gaining the different levels. Second, this policy option might be connected to other initiatives such as variable linkages to public procurement exercises. Third, the expectation would be that layered IIP would need to be considerably expanded in scope. This might include merely the public sector contracting incentive or further mixes of compulsion or incentive.
Initial reactions	<ul style="list-style-type: none"> <li>• Established brand with contested standing in the marketplace</li> <li>• Recognition of the importance of training within a wider HRD context</li> </ul>
Strengths	<ul style="list-style-type: none"> <li>• Employers already aware of IIP</li> <li>• Can be used to target other resources (e.g. subsidised training)</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Connection with increased employer investment in skills not apparent</li> <li>• Unsuitability for SMEs</li> </ul>
Policy design	<ul style="list-style-type: none"> <li>• IIP in need of 'refreshing', 'relaunching'</li> <li>• Development of evidence base</li> </ul>
Prioritisation	<ul style="list-style-type: none"> <li>• Little enthusiasm for the layering as proposed in the policy option</li> </ul>

<sup>1</sup> Events took place before launch of new approach to IIP in May 2009.

<b>Modified Accountancy Standards</b>	
Description	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. The conceptual review noted that conventional accountancy methods tend to regard training as a cost rather than an investment and may therefore discourage employer investment in skills. It is an enabling intervention that improves the operation of the market, but also allows other policies (e.g. tax breaks and levies) to be introduced.
Initial reactions	<ul style="list-style-type: none"> <li>• Very mixed ranging from sceptical to enthusiastic</li> </ul>
Strengths	<ul style="list-style-type: none"> <li>• Support cultural change</li> <li>• Long term option</li> <li>• Something 'different'</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Potential for deadweight</li> <li>• Applicability to SMEs</li> <li>• Problems associated with establishing accountancy standard</li> </ul>
Policy design	<ul style="list-style-type: none"> <li>• Need to assess unintended consequences</li> <li>• Some support for a softer approach – reporting as opposed to standards</li> </ul>
Prioritisation	<ul style="list-style-type: none"> <li>• Some support for MAS but not amongst the majority</li> </ul>

### **Implications for Policy Development**

The evidence gained from the PPEs points overwhelmingly to IEN as the policy option stakeholders identify as the most likely to encourage employer investment in skills. There was mixed support for all the other options considered at the events and some support for 'other' in terms of 'skills utilisation' (in Scotland), subsidised training (in Northern Ireland) and general tax breaks (with some Sector Skills Councils). The research leads to a number of conclusions and implications for policy development including:

- widespread support for change in the policy framework to promote both additional and more effective employer investment in skills, even if there is not full consensus on how this might be achieved.
- some disappointment that the options on the table for discussion were not radical enough to make a 'big bang' impact whilst at the same time recognising that an alternative policy option was not apparent
- recognition of the contested nature of underinvestment in skills (specific as opposed to universal; skills acquisition/skills utilisation)
- support for incentives to encourage more and better investment from employers, including financial transfers from government
- widespread support among stakeholders for further emphasis to be added to recognising and satisfying employer demand in the skills and training system

- among the policy options discussed, state support for more and better employer networks was the favoured option, but at the same time participants generally recognised that this was not a silver bullet and other options such as EOL, IIP and MAS can be used in combination with IEN's
- all policy options need further research and development work and specification in advance of progressing to economic appraisal
- a need to ensure that any policy option taken forward was consistent with the simplification agenda and sensitive to the four nations in the UK.

# 1 Introduction

The Leitch Review of Skills called on employers to ‘raise their game’ in relation to the skills agenda to ensure that the productivity and competitiveness benefits associated with improved investment in skills can be realised. The research underpinning the Collective Measures Study has identified first that there is scope to suggest that there is currently underinvestment in skills by employers and second that this underinvestment may be a rational response to a range of factors which act as barriers to investment, including:

- Management time and capacity
- Imperfect information
- A lack of commitment among staff
- Capital market imperfections
- Payback uncertainties and horizons
- Institutional imperfections
- Shorttermism and cultural factors
- Poaching and turnover
- Effectiveness of the VET system.

Furthermore the current competitive strategies of employers may simply not demand high levels of workforce skills with implications for the level of employer investment in skills. However, employer reluctance to invest in skills can create risks to individual firm and UK competitiveness, in that emerging economies are providing large quantities of cheap labour, some of which is highly skilled which may pose a threat to indigenous employers in the global economy.

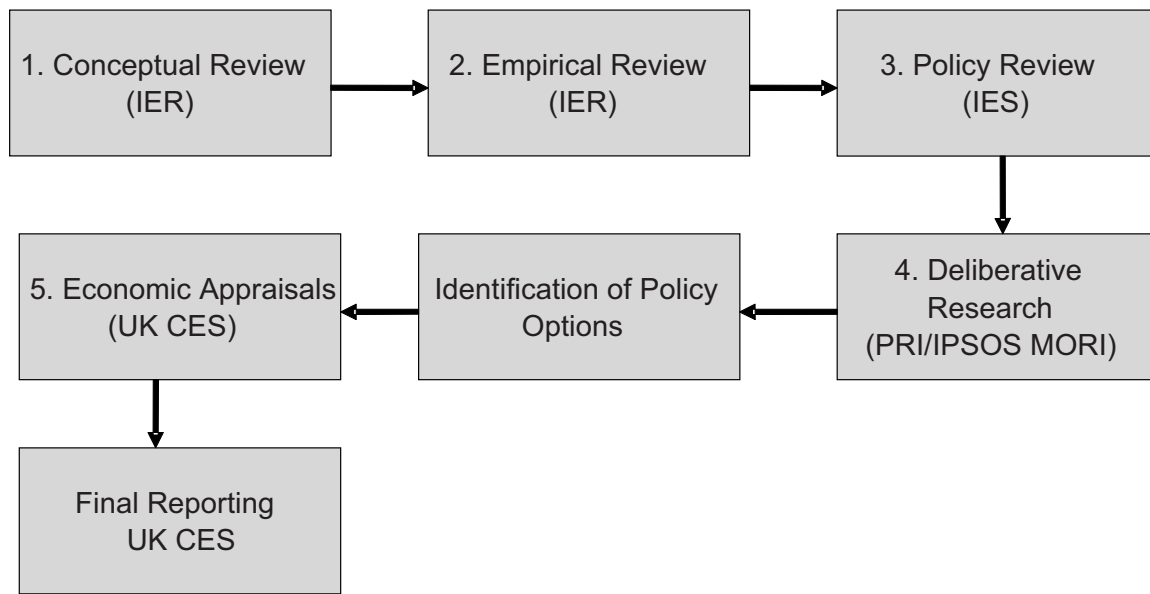
As a deregulated economy, the UK has made less use of policy levers to shift employer behaviour to increase their investment in skills compared to other countries, tending instead to rely on employers’ enlightened self-interest. It is therefore relevant to investigate what kind of policy levers might be most effective to stimulate employer investment in skills, under what circumstances they have been effective and the likely outcomes of introducing such policies.

The Policy Research Institute at Leeds Metropolitan University and IPSOS MORI were commissioned as part of a wider research consortium to undertake a policy prioritisation project as part of the Collective Measures Study in order to ‘test out’ policy options and inform UK Commission decision making in terms of employer investment in skills.

## 1.1 Overview of the Collective Measures Study

The Review of Employer Collective Measures study is a multi-stage research project involving a range of research organisations as illustrated in Figure 1.1. This report represents the findings of the deliberative research exercise (Stage 4) and identifies the policy options to be considered for economic appraisal (Stage 5).

**Figure 1.1: Overview of the Collective Measures Project**



The design of the Collective Measures Study reflects an evidence informed approach to policy development, based on identifying a strong conceptual and theoretical base (Project 1), marshalling of the evidence in terms of, for example, the nature, barriers and incidence of employer investment in training (Project 2) and the policy levers adopted to encourage employer investment in skills in the UK and beyond (Project 3). Each of these are substantial research projects in their own right and in-depth research reports have been produced and have been used to inform the deliberative research process. A brief summary of the aims and objectives of each of the projects follows.

### Conceptual review

The aim of the conceptual review is to provide a review of the theoretical literature with respect to employers' decisions about investment in employee skills. The review provides a conceptual and theoretical platform for understanding and organizing the subsequent empirical work and policy analysis. The review provides the economic rationale for the remainder of the Collective Measures study although the wider literature bordering on and outside of economics informs the later stages of the Collective Measures Study.

## **Empirical Review**

The aim of the Empirical Review is to identify and draw upon credible research from across the four countries of the UK and other applicable international evidence. It informs both policy design and its prioritisation, with the aim of improving the level, nature and quality of employer training. The review identifies influences on the employer's decision to train, barriers to training and measurement of employer investment in skills. It seeks to identify evidence of market failure, explore whether current levels of investment are optimal, and the returns associated with training.

## **Policy Review**

The Policy Review seeks to establish the outcomes and effectiveness of policy options deployed in the UK and elsewhere to influence employer investment in skills. It identifies the policy levers with most supporting empirical evidence of success in encouraging employer investment in skills in the UK context. It also provides the foundation for the identification of the policy options considered by stakeholders in the deliberative research, which provides the focus for this report.

## **1.2 Structure of the report**

Section 2 of the report details the methodology underpinning the deliberative research. Section 3 outlines the findings emerging from the research and Section 4 concludes by providing some conclusions and implications for policy development in the latter stages of the Collective Measures study.



## **2 Methodology**

### **2.1 Aims and objectives**

The aim of the deliberative research element of the Collective Measures Study is to work with key stakeholders to assess the relative merits of the policy options identified in the Policy Review project and to provide a selection of these to move forward to Economic Appraisal (Stage 5). In order to achieve this, the project has the following specific objectives:

- To assess the policy options identified in the Policy Review and to prioritise those to be taken forward into the economic appraisal stage.
- To present an accessible summary of those policy options selected in the Policy Review project to key stakeholders. This will need to include a robust but concise summary of the relative strengths and weaknesses of each policy option (what works and what negative implications might arise), alongside important contextual factors (for who, in what circumstances and why).
- To conduct deliberative research with key stakeholders on these policy options, ensuring that full and informed consideration is given to the evidence collected in the Policy Review process.
- To summarise the findings from the Prioritisation Exercise and recommend options to be progressed to the Economic Appraisal project as well as identifying the reasons why some options will not be recommended for progression.

### **2.2 Deliberative research methods**

Deliberative research aims to ensure that participants are able to engage with the research process from an informed perspective based on a consideration of the available evidence rather than ungrounded 'opinion' or simple reactions. It also encourages participants to engage in dialogue and debate to interpret the meaning, significance and quality of the evidence and to reach conclusions through this discursive process. This approach necessitates that participant stakeholders are informed about the findings of the first three projects, and particularly the Evidence and Policy Reviews as part of the deliberative research process. Participants act either formally or informally as representatives of their employing organisations and the research encourages the dissemination and discussion of the evidence base more widely within organisations prior to attendance at the Policy Prioritisation Events (PPEs).

The deliberative research exercise was undertaken through ten Policy Prioritisation Events arranged to engage stakeholders in England and the Devolved Administrations in the discussion of the policy options to encourage employer investment in skills. Participants were identified by UK Commission and members of the Collective Measures Study steering group. The research also included engaging a small number of international experts identified by UK Commission and the Collective Measures Study research team in an online Delphi exercise.

### **2.3 Assessment of Policy Options**

The Collective Measures Policy Review<sup>2</sup> examined a number of potential policy levers which were identified from a range of sources including the call for evidence by UK Commission, consultation with UK Commission, a broader series of experts and literature searches.<sup>3</sup> The policy options identified in particular depth in the review were:

- Extended occupational licensing
- Layered Investors in People (IIP)
- Modified Accountancy Standards
- Inter-employer networks
- Levies
- General subsidies for training
- Tax breaks
- Individual Rights for Training
- Quality Standards.

The first four in the list above were selected for further consideration in the Deliberative Research. The latter five were not considered as standalone policy levers to be taken forward in the deliberative research. Nevertheless the options not being taken forward as standalone policy options could still be considered as part of a package of measures and as such they were not rejected or discounted but set aside to be bought back into discussion if required by the stakeholders participating in the Deliberative Events. The rationale for 'setting aside' each of the policy options is outlined in full in the Collective Measures Policy Review report.

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<sup>2</sup> Cox, A. et al (2009), Review of Employer Collective Measures: Policy Review. UKCES. Wath-upon-Dearene.

<sup>3</sup> Further details of the approach and evidence base are available in the full research report.

## **2.4 Information provided to participants prior to the events**

The Collective Measures deliberative research process is dependent upon the participants being informed in advance of the issues and the associated evidence base. Full disclosure of information was undertaken through the provision of the following information to PPE participants at least one week before the PPE:

- Copies of the full reports and Executive Summaries for Project 1 (Conceptual Review), Project 2 (Empirical Review) and Project 3 (Policy Review)
- Paper outlining the reasons for the choice of the policy options to be considered at the PPE
- PPE Agenda.

Accessible project summaries (max 2 sides of A4) were developed to provide a brief summary of the policy options to be discussed at the PPEs and these are included in full in Appendix 1 of this report. The summaries covered the following areas:

- Definition of the policy option
- Connection to the rationale for intervention
- Practice
- Context in which applied elsewhere
- Target beneficiaries
- Groups which might be affected
- Strengths and weaknesses of the policy option
- Critical Success Factors
- Key policy stakeholders
- Policy Review conclusion
- A note on the strength of the evidence base.

## **2.5 Engaging with key stakeholders**

A key aim of the deliberative research is to engage key stakeholders with the Collective Measures Study. The identification and engagement of relevant stakeholders in the deliberative research involved significant effort on behalf of the research team, UK Commission and representatives from Devolved Administrations. A series of ten deliberative events were conducted with 83 participants. The stakeholders included

senior policy officers with responsibility for various elements of the employment and skills policy infrastructure including:

- Employer representation (through the Sector Skills Councils and other representative bodies)
- UK Commissioners
- Competitiveness
- Employability
- Qualifications Reform
- Skills at the Regional Level
- Economists.

**Table 1: Participants, by Policy Prioritisation Event**

Event	Stakeholder group	Location	Participant Nos
PPE1	Collective Measures Study Research Team	London	8
PPE2	SSCs	Leeds	5
PPE3	UK Commission Senior Management Team	London	8
PPE4	UK Commission Expert Panel	London	9
PPE5	SSCs	London	9
PPE6	Senior Officers Wales	Cardiff	10
PPE7	Senior Officers Scotland	Glasgow	10
PPE8	Senior Officers Northern Ireland	Belfast	9
PPE9	Senior Officers England	London	7
PPE10	UK Commissioners	London	8

## **2.6 Workshop Structure**

The workshops were introduced by a member of UK Commission (who attended as an observer) and facilitated by members of IPSOS/MORI. Each workshop consisted of an introductory presentation to familiarise participants with the Collective Measures Study, its purpose and the specific role of the deliberative component. This presentation also included details of each of the four policy options selected for discussion and the rationale for their selection. After consideration of all the policy options, participants were asked to engage in a ranking exercise, by allocating a fixed number of 'points' to each of the options as well as two additional options; 'do nothing' and 'alternative policy options'. Where participants allocated points to the alternatives they were asked to specify what these alternatives were. The majority of the time spent in each workshop was allocated to discussing the policy options. The workshops were generally three and a half to four hours in duration.

A short summary of the PPE was developed by IPSOS/MORI and circulated to participants. The purpose of this was two-fold (i) to provide participants with an opportunity to identify inaccuracies or misrepresentations (ii) to provide an opportunity to input further evidence or commentary in relation to the discussion of the policy options.

## **2.7 Analysis and reporting**

The PPEs were digitally recorded, transcribed and entered into NVIVO software for analysis by the PRI. Further information collected post-PPE through the provision of the workshop summary and responses received from participants was added to the qualitative data collected at the events.

Cross case analysis was undertaken to identify the key themes associated with each of the policy options and variations associated with types of stakeholder identified and explored. This is now reported in the next section of this report.

### **3 Findings emerging from the PPEs**

As introduced in section 2.4, the four policy options discussed in the Policy Prioritisation Events were:

- Employer networks
- Extended Occupational licensing
- Layered Investors in People
- Modifying Accountancy Standards.

The context and findings emerging from the PPEs for each of the policy options are outlined below using the following structure:

- Definition and overview
- Connection with conceptual, empirical and policy review
- Findings from stakeholder discussions:
- Stakeholder reactions
- Strengths and weaknesses
- Policy design and stakeholder implications
- Prioritisation.

#### **3.1 More and better employer networks**

##### **3.1.1 Definition and overview**

A working definition suggested by the Policy Review was provided to participants in PPEs:

An employer network is defined as any situation where two or more firms co-operate in the organisation of training. This may cover various stages of training – defining training needs, setting of standards, sourcing of trainees, delivery of training, monitoring of progress and assessment and certification.

Inter-employer networks can be organised along sectoral, sub-sectoral, supply-chain or geographical lines. They may also be associated with a further range of policy levers, including:

- Inter-employer networks (involving a sectoral levy) where the sector has a high proportion of small employers and is geographically dispersed and fragmented (e.g. construction, film).

- Inter-employer networks (involving a tax break) – where for example innovation is linked to additional training.
- Inter-employer networks (involving subsidised training) where funding acts as a ‘carrot’ to encourage additional training (for example supply chains).
- Inter-employer networks (hybrid combinations of above) with a degree of compulsion or voluntarism through for example levy or membership).

No one network model was suggested in the PPEs to enable the participants to customise the policy option to different contexts, localities and sectors.

### **3.1.2 Connection with conceptual, empirical and policy review**

Inter-employer networks connect with several themes in the rationale for intervention presented in the Conceptual and Evidence Review. These include the scope to flexibly deliver support to a recognised need while allowing employers themselves to identify this. The suggested options also leave scope for interventions to address the links between training and specific business problems faced by groups of employers on a sector or other basis. They may also help to overcome employer fears regarding poaching and labour turnover and facilitate the positive effects of information sharing.

### **3.1.3 Initial Stakeholder reactions**

In the majority of PPEs, existing inter-employer networks were readily identified by respondents (all PPEs), many of whom were able to identify successful examples. These included Skillnets in Ireland (PPE1, 5, 6, 7), Management Learning Sets (PPE5), Group Training Associations (PPE1, 2), National Skills Academies (PPE5), Sector Forums (PPE6), Workforce Development Forums (PPE8), Employers Federation (PPE9), compact agreements between SSCs and LSC (PPE5) and Centres of Excellence (PPE8) as examples of current policy interventions based on the concept of networks.

Respondents noted the different conditions that currently give rise to networks. For instance, some of the examples highlighted by respondents suggested that networks arise from a combination of factors from shared business needs to external triggers such as regulation or supply-chain pressures.

While initial reactions to this option were overwhelmingly positive a small number of initial reservations were also aired. These related to disappointment at the perceived modesty of the proposal (i.e. not being a radical step-change intervention) and concerns regarding the already large number of networks currently in operation. This latter concern was manifest in issues such as additionality and deadweight as well as the capacity of such networks to engage harder to reach employers and a concern not to add to the existing

level of complexity in the system. In particular, respondents noted the potential for competition between networks and facilitators and their desire not to overburden employers.

However, in several PPEs the broad ranging and wide definition associated with the nature of this policy option caused participants to seek clarification of the nature and scope of inter-employer networks. For example:

What do you mean by this? Is it sector based or something else.....local? international? Is it face to face or electronically based? (PPE2).

The devil is in the detail of design ... it is difficult to know what the likely outcomes are without this..... it could be difficult to sell to politicians due to the vagueness .... in terms of what they are and are likely to achieve (PPE3).

Initial reactions also centred on questions related to the scope of networks to be incentivised by the state. Respondents noted the wide variety of existing networks and their differing geographical and sectoral composition. For example, some networks identified by respondents were constructed on a very narrow spatial basis (e.g. an industrial estate etc) or a town or region. In other cases, networks were based on a sectoral basis or a combination of sectoral and spatial dimensions. A further dimension noted was the scope for time-limited networks associated with particular business development opportunities such as major sporting events. A range of views were also articulated in terms of the quality of some existing networks.

### **3.1.4 Strengths and weaknesses**

The strengths of this policy option identified in the majority of PPEs related to the 'employer-led' dimension of many networks and the way in which a network could engage employers around specific business 'issues'. Discussions often echoed the evidence articulated in the Policy Review which identified inter-employer networks as a response to external competition, shared business problems (such as recruitment difficulties and/or skills shortages) or in relation to regulation (such as EU Directives mandating Continuing Professional Development in some occupations). An example of the role of networks in centralising issues of employer demand relates to how strategically placed businesses might use networks in the supply-chain to push training and workforce development through supplier organisations. This might also enable these employers to take advantage of their leading role in training networks to promote their businesses, contributing to a pro-training culture as a by-product. Existing examples of networks of this type were put forward by some respondents, such as Flybe's leadership of its supply-chain network and partnerships with Exeter College and Exeter University (PPE5) or through Nissan's work with its supply chain on a localised basis.



A second category of strengths associated with employer networks related to accessing provision. It was widely argued that networks would enable employers to generate economies of scale and to be more attractive to suppliers overcoming both purchasing power (PPE2, 5, 6) and information barriers to accessing training provision (PPE2, 9).

They can be very effective in getting groups of employers together to determine what they need to know and what they need to be done – they need a champion to be able to steer them towards longer term rather than shorter term issues - (the champion) needs to be able to work effectively with providers to satisfy the employers (PPE9).

As an extension of this some respondents suggested that through agglomeration, networks may enable more smaller SME and micro-employers to engage in training activity where latent or unrealised demand is held back by these concerns. However, as the discussion of weaknesses below reveals, this was far from straightforward and some stakeholders were concerned that the networks would not be able to reach these employers. A further extension of this category of strengths was related to the efficiency of procuring high quality and cost effective training provision.

A third category of strengths related to the promotion of knowledge transfers and spillovers between organisations, similar to the way suggested by endogenous growth theory and cluster approaches to economic development. This was especially highlighted in relation to managers and the scope for peer learning and support, with the scope of networks to promote practices such as benchmarking and skills utilisation (PPE1, 2, 5, 9). In one case an example of relatively small scale networks was offered that both facilitated this sort of spillover and overcame concerns with negative externalities from training activity such as poaching:

[We] have been running...Action Learning Sets [ph] where they've got SMEs from various different sectors to go together... what it's actually proved is that these sets have continued to work because they prefer private support and mentoring for businesses that work and sharing problems and improving skills. Now one of the initial concerns was that obviously people would go along and be poached into other businesses, but what they found was that they become a support mechanism because some were from financial services, also some were from county, some were from accident report and they would then say, we're having this problem. And they'll say, we had that problem and we did this, this, this and this. So they've sort of got a life of their own and that, obviously, is linking across because that isn't within sector employers. In fact it's working better on a cross-sector basis than it is on an individual sector-by-sector basis. So to some degree that's being funded as a policy but through something else in terms of management and leadership across most of the regions and nations (PPE 5).

Finally, some respondents suggested that networks might provide a strong vehicle, as a result of many of these strengths, to deliver other publically funded incentives to encourage employer investment in training such as subsidies or tax concessions (PPE1, 5, 7, 8, 9).

However, networks were also associated with some weaknesses by respondents. Perhaps the most significant of these related to the scope for employer networks to become self-sustaining. Respondents universally (PPE1-10) echoed concerns raised in the Policy Review that employer networks might only drive *additional* (i.e. beyond deadweight) employer investment in skills while public funding is sustained.

A second strong category of weaknesses related to further adding to the complexity of the skills system and the scope for facilitators, for example, to compete for members. Several respondents were concerned that employers already face a plethora of business and skills 'support' which is difficult for them to navigate and one more initiative may further complicate matters (PPE5, 8, 9). In addition, concerns related to the waste of public resource in this way were raised by respondents in these PPEs.

Institutional weaknesses were also expressed in the PPEs, again reflecting concerns raised in the Empirical and Policy Reviews such as a lack of flexibility in the supply-side, particularly HE and FE, and their ability to change in the way necessary to meet the needs of employers for timely and specific training (PPE2, 5, 8). Issues associated with engaging and sustaining employer interest were also raised.

An additional and widely shared concern related to the likely scope for new or developments of existing networks to engage employers not connected to existing initiatives or where training levels are low. This was because many respondents feared that state support for networks might prove more attractive to employers who already engage in training activity (coalitions of the willing (PPE 3)), especially large employers rather than 'harder to reach' employers. The concern here was two-fold. First, these related to issues of deadweight – ie that employers who already train their workforce may simply benefit from any state support without engaging in additional training activity. In this scenario the net effect of the intervention would be small or zero. Second, the concern was simply that harder to reach employers would either not be engaged or would have their concerns dominated by larger employers with more experience engaging in state sponsored programmes (PPE5, 6, 9).

You said about small SMEs; we're a micro SME [economy], you know. The majority of firms here, it's never mind under 250 people; it's under 25 people, you know. And it's one man bands and a guy and he's, you know, he's doing the accounts, he's making product, he's answering the phone, he's trying to get sales, he's sweeping up, you know, all at the same time. For him to turn round and take an afternoon off or a day off to go and sit with an employer network to see, you know, what's out there and stuff like that, it's ... yes, at certain levels it ... but again, it's ... who's it helping? It's helping the bigger employers, like me, because I can, I've got a production ... who can look after stuff while I go out and spend time doing this and then I can get the cream of the people coming to me, but it's not helping the guys, the majority of the business in Northern Ireland, you know. (PPE8).

Several respondents thought that the scope for networks to focus on business issues might prove a barrier to using them to drive employer training investment. Several respondents argued strongly that skills development and training were second or even third order concerns for employers. These respondents tended to suggest that employers were first and foremost concerned with implementing their business strategy and that this only included training their workforce where specific conditions were in place, including a skills shortage connected to that strategy and an inability to bridge that gap through other means, including job role redesign or strategy adaptation (PPE1). As such, it was widely felt that networks needed to be linked to core concerns with business strategy and promoting the contribution of workforce development connected to these (PPE1, 5, 6, 9):

The connection with skills and training can be tenuous and some way down the line (PPE6).

You can't count on businesses going on to train people as a result of being involved in a network (PPE 5).

They may help to connect employers with developments in 'bite size training' but this might focus on 'on the job training and not the general training desired by policy makers (PPE 8).

Many stakeholders (PPE5, 7, 9) also suggested that existing networks demonstrate variable performance, with both SSCs and Chambers of Commerce being cited as examples of this. This led to some in these PPEs to comment that while flexibility is important to ensure networks can focus on emergent business needs, some controls need to be incorporated in intervention design to ensure acceptable levels of performance and delivery. For these reasons, piloting and evaluation is seen to have a key role to play in the further development of inter-employer networks as a policy option.

### **3.1.5 Policy design and stakeholder implications (resources and perverse incentives)**

There was general agreement in the PPEs that inter-employer networks, as a general policy option would be difficult to design. For example, networks may develop organically through the connections employers forge as part of their ongoing business activity and in this case they may be transitory. Public funding can provide the catalyst and facilitation to support this development:

We need to get employers to identify the areas we can support and to understand the shared benefits (PPE8).

Critical mass is important – there needs to be a number of employers talking about it .....and some who will champion it more widely (PPE8).

They may also be designed and implemented on a 'top down' basis and the Alliance of Sector Skills Councils for was provided as an illustration of this approach (PPE9).

Many networks are likely to have relatively limited coverage in terms of the number of employers involved. Although it is difficult to generalise given the wide ranging nature of inter-employer networks, it was suggested that about 20 was the optimum number for local networks seeking to connect employers with the supply-side of the skills and education infrastructure (PPE6). However, inter-employer networks were generally not viewed as a policy option *per se* and more often viewed as a delivery mechanism for a complementary skills related policy. In some workshops (PPE5, 8, 9) their potential, in combination with tax breaks or subsidies as a means of engaging employers and encouraging investment skills was championed and featured in the policy prioritisation process. The need for a flexible design framework to accommodate the diversity associated with inter-employer networks was recognised across the PPEs.

A clear message emerged from across the PPEs which suggested that there should be *better* rather than necessarily more networks. It was variously suggested that for example:

There are lots out there already but they are often doing the same thing and sometimes they are in competition – is there a need for more (PPE4).

There are hundreds of networks, networks of networks – they need to be coordinated....work towards the goal of a one stop shop (PPE7).

A range of design features for employer networks were raised in the PPEs:

- Perhaps most importantly, many of the discussions suggested that networks alone would not deliver increased training activity. Rather, respondents were clear that some form of incentive, whether in the form of subsidies or tax breaks would be needed. For some, for instance SSC respondents, this was led by a concern that they had a strengthened 'offer' to employers.
- The need for clear aims and objectives for the network was articulated as a core component of successful networks in most PPEs.
- Clear communication to members and potential members about the (potential) benefits of participation (PPE6, 9).
- The need for a clear 'identity' and 'hook(s)' (or incentives) to engage and retain employer interest. This may relate to training but may often be more broadly focussed on issues of solving common problems, business strategy or common responses to external pressures such as regulation or supply-chain influences.
- Successful networks require a sufficient critical mass, for instance to deliver required economies of scale in relationships with providers. At the same time they need to develop organisational connections, trust and effective working relationships; factors which are often thought to mitigate against large numbers of participants in networks and partnerships.

- The need for supporting infrastructure and facilitation. Where successful networks were identified by respondents (such as Skillnets in Ireland, Workforce Development Forums in Northern Ireland and Skills utilisation projects in Scotland) the role of coordination and facilitation was identified as crucial to building and maintaining employer engagement. Policy initiatives in other domains (e.g. R&D networks) to build networks between employers in pursuit of economies of scale and positive spillovers were reported to have required substantial upfront public investment in supporting infrastructure and facilitation (PPE9).
- Flexibility in funding and support mechanisms was raised in most discussions. This related to a concern that government should not impose particular network models but should instead seek to use existing and emergent networks of different types as delivery mechanisms to incentivise training activity.
- Timeframes were raised in only a small number of discussions. However, where this was the case the arguments raised were persuasive. Several respondents noted that too often funding initiatives incentivise activity which is short-term in nature. Where these are linked to partnerships and networks this can have a detrimental impact on behaviour change because beneficiaries tend to engage on a time limited and less committed fashion related to drawing down resources rather than changing practices. Respondents suggested that timeframe issues were particularly pertinent in relation to SMEs (PPE2, 8, 9) and in enabling facilitators/coordinators to engage employers who are not currently involved in similar networks, helping to overcome potential deadweight effects (PPE7, 9).
- Some respondents (PPE8) felt that unrealistic or overly ambitious goals, objectives and targets could be off-putting, acting as a disincentive to employer engagement.

The new integrated skills/business support broker service at regional levels in England, Sectoral Relationship Managers in Wales and the UK Commission's simplification project were identified as opportunities to address issues associated with employer demand for training and institutional complexity on the business support and skills supply side and this was viewed as a major policy option by participants in four PPE's (PPE2, 5, 7, 9).

Respondents in several PPEs argued strongly that the uncertain and contingent relationship between employer networks and workforce skills development meant that flexibility in network approaches need to be built into any intervention, and that this needed to be matched with a firm commitment to rigorous evaluation to ensure that lessons about 'what works in what context' are learned. The following illustrate some of the evaluative challenges associated with flexibility, accountability and development of inter-employer networks articulated in the PPEs

Networks need to determine their own success factors and not have them foisted on them by government' and 'government should not impose mandatory requirements on them. This can stifle innovation and reduce buy in by getting peoples backs up from the very beginning (PPE2).

We need to 'hide the wiring' - employers want money from official reliable sources but want this without undue interference (PPE8).

We need to capture evidence of impact on employers and use this to promote the message (that training pays) (PPE8).

There needs to be clear consideration and communication of the benefits (of being involved in the network) to participating employers (PPE3).

### **3.1.6 Prioritisation**

In all but one PPE (PPE7), this policy option was viewed as the most likely to be successful in encouraging employer investment in skills. Generally, the flexibility to match interventions to a range of core business needs was viewed as particularly beneficial. In the majority of PPEs, stakeholder preference was influenced by the connection of this policy option with a combination of different policy measures (e.g. subsidised training, tax breaks), its flexibility and potential to connect with employers and encourage additional training.

The PPEs provided a clear view from stakeholders that the policy option should focus on better rather than more networks and any developments should support and not compromise the simplification agenda. The uncertain and contingent nature of employer networks led to a general agreement of the need for careful piloting and evaluation to underpin further policy development.

## **3.2 Extended Occupational Licensing**

### **3.2.1 Definition and overview**

Occupational licensing can be defined as a process whereby practitioners must demonstrate a minimum degree of competence or suitability for an occupation, in order to be granted permission to practice. It is concentrated mainly upon professional groups such as lawyers or accountants or occupations where there is some element of health and safety risk such as healthcare and some lower-level occupations such as gas installers and security personnel. It affects a limited proportion of the workforce. (Cox, 2009 p41)

Regulating bodies often use competency-related requirements to determine an individual's suitability for an occupational license. For example, depending on the licensing requirements in operation, a regulator may require a prospective license holder to have:

- A qualification resulting from a specific training package or accredited course.



- Completed certain units of competency from a training package or accredited course.
- Completed training and assessment requirements set by the regulator which may not be based on nationally endorsed or accredited training.

In this way there are close linkages between training and assessment to meet occupational licensing requirements and the wider education and training system. Implementation can vary on several dimensions including scope of coverage, testing and renewal requirements, responsibility for costs and penalties for non-compliance.

### **3.2.2 Connection with conceptual, empirical and policy review**

Occupational licenses address the rationale for intervention established in the Conceptual and Evidence Reviews in that they address common, sector-wide issues, can be finely targeted at specific needs and are directly related to skills. The specifics of the requirements can be set by sector representatives rather than government.

### **3.2.3 Initial Stakeholder reactions**

In the majority of PPEs, occupational licensing is seen to play a key role in specific industries that require regulation to maintain and protect public safety. However, individuals within many PPEs articulated a mixed response to this policy option typically with one or two participants in favour of targeted or occasionally more widespread application and the remainder of the group broadly ambivalent or occasionally negatively disposed towards this option. Those that were in favour ranged from powerful individual advocates within some groups for more general use of regulation to encourage employer investment in skills (e.g. PPE1, 4, 5, 10) to others favouring a targeted approach based on specific industries and occupations and limited mainly to a context where public safety issues are apparent. There was some support for Extended Occupational Licensing beyond public safety which recognise customer service issues in certain sectors such as leisure and tourism for example (PPE1, 4, 7).

Two groups (PPE8, 9) expressed an adverse view of this policy option on a collective basis. Those in PPE8 recognised the important role occupational licensing played in terms of public safety and that there may be limited scope to extend the need for licensing in this case. The major concerns expressed in PPE8 more generally appeared to be associated with firstly the likelihood of a negative response from private sector employers that compulsion was likely to engender in terms of additional costs associated with administration of the licensing system and secondly the challenge this would present in terms of engaging employers in the development and implementation of this option.

Similar concerns were expressed in PPE9 along with the perceived narrow applicability of the policy option in terms of limited sectors and occupations and the belief that most employers would perceive it as 'yet another hoop to jump through' with limited business benefits to be realised. In both PPEs, concerns associated with weak conceptual and empirical evidence associated with the extent to which extended occupational licensing would result in increased employer investment in training exerted a strong influence on stakeholder views.

More generally this policy option was perceived in a favourable light particularly if targeted on specific industries and occupations (e.g. PPE2, 4, 5, 6). One or two participants within some groups advocated a more general approach strongly on the basis of (a) Equity – some professional occupations require it but 'lower levels do not' (PPE4, 10) and (b) evidence that countries where it is more widely adopted are and remain competitive (e.g. US/Canada/Australia) (PPE10).



### 3.2.4 Strengths and weaknesses

The discussions in the PPEs reflected many of the strengths and weaknesses articulated in the Policy Review. This policy option is clearly viewed as having a potential impact on training and qualifications. For example, the group (PPE8) which did not advocate the use of this policy option recognised its potential as follows:

Security Industry in Northern Ireland in November announced that it's coming in in Northern Ireland and all people would have to be trained up by the end of this year and that's going to be 10,000 people trained to level 2.

The potential for increased investment in training associated with the implementation of occupational licenses in a short space of time was recognised in other PPEs (PPE1, 4, 5). In those positively disposed to the option it was seen as a 'win win' situation with costs shared between employers, employees and the state. An example of its use in the supply chain was provided by a strong advocate of Occupational Licensing in PPE5. In this instance the 'occupational license' was not based on regulatory requirements but the interests of a leading insurer in the sector which had encouraged vehicle repair businesses to adopt an approach to accrediting the skills of their workforce to improve standards<sup>4</sup>.

Many of the strengths of this policy option were related to connecting training in the workplace with the qualifications system. For example, occupational licenses immediately announce that an occupation has a set of skills and knowledge associated with it and this can help to raise the profile, attractiveness and credibility of an occupation. This was identified as a considerable strength of this policy option in several PPEs (PPE3, 4, 5, 7).

Where effectively developed and implemented, a licence to practice addresses skills issues and can have implications for training on an ongoing basis (if this is part of the design of the licence). In this way it has the potential to encourage investment in training over an extended time period (PPE1, 2, 3, 6, 7). One example of this, the EU Directive for mandatory continuing development for coach drivers was provided in PPE2.

There was also considerable interest in the potential of occupational licensing to connect with the vocational education and training (VET) system, apprenticeships, NVQ system and professional bodies. This opportunity was identified as a considerable strength in many PPEs although further elaboration of the nature of the connections proved elusive given the knowledge base of PPE participants (PPE4, 5, 6, 7, 8, 9). Extended occupational licensing was also identified as having the potential to build capacity in the skills, training and education infrastructure through the development of the systems and

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<sup>4</sup> I can contact the relevant SSC and elaborate on this example if required

structures to underpin policy implementation and encourage training to meet the needs of employers (PPE4, 5). However the development of the infrastructure was not necessarily viewed as a 'good thing' with concerns expressed associated with the administration and bureaucracy associated with Extended Occupational Licensing and 'monopoly powers' which may be exerted by accrediting bodies (e.g PPE8, 9).

The balance of the views expressed by stakeholders in the PPEs revealed many uncertainties and highlighted some of the potential weaknesses of this policy option. Whilst some advocated a widespread application of Extended Occupational Licensing most stakeholders suggested that the application of this policy option is best limited to a small set of occupations and sectors. This in itself was identified as an issue in terms of the limited impact this policy option may have on employer investment in training if constrained in this way.

There was also concern expressed in one PPE that this policy option could be expensive (PPE2) to implement with costs associated with underlying bureaucracy (PPE5, 6, 8) identified as a potential hurdle to overcome and barrier to employer engagement. The cost of extended occupational licensing may be borne by the employer and in this way impact on employer investment in training. However there were concerns articulated in the PPEs associated with displacement and that any increased investment by employers may be at the expense of other training activity. There were also concerns expressed related to any increased investment in skills may be channelled towards paying for increased administration or bureaucracy as opposed to skills acquisition or training activity. In several PPEs the likelihood of increased costs for employers and particularly SMEs was viewed as a considerable weakness of this policy option (PPE1, 4, 5, 8, 9). Notwithstanding this, the general view articulated in the PPEs was that most training associated with occupational licensing would be paid for by consumers or the individual or the state rather than the employer (PPE2, 3, 7, 6, 8, 10).

Concerns were also expressed in relation to the extension of occupational licensing and the operation of the labour market more generally. For example, the potential for extended occupational licensing to hinder the operation of the labour market in terms of recruitment and mobility of labour between sectors (PPE2, 6, 8) along with career progression (PPE10) was expressed in the majority of PPEs. It was contended that extended licensing could also act as a further barrier to labour market entry, particularly impacting on disadvantaged groups and migrant workers (PPE2, 7) and concerns were expressed that it could restrict entry into certain occupations more generally. Furthermore, the potential for extended occupational licensing to add an additional barrier to business start-up was also articulated (PPE10).

### **3.2.5 Policy design and stakeholder implications (resources and perverse incentives)**

As with each of the options considered in the PPEs, the stakeholders pointed out that ‘the devil will be in the detail’ in the development and implementation of the policy option. Whilst one or two stakeholders within groups suggested widespread application (PPE1, 4, 5, 10), the majority suggested that this policy option would be most effective in targeted sectors and occupations where concerns associated with public safety are readily apparent and employers are likely to buy in to the policy as it connects and furthers their interests (PPE2, 3, 6, 8).

There was recognition in many PPEs (e.g.PPE2, 3, 5) of the need to undertake research and development work in advance of implementing this policy option in order to determine the likelihood of adverse impacts in terms of disincentives to employer investment in training and potential damage to economic competitiveness. The experience of implementation in the United States, where the problems of reaching agreement on what professions or occupations need licensing was articulated in one PPE (PPE3). There were also concerns expressed in the PPEs associated with the extent to which this policy option would lead to the desired improvements in productivity and competitiveness. For example there was some doubt associated with the impact of occupational licensing on skills utilisation with various stakeholders suggesting that whilst employees may be qualified it does not necessarily mean that they apply their skills and perform their jobs well (PPE3, 6, 7, 8, 9). It was also suggested that occupational licensing tends to rely on accreditation of prior learning and does not create new skills in the workforce (PPE1, 7). There were also concerns that extended occupational licensing could have an adverse effect on training ‘if the bar is set too low’ (PPE5, 6, 9). It was also noted in several PPEs that improvements in Health and Safety and or increases in employer wages that may result from extended occupational licensing may ultimately have an adverse effect on productivity and competitiveness (PPE5, 7, 8, 9) .

The stakeholder views expressed in the PPEs pointed to a number of issues to ‘take on board’ and ‘guard against’ in any further development of this option which if taken forward would need to be done so with considerable care taking into account for example the identification of appropriate occupations and sectors most likely to benefit from this approach. More generally the stakeholders suggest that if extended occupational licensing is to meet with success there is a need to ensure that policy design takes account of a range of issues including :

- being driven by the interests of employers (often associated with improvements to the bottom line) who are able to take ownership of the process (PPE5, 8) whilst

guarding against employers placing responsibility (and cost) on the individual or state (PPE7)

- forging connections between SSC Qualification Frameworks and those of relevant Professional Institutes (PPE5, 9)
- linking with Continuing Professional Development and encouraging the development of skills over time (most PPEs)
- seeking to overcome general problems associated with competency based systems – determining levels, measuring performance, standards set at low levels to encourage achievements, standards set at high levels when the job does not require it (PPE1, 3, 5, 6, 7, 9)
- a credible evidence base in terms of for example, its impact in terms of wages (PPE2), benefits to employers (PPE5) and raising levels of skills (and training) (PPE3).

### **3.2.6 Prioritisation**

A wide range of views both within and between PPEs emerged in relation to this policy option which makes it difficult to provide a generalised summary in terms of policy prioritisation. Extended occupational licensing was identified as a favoured (although not the most favoured) policy option to encourage employer investment in skills in six of the PPEs (PPE1, 2, 4, 5, 6, 10) but at the same time it was identified as the least likely to encourage employer investment in skills in two of the PPEs (PPE8, 9). Whilst some participants identified attributes of extended occupational licensing as a strength (e.g. professionalising occupations) others viewed the same attributes as a weakness (e.g. forming barriers to entry, mobility or progression). Whilst some stakeholders suggested that extended occupational licensing was likely to make a difference to employer investment in training others were equally convinced that it would not make much of a difference with the majority of the costs being borne by the individual or state as opposed to the employer. The evidence in the Policy Review is equivocal and adds to the uncertainty surrounding the choice, impact and effectiveness of this policy option apparent in the PPEs when related to increasing employer investment in skills.

## **3.3 Policy Option: Layered Investors in People**

### **3.3.1 Definition and overview**

The Investors in People Standard (IiP) is a business improvement tool designed to advance an organisation's performance through aligning its business and human resource development strategies. Developed in 1990 by a partnership of leading

businesses and national organisations, the Standard helps organisations to improve performance and realise objectives through the management and development of their people. In order to achieve the standard employers must satisfy a range of criteria, where several of these relate to training, learning and development as well as business planning and people management. Since it was developed, the Standard has been reviewed every three to five years to ensure that it remains relevant, accessible and attractive to all. At the time of the PPEs, the most recent published review was completed in November 2004<sup>5</sup>.

The 'Layered Investors in People' policy option would involve several important amendments to the current liP standard<sup>6</sup>. First, it would involve the modification of liP so that there were different and graduated layers to reflect different degrees of quality assurance and differential costs associated with gaining the different levels. Accreditation at the higher levels would be more demanding; therefore incentivising further improvement for existing liP recognised employers. Indicators of further improvement could include, for instance, quotas for volume or quality of training provision or expectations about sharing training facilities with or supporting other organisations in their training activity.

This policy option might be connected to other initiatives such as linkages with public procurement exercises or networks. liP status might be expected to be able to compete for public sector contracts, with different levels of liP recognition expected to meet the specific requirements of the contracts in question. This might include merely the public sector contracting incentive or further mixes of compulsion or incentive.

### **3.3.2 Connection to rationale for intervention**

liP is strongly connected to the rationale for intervention suggested by the Conceptual and Evidence Reviews. Management capacity and skills were identified as a key influence on the incidence of training activity in the conceptual review and the empirical review argues that demand for training would increase if:

- Management in the UK were more aware of the link between organisational performance and the competence of their workforce
- Business strategies, and particularly development of product-market strategies lead to an increase in employer demand for skills

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<sup>5</sup> Subsequently, liP has been revised, but this was not raised by any PPE attendees and thus is not reflected in this report.

<sup>6</sup> Note, all such references to the 'current' Standard refer to liP before the launch of the new approach in May 2009.

liP seeks to embed training in wider organisational strategies and make the connection between business strategies associated with productivity and competitiveness and human resource strategies seeking to connect people with the needs of the business.

The key strengths of liP are that it:

- Supports the development of management capacity (and can link though to management standards).
- Addresses the linkages between training and business strategy

### **3.3.3 Initial Stakeholder Reactions**

Stakeholders generally suggest liP as a well recognised brand and the potential to build on this was recognised in several PPEs (PPE2, 3, 5, 6, 8). liP is a well regarded standard by some stakeholders and groups (PPE6, 8) and this was confirmed by submissions to the UK Commission call for evidence. However the evidence more generally gained from the PPEs provides a more circumspect view in terms of the standing of liP in the research and policy community in England and the Devolved Administrations (PPE2, 4, 5, 6, 9).

In general there was a recognition in the PPEs of the importance of viewing training and skills acquisition within a wider human resource development framework and that liP by establishing a link between training and overall business strategy liP supports this (PPE2, 4, 3, 5, 6). However whilst some recognise the benefits of connecting training and business strategy, others questioned the causal links between 'improved' HRD systems resulting from liP and employer investment in skills (PPE2, 4, 5).

The development of Layered liP was seen to offer the potential of an opportunity to encourage the development of systems to underpin training activity in organisations. It was not uncommon for the view to be expressed by stakeholders in the PPEs that liP had reached saturation in terms of the percentage of employers committed to and recognised as an Investor in People and if the proposed layered approach was to achieve policy aspirations in terms of improving employer investment in training it needed to be attractive to private (especially SMEs) as well as the public sector employers (PPE2, 3, 5, 9, 10). Following on from this there was a general recognition that liP required substantial change if it was to be successful in increasing employer investment in skills (PPE2, 3, 5, 9). The possibility of a simplified standard to make it more accessible to SMEs emerged in most PPEs.

There was some discussion in the PPEs associated with linking the standard with public procurement. Whilst most groups suggested that the theoretical benefits of this approach were appealing, the relationship between liP and procurement processes (as



illustrated in the policy review) was not well understood and in need of further exploration. Specific concerns were expressed in three areas. Firstly, that using public procurement would heighten inequality and have negative impacts on the ability of some employers (particularly SMEs) to tender for government contracts (PPE5, 9). Secondly, that the distance between procurement-liP-and employer investment in skills would result in the connections being lost and consequently there would be little evidence of impact on employer investment in skills. In some PPEs, liP was perceived to be 'in competition' with other 'quality standards' such as CE, EFQM and ISO 9001 which at the same time were seen to offer greater 'competitive advantage' for employers than liP as a mark of quality (PPE7, 8). In addition, public procurement is sometimes perceived to provide the 'wrong' motivation to pursue liP (when compared with internally generated motivations associated with business improvement) (PPE6, 8).

### **3.3.4 Strengths and weaknesses**

Stakeholders in most PPEs suggest that liP is a brand that employers recognise and as such would overcome one significant problem associated with any new policy option, that of building awareness levels. An infrastructure for delivery already exists, and UK Commission will assume responsibility for liP and this may limit the time and costs associated with the development and implementation of this policy option in comparison with others (PPE3, 6, 9, 10).

Concerns were however expressed with the mixed values associated with the liP brand. In several PPEs it was suggested, and generally accepted by the group that it's standing as a mark of excellence had diminished over the years and was in need of refreshment (PPE2, 5, 7, 9). At the same time there were concerns associated with 'meddling with the brand' and the possibility that layering may diminish the value of being a certified IIP employer which could have negative consequences for the brand (notably in PPE2, 8).

liP appeared to have most credibility in the Devolved Administrations. For example, in Wales there has been considerable marketing activity to promote the standard and there is an established network of advisors who are seen to have been effective in championing liP both to large employers and policy actors. The status of liP is strengthened in Wales as it is a pre-requisite for employers to access the subsidised training available through the Workforce Development Programme (PPE6). In Northern Ireland, the standard is seen to be a credible brand which is reinforced by for example, newly recognised employers being awarded the standard by a senior politician.

However, in common with the evidence reported in the policy review, the majority of participants in the PPEs suggested that the connections between liP and increased employer investment in training were not readily apparent. It was also suggested that a

large amount of deadweight is associated with liP (PPE2, 5, 7, 9). This was typically couched in terms of organisations 'getting the badge for what they already do' in terms of their training and skills development activity. A minority of individual participants reported views that recognised the role of liP as a business improvement tool with powerful illustrations of its application and outcomes provided by a couple of participants in the PPEs (PPE4). However, there was some concern expressed associated with the 'recognition' process and 'audit' system (PPE9, 10). In the views of some stakeholders the standard was not realising its potential as a 'business improvement tool' due in part at least to the perceived 'tick box' and 'bureaucratic exercise' associated with recognition (PPE3, 4, 5, 7, 9).

### **3.3.5 Policy design and stakeholder implications (resources and perverse incentives)**

There was an extensive view across the PPEs of the need to 'refresh' the liP brand (PPE2, 3, 5, 9) and some suggestions in terms of the nature of the updating and improvements which were desired. There was some discussion of the design attributes of a layered liP Standard in the PPEs although detailed discussion was outside the knowledge base of many of those participating in the workshops. The discussion highlighted the need for the development of a more robust evidence base associated with the design, penetration of the employer market and impacts of the Standard. The discussions also highlighted some differences of opinion associated with the liP brand. In the several PPEs (PPE3, 5, 6, 8), there were concerns about tampering with the brand in a way that might devalue it or add to confusion about it without the amended standard raising employer investment in skills in others there were concerns about a policy option which tried to build on a brand (or process) which is perceived by some to be relatively weak in terms of encouraging employer training (PPE4, 7, 9).

The layering of liP in terms of 'bronze', 'silver', 'gold' or 'platinum' was generally unfavoured in the PPEs (PPE3, 4, 6, 7, 8). The most common reasons for an unfavourable disposition toward layering were four-fold. Firstly, it was argued that it would be counterproductive as employers are unlikely to be positively predisposed to the grading system unless they are likely to be awarded the highest grade and consequently employer acceptance of the 'new' standard is likely to be mixed and at times detrimental to the progress of the Standard more generally. Secondly, changing to a layered approach would have resource implications for review and audit of employer approaches and systems which would result in increased costs (which in all likelihood would be borne by the public sector) and may not lead to benefits for the employer. Thirdly, it was generally suggested that Layered liP would need to be quite sophisticated to make a difference to employer investment in training and this was seen to run counter to the



current overriding policy objective of 'simplification' of the skills and employment infrastructure being pursued. Fourthly, the large amount of deadweight associated with liP is likely to carry through to the 'new' policy option if layering is taken forward as envisaged. There was however a recognition of the potential to make the standard more aspirational although the precise mechanism for this was not further articulated in the PPEs (PPE3, 5, 8).

An alternative development was put forward in PPE6 which was based on awards for the length of recognition – 10, 25, 50 years – as a simple way of signalling long-term commitment (although not necessarily investment) although the incentive, costs and benefits associated with such as simple adjustment to the standard would need to be explored. In summary key design issues include:

- Take account of size of business (different model for SMEs providing a 'step into liP' with some stakeholders suggesting provision of publicly funded support to facilitate the process) (most PPEs)
- Review and audit process (benchmarking) which encourages development, improvement and aspiration (with minimal bureaucracy) (most PPEs)
- liP should be a means to an end and promoted on the basis of business/business improvement (not training).

### **3.3.6 Prioritisation**

The Layered liP policy option was generally greeted with little enthusiasm in the policy prioritisation exercise across the PPEs. More generally there was some evidence of the value of the liP brand which was reflected in discussion of the individual policy option. However the layering option was often given a low rating in terms of the likelihood of encouraging employer investment in training relative to the other policy options under review.

A couple of groups were more positively disposed to it than others as a policy option (PPE6, 8, 10) and the opportunity to take forward an established brand with the scope to take immediate action through the UK Commission was highlighted. However, the policy review uncovered little evidence to suggest that liP leads to an increase in employer investment in skills and this was regularly articulated in the PPEs. Despite the generally positive perception of liP gleaned from submissions to the call for evidence and by some contributions to the Policy Review, the brand was not seen to be particularly strong at this time by many stakeholders and the need to 'refresh' it was a regular theme in the PPEs. It was reported in most of the PPEs that the impact of this option would be limited and that 'Layering', as currently conceived, would be likely to apply to a very small proportion

of employers who already invest in skills and would have little impact on the 'large tail' of employers (the smallest) who are identified to invest the least in skills.

### **3.4 Modified Accountancy Standards for Valuing Human Capital**

#### **3.4.1 Definition**

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. The conceptual review draws on comparisons with research and development and approaches which enable certain development expenditures to be written off over a period of time and which enable tax breaks to be applied.

Modified Accountancy Standards may have three forms of impact relevant to the level of employer training. First, they may help financial markets make better judgements about firm strategy and the likelihood of future success because employer's investments in future productivity would be more clearly and consistently demonstrated. This may have secondary effects in a number of regards, for instance in relation to access to finance from lenders and in relation to the availability of information to map training investment and target further policy interventions.

Second, modified accountancy standards may impact on the methods managers use for making decisions about investments in training, making them more likely to make a positive decision as to the benefits of training and skills acquisition become more explicit. As an extension, modified accountancy practices might help to strengthen the hand of individual managers within organisations who favour making a pro-training decision, in relation to others. Finally, it is potentially an enabling intervention that improves the operation of the market, but also allows other policies (e.g. tax breaks and levies) to be introduced.

#### **3.4.2 Connection to rationale for intervention**

The conceptual review noted that conventional accountancy methods tend to regard training as a cost rather than an investment and may therefore discourage employer investment in skills. The connection between modified Accountancy Standards for valuing human capital and the rationale for intervention relates to a range of barriers to training highlighted in the conceptual review. These relate for instance to investment appraisal techniques and management decision making, cultures of short-termism and inability to access finance for training investments, all of which were thought to disincentivise managers from investing in training. The Empirical Review found no evidence of their use nor of the use of Investment Appraisal Techniques to make training decisions. The policy

review found no evidence of the impact of this option on employer investment in skills in the UK or wider afield.

### **3.4.3 Initial Stakeholder reactions**

Most respondents struggled to fully understand this policy option and the general finding was that without more detailed information on the implications of revisions to accountancy standards (for example engagement with international standard setting bodies or costs of domestic adjustment in the accountancy profession) most respondents were reluctant to make a judgement one way or another. Uncertainty regarding impact was also frequently reported as was a sense that different sets of stakeholders (accountants, standard setting bodies, investors and employers) were required to give feedback on the likely impact of this measure and associated design considerations.

However, where stakeholders did offer substantive reactions these were very mixed and ranged from outright scepticism regarding the practicality of making such changes and the likely impact in changing the behaviour of either training decision makers or investors to much more positive responses related to the scope for a radical culture changing-impact. Few of these responses were grounded in evidence or specific knowledge. Those that were tended to be sceptical, citing, for instance, problems with accounting for other intangible assets and the further problem associated with training investments that result from difficulties with excluding these benefits to others because of potential labour mobility. Despite this, as the discussions developed and respondents gained confidence in discussing the topic, a more positive view of this policy option developed amongst most groups and there was general recognition of the value of the concept of viewing training as an investment as opposed to a cost. That said, this was frequently mixed with the assertion that the major benefit of this type of policy response would be to enable more effective tax incentives to be introduced.

### **3.4.4 Strengths and weaknesses**

In the majority of PPEs, attitudes towards this policy option shifted from an initial equivocal or negative view towards a more neutral or occasionally positive view among at least some of the stakeholders. The reasons for this were largely three fold. First, it was seen to provide an opportunity to make a difference in the longer term through different ways of looking at investment in training and supporting positive cultural change in attitudes towards training (PPE1, 6, 7).

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 (PPE 7)

Second, it was seen as a relatively low cost option to implement (from a public investment perspective) and did not compromise the simplification agenda by changing governance arrangements in the education and training infrastructure.

Perhaps it's a policy to back up the mantra of investing in training. It could be easy to understand and demonstrate both government and private sector investment' (PPE5).

Thirdly it was seen as providing a sound foundation for a favoured policy option such as tax breaks (PPE5).

It was suggested in several PPEs (e.g. PPE3) that there would be a large amount of deadweight associated with this policy option as larger firms would find ways to 'count' what they already do or 'shift items round a balance sheet' with no real change to behaviour associated with training activity being encouraged by the changes to the standards. The concern here was that it may lead to credentialism with moves to certificate all sorts of informal training with no clear business, individual or productivity benefit.

Concerns were also raised in the majority of PPEs associated with the extent to which changes to the way investment in skills is accounted for would actually lead to widespread additional skills acquisition activity as opposed to largely superficial reporting activity (PPE6)

The relevance and applicability of modified accountancy standards to SMEs was also questioned in most of the PPEs. It was generally reported that modified accountancy standards were unlikely to make any difference to SMEs when it comes to investing in training and that it would add to the bureaucratic burden on employers as opposed to encouraging or enabling more investment in skills.

There was some support for a shift in emphasis away from a standards based approach to a voluntary human capital reporting approach. However there were some strongly sceptical views expressed by a minority of PPE participants surrounding the role and value of 'human capital reporting' in the decision making processes of managers, investors and bankers, with the general feeling that this would be more likely to be taken up by larger employers as part of a largely public relations driven Corporate Social Responsibility agenda. One workshop participant in PPE 7 noted that previous (non-referenced) research suggesting that investors, in this case pension funds, were unlikely to be swayed by human capital accounting. Other participants noted:

Banks do not look at training in an investment decision and capitalising a cost would make little difference as it is still a debit on the balance sheet (PPE 5).

Intangibles are often controversial and potential investors would probably write them off anyway (PPE8).

Some companies capitalise R&D but others don't....would companies really capitalise training anyway? (PPE8).

The measurement of investment in skills was also identified as problematic particularly in terms of for example internal training and informal learning, a common form of investment in skills in most organisations.

### **3.4.5 Policy design and stakeholder implications (resources and perverse incentives)**

There was some discussion of the design and stakeholder implications of this policy option in each of the PPEs. There were some concerns that making investment in training more visible might have unintended consequences in the form of (a) employers realising just how much they spend on training and how little in terms of the 'bottom line' they can attribute to the activity (b) managers or investors being able to clearly identify investment in training and, in challenging economic circumstances, target cost-cutting activity on training and (c) have an adverse impact on employers investment in training due to increased bureaucracy associated with more sophisticated accountancy standards.

Two specific aspects of design surfaced during the discussions. The first revolved around apparent support for less radical proposals such as encouraging employers to include a commentary on training investment in their accounts (though there was a general acceptance that this would not necessarily have much impact on levels of investment in training, PPE2, 3, 7). Second, a much greater degree of support for this option was expressed should it be a precursor to a tax incentive scheme, similar to the research and development example.

The problems associated with developing or changing international accounting standards was a common theme raised in the PPEs. A small number of participants with some previous knowledge of accounting standards were highly sceptical of their role (PPE3, 5, 9) in this regard. The technical nature and unfamiliarity of accounting standards made them difficult to understand for many lay people contributing to the workshops.

A general view emerged from the majority of PPEs that more research would be required to understand the potential of this policy option and that this would need to include not just theoretical material but consultation with employers, the accountancy profession and standard setting organisations.

### **3.4.6 Prioritisation**

In several PPEs (not PPE8) the group discussion moved from an initial equivocal or negative response to this policy option towards a more favourable disposition, without it becoming a favoured option of the majority of individuals or the group as a whole. A range of issues were raised in the workshops which contributed to this. For example, the analogy (investment in R&D) used in the conceptual review was seen to be very different from investment in training. The view expressed in several PPEs was that where the outcomes of R&D (in terms of for example products or patents) were measurable, most of the outcomes of training were far less so. Furthermore, whereas products, patents and brands are owned by the enterprise, people are able to leave and take with them their knowledge and skills. Generally it was seen as innovative or 'something different' and with some potential to encourage desired cultural change through influencing a change in employer and investor attitudes towards investment in skills. However the challenges of changing International Accountancy Standards were identified as key barriers to implementation. There was some support for a 'softer' approach through human capital reporting although there was a general recognition that the efficacy of this approach would need to be tested and some scepticism associated with the likelihood that it would lead to increased investment. Notwithstanding this, modified accountancy standards were identified in two PPE's (PPE1, 4) as having a key role (potentially), in combination with other fiscal options such as tax breaks or capital allowances. There was however little enthusiasm for this policy option in the majority of PPEs where Modified Accountancy Standards for Human Capital was rated relatively low (or not at all) in the policy prioritisation process by the vast majority of stakeholders in the PPEs (PPE 1,3,4,5,6,7).

## 4 Policy development

A key aim of the Deliberative Research underpinning the Collective Measures Study is to summarise the findings from the Prioritisation Exercise and recommend options to be progressed to the Economic Appraisal project. This section of the report provides a summary of the findings from the Prioritisation Exercise and identifies some implications for further policy development.

The PPEs engaged almost 100 senior stakeholders with a range of interests associated with the skills, education and training infrastructure. The PPE's provided an opportunity for representatives from for example government departments, Trade Unions, employer representative bodies, regional agencies and various quasi autonomous government agencies to listen to and inform an evidence based discussion. Some stakeholders were unable to attend on the day and consequently the views of some key stakeholders (including DIUS and LSC) were not captured through the PPE process.

### 4.1 Implications for policy development

Several general themes emerged from the PPE discussions in addition to the findings related to the specific options. Some respondents suggested disappointment that the options on the table for discussion were not radical enough to make a 'big bang' impact. This was regardless of the fact that the CMS Policy Review suggested that such 'big bang' approaches were not readily identifiable and would not necessarily be effective in substantially increasing employer investment in training.

Second, many respondents throughout the PPEs suggested that more detail was required in relation to the options before they could finally judge the suitability of the different policy options. While respondents acknowledged the evidence-based nature of the policy selection process and that this simply didn't support a fuller specification of the options, they did suggest that further consultation on more developed proposals might be advantageous, to further test issues such as stakeholder implications, perverse or unintended consequences.

A third general theme related to 'future-proofing'. Here the specific concern was to give consideration to ensure that policy options moved forward to the economic appraisal stage would be suitable to a changing economic and labour market conditions and to a different political climate, with a view to the forthcoming General Election in 2010.

A fourth theme related to the importance of simplification. Respondents in all PPEs repeatedly reported that employers have difficulty interpreting the institutional complexity of the skills and business support systems. As such, a widespread plea was that any



policy option promoted as a result of the CMS should not increase the complexity involved but should be aligned with the UK Commission skills simplification project. A further important theme in the discussions with stakeholders in the devolved administrations was to bear in mind the specificity of their institutional, social, economic and political contexts when both selecting and designing interventions. This was particularly the case for Scotland and Northern Ireland.

Fifth, many respondents, again in all PPEs raised issues related to core question addressed by the CMS. Respondents were universally concerned that while they acknowledged the importance of increasing levels of employer investment in skills, this objective alone was both insufficient and in places potentially unhelpful. Rather they advocated for 'improved' employer training. In some cases, this meant that they argued against increased investment on the grounds that some current training is overly expensive and of poor quality. In other cases, caution was offered against the simple assumption that employers do not train their workforces to the level required. Therefore some respondents questioned the extent to which there is a universal rather than specific under-investment currently. Sixth, especially in PPE8 in Scotland, respondents suggested that up-skilling objectives need to be combined with utilisation objectives to avoid over-skilling which would absorb both public and private revenue streams in wasted investments.

Finally, while levels of support for the different policy options were variable, no respondents in any PPE argued in favour of 'no change'.

## **4.2 Policy prioritisation**

The PPEs provided the opportunity to discuss the evidence base and policy options and following these discussions it also provided an opportunity for stakeholders to articulate the policy option they perceived would make the most difference to employer investment in training. In order to do this each participant was given 100 points to distribute amongst the policy options. The 'inter-employer networks' option was differentiated to allow stakeholders to express a preference within this option for any of the following

- Sectoral levy
- Tax breaks
- Subsidised training
- Hybrid of the above.

Two further options were available to stakeholders, firstly 'other' which provided the opportunity to suggest a preference for policy options which had not been considered at



the PPE and secondly 'no change' (this was not a preference of any of the stakeholders participating in the PPEs).

The results of the policy prioritisation process are summarised in the following table which provides an indication of the options favoured in each of the ten PPEs. The option which was favoured by the group in respect of most points awarded at the end of the workshop is marked '++' in table 3.1. The option which was least favoured (as measured by points allocation) is marked by '-' in the table. Those options which obtained a score (more than 50 points in total ) from workshop participants are marked by '+' in the table.

**Table 4.1: Evaluation of policy options by PPE**

	More and better Employer Networks	Extended Occupational Licensing	Layered Investors in People	Modified Accountancy Standards	Other
PPE1	++	+	-	+	
PPE2	++	+	-	+	+
PPE3	++		-	-	
PPE4	++*	+		-	
PPE5	++	+	-	-	+
PPE6	++	+	+	-	
PPE7	*		-	*	**
PPE8	++**	-			++**
PPE9	++**	-		+	
PPE10	+	+	+	+	

\*esp with tax break \*\*with subsidised training)

The qualitative evidence gained from the PPEs points overwhelmingly to 'More and better employer networks' as the policy option most likely to encourage employer investment in skills. As illustrated in the table above there was mixed support for other options articulated through the policy prioritisation process and an overview of the emerging findings for each option is provided below:

#### 4.2.1 More and better employer networks

Discussions in the PPEs suggest a strong degree of support for state intervention to encourage employers to engage in training activity through networks. The strength of support for this approach echoes the findings from the policy review that networks have benefits both in regard to encouraging employers to engage in training their workforces (by overcoming barriers to latent demand) and in improving the benefits that accrue from training activity as a result of improved efficiency, better design and leverage in relation to providers and information sharing, peer support and a focus on wider business issues. This level of support from stakeholders suggests that an intervention to increase the quality of existing networks and to increase levels of participation in networks where these are not active and training levels are low should be taken forward to the Economic Appraisal stage.

The findings from the PPEs also offer some indication of what elements should be incorporated in the design of such an intervention. A crucial issue here is related to the degree of flexibility that should be in-built. A very strong theme in the discussions related to the desire to avoid an intervention designed around a standard government promoted network model. It was widely suggested that this would simply add to the complexity of the skills system and might not meet employer needs for training which need to be matched to wider business strategies. This theme is in line with the findings from the conceptual and the empirical review. As such, any intervention needs to work with both new and existing networks to support training activity in networks that might be focussed on other wider business issues. However, there was also an equal, though less widespread, concern voiced in the discussions that appropriate conditions be placed on the use of public money both to safeguard public value but also to ensure that incentives to train carried through to increased training activity, even where the primary focus of network activity might be on other issues.

Bearing these factors in mind, some form of development fund to foster network start-up or to incentivise training activity in existing networks would appear to be appropriate. Such a fund might respond to bids from existing and prospective networks. It might also support regional (through RDAs) or sectoral (through SSCs) intervention to assist in targeting and developing networks against set criteria (such as overcoming barriers to training activity or realising latent demand). Bids for direct support for training activity might be part financed through subsidies or tax incentives with relevant criteria including factors such as the extent of mutual learning, information transfer, match to unmet demand and innovative business activity or restructuring. Clear objectives would need to be set for the use of this money but a clear conclusion from PPE discussions was to avoid unilaterally setting arbitrary quantitative targets. In addition, a development fund would need to take account of the institutional, social and economic differences in the four nations of the United Kingdom (findings in Wales suggested that there may be scope to have a combined England and Wales approach). More specific aspects of desirable intervention design are covered in direct findings from respondents in the discussion on Policy Design in Chapter 3.

Other considerations raised by the PPE discussions relate to network size and timeframes. Some suggestions around optimal network size were received from participants. While these suggestions largely concurred with the evidence from the Policy Review (circa 20) it was not clear whether participants' comments were based on evidence. There are two counter-posing factors that need to be borne in mind on this. The Policy Review suggests that sufficient critical mass leads to the figure of roughly 20 employers. However, issues of trust and partnership building also need to be considered and there is significant literature on the issues associated with partnership building and

the impact of differential numbers of partners. These factors should be considered alongside critical mass issues when designing a network intervention. A contextual determinant of the balance to be struck between these two factors is time. Several of the discussions raised time-frame concerns and again the partnership literature suggests that there are significant lead times for developing successful networks, overcoming issues of organisational trust and commitment as well as ironing out practical problems such as selection of the appropriate staff level involvement.

The flexibility proposed by respondents means that a variety of network models and training approaches would be supported through the approach suggested above. This means that any intervention needs to be rigorously and adequately evaluated. This means ensuring that evaluation concerns are integrated into intervention design from the outset, for instance by designing adequate data capture tools and maintaining appropriate records of organisational and individual beneficiaries. Such early steps would also enable more cost efficient evaluation activity as well as more robust data capture and analysis.

#### **4.2.2 Extended Occupational Licensing**

There is clearly some appetite for the policy option of Extended Occupational Licensing amongst stakeholders contributing to the PPEs. However, this appetite is not universal with a minority of stakeholders articulating a strong preference for this option whilst others express a strong adversity towards it as an option to encourage employer investment in skills. These views appeared to reflect at least to some degree, the extent to which stakeholders favoured a compulsory or voluntarist approach to policy intervention. Those expressing a preference often articulated a desire to compel employers to invest in training and viewed extended occupational licensing as a vehicle to support this. However, those expressing a negative view of this option often articulated employer resistance and a range of uncertainties associated with the benefits associated with this option and its likely impact on employer investment in training.

The link between this policy option and the range of barriers to employer investment in skills identified in the conceptual and empirical reviews is relatively weak although the potential for it to address a range of barriers to training including poaching, information asymmetry, short termism and transaction costs are recognised in the policy review and contingent upon the design and implementation of this policy option.

The effectiveness of a licensing policy is heavily dependent on the occupation and the details of the license and its implementation. The majority of stakeholders recognise some potential in this policy option providing that the policy design takes into account a range of issues including the appropriate targeting of industrial sectors and occupations

and a policy specification which encourages connections between for example extended occupational licensing and ongoing skills acquisition activity (CPD) and skills utilisation (beyond APL). The stakeholders generally suggest that there is a need to ensure that policy development views extended occupational licensing as a means to an end (the end being employer investment in training) as opposed to an end in itself (increasing credentialism). There is scope to implement this option in combination with other options for example inter-employer networks to target and connect the supply and demand-side of the market.

### **4.2.3 Layered Investors in People**

The findings emerging from the PPEs associated with the policy option of Layered Investors in People provide a mixed view to inform policy development. It was a favoured policy option in three PPEs and least favoured in four PPEs. liP is seen as an established brand however it has contested credibility in the marketplace. There is a general recognition of the need to 'refresh' or 'reinvigorate' the standard (although this is far less apparent in Northern Ireland) and to develop the brand further. However as a policy option to encourage greater investment in skills by employers, there is some concern related to with the level of deadweight associated with it and the strength of the causal links between liP and increased employer investment. There was little enthusiasm for the layered option as envisaged in the policy option although there was a recognition that changes to the standard were needed to make, for example, liP more aspirational or to realise it's potential as a tool to support organisational change. A major opportunity for liP was identified in most PPEs in terms of the need to extend its private sector coverage (especially SMEs).

Layered liP may help to overcome a range of barriers to employer investment in training identified in the conceptual, empirical and policy reviews and in particular address issues associated with bounded rationality, management education, short-termism and information asymmetry associated with training benefits. However in common with the secondary evidence outlined in the Collective Measures Study reviews, the qualitative evidence from stakeholders in the PPEs is generally equivocal and mixed. Further research and development work is required to determine the focus, development and targeting of liP in the future.

### **4.2.4 Modified Accountancy Standards**

Modified accountancy standards had only limited support from the three evidence reviews preceding the PPE exercise and this was purely theoretical. The reason for its inclusion as an option was that in the event that the theoretical argument would hold in practice the impact of revised accountancy standards would be felt as widespread and cultural

change, impacting on the crux of the institutionalised deficit that the UK faces in relation to employer training in comparison with major international competitors.

The PPE discussions very much reflected these tensions. The majority of respondents reported negative initial reactions and many were ultimately sceptical that the theoretical benefits could be realised in practice. This reticence however, may reflect a cultural 'mindset' issue, being characteristic of the very long-term cultural issues that such a policy would be designed to address. In addition, in all PPEs there were stakeholders who gradually came to see the potential for large scale if long-term impacts. However, what was common and persuasive in all the discussions was a degree of uncertainty regarding what might be implied by changed accountancy standards in terms of bureaucratic and regulatory procedure and the ultimate impact. As such, this option should not be rejected outright and consideration for further development and exploration through research, including consultation with more appropriate stakeholders who would be directly implicated by such a policy option should be pursued.

### **4.3 Other options**

In three of the PPEs 'Other' featured as a substantial policy option identified by stakeholders. In two of the PPEs (PPE7, 8) the current policy environment in the relevant Devolved Administration exerted a powerful influence on the policy prioritisation process with various aspects of 'Skills Utilisation' featuring in Scotland and 'Subsidised training' featuring in Northern Ireland. In Scotland, it was strongly articulated and accepted by the group that there was a need to move away from a supply-side emphasis on reform of the supply of qualifications to raising demand by employers for skills through encouraging employer ambition and innovation. In Northern Ireland, the prospect of the imminent introduction of subsidised training in the administration for the first time exerted a powerful influence on stakeholders discussions and choices in the policy prioritisation process. The need for policy implementation to be led by SSCs and to reflect the skills priorities outlined by Invest NI for Northern Ireland was identified as a key element of this 'other' option.

A preference for 'other' was also apparent in PPE5 where it was chosen above the specific policy options (Accountancy Standards and Layered liP) considered in the PPEs. In PPE5, the preference for simplification and a 'tax break' as an incentive to encourage employers to invest in training was advocated both as a 'blanket policy option' but also in combination with a targeted (for example sector based) approach. The evidence presented in the policy review which suggests that these schemes can be costly to administer and confusing to employers was set aside in favour of the symbolism associated with tax breaks (as a means of supporting the rhetoric associated with the

skills agenda). The perceived ability of this option to directly address (at least partially) a key barrier to training often identified by employers – that of cost without requiring changes to the publicly funded infrastructure underpinning implementation of skills policy in the UK proved persuasive for many stakeholders in this PPE.

#### **4.4 Conclusions**

The Collective Measures Study policy prioritisation process suggests several firm conclusions and implications for policy:

- That there is widespread support for change in the policy framework to promote both additional and more effective employer investment in skills, even if there is not full consensus on how this might be achieved
- Some disappointment that the options on the table for discussion were not radical enough to make a 'big bang' impact whilst at the same time recognising that an alternative policy option was not apparent
- To recognise the contested nature of underinvestment in skills (specific as opposed to universal; skills acquisition/skills utilisation)
- There is support for incentives to encourage more and better investment from employers, including financial transfers from government
- There is also widespread support among stakeholders for further emphasis to be added to recognising and satisfying employer demand in the skills and training system
- Among the policy options discussed, state support for more and better employer networks was the favoured option, but at the same time participants generally recognised that this was not a silver bullet and other options such as EOL, IIP and MAS can be used in combination with IEN's
- All policy options need further research and development work and specification in advance of progressing to economic appraisal
- Recognition of the need to ensure that any policy option taken forward was consistent with the simplification agenda and sensitive to the four nations in the UK
- Among the policy options discussed, state support for more and better employer networks was the favoured option, but at the same time participants generally recognised that this was not a silver bullet and instead a multi-faceted strategy is needed. Indeed, even within the scope of this policy option there was strong support for flexibility to meet a range of different emergent needs among

employers. On the balance of evidence collected in this and the evidence reviews, this option should be further developed and subjected to economic appraisal.

- There was also some support for both occupational licensing (targeted at specific occupational roles where criteria associated with public risk or enhanced international competitiveness are satisfied) and some form of modification of Investors in People. While these options should be seen as secondary or complimentary to an intervention to support networks, both should be considered for further development in advance of economic appraisal. In the case of Investors in People this might be subsequent to a full review of the standard when UK Commission takes full ownership of Investors in People UK.
- The arguments in favour of modified accountancy standards, and especially a lack of existing empirical evidence and stakeholder concerns, suggest that while this option has some merit it needs considerable further development.
- There is scope to combine policy options. For example, various existing or even new Quality standards can be combined with network development, regulation, publicly funded financial incentives or public procurement. Targeted occupational licensing can be matched with support for network development to enable employers to train their workforces to meet those requirements. Both networks and modified accountancy standards could be used as delivery mechanisms for tax-based incentives to encourage training activity.



## Appendix One: Policy Option Summaries

<b>Policy Name: Occupational Licensing</b>	
<p><b>Summary of Policy Intervention</b></p> <p>‘Occupational licensing can be defined as a process whereby practitioners must demonstrate a minimum degree of competence or suitability for an occupation, in order to be granted permission to practice. It is concentrated mainly upon professional groups such as lawyers or accountants or occupations where there is some element of health and safety risk such as healthcare and some lower-level occupations such as gas-installers and security personnel. It affects a limited proportion of the workforce.’ P.41 Policy Review Paper.</p> <p>Regulating bodies often use competency-related requirements to determine an individual’s suitability for an occupational license. For example, depending on the licensing requirements in operation, a regulator may require a prospective license holder to have:</p> <ul style="list-style-type: none"> <li>• A qualification resulting from a specific training package or accredited course.</li> <li>• Completed certain units of competency from a training package or accredited course.</li> <li>• Completed training and assessment requirements set by the regulator which may not be based on nationally endorsed or accredited training.</li> </ul> <p>In this way there are close linkages between training and assessment to meet occupational licensing requirements and the wider education and training system.</p> <p>Implementation can vary on several dimensions including scope of coverage, testing and renewal requirements, responsibility for costs and penalties for non-compliance.</p>	
<p><b>Connection to rationale for intervention</b></p> <p>Occupational licenses address the rationale for intervention established in the Conceptual and Evidence Reviews in that they address common, sector-wide issues, can be finely targeted at specific needs and are directly related to skills. The specifics of the requirements can be set by sector representatives rather than government.</p>	
<p><b>Occupational licenses in practice</b></p> <p>Occupational licenses are currently in use in relation to several occupations in the UK, including the health care, security, construction and aircraft industries. Further details are available in pages 41-44 of the Policy Review Paper.</p>	
<p><b>Context in which applied previously/elsewhere</b></p> <p>Occupational licenses are in operation in many countries, including the UK. The evidence suggests though that they need to be very specifically targeted at particular sectors/occupations rather than being a ‘blanket’ measure. Occupations affected by service/production quality problems caused by skills deficits, risk/public safety or where minimum standards are attractive appear to be particularly suitable.</p>	
<p><b>Target beneficiaries</b></p> <ul style="list-style-type: none"> <li>• Individuals in occupations where licenses may be applied (most likely those associated with risk/public safety concerns).</li> <li>• Employers currently experiencing skills deficiencies, especially where this is linked to quality or risk impacts.</li> <li>• The public and service/product consumers.</li> </ul>	<p><b>Groups who might also be effected</b></p> <ul style="list-style-type: none"> <li>• Potential regulators.</li> <li>• Relevant Sector Skills Councils.</li> <li>• Professional bodies and trade associations.</li> </ul>



<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• May have a positive impact on wages.</li> <li>• Can drive up standards and improve quality of service.</li> <li>• Focus on employer skills requirements.</li> <li>• May help overcome issues associated with motivation of staff to train, information and short-termism.</li> <li>• May encourage additional training in smaller firms.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Only suitable in a limited range of occupations.</li> <li>• May lead to increased costs which are passed on to the consumer</li> <li>• Potential to create superficial training and licensing and therefore devalue other licenses which are essential.</li> <li>• Individuals may bear the costs rather than the employer.</li> <li>• May not lead to any more training with some firms just adjusting what they do or expecting individuals to come to them with licenses already (e.g. deadweight/displacement).</li> </ul>
<p><b>Critical success factors</b></p> <p>The evidence suggests that critical success factors include:</p> <ul style="list-style-type: none"> <li>• Identification of appropriate occupations.</li> <li>• Design and implementation in terms of for example testing and renewal requirements, capturing the practicalities of work, costs and penalties for non-compliance.</li> <li>• Close alignment of training with quality service provision.</li> <li>• Alignment of training with perceived or actual consumer risk in terms of safety and/or financial exposure.</li> <li>• Based on testable and quantifiable skills.</li> </ul>	
<p><b>Key policy stakeholders</b></p> <p>A wide range of professional bodies, Sector Skills Councils and Regulatory Bodies.</p>	
<p><b>Policy Review conclusion</b></p> <ul style="list-style-type: none"> <li>• Licenses may be of value in a limited number of occupations.</li> <li>• Higher benchmarks may increase the value of training and ensure employers contribute to cost.</li> </ul>	
<p><b>A note on the strength of the evidence base</b></p> <p>There are relatively few studies looking at occupational licensing and these are of varying quality. While suggesting that there are problems and generally not addressing impact on employer investment in skills, there are reasons to think from the evidence presented in them that suitably targeted licenses could be successful.</p>	

<b>Policy Name: Layered Investors in People</b>	
<b>Summary of Policy Intervention</b>	
<p>Investors in People (IiP) is currently a standard that organisations can work toward. In order to achieve the standard employers must satisfy a range of criteria, where several of these relate to training, learning and development as well as business planning and people management.</p> <p>This policy option would involve several important amendments to the current IiP standard. First, it would involve the modification of IiP so that there were different and graduated layers to reflect different degrees of quality assurance and differential costs associated with gaining the different levels. Accreditation at the higher levels would be more demanding, therefore incentivising further improvement for existing IiP recognised employers and could include, for instance, quotas for volume or quality of training provision or expectations about sharing training facilities with or supporting other organisations in their training activity.</p> <p>Second, this policy option might be connected to other initiatives such as variable linkages to public procurement exercises. IiP status might be expected to be able to compete for public sector contracts, with different levels of IiP recognition expected to meet the specific requirements of the contract in question.</p> <p>Third, the expectation would be that layered IiP would need to be considerably expanded in scope. This might include merely the public sector contracting incentive or further mixes of compulsion or incentive.</p>	
<b>Connection to rationale for intervention</b>	
<p>IiP is strongly connected to the rationale for intervention suggested by the Conceptual and Evidence Reviews. This is because it addresses training needs throughout the organisation (including managers) and it seeks to embed training in wider organisational strategies, therefore suggesting a connection to productivity and competitiveness.</p>	
<b>Investors in People in practice</b>	
<p>IiP is established in the UK context and has strong brand reputation and recognition.</p>	
<b>Context in which applied previously/elsewhere</b>	
<p>IiP is currently operating in the UK context. However, it is currently mainly taken up by large organisations, often in the public sector.</p>	
<b>Target beneficiaries</b>	<b>Groups who might also be effected</b>
<ul style="list-style-type: none"> <li>Organisations which have not currently adopted the IiP standard.</li> <li>Organisations who have adopted the standard but would have opportunity for further progression.</li> </ul>	<ul style="list-style-type: none"> <li>Those organisations that currently hold the standard.</li> </ul>
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>The IiP is a well regarded standard by some stakeholders and this was confirmed by submissions to the call for evidence.</li> <li>Supports development of management capacity.</li> <li>Addresses the linkages between training and strategy.</li> </ul>	<ul style="list-style-type: none"> <li>There is some concern that organisations who have achieved the standard currently would perceive its value to be diluted by the expansion of the standard to a wider range of organisations.</li> <li>Evidence on the effectiveness of IiP in raising investment in training is mixed, with the balance suggesting that it is not effective in this regard.</li> <li>The available evidence appears to suggest that there is no benefit from IiP in the distribution of training activity, for instance to lower skilled workers.</li> </ul>

	<ul style="list-style-type: none"> <li>• The evidence suggests that liP is better suited to larger organisations.</li> </ul> <p>Some of these weaknesses are associated with the existing liP Standard and might be offset by the proposal for a layered approach put forward in this Policy Option.</p>
<p><b>Critical success factors</b></p> <p>The evidence suggests that critical success factors include:</p> <ul style="list-style-type: none"> <li>• Design and targeting through introducing a tiered approach to the standard, to avoid reputational damage to the brand.</li> </ul>	
<p><b>Key policy stakeholders</b></p> <p>Key policy stakeholders would include the UK Commission for Employment and Skills as the future host organisation for liP UK, liP UK, the Department for Innovation, Universities and Skills and the Devolved Administrations.</p>	
<p><b>Policy Review conclusion</b></p> <p>liP has some potential to improve employer training investment but not in its current form. The weaknesses in the current liP may be addressed through a tiered approach and by linking it to other policy levers such as public procurement.</p>	
<p><b>A note on the strength of the evidence base</b></p> <p>The evidence base on the existing liP standard is narrow and while generally of reasonable quality these studies leave some gaps in the evidence. The conclusions drawn address the concerns raised in the evidence base in terms of the suggested revisions to liP.</p>	

<b>Policy Name: More and better Inter-employer networks</b>	
<p><b>Summary of Policy Intervention</b></p> <p>Any situation where two or more firms co-operate in the organisation of training. This may cover various stages of training – defining training needs, setting of standards, sourcing of trainees, delivery of training, monitoring of progress and assessment and certification.</p> <p>The evidence suggests that the subject focus for employer networks should be a broad one as engaging managers in solving wider business problems (e.g. product/market development) may hold a greater appeal than an initial direct offer of training-related solutions.</p> <p>Inter-employer networks could be organised along sectoral, sub-sectoral, supply-chain or geographical lines.</p> <p>They may also be associated with a further range of policy levers, including:</p> <ul style="list-style-type: none"> <li>• Inter-employer networks (involving a sectoral levy) where sector has high proportion of small employers, geographically dispersed and fragmented (e.g. construction, film).</li> <li>• Inter-employer networks (involving a tax break) – where for example innovation is linked to additional training.</li> <li>• Inter-employer networks (involving subsidised training) where funding acts as a ‘carrot’ to encourage additional training (for example supply chains).</li> <li>• Inter-employer networks (hybrid combinations of above) with a degree of compulsion or voluntarism through for example levy or membership).</li> </ul> <p>No one network model is suggested as this will need to be customised to different sectors, localities and sizes of organisation.</p>	
<p><b>Connection to rationale for intervention</b></p> <p>Inter-employer networks connect with several themes in the rationale for intervention presented in the Conceptual and Evidence Review. These include the scope to flexibly deliver support to recognised need while allowing employers themselves to identify this. The suggested options above also leave scope for interventions to address the links between training and specific business problems faced by groups of employers on a sector or other basis. They may also help to overcome employer fears regarding poaching and labour turnover and facilitate the positive effects of information sharing.</p>	
<p><b>Inter-employer networks in practice</b></p> <p>There are many inter-employer networks already in existence in the UK such as Chambers of Commerce, Sector Skills Councils and trade associations. There are also a range of such networks that engage specifically in training such as Group Training Associations (see p30 of the Policy Review Paper). Another important example are Group Training Organisations in Australia.</p>	
<p><b>Context in which applied previously/elsewhere</b></p> <p>These policies have been applied in wide range of institutional, social and labour market contexts, some of which are not directly relevant to the UK such as those with strong tripartite institutional arrangements. However, several variants of this policy option have been used in the UK and similar contexts and analysis of their benefits has suggested their suitability and transferability to the UK.</p>	
<p><b>Target beneficiaries</b></p> <ul style="list-style-type: none"> <li>• Large and small firms (inc supply-chains).</li> <li>• Sectors and localities.</li> <li>• Coalitions of the willing or ‘hard to reach’.</li> </ul>	<p><b>Groups who might also be effected</b></p> <ul style="list-style-type: none"> <li>• Can impact on a range of occupational groups professionals, apprenticeships, supervisors, lower skilled.</li> <li>• Tends to be used to encourage training in SMEs as well as larger organisations.</li> </ul>

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Additionality – encouraging firms to undertake training that they would not have done before</li> <li>• Focus on business problems/opportunities and learning through experience which may yield higher employer engagement than policies which attempt to sell training directly</li> <li>• Credentialism - may (or may not) result in qualifications</li> <li>• May help to overcome some barriers to training such as lower transaction costs, management education, information asymmetry on the benefits of training, economies of scale and access to suitable training.</li> <li>• Helps to match training to demand, first by accurately identifying demand and then by shaping supply of training activity to these.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Does not always focus on training (or employer investment in training).</li> <li>• Credentialism - may (or may not) result in qualifications.</li> <li>• No direct effect on capital market imperfections or short-termism.</li> <li>• Causal and attribution links to training investment and impact may be difficult to prove.</li> <li>• Can require ongoing public subsidy.</li> </ul>
<p><b>Critical success factors</b></p> <p>The evidence suggests that critical success factors include:</p> <ul style="list-style-type: none"> <li>• A focus on solving business problems rather than training per se.</li> <li>• Mapping training provision to employer/customer demand.</li> <li>• Trust between participants.</li> <li>• Critical mass, including some large as well as smaller firms.</li> <li>• Networks should help to use market power to tailor training provision.</li> <li>• Face-to-face networking crucial to support take-up; mailshot marketing does not work.</li> <li>• Some degree of central resourcing to encourage networking and build participation.</li> </ul>	
<p><b>Key policy stakeholders</b></p> <p>Regional Development Agencies or Sector Skills Councils, Chambers of Commerce, Business Link, Learning and Skills Councils (note there are others e.g. Employment and Skills Boards, HEIs, FE Centres of Excellence).</p>	
<p><b>Policy Review conclusion</b></p> <p>There are a wide range of employer networks in operation and these show varying degrees of success. There is scope to suggest that employer networks could have beneficial impacts and alleviate some market failures in training provision. However, these would need to be designed carefully, and flexibly to be successful, meeting different needs and may also require continuing government subsidy.</p>	
<p><b>A note on the strength of the evidence base</b></p> <p>Because of the wide range of networks and different types of networks in existence there are many studies of varying quality with a general reliance on description and qualitative assessments of impact.</p>	

<b>Policy Name: Modified Accountancy Standards for Valuing Human Capital</b>	
<p><b>Summary of Policy Intervention</b></p> <p>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. The conceptual review noted that conventional accountancy methods tend to regard training as a cost rather than an investment and may therefore discourage employer investment in skills. It is an enabling intervention that improves the operation of the market, but also allows other policies (e.g. tax breaks and levies) to be introduced.</p> <p>Modified Accountancy Standards may have three forms of impact relevant to the level of employer training. First, they may help financial markets make better judgements about firm strategy and the likelihood of future success because employer's investments in future productivity would be more clearly and consistently demonstrated. This may have secondary effects in a number of regards, for instance in relation to access to finance from lenders and in relation to the availability of information to map training investment and target further policy interventions.</p> <p>Second, modified Accountancy Standards may impact on the methods managers use for making decisions about investments in training, making them more likely to take a positive decision.</p>	
<p><b>Connection to rationale for intervention</b></p> <p>The connection between modified Accountancy Standards and the rationale for intervention identified, particularly in the Conceptual Review, relates to the range of barriers to training highlighted. These relate for instance to investment appraisal techniques and management decision making, cultures of short-termism, inability to access finance for training investments all of which were thought to disincentivise managers from investing in training. The Empirical Review did not suggest that managers use Investment Appraisal Techniques to make training decisions.</p>	
<p><b>Accountancy Practices which value Human Capital in practice</b></p> <p>There was no evidence identified of such Accountancy Practices being used elsewhere. The Kingsmill Review proposed similar revisions but was not implemented due to concerns about the administrative and regulatory burden it may place on employers.</p>	
<p><b>Context in which applied previously/elsewhere</b></p> <p>While not currently used in the form suggested there is a similar declaration of expenditures in relation research and development investment which is provided to investors (e.g. the stock market). Recently applied to allow tax breaks for R&amp;D expenditures. Enables certain development expenditures to be written off over a period of time.</p>	
<p><b>Target beneficiaries</b></p> <ul style="list-style-type: none"> <li>• All companies with measureable training investments.</li> </ul>	<p><b>Groups who might also be effected</b></p> <ul style="list-style-type: none"> <li>• Financial markets through improvements in information for investors.</li> </ul>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Enables firms to treat training as an investment rather than a cost.</li> <li>• Harmonises reporting methods.</li> <li>• Raises the market value of companies seen to invest in training.</li> <li>• Enables the later introduction of tax breaks for training or levies – and allows these to be customised (e.g. tax breaks for increases in training not for existing training).</li> <li>• Allows firms to raise funding on the</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Limited benefit for low level, low cost training (e.g. informal training)</li> <li>• An additional burden on the firm – primarily in the first year the system is introduced</li> <li>• Not clear that training expenditures will be increased – only that the decision to train can be evaluated more thoroughly and as an investment not a cost.</li> </ul>

<p>basis of their intangible assets (i.e. their human capital) – especially important in the “weightless economy”.</p>	
<p><b>Critical success factors</b>                  The evidence suggests that critical success factors include:</p> <ul style="list-style-type: none"> <li>• The definition of training and the avoidance of “creative accounting” – can draw upon existing work by CEDEFOP in defining training.</li> </ul>	
<p><b>Key policy stakeholders</b>                  Professional accounting bodies/BERR/UK Commission/CEDEFOP.</p>	
<p><b>Policy Review conclusion</b>                  The Conceptual Review concluded strongly in favour of this option. A lack of available evidence about the practical application of this option meant that it could not be substantively addressed in the Empirical and Policy Reviews.</p>	
<p><b>A note on the strength of the evidence base</b>                  Evidence comes primarily from the Conceptual Review, but primarily in the context of R&amp;D investments rather than training. The theoretical evidence suggests that it will improve the training decision and help investors. The empirical evidence is unclear, but can be drawn from work on other ‘intangible assets’ such as R&amp;D, knowledge, patents and trademarks.</p>	

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**Produced by the Policy Research Institute for the UK Commission for Employment and Skills.**

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