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# EMPLOYER ENGAGEMENT IN APPRENTICESHIPS

CONCEPTUALIZING EMPLOYER ENGAGEMENT WITH APPRENTICESHIP TRAINING  
IN ENGLAND AND THEIR RESPONSES TO A NEW APPRENTICESHIP LEVY

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# OUTLINE

- Introduction
- Research background
- Apprenticeship in England & why of policy concern
- Policy developments
- Research on employer behaviour with respect to apprenticeship training
  - What's the cost to employers? Why / how do they engage?
  - What changes might the levy lead to in employer behaviour?
- Conclusions

# INTRODUCTION

- BSc (Economics), MA (Economics) from Memorial
- PhD (Economics) from University of York (England) (Rothermere Fellowship)
- Returned to Economics at Memorial as faculty member (August 2016)
- Prior to returning to Memorial
  - Institute for Employment Research, University of Warwick (England)
  - 10 years, joint lead of programme of research on skills and vocational education and training – especially employer returns

## RESEARCH BACKGROUND

- Various studies, commissioned by:
  - National Apprenticeship Service
  - Department for Business, Innovation and Skills (BIS) (now Department for Business, Energy & Industrial Strategy (BEIS))
  - Department for Education (DfE)
  - Edge Foundation
  - Sector skills councils / bodies
  - UK Commission for Employment and Skills (UKCES)
- ***Today - results mainly from studies conducted for BIS***

## RESEARCH BACKGROUND

- Commissioned by Department for Business, Innovation and Skills (BIS)
- Two main pieces of research:
  1. Net Costs of Training series of studies (since 1994, latest one for BIS in 2012)
  2. Study on employer reactions to the new apprenticeship Levy (BIS/DfE in 2016)
- Collaboration
  - Co-author Terence Hogarth
  - Conducted with colleagues at IFF Research, London

# APPRENTICESHIPS IN ENGLAND & WHY OF POLICY CONCERN

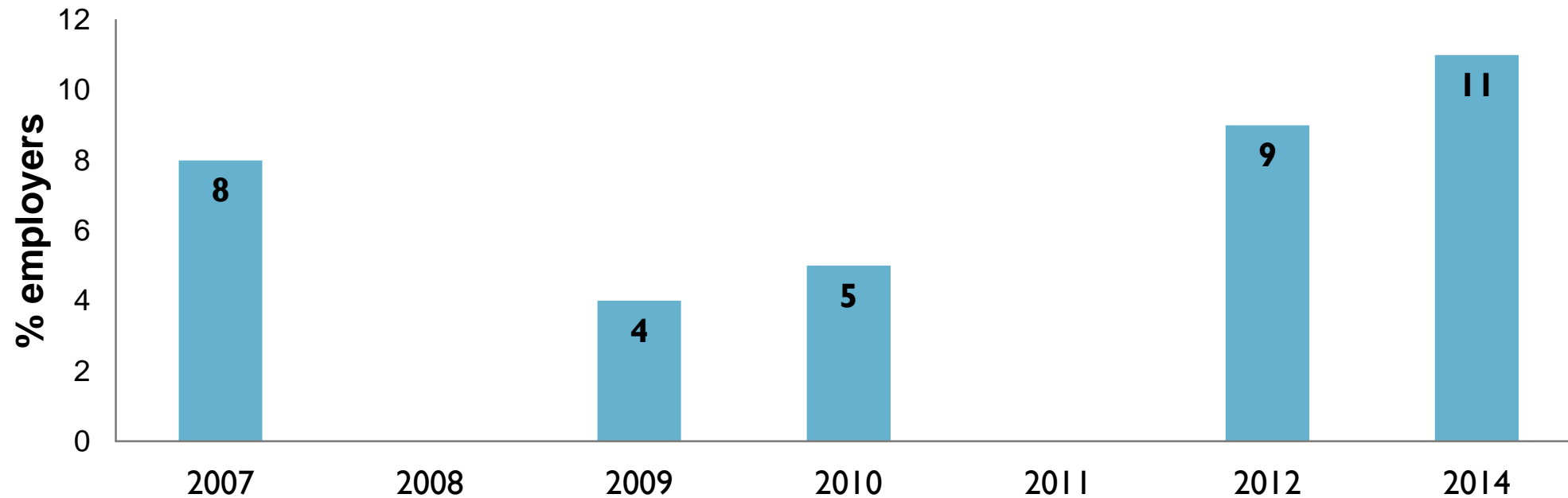
- Little tradition of apprenticeship in England until introduction of Modern Apprenticeships (MAs) in 1994
- MAs introduced to fill gap in skills provision at intermediate level – proving to be a drag on economic performance
- But concerns regarding quality of training and levels of employer participation
- Past 20+ years – policy initiatives to combat issues and mainly to increase volume
- Increasing volume has proven to be easier in relatively low skill, low cost apprenticeships but much more difficult (near impossible!) in high skill, high cost apprenticeships

# APPRENTICESHIPS IN ENGLAND & WHY OF POLICY CONCERN

- In England, lack of VET training, especially apprenticeships, considered to limit competitiveness (cf Germany, France, etc.)
- Also concerns about different tracks for education and skills development
- Across Europe, apprenticeships considered almost panacea for two inter-related problems:
  1. Relatively high rates of youth unemployment
  2. Matching supply of skills to demands of the economy
- How can this form of training be developed where it is not already embedded as primary means of delivering initial vocational education and training (IVET)?
  - England as an instructive example.

## MAIN ISSUES: LOW EMPLOYER ENGAGEMENT

**Figure 1: Percentage of employers with an apprentice, England, 2007-2014**

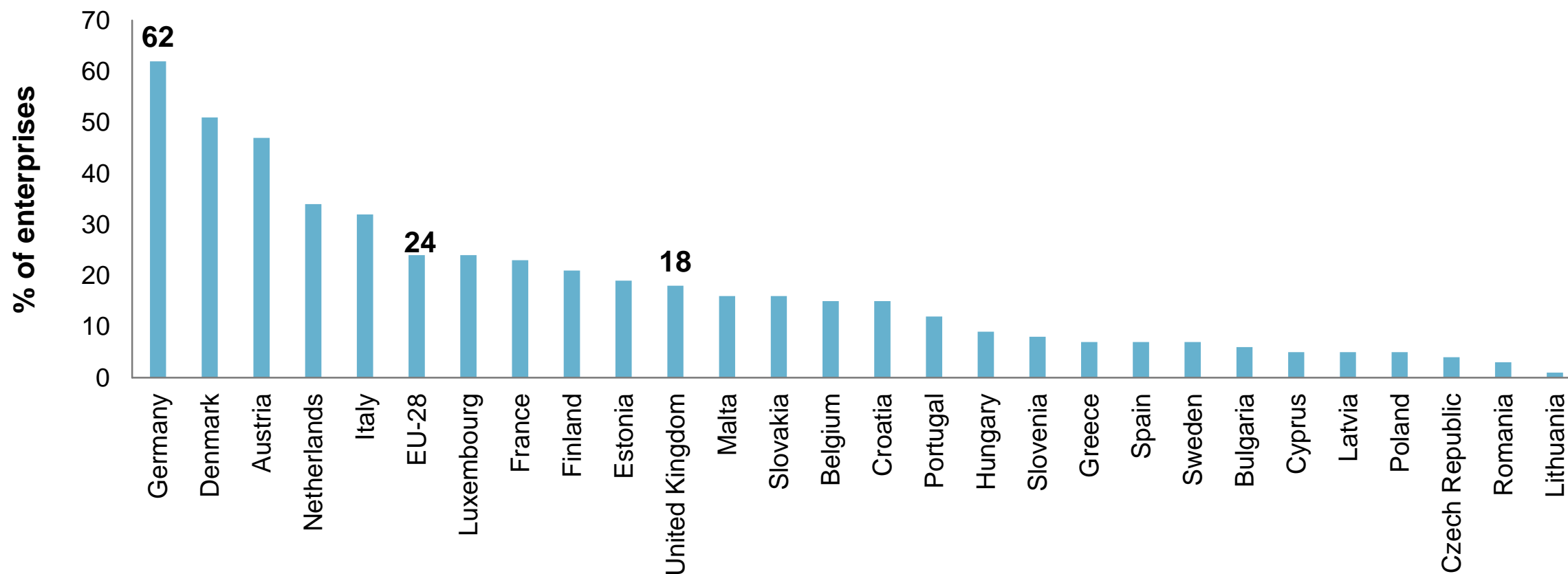


*Source: Employers Skill Surveys 2007 and 2009, Employer Perspectives Surveys 2010, 2012 and 2014*



## MAIN ISSUES: LOW EMPLOYER ENGAGEMENT COMPARED TO EU

Figure 2: Percentage of employers providing initial vocational education and training to employees (IVET), EU, 2010



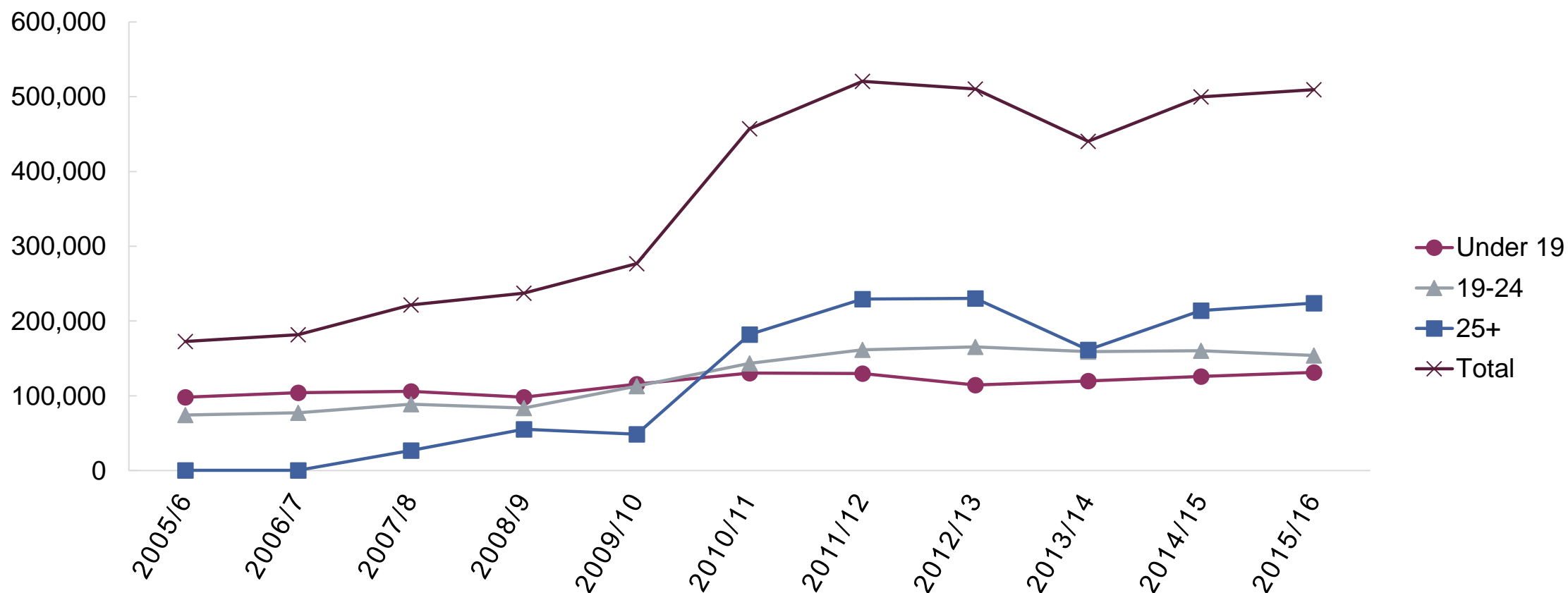
Source: Continuing Vocational Education and Training Survey 2010 (Eurostat file trng\_cvts86)

## EVOLUTION OF POLICY - INVENTION & REINVENTION

- Recognition in policy over past 30-40 years that principal weakness of UK economy has been country's education and skills system
  - Despite massive expansion in provision of HE and FE, has failed to deliver vocational skills of value in the economy
  - Launch of MAs reflected frustration with existing VET system's failure in this regard – aimed to produce skills that would foster growth in relatively high wage, high skill employment
- Various tweaks / redefining over time
- Increasingly moving toward market-driven, employer-led but have been swings back and forth

# MAIN ISSUES: LOW IVET PARTICIPATION

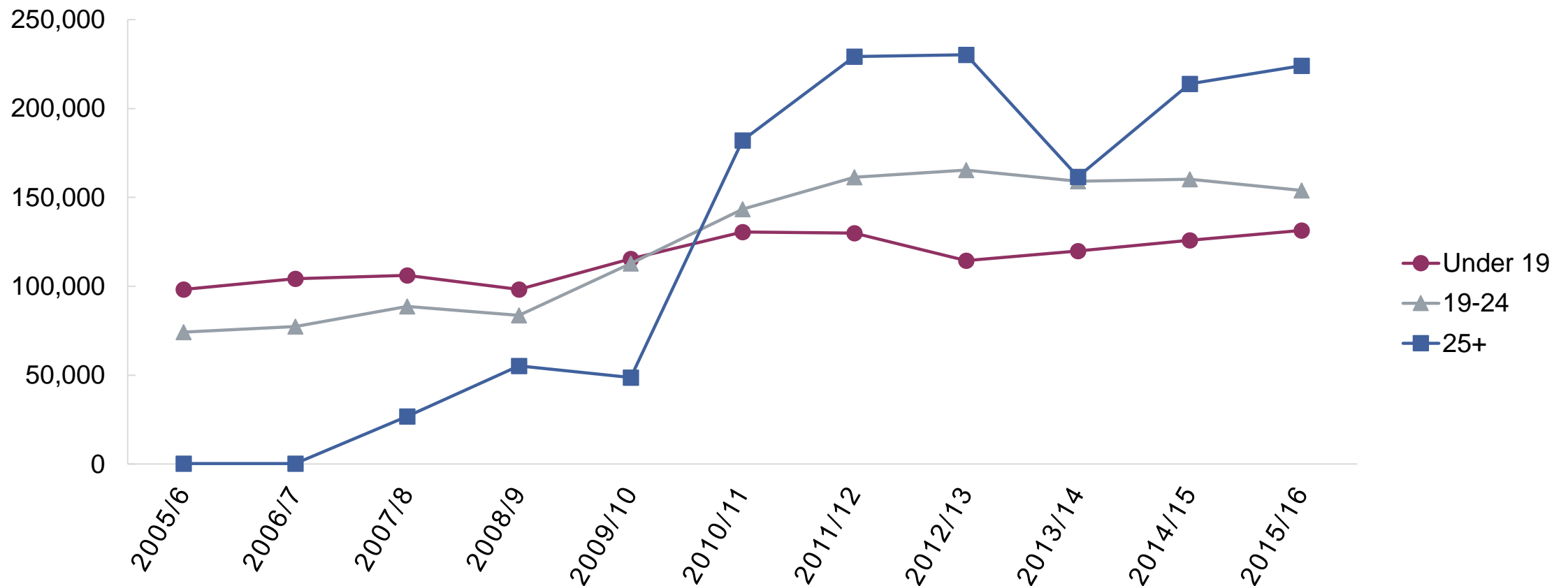
## Apprenticeship starts in England 2005 to 2015 (by age group)



Source: Department for Education, Further education and skills, Statistical First Release, January 2017 (SFR07/2017) and March 2016 (SFR

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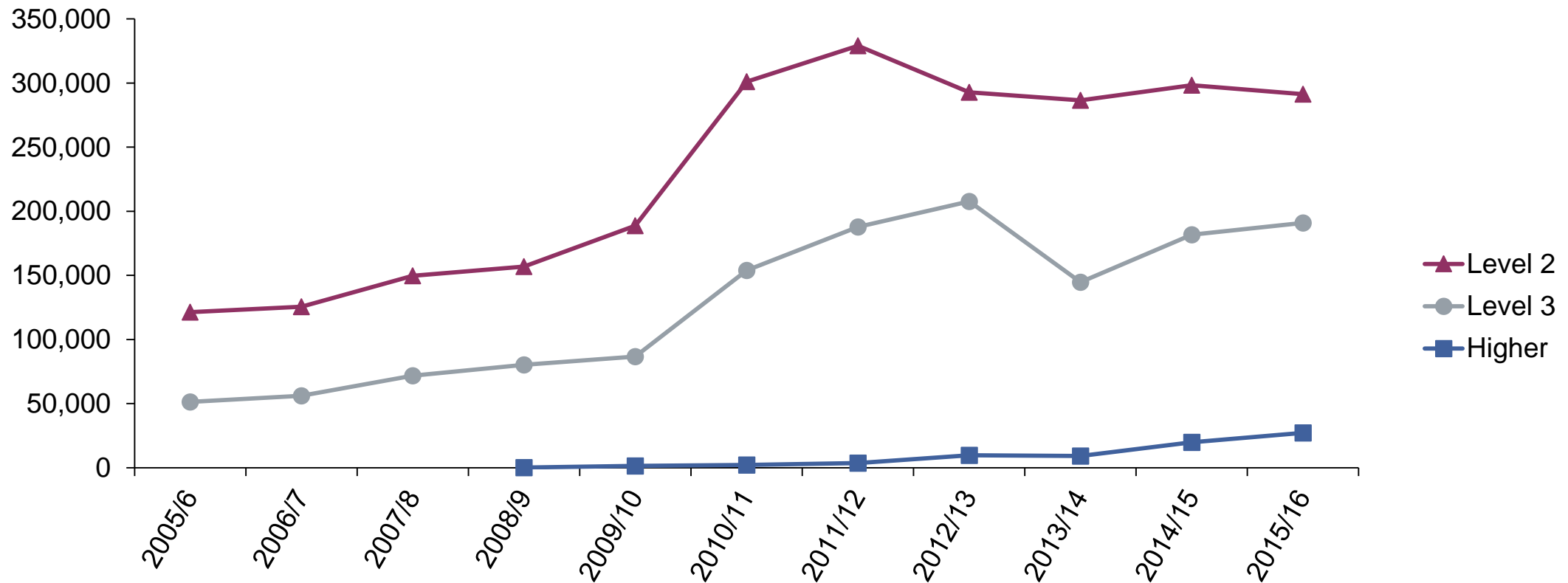
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# MAIN ISSUES: LOW IVET PARTICIPATION

## Apprenticeship starts in England 2005 to 2015 (by level)



Source: Department for Education, Further education and skills, Statistical First Release, January 2017 (SFR07/2017) and March 2016 (SFR

## MORE RECENT DEVELOPMENTS – DIRECTION AND MAJOR REFORM

- Long been moves towards making employers pay increasing share of the costs of apprenticeship training
- Richard Review (2012) set out ideas about employer role and quality especially (much about redefining to be more like what is seen in other countries)
- Announced in 2015 – **BIG change to financing:**
  - **Commitment to bring about 3 million apprenticeship starts to end of Parliament (2020)**
  - **Introduction an apprenticeship levy on employers announced in Summer Budget 2015**

## RESEARCH INTO THE PROBLEM(S)

- **Why has employer engagement remained so steadfastly low?**
  - Why do some employers continue to engage whilst others do not?
  - Concern over costs; how much do employers invest;
  - Overcome missing information on benefits to business, costs, etc.
- **How is the apprenticeship levy likely to change employer behaviour (if it does so at all)?**
- Considering different sectors, employer sizes, use of apprenticeships to date

# THE RESEARCH

## Net Costs of Training series of studies

- 5 in the series – 1996, 1998, 2003, 2008, 2012
- Sectors / subjects covered – engineering, construction, retailing, hospitality, logistics, financial services, health care, social care, business services (within different sectors)
- ~ 80 employers in latest study
  - Interviews and use of accounting tool
  - Questions on engagement, format, direct and indirect costs, contribution of apprenticeship, reasons for engagement and changes in behaviour
- Relatively small sample – indicative rather than definitive



# THE RESEARCH

## Study on employer reactions the apprenticeship Levy (BIS in 2016)

- Fieldwork March-June 2016
- Engineering                      Construction                      Financial and professional services  
Health and social care              Retail                      Hospitality
- ~ 60 employer interviews
- Mix of sizes; mainly in-scope of levy (some interviews with out-of-scope); mix of recurrent apprentice recruiters (2/3)
- Discussion / questions – approach consistent with Net Costs studies:
  - Amount of levy liability? What they currently do? Why? How this may change?  
Plans to recoup levy?

# FINDINGS

## Estimates of costs / benefits to employers of training apprentices

Type of apprenticeship	Relatively high or low cost (net cost to the employer)
Engineering	High (c.£40,000)
Construction	High (c.£30,000)
Financial and Professional Services	Medium (c.£18,000)
Health and Social Care	Low (c. £6,000)
Retail	Low (c. £2,500)
Hospitality	Low (c. £1,500)

Source: Net Costs Studies, 1996-2012

## WE OBSERVE THAT EMPLOYERS PAY A LARGE PART OF THE COST OF APPRENTICESHIP TRAINING – WHY MAY THEY BE WILLING TO DO THIS?

1. Labour market imperfections such as labour market institutions bringing about a degree of **wage compression**. Encourages employers to invest in general training due to greater incentive to train unskilled workers (Acemoglu & Pischke, 1999)
2. Informational **asymmetries** resulting in non-training firms being **unaware of value of training** delivered in training firm and true productivity of ex-apprentice – reduces the gains that employee can obtain through switching to the non-training employer after completion of apprenticeship (Katz & Ziderman, 1990; Barron et al., 1999)
3. Transferable, **generic skills bundled together** in way that they are, in effect, almost organisation-specific (Lazear, 2009; Gambin & Hogarth, 2016)
4. Other, non-remunerative factors help to **bond employer and apprentice** leading to high post-apprenticeship retention (Hogarth et al, 2012)

## EMPLOYER RATIONALE FOR PROVIDING APPRENTICESHIPS – VARIES BETWEEN SUPPLY-LED AND DEMAND-LED REASONS

- Reasons for engaging varies by types of apprenticeship and related to costs incurred
- Employer fall at points along spectrum

### Supply-led

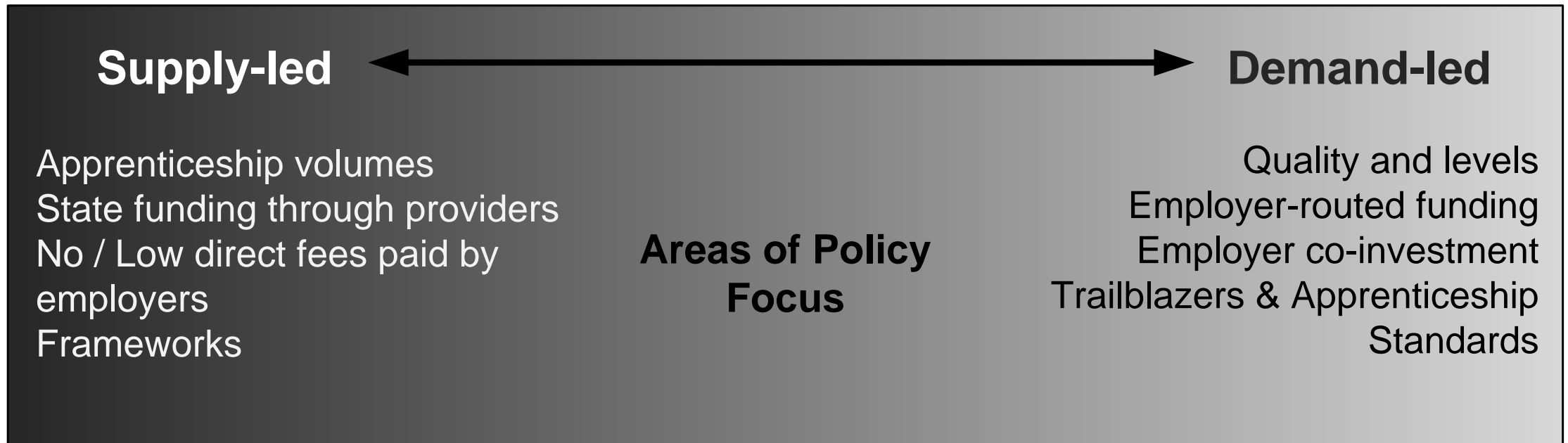
Training provider driven  
Retention and recruitment  
Low cost  
Many alternatives  
CVET  
Accreditation of existing skills  
Existing workers and skills

### Demand-led

Driven by employers  
Skill needs and industry norm  
High cost  
Few / no alternatives  
IVET  
Additional skills and productivity  
New recruits

## CONSIDER POLICY FEATURES ALONG SIMILAR LINES – HAS COINCIDED WITH NATURE OF EMPLOYER ENGAGEMENT

- In free market, employer demand with supply able to respond – no justification for government intervention
- As it is, nature of policy likely to impact on the nature of employers' behaviours, too
- Policy features along the supply-led/demand-led model of employer engagement



## RATIONALE FOR IMPOSING THE APPRENTICESHIP LEVY

*“...a step change in the scale of the apprenticeship programme also needs a step change in funding. Achieving this change will require a reversal in the trend of employer underinvestment in training, which has seen a rapid decline in the amount and quality of training undertaken by employees over the last 20 years. This decline is in part due to employer concerns that if they invest in their employees, competing firms will free-ride on their investment.” (HM Treasury, 2015)*

- To correct for poaching - if all firms bearing costs of training, risk of non-training employer taking trained employee from training firm will be reduced
- But in this case, not all firms will pay levy
- England previously had levies which were abolished; many other countries, too
- Previous research on impact of training levies – limited; mixed conclusions; dated

## DETAILS OF THE NEW APPRENTICESHIP LEVY

- From April 2017, employers to pay a 0.5% levy on annual pay bill above £3 million (other changes to funding for all employers not in scope of the levy, too).
- Money can be claimed back to pay for approved apprenticeship training – has to be used within 24 months; employers to negotiate price with training providers; government setting maximum for programmes.
- Asked employers about understanding of the levy (all details were not confirmed at the time of the study), how much they were likely to pay and how they would likely respond to it
  - Not all details were known at the time of the study – not by government nor employers
  - Was much worry about lack of information and timing; affected how far along employers were in thinking through the consequences and their reactions to the levy
- Few (but some) thought there was a good chance that they would treat the levy as a sunk cost or additional tax and just write it off or absorb it.

# SO HOW MIGHT INTRODUCTION OF APPRENTICESHIP LEVY AFFECT EMPLOYER BEHAVIOUR AND ENGAGEMENT?

- Most wanted to be able to **fully utilize** their levy payment (i.e. be able to reclaim it to pay for apprenticeship training). This encompassed various behaviours:

## Business as usual

- Had established apprenticeship programmes
- Little alternative to using apprenticeships for skills supply
- Levy not much more than already paying – expected to have no problem reclaiming in full

## Catalyst for change

- Levy likely to bring about greater investment by company
- Especially where apprenticeships were relatively new to sector
- And where cost was relatively modest
- Could see financial benefit – even of over-training

## Capacity constraints

- Number of apprentices it would take to fully reclaim levy payment was unrealistic for firm to take on
- At some point all skills / training needs could be met – then what / who to train?
- Constraints too on supervision staff / time



# OTHER CHANGES TO FIRM BEHAVIOUR IN LIGHT OF LEVY – HOW WILL THEY USE THEIR TRAINING ENTITLEMENT?

Response to levy	Type of response	Employer characteristics
Broadening occupations	<ul style="list-style-type: none"> <li>-Expand number of occupations in which apprenticeship training used</li> <li>-Increase provision in occupations where was previously limited</li> </ul>	<ul style="list-style-type: none"> <li>- More in sectors where occupation structure of employment was affected by exogenous factors (e.g. professional services)</li> <li>- Train in non-core business functions</li> </ul>
Increasing the level at which apprenticeships are delivered	<ul style="list-style-type: none"> <li>-Strategic response</li> <li>-<i>Ad hoc</i> response to levy</li> </ul>	<ul style="list-style-type: none"> <li>- Possible substitution of higher level apprenticeships for graduates</li> <li>-May need for leadership and management (both as means to use up levy and to meet skill need)</li> </ul>
Training new hires versus existing staff	<ul style="list-style-type: none"> <li>- Continuing as before</li> </ul>	<ul style="list-style-type: none"> <li>-Tradition of training existing staff in some sectors. Continue as is and expand training eligible</li> <li>-Just didn't have demand nor ability to recruit sufficient number of apprentices. Use for training existing employees as possible</li> </ul>

# WHAT IMPLICATIONS FOR TRAINING VOLUMES?

## Type of impact    Assessment of scale of impact

Neutral impact	<ul style="list-style-type: none"><li>• High cost sectors (e.g. engineering, construction), expected levy to have little impact on numbers.</li></ul>
Quantitative additionality	<ul style="list-style-type: none"><li>• Increase in apprentice numbers likely in finance and professional services. Likely to speed up process of moving over intermediate/technician training to this format.</li><li>• Across many sectors, likely to see increase in number of apprentices in business support function.</li><li>• In low cost sectors (e.g. retailing, hospitality) likely to see increase but much would be for existing employees.</li></ul>
Qualitative additionality	<ul style="list-style-type: none"><li>• All sectors – possibility of using apprenticeship to deliver currently unaccredited training (often related to leadership and management)</li></ul>
Substitution / displacement	<ul style="list-style-type: none"><li>• Some (e.g. construction, lesser in engineering) would use apprenticeship as substitute for training that currently takes place in HE (likely to be a change over the long-term rather than immediate)</li></ul>
Negative outcomes (sunk costs)	<ul style="list-style-type: none"><li>• Construction and engineering – confident they could continue as is. Unlikely to be sunk cost.</li><li>• Finance and professional services – some concern of losing out in short-term but would be able to fully utilize in medium-term</li><li>• Low cost sectors – more worry of this. Many part-time works (high wage bill, but low eligibility for apprenticeship). Savings would need to offset any loss on levy.</li></ul>

## CONCLUSIONS AND IMPLICATIONS

- This and other work – policy influence, building evidence base, informing/educating
- Extensions - including Europe, sectors, etc.
- Relating to work on skills demand/supply/mismatch
  
- What government might do with our results
  - Further research, supporting policy plans, information sharing
  - Evidence-based policy making
    - *Hopefully!*

## CONCLUSIONS AND IMPLICATIONS

- Thinking about employers' behaviour and how they engage with apprenticeship training
  - Fine balance between employers' more immediate concerns and their future outlook
  - Training can be considered a bit of a 'luxury' in straightened times
  - But, it is one of the key obstacles to fulfilling potential and achieving growth in recovery phases
- More on the role of government in VET system – what should it be?
  - Policies tend to move toward more market-based features of the system. So should government bow out?
  - If there are imperfections, should government do something (and if so what)?
    - Supply a floor? Governance and quality assurance only? What about individuals? Creating/sharing information?
  - Policy / financing in tune with employer motivation and ways to reduce the risk

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