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Main Report

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DEPARTMENT OF EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS

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This volume sets out the full findings of the evaluation, together with detailed references to
statistical and other sources. A separate summary volume has been published, setting out the main
conclusions as they relate specifically to the impact of the Training Guarantee.

The report was finalised before the Government decided to abolish the Training Guarantee, and
does not reflect developments since that decision was taken.

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FOREWORD

The Training Guarantee was introduced in 1990 as part of the previous Government's program for the reform of Australia's training infrastructure. As an innovative program with few directly comparable precedents anywhere in the world, it aroused considerable controversy in Australia and strong interest among international agencies and other countries in the region.

The report shows that the Training Guarantee, over the four years it was in force, contributed to increases in training effort across a wide range of Australian businesses. In particular, it helped to protect existing training activity from cost-cutting pressures during the recession of the early 1990s. However, it had little success in changing industry behaviour where there was no established training culture.

The report is frank in its analysis of the limitations of the scheme, and outlines the kind of supporting measures that would be needed to make this type of approach more effective. It shows how the successes of the scheme were linked to the circumstances of the time, and suggests that new approaches are needed to tackle the problems that remain for industry training in Australia.

To identify the full impact of the program, it has been necessary to carry out a wide-ranging analysis of the changes in the training behaviour of Australian industry since the 1980s. By identifying the trends and providing a framework for understanding them, the report should make a useful contribution to broader discussions about the future of training policy and industry reform in Australia.

The Training Guarantee has been suspended since 1 July 1994, and legislation has now been passed for its abolition.

This evaluation is a valuable case study in what does and doesn't work in public policy, and deserves close study.

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

Achievements of the Training Guarantee

The Training Guarantee proved to be a reasonably effective program for the time at which it was introduced. It had a widespread impact in creating awareness of training as an issue in business strategy and legitimising its role within individual enterprises. For many employers it provided a useful opportunity to focus attention on the quality and appropriateness of their training strategies and devise more cost-effective approaches.

Over half the eligible employers believed it had been instrumental in increasing their training expenditure. It was particularly influential with medium-sized businesses (20-99 employees), among whom it contributed to a growth of 60% in average expenditure per employee, and 30% in average hours of training per employee, over the three years from its introduction. However, its influence on expenditure extended through all size categories.

It also had a positive influence on qualitative aspects of training. For example, enterprise training plans became much more common during the four years it was in effect, and over 40% of eligible employers believed it had led to improvements in their methods of training and the way they planned their training. These qualitative improvements were particularly marked for employers whose expenditure had increased as a result of the scheme.

Perhaps its most important contribution during the first three years was to protect the existing training activities of businesses from cost-cutting pressures induced by the recession. This helped to produce the unprecedented result that the overall training activity of Australian industry not only was maintained, but actually continued to grow, right through the 1990-93 recession.

From the Commonwealth's point of view it was a highly cost-effective program. So far as its net impact can be estimated, it appears to have generated somewhere between $20 and $100 of new industry investment in training for every Commonwealth dollar spent on it. The compliance costs for industry were higher than intended in some cases - particularly for firms which were already good trainers - but no evidence was found that they had any adverse impact on the economy or on the level of employment.

Unresolved problems

However, after four years there remained several important areas of industry where a training culture showed little sign of emerging. The Training Guarantee had been expected to show most benefit in problem areas such as these where there was no tradition of training. In practice, it proved least effective in such cases.

These problem areas - which include large parts of the retail, transport, hospitality, food processing and personal service industries - are still a matter of concern for policy because of their contribution to employment growth. Both over the last decade, and in particular since the end of the recession, employment growth has been strongly concentrated in low-training industries and in occupations that recorded either little growth or a decrease in access to training over the period covered by this evaluation.
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In particular, a problem remains with small businesses, especially those which were too small to be covered by the Training Guarantee. In this category - in strong contrast to those above the Training Guarantee threshold - training activity fell over the three years from 1990. Even above the threshold, training activity by 1993 was markedly lower for organisations with fewer than 15 employees than for those with 15-20 employees.

The Training Guarantee was also ineffective (at least in the aggregate) in improving access to training for disadvantaged groups in the workforce. Most of these groups fared worse in 1993 than they had in 1989, partly as a result of the recession and increasing workforce segmentation. While it was never a formal objective of the Training Guarantee to address inequities in access, the evidence from this evaluation shows clearly that alternative means would be needed to achieve better equity outcomes.

Future policy options

The findings of this evaluation suggest that there are three main features of the Training Guarantee which limit its effectiveness as a response to the shortcomings that remain in industry's training effort:

i. *its generic nature*: the needs for reform that remain are much better defined than in the 1980s, and are probably better addressed by policies targeting particular industries or specific impediments to reform;

ii. *its focus on changing the behaviour of individual firms*: the evidence indicates that a firm's immediate trading environment is crucial in providing both the incentive and the support for adopting a training culture. Reform is more likely to occur if governments ensure that the right balance of incentives exists at the industry or regional level, rather than intervening directly in an attempt to change the behaviour of individual firms in isolation from their context;

iii. *its emphasis on training as an input*: the qualitative research points strongly to the conclusion that the critical factor determining whether a firm develops a training culture is not the amount of formal training it conducts, but its organisational capacity to exploit and encourage higher skills at all levels of the workforce.

This review provides the opportunity to consider a new approach to the encouragement of enterprise-based training, which would complement the widespread reforms to entry-level training introduced since the Training Guarantee was suspended. Elements of this new approach could include:

- a greater emphasis on recurrent training of the currently employed workforce;
- a focus on the industry or region rather than the individual employer;
- further government action to overcome the information problems faced by employers (especially small businesses) who are new to training;
- giving primacy to changes in organisational culture;
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• creating market-driven incentives for enterprises to develop their skills base;

• more attention to questions of work-based and organisational learning, as opposed to an exclusive focus on structured training; and

• strategies to encourage lifelong learning.

Generic incentives (e.g. encouraging the wider adoption of Quality Assurance certification) could have a part to play in this new approach. However, much of it would need to be built on further research identifying:

• the precise areas of industry where change is still needed (and unlikely to come about as a result of present incentives);

• the specific impediments to change in each area; and

• the most cost-effective policy options to remedy them in each case.
CHAPTER 1

BACKGROUND TO THE EVALUATION

The program


Employers' obligations under the program were temporarily suspended for two years from 1 July 1994 by the Training Guarantee (Suspension) Act 1994. The then Prime Minister indicated his government's willingness to discontinue the program permanently, subject to the takeup by industry of training positions funded under the White Paper Working Nation.

At the time of writing, however, the legislation setting up the scheme remains on the statute book. Unless it is repealed or further amended, the substantive provisions will return into operation on 1 July 1996.

Program description

The Training Guarantee required all employers above the payroll threshold (with limited exemptions for charitable institutions, foreign missions, etc.) to spend a minimum percentage of payroll in each financial year on eligible training. The minimum expenditure was set at 1% for 1990-91 and 1991-92, rising to 1.5% from 1 July 1992. The payroll threshold was set at $200,000 in 1990-91, indexed to annual movements of average weekly earnings. For 1993-94 it stood at $226,000, equivalent to roughly 8-10 employees.

The definition of eligible expenditure was very broad and included not only staff training but customer training, development of training strategies, acquisition or construction of training facilities, and donations to educational establishments. The cost of wages paid to attendees was also included.

The basic requirements for eligibility were that the training be employment-related, "structured" (i.e., essentially, that it have defined aims and outcomes) and approved or developed by a person with specified minimum qualifications (short train-the-trainer course or three years' experience in training).

Employers who did not reach the minimum expenditure requirement were required to lodge a shortfall statement by 30 September in the following year and pay the shortfall to the Australian Taxation Office (ATO). Proceeds of these shortfall contributions went to a special fund known as the Training Guarantee Fund (TGF), which was meant to be allocated in order of priority to:

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1 Strictly speaking, employers who fall below the payroll threshold were still required by the letter of the legislation to spend the 1.5% minimum. However, they were exempt from the requirement to submit a shortfall statement if their expenditure did not reach this level, and hence could not be penalised for failing to meet their obligations.
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- covering costs incurred by the ATO and DEET in administering the scheme;
- development and running costs of the DEETYA-funded ABS training surveys (see below);
- the balance to be allocated among the States for expenditure on training programs;

but the total shortfall contributions received over the four years were not enough even to cover administrative costs.

The scheme operated on a self-assessment basis, with employers required to keep documentation of as much of their eligible training expenditure as is required to meet the minimum obligation under the Act, and to supply it to the ATO on request. This documentation had to include an indication of the objectives and expected outcomes of each training activity, in order to demonstrate that it qualified as eligible training for the purposes of the Act. The ATO carried out a program of field and desk audits to monitor compliance.

Following passage of the Training Guarantee (Amendment) Act 1994, employers who recorded a shortfall in one year could elect to make it up by undertaking an equivalent amount of eligible expenditure over the following two years. Alternatively, eligible expenditure in excess of the minimum requirement which was incurred by an employer in any year could be offset against a shortfall in the following year. These provisions made it possible for employers who recorded a shortfall in 1993-94 to elect to defer lodgement of a shortfall statement until 30 September 1996, in the event that the scheme was reinstated after the end of its suspension.

The scheme also made provision for Outstanding Trainer Awards (OTAs). These may be issued by the Minister for Employment, Education and Training to employers whose eligible expenditure in any year exceeds 5% of annual payroll, and exempt the awardee from liability to audit for three years. This provision remains in effect at the time of writing, despite the suspension of the other provisions of the legislation.

A further subsidiary provision allowed for the recognition of Registered Industry Training Agents (RITAs). These were industry-based bodies or training institutions empowered to issue employers with certificates indicating that their proposed training programs met the requirements of the Act. Although conclusive for the purposes of the ATO, such certificates are referred to in the legislation as "advisory certificates", since the Constitution does not empower the Commonwealth to accredit education or training programs.

Objectives

The objectives of the program were set out in the legislation as follows:

"(1) The principal objects of this Act are to increase, and improve the quality of, the employment related skills of the Australian workforce so that it works more productively, flexibly and safely, thereby increasing the efficiency and competitiveness of Australian industry."

"(2) Other objects of this Act include:
(a) improving the quality of employment related training provided by employers by encouraging the adoption of structured training;

(b) encouraging further employer investment in employment related training;

(c) ensuring a more equitable distribution of employment related training among employers;

(d) accelerating change in industry perceptions of the value of employment related training...

"(4) It is the intention of Parliament that this Act should be implemented in a manner that, as far as is consistent with the achievement of its objects, minimises the administrative burden on employers."

Training Guarantee (Administration) Act 1990, Section 3

Evaluation requirement

In the Second Reading Speech to the legislation, Minister Dawkins announced that the scheme would be reviewed at the end of four years. He specified that the review should include an examination of changes in access to training for women, low-skilled workers and other disadvantaged groups during the time the scheme had been operating. The evaluation has formed part of DEETYA's Portfolio Evaluation Plan since 1992.


Scope of the evaluation

Why four years?

The four-year reference period was chosen in recognition of the fact that the Training Guarantee, unlike comparable programs tried in other countries, depended critically for its success on individual employers learning from their own experience. It was intended primarily to change the behaviour of those employers who had never previously done any structured training, and who often had little directly relevant experience to draw on in developing training strategies to suit the needs of their businesses. For many such employers, the learning process could be expected to be a long and difficult one, involving some trial and error and the occasional false start. Training providers would also need time to adjust to a new market segment with requirements that would in many cases be very different from those of the kinds of client they were used to dealing with. Consequently, it was expected that several years would need to pass before the teething problems were overcome and the long-term impact of the Training Guarantee began to emerge.

The evaluation strategy has therefore been directed from the beginning towards a cumulative, retrospective evaluation focussed on what the scheme had achieved by the end of the first four
years. This approach needs to be distinguished from the techniques of progressive implementation monitoring commonly used to evaluate the kind of programs that take effect incrementally from the day they commence. It accounts for a number of the unusual features of this evaluation - principally the fact that collection of statistical data was left until as close as feasible to the end of the four-year reference period.

Progressive monitoring took place independently of the evaluation

Implementation monitoring was undertaken outside the evaluation context by the Training Guarantee Unit of DEET, which had policy responsibility for the scheme, and by the Australian Taxation Office which administers it. This monitoring led to a series of changes to the legislation and regulations, and assisted the ATO to target its enforcement effort, publicise the benefits of compliance, and provide a better advisory service to employers. Data from these sources have also been an important input to the evaluation.

Methodological constraints

The Training Guarantee presented particular difficulties to the evaluator. These can be summed up under three headings:

(a) **Isolating the effect**: the Training Guarantee operated from the beginning in a highly fluid environment, where many influences are likely to have changed employers' training behaviour. While it has proved relatively straightforward to measure these changes, there is no simple or unambiguous way of determining what part of them results specifically from the Training Guarantee;

(b) **Lack of control group**: because the Training Guarantee is not explicitly targeted, and virtually all employers (except those below the payroll threshold) are subject to it, there is no simple way of determining how employers would have behaved in its absence had all the other circumstances been the same;

(c) **Quantification problems**: quantifying the costs and benefits of the Training Guarantee raises both theoretical and practical problems, since

- on the **cost** side, the major costs of the Training Guarantee were borne not by the public purse, but by individual employers. Even where these costs can be estimated, they are difficult to separate reliably from other cost changes that would have taken place anyway;

- on the **benefit** side, the gains deriving specifically from the Training Guarantee are equally hard to separate from those due to other incentives. In addition, some of them might emerge gradually over long periods and in ways that cannot readily be quantified.

These constraints meant that there was limited scope to use evaluation methods based on performance indicators, counterfactual observations and cost-benefit analysis. Rather than trying to give the program an unequivocal pass or fail mark, the function of the evaluation is to understand in as much detail as possible the impacts, both positive and negative, which it has produced.
A strategic focus

Hence, the evaluation has been designed from the beginning as a strategic one, focussed on the broader goals to which the Training Guarantee is meant to contribute.

The strategic approach was chosen because objectives of the Training Guarantee - in particular, subsection 3(1) of the Act - explicitly went well beyond what the program was expected to achieve in isolation. Although conceived as the centrepiece of a strategy to bring industry into a leading role in the development and provision of work-related training, it was only one of a package of interdependent measures. Other elements of the package included award restructuring, TAFE reform, the move towards a uniform national competency-based system of accreditation, and a reform of entry-level training.

To assess the effectiveness of the Training Guarantee, it is necessary from a practical point of view to examine such issues as:

- the problem which the scheme was intended to address;
- whether the problem was correctly defined at the time;
- whether the problem still exists, and if so, whether it has evolved to the point where it requires different remedies;
- how effective the entire package of measures has been; and
- how those other measures have contributed to, or impeded, the effectiveness of the Training Guarantee.

This report keeps these necessary questions in the foreground and attempts to address all of them - albeit in a fairly summary manner - rather than simply whether the Training Guarantee was a success. Now that the program itself is no longer in effect, the evaluation serves primarily as an input into the future development of policies on industry-based training, focussing on what the Training Guarantee has revealed about the needs, processes, successes and shortcomings of industry training in Australia.

Data sources

Before the Training Guarantee was developed, there were no really reliable data to provide a comprehensive picture of employers' training behaviour in Australia. A number of studies had been undertaken by academic, private and industry sources, mostly with relatively small samples limited to a single industry or geographic area. It was not until 1989 that the Australian Bureau of Statistics (ABS) ran a pilot *Training Expenditure Survey* (TES), followed in 1990 by a full version with a sample of 6,000 employers that gave balanced coverage to all industries and geographic areas, and to enterprises of all sizes. A corresponding household survey, *How Workers Get Their Training* (HWGTT), was carried out in 1989 to provide data on the training experience of employees.
These surveys were run again in 1993/94, following extensive revision to add data on a range of recent developments, including the Training Guarantee. How Workers Get Their Training was renamed Survey of Training and Education (SOTE), and was expanded to include employers, the self-employed, the unemployed and marginally attached in the sample, and to cover a wider range of issues, in particular concerning the outcomes of training. The September 1993 TES remained virtually identical to the 1990 format, in order to allow the maximum comparability of data, but a new follow-up survey, the Training Practices Survey (TPS), was undertaken with the same respondents in February 1994 to gather information on qualitative aspects of training and human resources development. This survey also examined the reasons (including the Training Guarantee) which motivated employers to train.

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The 1993-94 ABS Training Surveys


Provides answers to such questions as:

- How has the overall level of employers' training expenditure changed since 1990?
- How has this change been distributed between classes of employer (industry, enterprise size, State)?
- How has it been distributed by type of training (in-house, external, management, trade, health and safety, etc.)?

2. Training Practices Survey (TPS) - Follow-up mailout survey of the same 6,000 employers. Published November 1994 as Employer Training Practices, Australia, February 1994 (Cat. No 6356.0). Not previously run.

Covers such questions as:

- What has been driving the change in training behaviour over the last 12 months?
- What has been the effect of the Training Guarantee?
- What problems and costs have employers encountered in complying with Training Guarantee reporting requirements?
- What have been the other influences on training behaviour, and how important were they compared to the Training Guarantee?
- How is training embedded in other elements of human resource strategy?

Also provides a workforce profile of each respondent by major occupational (ASCO) group. Linking with TES is possible down to the individual record level.

Provides data on several important issues concerning the Training Guarantee, e.g.:

- **equity effects (or lack thereof)**;
- **relevance/effectiveness of training**;
- **detailed profile of types of training undertaken (much more detailed than TES)**;
- **informal training**;
- **profile of training workforce**.

In this report, the survey titles (underlined) are used to refer to the surveys themselves and the complete findings of each. To minimise confusion, SOTE is generally referred to as "the household survey". References to the publication title indicate that the material cited is drawn from the actual ABS publication.

Surveys on this scale are extremely expensive to develop and run, and impose a considerable burden on respondents. Hence, it was judged more cost-effective for the evaluation to rely on these surveys as a source of data for detailed statistical analysis, rather than trying to commission its own. However, it should be stressed that all three surveys have been intended to serve a wide range of needs and a clientele that includes Commonwealth and State governments, international organisations, training institutions, researchers and industry. Identifying the impact of the Training Guarantee represents only a very small part of their potential applications.

**ATO Audit data**

Another major source of data for the evaluation is the compliance audit program carried out by the Australian Taxation Office (ATO) and the associated client attitude surveys carried out by Woolcott Research over a three-year period. Because of the ATO's stringent privacy safeguards, most of this information cannot be made public, and even the evaluation team has had access only to aggregated data. However, the findings which have been made available have clarified not only the level of compliance, but also broad patterns of compliance and the kinds of problems experienced by employers in endeavouring to comply. Both the audit findings and the client research covered individual years up to 1992-93 (1994 in the case of the client research), and hence provide an invaluable source for tracking the progress of the scheme over its first three years.

**Qualitative research**

The evaluation team commissioned a series of case studies on the practical experience of training reform in a diverse range of workplaces. The purpose of these studies was to provide a basis for interpreting the survey data. They have proved to be extremely informative on the processes of
cultural change at the enterprise level, the institutional factors that can facilitate or impede training reform, and in particular the interaction between workplace reform and changes in training culture. This program also included a composite study of over 100 small businesses in the greater Sydney area.

Other qualitative inputs were drawn from consultation with industry representatives, unions, training providers and major accounting firms. This was carried out in two phases, at the beginning of the data-gathering process in 1992, and in 1994, shortly after the scheme was suspended.

To resolve the remaining unanswered questions, a comprehensive program of industry consultation was planned to cover all States after the survey results were analysed. Because of the suspension of the scheme, and because the survey data took longer than anticipated to finalise, this program was reduced to a series of eight focus groups carried out in Sydney, Melbourne and Lithgow in August-September 1994. Despite its limited scope, this focus group research proved extremely informative on many issues which neither the surveys nor the case studies had clarified2.

A note on data quality

With a stratified sample of 6,000, TES and TPS are by far the most reliable surveys of industry training ever carried out in Australia. In the course of the three-year development process, individual questions were carefully and in many cases repeatedly field-tested to ensure that they produced responses of acceptable quality and consistency. Where an intuitively obvious topic has been excluded from the survey questionnaires, it is generally because this field testing revealed that it could not be couched in such a way as to guarantee usable responses.

In addition, the complete questionnaires of both TPS and SOTE were piloted in the field (in the latter case, twice) and thoroughly reviewed, in consultation with DEET, once the pilot results had been analysed. Post-enumeration surveys involving detailed interviews with a sample of respondents were also carried out for TES and TPS after the main runs, in order to check the quality of responses.

Once the data were collated for both surveys, they revealed unexpectedly high standard errors for some data items and respondent categories. These appear to reflect an unanticipated lack of consistency in the responses, suggesting a very wide variation in both the training expenditure and the training practices of employers within each category. The careful pre-testing and retrospective quality checks on the survey instruments increase the probability that this variation was genuine and not an artefact of the questions asked3. Nevertheless, it limits the possibilities for analysis. In a number of places in this report, it might appear to the reader that an ambiguous finding could be easily resolved by a further disaggregation or cross-tabulation. The reason this has not been done is simply that the standard errors would have been so large as to deny it any value.

2 The case studies, along with other internal data sources which are not publicly available, are not referenced specifically in footnotes in this report.

3Smith et al. (1995, p.4) have also reported a remarkable diversity in training outcomes among the 30 enterprises in three industries which they studied: "... there were as many outcomes for training as there were individual enterprises studied."
The Training Guarantee: its Impact and Legacy

Format of the report

The strategic focus of this evaluation is reflected in the layout of the report, where the chapters which detail the actual impact of the Training Guarantee are framed by those which cover the broader picture of industry training and the needs for reform. By following this sequence, it has been possible to identify the successes and failures of the program in the context of the problems it was meant to address, and subsequently to define those needs which it has left unmet.

- Chapter 2 looks at the background to training reform in Australia and the circumstances that led the Hawke government to develop a program of policy reforms which included the Training Guarantee.

- Chapter 3 examines in more detail the process by which the Training Guarantee emerged in its final form from the set of requirements originally formulated by the government, and in the process identifies the peculiar characteristics and limitations which were built into its design.

- Chapters 4 and 5 draw on the survey data to build the first comprehensive picture of how industry's training behaviour has changed over the period the Training Guarantee was in effect.

- Chapter 6 builds on this picture by analysing the surveys and qualitative evidence in order to isolate, as closely as can be achieved, the contribution of the Training Guarantee to this change.

- Chapter 7 looks in more detail at the qualitative evidence on aspects of the program's design, in an effort to explain how it worked.

- Chapter 8 analyses the factors that prevented training reform in those areas of industry where the Training Guarantee had little effect.

- Chapter 9 discusses whether the program was successful and the lessons that can be learned from it for the design of future programs.

- Chapter 10 looks briefly at the challenges that remain for future policy on industry training, and options for the future of the scheme.
APPENDIX TO CHAPTER 1

A NOTE ON TERMINOLOGY

For the sake of simplicity, the word "training" is used throughout this report in preference to "training and development", "staff development" or "human resources development". The last mentioned term is used only when referring to aspects of HRD broader than, or other than, actual training, e.g. training needs assessment (TNA) and the development of internal career paths.

Except where otherwise specified, "training" refers to formal training. This is also the sense in which it is used in the ABS surveys (except for one sequence of questions in SOTE which refers specifically to informal training)\(^4\). Formal training is defined by ABS as

"all training activities which have a structured plan and format designed to develop employment related skills and competencies. It consists of periods of instruction, or a combination of instruction and monitored practical work. The instruction can take the form of workshops, lectures, tutorials, training seminars, audio-visual presentations, demonstration sessions or monitored self-paced training packages. Includes structured on-the-job training."

It is important to recognise that this definition includes much of what is loosely described as on-the-job training.

Most references to training in the report do not cover formal study in educational institutions. In those cases where study is included, this is made clear in the text.

The surveys measure training activity in four ways:

- total expenditure incurred by an employer or a population of employers;
- average expenditure per employee (total expenditure by an employer or group of employers, divided by the number of persons employed by that employer or employer group, regardless of how many employees actually received the training in question);
- expenditure as a proportion of gross wages and salaries (usually abbreviated to %GWS);
- average hours of training per employee (again referring to the total hours of training divided by the total number of employees).

Wherever possible, the last measure is used in this report, especially for the purposes of comparison with past years. It is referred to as training effort. Where it is necessary to make comparisons on the basis of expenditure, the GWS figure is preferred, as it adjusts automatically for changes in the number of people employed in a firm, industry or location since the last survey.

\(^4\) Discussed in Chapter 5.
For most of the three postwar decades, formal skills were required by only a limited section of the workforce. Responsibility for their creation and maintenance rested predominantly with public institutions and large enterprises. By the 1980s, a combination of new competitive pressures on Australian industry and new developments in work organisation had begun to create the need for a much wider skills base. Initially at least, Australian industry appeared slow to play its part in developing the new skills base and the training culture that it implied. This chapter examines the reasons behind the changing economic importance of training and industry's slow response. In particular, it introduces the critical concept of the high-skill (or low-skill) equilibrium, which provides the most convincing economic rationale so far developed for government intervention to influence human resources strategy in the private sector.

For some programs, it is sufficient to base an evaluation on their objectives as formally set out in the enabling legislation or administrative documents. The wide-ranging strategic goals which were set for the Training Guarantee, and the strategic focus of this evaluation, make it necessary to take a broader view.

To address these strategic questions, it is necessary to look not just at the program but at the circumstances in which it arose, and the government policy statements which preceded its introduction. This will be the focus of the present and the following chapter.

The postwar decades

Commonwealth concern with the supply of skills to industry goes back at least as far as the postwar reconstruction strategy. However, it was only in the 1980s that it assumed its present importance as an element of microeconomic reform.

Until the last ten years, skills were seen as a policy issue almost exclusively in the guise of skills shortages. Shortages of specific skills had been a persistent concern of policy from the 1960s onwards. Not only the basic phenomenon, but the actual areas of shortage, remained surprisingly constant: of those skills recorded by DEET as being "in demand" in 1987, over three quarters had been in demand in 1974.5

From today's perspective, these problems appear relatively straightforward. In the first place, they were a simple matter of deficient supply: a known (albeit fluctuating) demand existed for known skills, and the shortfall of supply held back the development of industries which would otherwise have grown under the existing economic incentives. Thus, a correction to the supply side could be guaranteed to produce a more or less automatic payoff in economic growth. In the second place, the

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5Industry Training in Australia, p.4
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supply failures mostly concerned well defined trades or professions, for which the majority of training took place in formal institutions controlled by Commonwealth or State governments.

Thus, governments in the three postwar decades sought to address skill shortages primarily through a supply-side, institutional response. This included a steady growth in university places from the Menzies governments onwards, the development of a new, vocationally oriented Advanced Education sector in the 1960s, and the Commonwealth involvement in TAFE flowing out of the Kangan Report in the 1970s. Over this period, the proportion of all formal training funded by government grew steadily - especially in some professions, where formal training in government-funded institutions supplanted the in-service training previously conducted by the professions themselves.

Where this institutional response failed to meet the demand - as it often did - the migration program provided a fairly reliable backup. For the trades, indeed, it was by far the most important Commonwealth contribution to supply over the first two postwar decades, when it was heavily subsidised. (In this case, however, the government share of the costs fell over this period, as employer nomination took the place of assisted passage.)

Industry's contribution to the training effort generally took a form that was common in most industrialised countries - one or two large firms or statutory authorities provided the bulk of the enterprise-based training in each industry, and the resulting skills flowed through to smaller units by poaching or labour mobility. The dominant enterprises which undertook the training built this leakage into their calculation of training requirements, either accepting it as the cost they paid for the benefits of a competitive fringe, or because they had no choice. In those industries where apprenticeship was the main form of training, the load was usually spread more widely, but there was often an acceptance that the largest organisations (e.g. the railways and defence establishments) provided superior training.

A new economic role for training

By the mid-1980s a consensus had started to grow that this approach was inadequate. A number of factors contributed to a major change in the economic role of workforce skills:

- the change in the nature of work and production which began among the world's leading-edge manufacturers in the late 1970s, and which is commonly referred to as flexible specialisation or the "post-Fordist transformation" (see Box 1).\(^6\) This meant that it was no longer adequate for a competitive firm to employ a relatively small number of experts while the bulk of its workforce was minimally skilled and worked by rote or to direction. To compete in these advanced markets, it was now necessary to have a spread of skill over the entire workforce. This in turn created a need for new types and levels of training which did not match any kind of existing formal qualification;

\(^6\)This account is a summary of the model of industrial change developed by such authors as Piore & Sabel and Matthews. Several variants of this model exist, along with a significant rival theory in the older "Labour process" model, which forecasts a growing trend towards deskilling of the majority of the workforce. The Post-Fordist model is followed here because it formed the main theoretical basis for the reform program of the Hawke Government in training and industrial relations during the critical period when the Training Guarantee was developed.
Until the 1980s, the relationship between levels of investment in human and physical capital remained fairly stable, and could be regarded as given in advance. Both kinds of investment were thought to be determined by exogenous decisions on product strategy, production process, etc. The process of determination was seen as working in one direction: business strategy determined the product, which determined the production process, which determined physical capital investment, which determined human capital investment. In the absence of any feedback loop, the process might be expected to stall in those (exceptional) cases where adjustment failed to occur at any one step. When - and only when - the impediment arose in the supply of human capital, it was seen as the role of government to intervene to ensure that the output of the training system caught up with the demands of industry.

This view of the world began to lose its relevance in the 1980s because of a massive change that took place in the world's leading manufacturing firms. With the advent of the new technologies of flexible manufacturing, the relationship between the individual worker and the individual machine became much more flexible and allowed greater scope for discretion and innovation in the way each machine was used. This in turn meant that work organisation and workforce skills came to play a far more important role in determining productivity than had been the case in the days when each machine imposed a single mode of utilisation and had a single optimal rate of output.

The question of skill formation thus became more than a matter of matching the capabilities of labour to the fixed requirements of a particular machine, process or operation. The changing relationship between worker and production process led to changes in the way successful workplaces were organised, moving away from the previous industrial norms of extended command hierarchies, one-way information flows, and concentration of responsibility and decision-making in areas of the organisation far removed from the production process. Higher levels of skill across the firm's entire workforce were a precondition for this process to begin at all; but just as importantly, the new types of organisation enabled enterprises to absorb and profit from ever-rising levels of workforce skill. In the most successful cases, this process became a virtuous circle: a versatile, highly skilled workforce made it possible to update and replace plant at a pace that would never have been possible under the old minimalist, process-specific approach to training.

Training contributed to the success of the new workplace culture in two main guises:

- **training for productivity**: higher levels of skill across the workforce made it possible to break down demarcations, shorten lines of command, increase feedback within the enterprise, allow a smaller enterprise workforce to be used more efficiently, etc;

- **training for adaptability**: a higher-skilled workforce was expected to be more capable of changing work organisation, production methods, product lines, etc., to react to changes in the enterprise's economic and technological environment.

While this cultural change originated in the manufacturing sector, and has largely depended on leading-edge manufacturers for its evolution, it began to spread into the services sector during the 1980s. An important factor in its spread was the increasing computerisation of service businesses and the development of more powerful, versatile and user-friendly software, which played a role directly comparable to that of flexible manufacturing technology.
• the growing internationalisation of the Australian economy (and those of most other OECD nations), and the accompanying threat to traditionally secure markets (domestic and export) from newly industrialising countries in the region. This process also reduced Australia's ability to rely for export income on its traditional factor endowments, as developing countries improved the efficiency of their agriculture and acquired the capability to exploit their mineral deposits;

• unprecedented technological change, associated with a growing interdependence between workforce skills and the successful implementation of new technology, led to a rapid obsolescence of qualifications. This meant that it was no longer adequate for workers to be trained once, at the beginning of their career: continuous improvement became as necessary in the individual's occupational competence as in the organisation of production;

• growing competitive pressure on the large firms that had traditionally done most training, so that they no longer had the same latitude as before to offer training excess to their immediate needs, from which smaller firms in the industry benefited. (As shown in Chapter 4, this trend became more pronounced over the period the Training Guarantee was in effect);

• a growing belief that comparative advantage lay at the level of the firm rather than the nation-state. This meant that firms within the one economy needed to differentiate themselves in many more respects than had previously been thought - notably including their skill profiles. If firms had to compete on their workforce skills, it was no longer adequate for them to rely on standard institution-based qualifications, or on skills poached from a competitor.

The combined effect of these developments was to create a wave of structural adjustment and a climate of increasing strategic choice and uncertainty for Australian industry. In the process, the traditional model of government support for training began to lose its relevance:

• for governments, a simple demand-led approach to skill deficits was no longer appropriate. They could no longer treat the skill needs of industry as an empty vessel, of known size and shape, which had simply to be filled with a known mix of qualifications in order for growth to resume. The relationship between supply and demand became a dynamic, interactive one: simply intervening on one side, without complementary changes on the other, would not necessarily guarantee a payoff;

• from industry's perspective, these changes reduced the value of the traditional kinds of supply-side government intervention. Firms now needed to seek competitive advantage through their own workforce training - and that advantage was inevitably ephemeral in an open labour market, where no firm could hope to keep its enterprise-specific skills to itself for long. Thus, the role of firms in planning and taking responsibility for their own training became both more critical, and more burdensome;

• from the individual enterprise's perspective, workforce development became more than just an incremental change in a single input. The whole rationale for increased training effort was a change in the way organisations worked, what they produced, and how they interacted with their customers and the other players in their commercial environment. Changes in training behaviour and effort were reciprocally linked to such strategic and cultural changes: the success of each element determined the success, or even the practicability, of the other.
In summary, training at both the enterprise and the national level ceased to be simply a matter of adjusting supply to a fixed and given demand. Change on the demand side had become as important to successful adjustment as changes to the supply side. And both supply and demand sides interacted with a range of other institutions and characteristics of the economy, from educational institutions through to product markets, which were not generally within the control of the individual firm.

The high-skill equilibrium

Finegold and Soskice have neatly encapsulated this interdependency in the concept of a high-skill or low-skill equilibrium (Box 2). In essence, this view holds that a national economy will tend to specialise in one or the other approach to competitiveness - either one based on minimising input costs, relatively limited value-adding, economies of scale, and reliance on natural protection and adventitious factor endowments (i.e. the traditional concept of natural comparative advantage); or a high value-added approach which relies on continuous improvement in both products and productive capabilities to remain in a narrow moving band of dynamic comparative advantage.7

The first approach, while requiring skilled - even highly skilled - employees in key positions, does not rely critically on the development of formal skills in the majority of the workforce. For the average worker at the production-line or front-counter level, the only necessary skills can be picked up on the job or by short ad-hoc training courses; to the extent that skills development occurs at this level, it is nearly always for the immediate purposes of the job in hand. The second approach is characterised as "high-skill" because of two major differences:

- skills acquisition becomes a continuing requirement for most of the workforce, rather than something confined to a handful of experts; and
- investment in skills needs to be strategic, i.e. designed to facilitate continuing development and adaptability to unknown future changes in the business environment, and hence does not automatically produce a short-term payoff.

The "equilibrium" aspect is essentially about the pattern of incentives in an economy: i.e., will a person who is planning to start up a business, or invest in a business, in that economy be drawn towards one which requires a high and continuing investment in human capital? Will a firm which has hitherto got by with a limited investment in workforce skills be driven by competitive pressures (whether from product, factor or capital markets) to upgrade its skill profile? Does the average member of the workforce have a significant material incentive to acquire or upgrade formal skills?

It is important to realise that highly skill-intensive industries can and do exist within a low-skill equilibrium, and vice versa. However, the essence of the equilibrium theory is that in the long term, the approach that predominates will tend to set the conditions of competitiveness for all firms in that economy or industry.

7Unlike the pure Post-Fordist models, the skills equilibrium model embraces the possibility of an economy developing along the lines forecast by the Labour Process theory. In essence, the low-skill equilibrium embodies many of the assumptions of the Labour Process model, though it also behaves consistently with earlier, less historically specific Human Capital theories.
"The best way to visualise this argument is to see Britain as trapped in a low-skills equilibrium, in which the majority of enterprises staffed by poorly trained managers and workers produce low-quality goods and services. The term 'equilibrium' is used to connote a self-reinforcing network of societal and state institutions which interact to stifle the demand for improvements in skill levels. This set of political-economic institutions will be shown to include: the organisation of industry, firms and the work process, the industrial relations system, the state and political structure, as well as the operation of the education and training system. A change in any one of these factors without corresponding shifts in the other institutional variables may result only in small long-term shifts in the equilibrium position."

Finegold & Soskice, p.22

"Just as the German training mechanisms fit into a pattern of other economic institutions that encourage high skill, Britain has long been locked into the opposite dynamic. The system of company finance is driven by the short-term model of the City of London, with short-term loans and frequent hostile takeovers threatening companies taking long-term high-investment approaches... At the same time, the country has never managed to produce... respected vocationally relevant qualifications for non-academic pupils...

"It is now possible to see [the UK] as having resolved these ambivalences in favour of the short-term financial model... [A] high-skill German solution is, in this context, simply unattractive. National economic strategy has emerged as being able to rely on rapidity of short-term adaptation made possible by an advanced financial sector and a relatively low level of investment in high-level skills training. It prefers and can generate a flexible, casualised labour force able to turn its hand to a rapidly changing variety of relatively low skilled tasks... This requires a managerial elite with considerable skill to spot the market opportunities and power to command the rather dependent workforce.

"The problem with this model is that it forces Britain to compete in low-value-added product markets, where the main competitors are often from low-wage countries with poor social infrastructures."

Crouch, p.44

"Since 1980 education has increasingly been driven by the demands of the labour market, to supply skills to employer requirements. If the English labour market has a low skills equilibrium, such an approach is bound to perpetuate it...

"This then links to the point about fundamental assumptions about labour market structures and processes being 'given': if training is for current low skill jobs, then a minimum competence model may be perceived as adequate. However, if an alternative view is taken that it should be public policy to promote high quality skills formation processes, then it is arguable that this will bring about changes in the labour market...

"[A] strategy based around education and committed employers offers more realistic ways of effecting... change than policies which are employer-led. In the former case, committed employers can have a catalytic effect, whereas in the latter case, the inertial drag of 'reluctant' employers continually pulls the system back towards a low skills equilibrium...

"The problem is that while employer commitment may help to keep an economy at a high skills equilibrium, there is no evidence to suggest that an employer-based approach can move you there from a low skills equilibrium..."
"The value of training needs to be realised by significant numbers of employers, before genuine cultural shift can take place... If public policy can be used to encourage such movement, then the possibility of establishing a 'training culture' becomes greatly enhanced. Indeed, once commitment to training becomes more widespread, then disincentives to train become fewer...

"Once established, this should become self-sustaining without special 'measures' and 'incentives'."

Brown and Evans, passim

"Given the benefits to all the relevant players of a high-skill strategy, why haven't more companies in the real world adopted this approach?... The fact that many corporations and whole economies follow the low-skill path can no longer be attributed to ignorance; rather, the rationale for this choice lies in three institutionally-based factors that constitute necessary preconditions for a high-skill equilibrium. When these three factors are not present, the incentives confronting the players will lead them towards a low-skill strategy."

Finegold, p.99

In Finegold's view, the three incentives required to sustain a high-skill equilibrium are

- the ability of all actors to work within a long-term perspective;
- a resolve to base the strength of the economy on its competitiveness in world markets; and
- the willingness and means for actors to co-operate, within a generally competitive framework, where co-operation best serves the interests of efficiency.

If one accepts the existence of such an equilibrium, it becomes clear that changing a nation's training culture involves more than simply increasing training as an input. The receptiveness of industry to new skills is equally or more important. In the short term, the types of industry which dominate an economy will largely determine its training culture. An economy in which the bulk of employment occurs in traditional mass production, simple extractive industries or routine personal services will be genuinely limited in its capacity to develop the effective skill levels of most of its population.

Change, in this view, requires a paradigm shift, which - failing the right combination of external shocks - will not occur spontaneously through the internal dynamics of the economy. Even where some of the incentives are present, it still needs to be undertaken in a co-ordinated manner, and hence usually requires conscious policy intervention to overcome barriers to adjustment and ensure that the necessary resources are available.

The skill equilibrium model has been singled out for attention here, among a range of possible models, because it best explains the apparent anomalies in the evidence that came out of this evaluation. Its relevance to the findings will be drawn out fully in Chapter 8. At this early stage in the report, however, it offers a number of important advantages as a basis for understanding the environment in which the need for the Training Guarantee arose:
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- it demonstrates that the choice between training and not training is not a simple choice between rationality and irrationality. In different circumstances (as the extract from Crouch's article illustrates with particular clarity), either can be a wholly rational choice from the individual firm's point of view. In some circumstances, it may be far from certain which is the more rational choice;

- it explains why the sum of the individually maximising decisions which individual businesses make about their short-term training needs does not automatically add up to the strategy which is best for the long-term health of Australia's economy. It thereby provides a rationale for governments to intervene, and a basis on which to assess the appropriateness of such interventions;

- it answers the common argument that a given enterprise or industry "doesn't need to train its workers". Purely from the viewpoint of the individual business or industry, in the here and now, this is sometimes true; but in the longer term, successful structural change may imply reducing the dependence of the economy on businesses or industries of this nature;

- it provides a practical as well as a theoretical reason for governments to become involved in the change process, since the success of an individual business's decision to move towards a training culture - even when that decision is clearly in its commercial interests - often depends on many factors which are beyond its individual control.

Australia in the eighties: between two equilibria

The changes in the world competitive environment have been described so far as if they were a single event that occurred at a defined point in the mid-1980s. In practice, the change process was gradual and uneven, and began at different times for different industry segments, running well into the present decade.

Because of the unevenness of the pressures for change, it was not clear by the late 1980s which of the two equilibria best described the direction on which the Australian economy was heading. This uncertainty can best be understood by viewing the situation of Australia at the time in the light of Finegold's three prerequisites for a high-skill equilibrium.

The factor which had begun to emerge most clearly in the 1980s was the drive for world competitiveness. While the Australian economy in the postwar decades had not been exceptionally protected in policy terms - certainly not when one considers the cumulative effect of tariff and non-tariff barriers - it had benefited more than most from "natural" barriers to import competition. High transport and communication costs, the strong differentiation of Australia's product and factor markets from those elsewhere in its region, and an economy increasingly dominated by services to the domestic market, all contributed to an insular attitude. Manufacturing industry was generally oriented to import substitution (as indeed were those of many countries in the postwar reconstruction period), and had little immediate incentive to make the transition to an export focus.

The protectionist approach of Commonwealth and State governments complemented this natural protection, and extended well beyond simple tariff protection. Indeed, the primary industries which did rely heavily on export markets enjoyed significant and arguably more effective government
assistance, chiefly in the form of subsidised research and (in the case of agriculture) centralised marketing arrangements.

The changing attitude towards tariffs coincided in Australia with a rapid weakening of "natural" protection, as transport and telecommunications costs fell and services increasingly became tradeable. At the same time, growing affluence in the region not only created new export markets, but also increased the capability of neighbouring countries to compete in Australian product markets, or to attract industries which had traditionally seen Australia as their natural base in the region. Thus, the same circumstances which had contributed to an unusually sheltered economy now meant that many parts of Australian industry faced the challenges of trade-exposure earlier and/or more abruptly than the US or most European countries.

However, one enduring consequence of protection was that Australian industry had developed strong expectations of government assistance. This applied particularly to the more complex and less easily appropriated inputs - applied research, a favourable industrial relations environment and, importantly in this context, workforce training - for which comparable firms in more successful exporting economies had traditionally been forced (individually or collectively) to take more initiative and develop a large measure of self-reliance. This expectation survived the general acceptance that tariff protection was no longer an option.

On the two other prerequisites identified by Finegold, the picture was somewhat mixed. In terms of co-operative institutions, Australia arguably benefited from retaining many of the corporatist mechanisms which other English-speaking countries abandoned during the 1980s. The Australian trade union movement, far from obstructing structural change and workplace reform, in fact emerged as one of their more effective advocates. On the other hand, its influence was declining with a growth in the proportion of the workforce employed in non-unionised workplaces, while industry associations - which had been important agents of structural adjustment in many overseas countries - generally showed little inclination before the end of the decade to move beyond their traditional role of collective bargaining units.

Long-term orientation was one of the more notorious casualties of the decade, as the freeing-up of international capital flows and the prevailing business ethos imposed strong pressure on companies to maximise their short-term returns. Australia was particularly affected because the more co-operative industrial relations climate led to a strong fall in the price of labour relative to that of capital, creating an incentive for labour-capital substitution and deferral of investment in new technology. Even here, however, Australia retained some advantage, in that the disincentives to young people "investing" in their own education were relatively small by world standards. This was due not only to the relatively low direct costs of participating in post-compulsory education, but also to the persistently flat youth labour market, which reduced the perceived opportunity costs of staying on in education.

Australia thus found itself in an ambiguous position. Whereas some of the countries with which it had traditionally compared itself took the low-skill route, and many of the newly industrialised countries in the region were moving rapidly toward the high-skill model, Australia retained elements of both equilibria. Much of the political debate since the mid-1980s (notably on wages policy) has effectively been about which of the two paradigms to follow.
The burden of structural adjustment in Australia fell first and most heavily on the complex-factor manufacturing industries (e.g. motor vehicles, aerospace and electronics), which have been the main driving forces behind organisational and training reform in most advanced economies. The areas of (mostly small) business that had done least training still remained largely protected behind natural barriers until late in the decade. As the combination of structural and cyclical pressures reduced both the economic importance and the labour requirements of the traditionally active trainers, the sections of industry with little tradition of training assumed correspondingly greater importance, both in their contribution to GDP, and in their contribution to employment. By 1993, small business accounted for more than half of all private sector employment in Australia.8

By 1988, the training divide had become pronounced. Those sections of industry that had always accepted the importance of a trained workforce to competitiveness were now under urgent pressure to review their skill formation strategies and upgrade their effort; but for large sections of industry, no such pressure had yet emerged, because market conditions remained much as they had been ten years earlier. A government report in that year found that while leading-edge Australian firms were close to world best practice in their training activity, an estimated one-third of Australian businesses did no training at all.9 This figure in fact seriously underestimated the dimensions of the problem: when reliable statistics on employers' training activity became available for the first time in 198910, it was found that businesses which did no formal training made up two thirds of all employers.

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8ESFC, The Shape of Things to Come, Fig. 1.1, p.6. The evidence on patterns of employment growth since the mid-1980s is set out in Chapter 10 of the present report.
9Industry Training in Australia, p.8
10In the 1989 pilot of the ABS Training Expenditure Survey. See Chapter 4.
CHAPTER 3

HOW THE PROGRAM WAS DESIGNED

From 1987 onwards, the Hawke government began to develop a package of measures aimed at persuading industry to take a leading role in the provision and financing of job-related training. An important feature of this agenda was the need for a program to encourage collective approaches to training among those employers who did not currently enjoy an established training culture or infrastructure. Originally envisaged as an industry-based levy scheme, this proposal evolved over two years of consultations into a minimum expenditure requirement which left the maximum discretion to individual employers. Following this path meant a number of compromises in the design of the program. It is important to understand these compromises, as this understanding is essential to a definition of what the Training Guarantee was intended to do, and what it could reasonably be expected to achieve.

The government's response

Australia chose to adopt a forward-looking approach to the training challenge, in which government was seen as playing a leading role. During 1988, the Minister for Employment, Education and Training published two landmark discussion papers which laid the basis for this strategy: A Changing Workforce, and Industry Training in Australia: the Need for Change. This chapter is largely based on those two papers.

Perhaps the most important feature of this response is that it explicitly treated the problem as more than a simple one of supply. It was acknowledged from the beginning that the creation of new skills was only as valuable as the way industry used them once they were created:

"The Government is committed to ensuring that there is a substantial improvement in industry's training effort. This will require more responsive and better quality training as well as more expenditure on training. The effective use of new skills will also require reforms to the way in which work is organised and jobs are designed."

_Industry Training in Australia_, foreword

"Training, as such, is not a panacea. Its effectiveness in increasing profitability and competitiveness depends on how the skills are used in the workplace. Training should be part of human resource plans within corporate business strategies. Both management and workers have a responsibility to make training strategies work by choosing the best process for the particular circumstances of an enterprise and by implementing that process effectively."

_Ibid., p.2_

The strategy which emerged from these papers had three objectives:
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- reform of the institutional context in which training occurred (the Training Reform Agenda);
- reform of the pattern of incentives for acquiring, developing and applying skills (award restructuring); and
- reform of the funding arrangements.

The third objective was concerned primarily with increasing industry's input:

"To expand and improve our national training effort, it is critical that industry become more involved in the training system. There are significant benefits to industry in doing so. An expansion of the training system will also require increased funding. The Government already contributes a large amount to finance training arrangements and believes that industry needs to increase its contributions."

_A Changing Workforce_, foreword

In this, the earlier of the two papers, the emphasis on increasing the pool of training funds was at least as great as that on encouraging industry to bear a greater share. The preferred option at this stage was a common training fund for each industry, a proposal which originated from the Australian Council of Trade Unions (ACTU) in its influential 1987 report _Australia Reconstructed_.

Although this approach was subsequently abandoned, the design principles suggested for these funds foreshadowed most of the distinctive features of the scheme that was eventually adopted:

"The design of training funds would need to have close regard for

- administrative simplicity;
- the need, as far as possible, for decision making processes to be left in the hands of firms and individuals;
- constitutionality, legislative simplicity and acceptability to industry parties;
- capacity to address the training needs of both employers and workers;
- capacity to reduce the costs to industry of 'poaching';
- functional acknowledgement of different training requirements of industries;
- facilitation of contributions from all direct beneficiaries;
- facilitation of a reduction in occupational segmentation;
- assistance in the achievement of structural reforms to training arrangements where these are currently inadequate; and
- recognition of and capacity to embrace existing funding arrangements."
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A Changing Workforce, pp. 27-28

While not all of these objectives were intended to be met by the Training Guarantee as finally implemented, it is useful to bear the full list in mind as a comprehensive statement of the government's objectives, at that time, for this arm of its reform policy.

By the time Industry Training in Australia appeared, the range of options had expanded to include less coercive and less centralised approaches. The objectives to be met by all options were now:

- "to accelerate change in industry attitudes to training;"
- "to ensure adequate funding of industry-wide training services;"
- "to increase training funding by industry; and"
- "to improve access to training."

However, at least three of the previously cited design principles remained:

- "decisions on training activities should be left as far as possible at the enterprise level;"
- "administration should be simple;"
- "bureaucracy should be minimal..."

Industry Training in Australia, pp. 44-45

The genesis of the Training Guarantee

Industry Training in Australia came out in favour of an "internal levy" - in practice, a statutory minimum expenditure obligation to be met by each enterprise in ways of its own choosing, within an intentionally broad definition of eligible expenditure. It came out less decisively in favour of making the minimum requirement uniform, rather than varying it by industry, partly because of the difficulty of precisely defining the boundaries of some industries.

The model for the "internal levy" concept came from legislation enacted in France in 1971 which required all employers with ten or more employees to contribute a percentage of payroll to recurrent training for their workers. This in turn developed out of an apprenticeship tax which dated back to pre-war days. Partly because industry in France was already accustomed to the concept of a training tax, and partly because of the range of supporting institutions (notably common training funds for various purposes) which have grown up since its implementation, the French scheme is generally regarded as one of the more successful approaches to increasing industry's training effort. In the three years after its implementation, average training expenditure as a proportion of payroll
The contents of *Industry Training in Australia* formed the basis of an extensive series of consultations carried out by the Employment and Skills Formation Council (ESFC) of NBEET between December 1988 and April 1989. While most groups consulted, with the exception of employers, supported the principle of some kind of government-initiated training levy, the specific proposal for an "internal levy" does not appear to have been widely endorsed. Alternative proposals included (with the names of their advocates in brackets):

- a two-tier levy, of which part would be spent by the individual enterprise and part would go to the relevant industry body (ACTU);
- a centralised levy-grant system with strong equity provisions (the welfare lobby);
- State-based voluntary levy schemes for each industry (West Australian and Queensland governments);
- industry-based training bodies to collect and distribute the levy funds on an industry-by-industry basis (South Australian government);
- internal industry levies for selected industries only (Queensland government);
- a regionally-based voluntary levy (Tasmanian government);
- a "compulsory" levy with sanctions in the form of public exposure rather than financial penalties, along the lines of the Commonwealth Affirmative Action Act (Victorian government).  

The ESFC nevertheless recommended in favour of the scheme as proposed, largely because it appeared to be the least administratively complex and to leave the maximum discretion at the enterprise level. It recommended that a new body be set up to administer the scheme, and that there be no exemptions for small employers.

While most of these recommendations were accepted, the government decided (at least pending the present review of the scheme) to exclude very small employers. This decision was made in recognition of the special problems which small business faces in access to training and the lack of an appropriate infrastructure. Partly on the precedent of the French legislation, it was believed that these problems would become manageable once the size of an organisation passed approximately ten employees. To avoid problems of definition with employers of part-time and casual workers, the threshold was expressed in terms of a minimum payroll of $200,000, indexed to inflation.

Cabinet in September 1989 agreed to the principle of a Training Guarantee, initially on the basis that it should be administered by individual States under their own legislation. The States were not

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11 Bentabet and Santoni, Graph 1.1, p.12. See also Sweet, 1989
12 ESFC, 1989, pp. 17-22
13 Ibid., pp. 56-61
sympathetic to this approach, preferring a uniform Commonwealth-administered scheme operated under the taxation power, with the levy to be collected by the ATO and distributed to the States. Legislation along these lines was passed in the Budget session of 1990.

**What was the program meant to achieve?**

From this survey of the background to the scheme, it is possible to discern a number of important features which might not be readily identifiable from the legislation. These features not only help to distinguish the Training Guarantee from other schemes with comparable aims, but also explain what it was intended to achieve, and what it could reasonably have been expected to achieve.

Firstly, *it was always meant as only one part of an interconnected package of measures*. Much of the apparent lack of definition in the program guidelines is explicable by the fact that it was intended to interact closely with award restructuring and reforms to the supply side, and also with the expected incentive effects of increased trade-exposure. It was largely seen as a catalyst to speed implementation of these complementary reforms - for example, as a stimulus to the spread of award restructuring into industries that had so far resisted its introduction. Hence, the Training Guarantee's prospects of success depended heavily on the continuity of those complementary policies, and on assumptions about the time it would take to implement them.

Secondly, *it was intended to affect only the poorest trainers*. Both papers assumed that once a business was engaged in award restructuring, or subject to competition, it could safely be left to look after itself so far as training was concerned. Intervention was seen as necessary only for those employers who had yet to be affected by the changing international business environment.

Thirdly, *it was concerned with recurrent rather than entry-level training*. This point emerges plainly from *Industry Training in Australia*, which explicitly defines "industry training" as "the structured learning activities that take place after people join the workforce" (p.2), while *A Changing Workforce* defines the need in these terms:

"The reforms to the training system arising from award restructuring, structural adjustment and technological change... should increase considerably the number of people undertaking training (particularly at the advanced level)." (p.23)

The latter paper goes further to define what virtually amounts to a separation of roles:

"The Commonwealth will continue its support of training, focussing on entry-level needs in particular. But there will be a need for an increase in investment in education and training by industry, particularly to achieve the required reforms in the area of further education and training." (p.25)

( emphases added in all three quotes)

Thus, the Training Guarantee was part of a different agenda from the process of entry-level training reform which culminated in the new structure introduced in 1994.

Fourthly, *it located all decision-making at the level of the individual enterprise*. Economic theory suggests that many of the impediments to enterprise training (especially poaching) are, in a technical sense, problems of collective action, and hence require collective solutions. Indeed,
Industry Training in Australia specifically referred to all the kinds of intervention it considered under the general heading of "collective action." However, this conflicted to some degree with the requirements to respect the distinctive needs of each industry and employer and to interfere as little as possible with the individual firm's discretion. In the end, the latter objectives predominated, and it was left to the abovementioned complementary measures (notably award restructuring) to provide the co-operative element. In practice, at least where those other initiatives did not develop as anticipated, this resulted in a scheme which depended centrally on individual employers learning by doing. Compared to similar schemes overseas, this is arguably the most distinctive feature of the Training Guarantee.

Fifthly, the design of the Training Guarantee was biased towards flexibility, simplicity and acceptability to business. This entailed a number of compromises on the original proposal. In particular, it meant the sacrifice of:

- distinct measures or targets for different industries;
- targeting to strategic or problem areas;
- administration of the scheme by an expert or representative body;
- industry-wide approaches (although these could still be accommodated within the guidelines where an industry took the initiative);
- structural provision for input from employees into industry's training decisions; and
- equity and access provisions (although the government did undertake to investigate the equity effects in the context of the present review).

As noted above, there was an expectation that many of these concerns would be addressed by other elements of the government's industry reform strategy. However, for the purposes of identifying the specific impact of the Training Guarantee, this design constraint has resulted in a lack of definition about the precise outcomes the program aimed to achieve, and about the mechanisms by which it aimed to reach them.

What these mechanisms might be is a question which will be addressed in Chapter 8. For the present, it is important to note these distinctive features in judging the performance of the scheme. A program designed along these lines must be expected to produce somewhat different outcomes from those of a closely targeted one. Its effects will be necessarily more diverse, and probably less pronounced in most cases. Because of the diffuse learning process involved, it will almost certainly take effect more slowly, and at a more uneven pace, than a prescriptive approach. Conversely, it should be less vulnerable than a targeted program to poor targeting or changing circumstances.

On the one hand, therefore, it is important not to judge the performance of the scheme on the basis of objectives which it was never intended to achieve. On the other hand, it is quite proper, as a separate exercise, to examine whether the concept of the program - including its specific objectives, the mechanisms by which it was intended to work, and the expectations on which it was premised -
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was an appropriate response to the circumstances that gave rise to it. To keep this distinction as clear as possible, the two aspects will be treated in separate chapters of this report.
The survey data show that employers' overall expenditure on training rose across virtually all areas of industry between 1990 and 1993. Other available evidence suggests that this trend was maintained right through the deepest part of the recession. The largest growth occurred in medium-sized organisations (20-99 employees) and small organisations with 15 or more employees. No substantial change occurred in the balance of training effort between industries, with those industries which trained least before 1990 remaining the least active in 1993. However, the statistics on hours of training and access to training show a general trend for more money to be spent on training fewer people. All major occupational groups had less access to formal employer-supported training than in 1990, with the lower skill categories generally faring worst. Traditionally disadvantaged groups, e.g. casual workers and migrants from non-English-speaking backgrounds, also fell further behind the rest of the workforce in the amount of training they received from their employers.

The ultimate test of the Training Guarantee is whether, and if so how, it changed the training behaviour of industry. Before this can be done, it is necessary to identify, in general terms, what has happened to industry training since 1990.

As the first detailed across-the-board analysis which has been carried out on the data from all three of the 1993-94 ABS Training Surveys, this chapter and the following one cover ground which goes well beyond the immediate influence of the Training Guarantee. However, in the absence of any comparable overview from other sources, there is no option but to cover all this ground in order to put the impact of the Training Guarantee in its full perspective.

The Training Surveys provide a comprehensive statistical picture of the situation immediately before the Training Guarantee came into effect, and a second comprehensive snapshot at the end of its first 3-4 years. However, there are very few reliable data on what happened in between, or before. Consequently, there is no reliable means of identifying the long-term trend (in aggregate activity, let alone in detailed aspects of training) on which the Training Guarantee might have had an impact. In any case, there is no reason to suppose that this trend would have remained consistent through the severe recession which occupied much of the time between the two runs of the surveys.

It is important to keep these limitations in mind, since the Training Guarantee might arguably have had an impact even if no change were to show up in the data. Indeed, given the past experience that training is one of the first "non-essentials" to be cut back in an economic downturn, it would be an indication of change from past patterns if training activity were to remain much the same at the end of a recession as it was in the final year of an equally pronounced boom. (Even so, of course, it would be premature to attribute that change solely or even predominantly to the impact of the Training Guarantee.)

As a first step, what matters is to identify the similarities and differences between 1989-90 and 1993-94. This chapter will cover the evidence from the surveys on how much training was
undertaken, by whom, and who received it. Chapter 5 extends this examination to cover the kinds of training that are being undertaken, and to begins to analyse the reasons for the change. Chapter 6 attempts to isolate the specific contribution of the Training Guarantee.

Not all of the evidence is longitudinal. A significant body of new information has emerged from the 1993-94 surveys for which there are no corresponding base-year data, but which is nevertheless vital to an understanding of the state of industry-based training in Australia after four years of the Training Guarantee.

The base year

To speak of a single base year is slightly misleading. The statistics on training activity are drawn from The Training Expenditure Survey (TES) conducted in the September quarter of 1990 (and hence already reflecting the first effects of the Training Guarantee), and on a less reliable basis, from the pilot survey taken 12 months earlier. Those relating to access are drawn from the household survey How Workers Get Their Training, run in mid-1989, with a reference period extending back to March 1988. Consequently, what follows is a composite picture built up from data covering a period of around 30 months.

The pattern emerging from the statistics can be summarised as follows:

- around one in every four employers carried out some formal training;
- expenditure on formal training averaged 2.6% of payroll for all employers, and just over 3% for those who reported training expenditure;
- employers in the public sector were considerably more likely to undertake formal training than those in the private sector, and spent significantly more on each employee;
- small businesses (employing fewer than 20 people) were least likely to undertake formal training, but those which did spent a much higher proportion of payroll on it than medium and large employers;
- four out of every five employees received some kind of training during a year, but this was twice as likely to be informal as formal;
- professionals, para-professionals and managers were twice as likely to receive formal training as unskilled workers;
- training expenditure per employee was highest in air transport, followed by mining and communications, while the lowest per-capita expenditure occurred in hospitality and retailing.

Changes between 1989 and 1990

Comparison of employers' expenditure with the pilot survey taken in 1989 suggests a strong growth in activity over the 12 months, with average training expenditure in the private sector rising from 1.7 to 2.2 percent of payroll. Both small and medium enterprises recorded growth of 50% or more in average expenditure. This was largely the result of a growth in the number of employers.
reporting training expenditure, though reported expenditure among those who did train also grew by an average of around 13% for the private sector (in the public sector, it actually fell).

Only limited reliance can be placed on these figures. In the first place, the pilot sample was too small to provide a reliable basis for comparison. In the second place, there is a general view (shared by ABS) that a large proportion of the reported growth was simply the result of better record-keeping (in itself due partly to the advent of the Training Guarantee).

Even discounting generously for these factors, it is still reasonable to conclude that the Training Guarantee was introduced at a time when the overall trend of training activity in Australia was rising. This is supported by the statistics from France\(^\text{15}\) and the UK\(^\text{16}\), where growth in training expenditure from the mid-1980s to the end of the decade was well above the long-term trend line. Most other EC countries also recorded strong growth over this period: in Greece, for example, combined training expenditure by government and employers quadrupled between 1988 and 1990\(^\text{17}\).

How did Australia rate in world terms?

It is hard to determine where Australia's performance stood internationally, because of major inconsistencies in the way different countries collect and classify their training statistics. Even the basic definition of training varies so widely that only the most impressionistic picture is possible.

For those European countries which published estimates of training expenditure as a proportion of national payroll, the range of variation in 1990 ran from 0.67% in Greece to 3.14% in France\(^\text{18}\). However, most of these figures include at least some expenditure by governments and individual employees. In the Netherlands, the average expenditure by large firms in 1990 was estimated at 3.2% of payroll. Estimates of the proportion of employees who received training in 1989 ranged from 2% in Luxembourg to 42% in Ireland.

The most comprehensive and up-to-date statistics available are those from France and the UK. Both record employers' expenditure separately from other sources. Although neither allows direct comparison on individual data items, the overall picture from both countries is of some value for comparison with Australia - France, because it has operated a scheme very similar to the Training Guarantee for over twenty years, and the UK because its economic policies and training system (including the structure of qualifications) are closer to those of Australia than most European countries.

In France, recorded expenditure in 1990 as a proportion of payroll\(^\text{19}\) was very close to the Australian figure (with the important reservations that the French statistics exclude the public sector and much of what would be counted as entry-level training in Australia). Small and medium employers actually performed better in Australia (subject to the abovementioned cautions about comparability between the to sets of statistics), though large enterprises in France seem generally to have spent far more than their Australian counterparts. In general, the pattern of access by occupation in 1991 was

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\(^{15}\)Bentabet and Santoni, Fig. 1-1, p. 12

\(^{16}\)Training Statistics - Britain, 1993, Table A1

\(^{17}\)Ibid., Table H6

\(^{18}\)Ibid., loc. cit.

\(^{19}\)Estimated at 3.1% GWS. Bentabet & Santoni, p.12
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broadly similar to that in Australia\(^\text{20}\), though the average duration of training was much more uniform across occupational categories. In fact, those unskilled workers in small business who did have access to training recorded a longer average duration than any other category\(^\text{21}\).

These statistics - to the limited extent that they can be relied on at all - suggest that the propensity of Australian employers to invest in training was not greatly different from that of their OECD counterparts. The real differences are likely to be found in the nature and outcomes of the training they provided. Some of the difference in outcomes probably also reflects structural differences, notably the unusually high representation of small businesses (which have traditionally been very inactive in training) in the Australian economy.

The most important difference between the Australian and the European statistics is that the latter generally exclude most or all entry-level training, which in continental Europe takes place largely within the public education system. As explained in the next chapter, the performance of Australian employers - and particularly small employers - would have looked considerably less creditable if expenditure on apprentices and trainees had been omitted.

The other apparent difference is that Australian training beyond the formal entry level was, and is, dominated by very short courses. (Once again, this subject is covered in detail in Chapter 5.) Generally speaking, training in Australia appears to be more widely available in any one year, but much less intensive. Average course duration in Europe appears to be considerably longer, and recurrent training is much more likely to be linked in to a structure of formally recognised qualifications.

To sum up, it can be concluded tentatively - more at the level of hypothesis than proven fact - that the difference between Australian employers and their European counterparts in 1990 lay less in the amount they were prepared to spend on training, than in how effectively that money was spent.

Changes in activity since 1990

The picture which emerges from the 1993 TES is a mixed one. On the one hand, training expenditure was significantly higher across both sectors and all size categories, both in absolute terms and relative to payroll. Average expenditure on each employee grew by 18%. On the other hand, the more reliable measure of training effort - hours of training per employee - showed a slight decrease overall. The percentage of employers who reported training expenditure grew only marginally overall, though a marked rise (from 64% to 80%) occurred in the percentage of medium-sized organisations that trained.

\(^{20}\)Ibid., pp. 30-31. Average hours per employee (1991) ranged from 1.2 for unskilled blue-collar workers in small businesses to 39.5 for para-professionals and technicians in the largest firms, averaging 15.7 overall. (Note that these figures are for the full year, whereas those from TES are for one quarter only.) The percentage of workers who received training (excluding entry-level training) over the year ranged from 13.3 for unskilled blue-collar workers to 52 for para-professionals and technicians.

\(^{21}\)Ibid., table 1.17, p.33. Average duration of all courses taken in 1991 was 48.7 hours. For unskilled workers in small firms, it was 63 hours.
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TABLE 4.1

Training Activity in Australia, 1990 and 1993
(September quarter only)

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total training expenditure ($m, unadjusted)</td>
<td>942.9</td>
<td>1108.9</td>
</tr>
<tr>
<td>Training expenditure as percentage of gross wages and salaries</td>
<td>2.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Training expenditure per employee ($)</td>
<td>162.8</td>
<td>192.0</td>
</tr>
<tr>
<td>Training hours per employee</td>
<td>5.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Percentage of employers reporting training expenditure in quarter</td>
<td>24.4</td>
<td>24.6</td>
</tr>
</tbody>
</table>

Source: ABS, Employer Training Expenditure, 1990 and 1993, Table 1

The picture appears more positive when the change is disaggregated by enterprise categories (Fig. 4.1). The fall in training effort was concentrated in two areas: very small businesses (fewer than 10 employees), and large employers, especially in the public sector. For all organisations employing fewer than a hundred staff (including those below the payroll threshold for the Training Guarantee), and for the private sector overall, training effort grew over the period.

Figure 4.1

Average Training Hours Per Employee

Source: ABS, special TES tables prepared for DEET
Medium-sized businesses recorded the highest growth

The most important change is the growth in training activity among medium enterprises (20-99 employees) and at the top of the small business range\(^22\). Among medium-sized employers, expenditure per employee grew by 60%, and training effort by 29%. This growth in activity occurred despite a slight drop in the total employment share of this segment, which now carries a share of all training expenditure almost equivalent to its share of all employment.

Even more remarkable is the pronounced growth in activity at the top end of the small business range. Among employers with 15-19 employees, average expenditure as a proportion of payroll more than doubled, from 1.5% to 3.2%, and training effort grew by 65%. This group now spends the same average proportion of payroll on training as large organisations, and provides almost a third as much training again per employee.\(^23\)

This development contrasts strongly with what has happened among very small employers. Fig. 4.1 shows clearly how the two gaps have opened up since 1990. The first is between employers with fewer than ten and more than ten employees. The second and even more clear-cut step or threshold has appeared at around 15 employees, above which training activity has increased spectacularly. While this second threshold was already apparent in 1990, its effect became much more pronounced over the next three years.

This development was quite unexpected, and the reasons for it are not clear. Further research will be needed to explain it and determine its longer-term significance. For present purposes, it means that any analysis of current Australian training statistics which treats the entire statistical category of "small" organisations as homogeneous is likely to produce misleading results. Conversely, much of the diversity evident in the statistics for this size category could be simply a reflection of this threshold effect.

Distribution of training activity

One consequence of this growth in the small and medium sector has been a slight decline in the traditional predominance of large firms as providers of training. The share of training expenditure borne by small and medium enterprises grew significantly over the period from 1990, from 8.4% to 10.1% in the case of small enterprises and from 12.4% to 16% for medium. Part of this change is accounted for by changes in the structure of industry (e.g. the employment share of organisations with more than 100 employees fell by 5.5%, and their share of training expenditure by 5.4 percentage points).

\(^22\)It is conventional in Australia to use the term "small business" to cover all organisations with fewer than 20 employees, except in manufacturing, where the upper limit is 100 employees. For the sake of consistency and to allow easier comparison, the upper limit of 20 is used throughout this report, irrespective of the industry concerned. Given the trend over the last decade towards considerably lower labour requirements in manufacturing, it is questionable whether the distinction still serves much purpose in any case.

\(^23\)Standard errors for this population are higher than would normally be acceptable for analytical purposes. However, the differences between the performance of this and the next smallest employment category are so pronounced that the standard errors can largely be overlooked for policy purposes.
The private sector share grew from 55.6% to 59.6%, a growth roughly double that which occurred in its share of all employment.

By 1993, 82% of all employers were still spending 1.5% of payroll or less. This low-spending group (predominantly made up of organisations below the payroll threshold) accounted for 37% of all employees. Above-average spenders (over 3% of payroll) made up 12% of all employers, accounting for 31% of employees and just under 70% of all training expenditure.24

**Figure 4.2**

*Average Training Hours by Industry*

Source: ABS, *Employer Training Expenditure*, 1990 (Table 7), 1993 (Table 3)

**Change by industry**

*Falls* in training effort over the period were divided more or less equally between traditionally high-spending industries (communications, chemicals, public administration) and traditional "problem" industries (health, wholesale trade, personal services and construction) (Fig. 4.2).

Industries which recorded large *increases* in expenditure fell into four categories:

- those in which employment, aggregate expenditure and per-capita expenditure all rose (e.g. restaurants, hotels & clubs);

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24ABS, special TES tables prepared for DEET
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- those in which employment and overall expenditure rose, but per-capita expenditure remained much the same (e.g. road transport);

- those in which employment remained stable but per-capita expenditure rose (e.g. Food, Beverages & Tobacco); and

- those in which employment fell but per-capita expenditure grew (e.g. Electricity, Gas & Water).25

Bearing in mind that some of the largest percentage increases were recorded from a very low base, these figures represent an even more mixed picture than the graph suggests. Although the industries which did least training in 1990 had increased their expenditure to the point where no industry in 1993 averaged less than the minimum required by the Training Guarantee, these traditionally low-training industries retained their position at the bottom of the ladder.

Timing of expenditure growth

As noted above, it is difficult to tell how much of the growth since 1990 represents sustained growth (or even maintenance of effort) through the recession years, and how much is directly linked to the recovery. However, a number of smaller independent surveys undertaken during the deepest part of the recession suggest strongly that training activity had continued to grow steadily up to that point, at least at the bottom end of the expenditure scale. Specifically:

- Collins and Hackmann, in a survey of 800 businesses carried out in July 1991, found that 52% of respondents had increased their training budgets over the last year, while 79% reported an increase in real terms since 1986. Nearly all (98%) were spending more than the minimum 1% of payroll required by the Training Guarantee, the median being 2.6% (comparable to the TES 90 mean, though only 43% of private sector respondents to TES 90 with annual payrolls exceeding $200,000 reported expenditure in excess of 1% over the relevant quarter);26

- Waters-Marsh and Thompson, in their longitudinal study of 42 firms in the metals industry in South Australia, found that between 1989 and 1992, the percentage of respondents spending less than 1% of payroll on training fell from 12 to 4.7, while the percentage spending 1% to 5% rose from 69 to 91. Conversely, the proportion spending more than 5% fell from 18.4% to 4.7%;27

- A longitudinal survey of local government training expenditure, run in the July quarters of 1991 and 1992 for the National Local Government Productivity Council, showed a rise in the average percentage of payroll spent on training from 1.4 to 2.2 (albeit with 60% of respondents continuing to report expenditure below 2%). Hours of training per employee rose by 13% and expenditure per employee by 42%;28

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25 ABS, special TES tables prepared for DEET
26 Collins and Hackmann, National Survey of Training and Development Practices (See Bibliography for publication details), p.16
27 Waters-Marsh and Thompson, "The Training Guarantee Scheme: A longitudinal Study in the Metals Manufacturing Industry" (mimeo, 1992). The sample for the original survey in this project consisted of 66 companies, of which eight were no longer trading by the time of the second survey. Of the remaining 58, 42 responded to the second survey.
28 Local Government Training Expenditure Survey: July Quarter 1992, Table 7, p.10
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- in his 1992 survey of 79 firms in Albury-Wodonga with workforces of between 20 and 200, Noble found that 60% had increased their training expenditure since 1990, with 10 out of the 79 (all with fewer than 100 employees) reporting a large increase.29

Almost half the respondents to the Training Practices Survey (TPS) who reported training had increased their expenditure in the twelve months to February 199430; however, the data provide no insight into the size of this increase, or whether it was a continuation or a reversal of the previous trend. Qualitative evidence from the focus groups and the small business study suggests that only a small minority of businesses had felt any real impact of the recovery, or changed their behaviour to accommodate it, during the reference periods of the employer surveys. In particular, few seemed to have taken on new staff, or to have any immediate intention of doing so.

If these indications accurately describe the overall situation, they suggest a radical change from the general experience of past recessions (in Australia and elsewhere), when anecdotal evidence suggests that training activity was one of the first items of expenditure to be cut. To judge from the TES figures, it appears that only two broad classes of employers - the highest-spending trainers and the most marginal trainers - reduced their expenditure significantly as a result of the recession. Even there, the effect was probably not uniform, and in the case of the high spenders (based on evidence from the industry consultation) some at least of the fall in expenditure appears to have resulted from greater efficiency rather than reduced activity.

Very little evidence is available so far to indicate whether this maintenance of activity in Australia was unusual in world terms. However, both France31 and the UK recorded a tailing-off of growth in training expenditure after 1990. In the UK, training effort (measured in terms of the number of employees who had received any kind of training in the last four weeks) fell by around 4% between 1990 and 199232.

Changes in access since 1989

The data which reflect employees' training experience (Fig. 4.3) are less encouraging. While the proportion of all employees who had received some form of training in 1992-93 was seven percentage points higher than in 1989 (86%), this difference was due almost entirely to an increase in the incidence of informal training. The proportion undertaking study or formal training actually fell, albeit marginally33. Formal employer-supported training - the most important indicator of the distribution of employers' training expenditure - was undertaken by only 34% of all employees, down from 37% in 198934.

On this last indicator, all major occupational groups fell behind, with the lowest skill categories faring worst. Only half as many labourers as in 1989 benefited from formal employer-supported

29Noble, C., "Planning, Monitoring and Evaluating Industry Training Programs", p.10
30Employer Training Practices, Table 8
31Bentabet and Santoni, p.12: "The growth in training expenditure, as a proportion of payroll, over the previous year is only 3.2% [in 1991], compared to 7.3% in 1990. The economic slowdown observable since the second half of 1990 seems to be taking effect with a lag of around one year.” Note, however, that the preliminary figures for 1992 show growth in expenditure continuing, albeit at a much reduced pace (Table 1.10, p.25).
32Training Statistics - Britain, 1993, Table A1
33Training and Education Experience, Table 1.1
34ABS, special SOTE tables prepared for DEET
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training. The smallest declines affected managers and clerks; professionals, though they continued to enjoy the greatest access to training, experienced a drop of over 10%.

Figure 4.3

![Percentage of Workers Receiving Formal Employer-Supported Training in 1989 and 1993.](image)

Source: ABS, special SOTE tables prepared for DEET

The position of equity groups worsened

Those groups in the workforce which have traditionally been recognised as having least access to training were significantly less likely in 1993 than in 1989 to receive either formal in-house training or employer-supported external training. This includes women (subject to the qualifications set out below), migrants, young workers, employees in small workplaces and highly mobile workers. For all groups except women, access to formal employer-supported training fell faster than the overall average (Table 4.2). The situation of part-time and casual workers is discussed below.

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35The proxy used for this is respondents who had been in their present job less than 12 months. While a proportion of these would obviously have commenced employment in long-term positions during this period, the category should cover nearly all those workers who habitually find only short-term (permanent or casual) work. Any differences between the experience of this category and other employed persons could reasonably be assumed, *prima facie*, to reflect the inclusion of these highly mobile workers. (A possible alternative explanation for their limited access to training is that they did not need training, because they had been poached by their current employers. However, this interpretation appears to be refuted - at least as a widespread factor - by the fact that the average training expenditure of firms with a high proportion of new employees was not significantly different from that of employers with similar characteristics but few recently recruited employees.)
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TABLE 4.2

Proportion of employed persons (a) in selected equity groups who received formal employer-supported training in the 12 months to July 1989 and May 1993

<table>
<thead>
<tr>
<th></th>
<th>1989</th>
<th>1993</th>
<th>change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>36.4</td>
<td>34.2</td>
<td>-6</td>
</tr>
<tr>
<td>All persons born outside Australia</td>
<td>33.1</td>
<td>29.7</td>
<td>-10</td>
</tr>
<tr>
<td>Migrants (non-English-speaking background) (b)</td>
<td>27.0</td>
<td>23.8</td>
<td>-12</td>
</tr>
<tr>
<td>Young workers (under 20)</td>
<td>24.8</td>
<td>14.7</td>
<td>-41</td>
</tr>
<tr>
<td>Persons without post-school qualifications</td>
<td>27.8</td>
<td>24.2</td>
<td>-13</td>
</tr>
<tr>
<td>Persons employed less than 12 months with current employer</td>
<td>28.9</td>
<td>17.8</td>
<td>-38</td>
</tr>
<tr>
<td>Employed in workplace with fewer than 10 employees</td>
<td>22.1</td>
<td>18.8</td>
<td>-15</td>
</tr>
<tr>
<td><strong>Average for all employed respondents</strong></td>
<td><strong>37.1</strong></td>
<td><strong>33.6</strong></td>
<td><strong>-9.4</strong></td>
</tr>
</tbody>
</table>

(a) persons who held a wage or salary job at any time during the 12 months
(b) persons born outside Australia or major English speaking countries

Source: ABS, *Training and Education Experience, Australia, 1993*, and *How Workers Get Their Training, Australia, 1989*. Special tables provided for DEETYA by ABS.

Women

Women were somewhat more likely than in 1989 to receive employer-supported external training, but less likely to receive formal in-house training. A slightly higher percentage of women than men received formal employer-supported training in 1993 (34.2% vs 33%), and more women than men were studying for a formal qualification. Both these findings are a reversal of their relative positions in 1989.

However, to the extent that women did gain relative to men from changing expenditure patterns, there is reason to doubt how evenly these gains were distributed. Employers whose workforce was predominantly female (i.e. over 75%) spent only a little over half the overall average on training for each employee. This suggests that many women in traditional female occupations failed to benefit

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36ABS, special SOTE tables prepared for DEET; Training and Education Experience, Table 1.1
from the overall growth in training activity. By contrast, spending by employers with predominantly male workforces was almost 25% above the average\(^3\).

**Casual employees**

In the case of casual employees, the decline occurred not in the incidence of training, but in the level of employer support. The proportion of all casuals undertaking training or study grew strongly (from 39% to 43%), in contrast to a fall in participation by permanent full-time workers. However, only one in every three casuals who had done any training or study in 1993 received any employer support, as against one in every two in 1989. By contrast, over 85% of permanent employees who studied or trained in both years received some kind of support from their employers.

Table 4.3 illustrates how the decline in employer support for training affected permanent, casual and part-time employees. (Note that the figures in this table include support for formal study, and hence are not directly comparable with those cited elsewhere in this chapter, which cover only training.)

<table>
<thead>
<tr>
<th>Employment category</th>
<th>1989</th>
<th>1993</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time permanent</td>
<td>47.1</td>
<td>46.0</td>
<td>-2.3</td>
</tr>
<tr>
<td>Part-time permanent</td>
<td>36.8</td>
<td>37.9</td>
<td>+3.0</td>
</tr>
<tr>
<td>All permanent</td>
<td>46.2</td>
<td>45.0</td>
<td>-2.6</td>
</tr>
<tr>
<td>Full-time casual</td>
<td>15.4</td>
<td>15.2</td>
<td>-1.3</td>
</tr>
<tr>
<td>Part-time casual</td>
<td>17.7</td>
<td>15.2</td>
<td>-14.1</td>
</tr>
<tr>
<td>All casual</td>
<td>17.0</td>
<td>15.2</td>
<td>-10.6</td>
</tr>
<tr>
<td>All full-time</td>
<td>44.6</td>
<td>42.7</td>
<td>-4.3</td>
</tr>
<tr>
<td>All part-time</td>
<td>24.2</td>
<td>22.7</td>
<td>-6.2</td>
</tr>
<tr>
<td>All employees</td>
<td>40.3</td>
<td>37.4</td>
<td>-7.2</td>
</tr>
</tbody>
</table>

(a) persons who held a wage or salary job at any time during the 12 months

Source: ABS, *Training and Education Experience, Australia, 1993*, Table 3.1

\(^3\)ABS, special TES/TPS tables prepared for DEET. The respective figures are $105 and $235. In terms of proportion of payroll, however, the figures are closer, at 2.2% and 2.9% respectively, suggesting that much of the difference is attributable to a wage/status effect.
The Training Guarantee: its Impact and Legacy

Even once this allowance is made (to take account of the higher probability that part-time or casual workers will be studying), these figures make it clear how strongly casual employees are disadvantaged. A permanent employee was three times as likely as a casual to have taken an in-house course in 1993, and six times as likely to have received employer support for an external training course.

Casual status seems to be far more important in this respect than part-time status - permanent part-timers were in fact the only group to record an increase in access to training over the period. By contrast, part-time casuals recorded a decline in training opportunities almost twice the overall average, while the relativities between the other groups changed only marginally.

This disadvantage appears to be magnified in businesses that employ mainly casuals. Of those organisations in which more than 50% of employees were casual, only 15% recorded any training at all (for any of their employees) in the year to February 1994. This compares with 37% of those whose workforce was less than 50% casual\(^\text{38}\). Average expenditure per employee for the former category was less than a quarter of that recorded by the latter ($50 as against $219)\(^\text{39}\).

To put this change into perspective, the estimated number of people who had held only a casual job in the last 12 months grew by nearly half a million, i.e. from 20% to 26% of all persons who had held a wage or salary job over the respective reference periods. Yet the number of these who enjoyed any form of employer support for formal training or study had grown by less than 50,000. By comparison, around 100,000 fewer people were estimated to have been permanently employed in 1993, and the number of permanent employees who received employer support for training or study fell by 109,000\(^\text{40}\). Hence, in very broad terms, it took ten new casual jobs to make up for the reduction in training opportunities that accompanied each net loss of a permanent job.

**More money was spent to train fewer people**

In summary, increased training expenditure by employers did not mean that more people were trained. On the contrary: all the indicators strongly suggest that more money was being spent on fewer people. And while the occupational groups which enjoyed the most privileged access to training in 1989 had generally held their ground in 1993, the disadvantage suffered by those groups who had traditionally been at the end of the queue for training continued to grow. As this was one of the issues which the then Minister specifically directed this evaluation to address, it would appear that in this regard at least, the government's objectives have yet to be met.

Part of the change may reflect purely cyclical influences. It is reasonable to expect that in a recession, employers will tend to concentrate their investments on those core workers whom they see a need to retain if they are to take full advantage of the eventual upturn. Conversely, they might reasonably question their chances of a payback from any investment in the development of their less crucial or more substitutable workers, so long as there was a likelihood that those employees would need to be shed. Thus, the decline in access to training does not necessarily preclude the possibility that employers continued to invest strategically in human resources all through the recession. In

\(^{38}\)Employer Training Practices, Table 3.1

\(^{39}\)Employer Training Expenditure, 1993, Table 10

\(^{40}\)Training and Education Experience, table 3.1
other words, the decline in equity does not automatically imply a corresponding decline in efficiency.

However, the statistics suggest that - for reasons of longer-term efficiency as well as equity - the government needs to continue monitoring access to training, in order to determine whether the recovery has been accompanied by a reversal of this trend.

**Individuals are bearing a greater share of responsibility for training**

One consequence of changing patterns of access has been a shift in the burden of responsibility for training from employers to individuals. The proportion of employed respondents who had undertaken some training or study at their own expense almost doubled over the four years. Some of these would admittedly have been full-time students who were working part time and/or casually; but even on the most generous calculation, they can have accounted for little more than a quarter of this increase41.

In itself, this does not necessarily indicate a shift in the balance of training expenditure from employers to individual employees. In the absence of reliable data on how much individuals spent on their own education and training in each year, it is impossible to determine whether such a shift took place. What can be safely deduced is a change in expectations - workers are becoming gradually less reliant on their employers as a source of training, while employers are (at least marginally) in a stronger position than in 1989 to expect that their employees will contribute to an increase in the skills base which they themselves are not willing to fund.

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41*Training and Education Experience, Table 3.1. The adjustment is made by excluding from the total all part-time or casual workers who had studied without employer support in each reference year, though obviously only a proportion (and probably a minority) of these would actually have been full-time students.*
Over the reference period, training effort grew in generic fields of training, but declined in traditional skilled areas. Nearly all types of training went to higher-paid employees than in 1990, probably indicating a growing divide between core and peripheral employees at most levels. External training became more widely available, but the average length of courses declined. While there was a reported growth in informal training, most of this was employee-initiated learning rather than training in the strict sense. On the indicators that are available, the quality of formal training appears to have improved overall. Major influences for increased training included technological change, quality assurance and the desire for greater workforce flexibility. However, competitive pressures and skills shortages appear to have had only a very limited impact on training activity over this period.

Types and levels of training

The breakdown of employers' training activity, in terms of average hours per employee (Fig. 5.1), appears at first to contradict the evidence of the household survey. The largest growth was recorded for the lowest-skilled categories - clerical and sales, and plant and machinery operation - while technical, para-professional, trade and apprenticeship training dropped by around half, and management training declined by 9%.

Of the categories of training which are not specific to particular occupational categories, the largest increase in training effort (58%) occurred in the category described as "other". This includes training in non-traditional areas such as personal development and interpersonal skills, as well as literacy, numeracy and trade union training. It also covers train-the-trainer courses. Of the other generic categories, computing and occupational health and safety both grew by around 20%, while induction and general supervision were 3% lower.

A further insight can be gained from the breakdown of wage costs for employees receiving training (i.e. excluding the wage and salary costs of trainers). Management and professional training continues to be the most expensive in salary terms, though its contribution to total wage and salary costs for training dropped very slightly (from 24% to 23%). However, this may not tell the full story, as managers and professionals would also have shared in other types of training (e.g. general computing and "other").

By converting the estimated wage cost per employee to an hourly rate (Table 5.1), an estimate can be made of the salary profile of the employees who received each type of training. Note that this figure does not represent the actual hourly wage cost, but rather the total expenditure by all employers on wages for that type of training (including those who did not send any employees on that type of training), standardised to an hourly rate and divided by the total number of employees (whether or not they actually received any training of that kind). By this means it is possible to tell how average wages varied between the groups who received each type of training, and how this...
changed between the two years. By adjusting the 1990 figure for growth in average weekly earnings (AWE) between the respective September quarters, it is also possible to estimate how the wage profile of employees who received training moved relative to average wages.

**Figure 5.1**

![Average Training Time per Employee in 1990 and 1993](chart)

Source: ABS, *Employer Training Expenditure* 1990 (Table 14) and 1993 (Table 4)

The overall wages cost per employee grew by 9% over the period, whereas the average hours of training per employee fell by 6.25%. Hence the average hourly wage cost of training rose by 16%
between 1990 and 1993, whereas over the same period average weekly earnings (AWE) rose by 12% and award pay rates by 6%. This suggests that on average, training in 1993 went to relatively higher paid employees than in 1990.

In individual categories, the highest rises in hourly wage costs occurred in technical and para-professional fields and in OH&S, while the only fall - indicating that lower-paid workers were getting a larger share of the training - occurred in clerical and sales training. For all categories except clerical and sales, induction, general computing and "other", hourly wage costs of training rose faster than AWE.

<table>
<thead>
<tr>
<th>Category</th>
<th>1990</th>
<th>1993</th>
<th>% change (unadjusted)</th>
<th>adjusted for AWE (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Induction</td>
<td>11.92</td>
<td>13.31</td>
<td>5.5</td>
<td>-5.6</td>
</tr>
<tr>
<td>General supervision</td>
<td>15.87</td>
<td>18.20</td>
<td>14.7</td>
<td>2.6</td>
</tr>
<tr>
<td>General computing</td>
<td>16.05</td>
<td>17.67</td>
<td>10.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>OH&amp;S</td>
<td>14.72</td>
<td>17.76</td>
<td>20.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Management &amp; professional</td>
<td>19.77</td>
<td>22.67</td>
<td>14.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Technical &amp; para-professional</td>
<td>14.69</td>
<td>19.00</td>
<td>29.3</td>
<td>15.7</td>
</tr>
<tr>
<td>Trade/apprenticeship</td>
<td>8.38</td>
<td>9.48</td>
<td>13.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Clerical, sales</td>
<td>13.13</td>
<td>12.87</td>
<td>-2</td>
<td>-12.3</td>
</tr>
<tr>
<td>Plant &amp; machinery</td>
<td>13.82</td>
<td>15.52</td>
<td>12.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>14.71</td>
<td>16.00</td>
<td>8.8</td>
<td>-2.7</td>
</tr>
<tr>
<td>All fields</td>
<td>13.68</td>
<td>15.91</td>
<td>16.2</td>
<td>3.9</td>
</tr>
</tbody>
</table>

(a) AWE $541.00 at 17 August 1990; $604.80 at 20 August 1993

Source: ABS, *Employer Training Expenditure* 1990 (Table 15) and 1993 (Table 4)

On this basis, the employers' figures appear more consistent with the experiences reported by employees in the household survey. Even within occupational categories, it seems that the balance of training is shifting towards the higher-paid workers. This could be evidence of an increasing concentration of training (except for apprentices, managers and highly skilled employees) within
larger firms, where wages tend to be higher than in smaller businesses for the same type of work. (This hypothesis is consistent with the TPS finding that large firms which employ labourers and plant operators are seven times more likely to provide training for them than small firms.) It could also mean that training resources are increasingly being directed to a higher-paid core workforce at all levels. Moreover, these hourly wage-cost figures do not reflect the growing relative disadvantage of casual employees, since casual hourly rates of pay are generally higher than for full-time permanent employees doing identical work.

External training has declined in importance

It might be expected that any growth in the proportion of firms which trained - especially when part of that growth was externally imposed by the Training Guarantee and other legislation - would be reflected in a higher proportion of training being carried out through external training courses rather than within enterprises. It would seem natural for employers with no previous experience of training to rely, at least initially, on what was available in the external training market rather than trying to develop their own in-house programs.

In the aggregate, however, the survey findings suggest the opposite. While the average proportion of payroll spent on external training rose from 0.8% to 0.9%, in-house training increased its already dominant share of expenditure, rising from 1.8% to 2% of payroll. In terms of training effort, external training fell from 2.3 to 2 hours per employee, while in-house training remained at the same level (3.6 hours) as in 1990. Looking solely at wage costs of trainees, the share of external training fell from 28% to 20%.

At first sight, the household survey gives a different impression. Participation in in-house training fell from 35% to 31%, while for external training it grew from 9.8% to 11.8%. Even discounting the contribution to these totals of courses which were undertaken by individuals at their own expense or under labour market programs, access to employer-supported external training still grew from 6.4% to 7.3%.

The explanation appears to be that external courses were more commonly available than in 1989-90, but of a shorter average duration or otherwise less ambitious in their scope and resourcing. This conclusion is based on the survey data on the average length of external courses taken in each year. Comparing the experience of those employees who had taken a single external course in either year, 38% of those courses in 1993 lasted less than 10 hours, as against 31% in 1989. The proportion of such courses which lasted more than 40 hours fell from 23% in 1989 to 16% in 1993. Looking solely at employer-supported courses, the proportion in 1993 which exceeded 40 hours was only 14%, whereas 39% lasted less than 10 hours.

The 1994 data from the ABS Commercial Training Providers survey confirm the predominance of short courses. The average length of all courses offered was 25 hours, but this average was heavily

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42Employer Training Practices, Table 27
43See, for example, Beresford (1993), p.17
44Employer Training Expenditure, 1990 (Table 12), 1993 (Table 8)
45ABS, Training and Education Experience, Table 1
46HWGTT, Table 24; Training and Education Experience, Table 3.8. Comparison is made only on the basis of respondents who attended a single course in either year, as data on multiple external courses collected in the two surveys were not directly comparable because of changes in the questionnaire.
skewed by the very long courses offered by such institutions as full-time secretarial schools and hairdressing colleges. For supervisory, general computing, OH&S, management and professional training, the average duration of commercially provided courses was 20 hours or less.\textsuperscript{47}

This suggests that marginal trainers did indeed continue to rely primarily on the external training market, while active trainers shifted the balance of their training increasingly towards in-house programs. The qualitative research tended to confirm this impression, with employers reporting a trend towards bringing in external trainers to conduct tailored in-house courses, rather than sending employees off-site to standard training courses. One indication of this is that the only industries which spent more on external than in-house training were construction and personal services - both shown by the remaining survey evidence to be among the most unwilling trainers\textsuperscript{48}.

\textit{Apprenticeship was particularly important for small firms}

Despite the sharp decline in the trade and apprenticeship component of training, the traditional apprenticeship system seems to have remained one of the major drivers of training. Employers whose workforce was predominantly (more than 50\%) made up of tradespeople and apprentices averaged twice as many hours of training per employee in 1993 as those whose workforce was made up mainly of managers or professionals, or of unskilled, clerical or sales workers\textsuperscript{49}. This partly reflects the larger time commitment involved in apprentice training - or conversely, the relatively short average duration of the courses offered to other categories of employee. On the other hand, the low wages paid to apprentices meant that the average percentage of payroll spent on training by employers with a majority trades workforce was virtually the same as for those who employed mostly unskilled workers. Table 5.1 would seem to confirm this.

The impact of apprentices on training activity was particularly marked in small business. Small organisations which employed apprentices were nearly five times as likely in 1993 to provide formal training of any kind, and spent over twice as much relative to payroll, as those which did not\textsuperscript{50}. This situation does not appear to have changed greatly since 1990, when small employers were almost three times as likely to report trade and apprenticeship training as the next most common category of training\textsuperscript{51}.

The differential virtually disappears when we move to the medium size category. For organisations employing 20 to 99 people in 1993, the presence or absence of apprentices made no difference at all to the average proportion of payroll they spent on training\textsuperscript{52}. This seems to indicate that small employers remain particularly conservative in their approach to training. The small business study demonstrated this graphically: there was a stark distinction in attitudes to training, and willingness to train, between the two industries which were apprenticeship-based and the two which were not\textsuperscript{53}.

\textsuperscript{47}ABS, \textit{Commercial Training Providers}, Table 15
\textsuperscript{48}ABS, special TES tables prepared for DEET. See also Employer Training Expenditure, 1993, Graph 5
\textsuperscript{49}Employer Training Expenditure, 1993, Graph 7; Employer Training Practices, Table 28
\textsuperscript{50}Employer Training Practices, Table 29
\textsuperscript{51}Employer Training Expenditure, 1990, Table 16
\textsuperscript{52}Employer Training Expenditure, 1993, Graph 7
\textsuperscript{53}ACIRRT, 1994a, p.13. Hall, Breen and Bentley (1992, Table 2) found in their 1991 survey of 476 small firms that there was no significant difference between small and larger firms in the likelihood of providing apprenticeship training, whereas small employers were considerably less likely than other firms to offer any other kind of training
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It should also be noted that the presence of other kinds of trainees had an even greater impact on the training activity of small employers. Those who employed any kind of trainees in 1993 spent nearly four times as much on training as those who did not. The difference was repeated for medium and large employers as well, but was of considerably smaller proportions for these size categories\textsuperscript{54}. As the category "trainees" included not only those employed under the Commonwealth's Australian Traineeship System (ATS), but management, professional and other trainees employed under industry or employer-specific schemes - and hence would include expenditure classified for other purposes as management, professional, sales and other types of training - these figures do not provide as clear a picture as those for apprenticeship. However, they seem to reinforce the hypothesis that small businesses are much more likely to train where some form of commonly accepted, structured entry-level training arrangement exists.

Informal training - a paradoxical trend?

The growth in access to informal on-the-job training revealed by the household survey - almost ten percentage points - is quite unexpected and difficult to explain. As the survey questions were the same in both years, there is no obvious reason to suspect an increase in propensity to report such training in 1993.

The only credible source of response bias which has been suggested is that respondents had become more discriminating in what they regarded as formal training, and hence were more likely to count borderline cases as informal training. There is no evidence to indicate that this occurred, and at least as much reason in theory to expect the reverse - that the Training Guarantee encouraged employers to "structure" what had previously been on-the-job training, and that the expectations created by an increased awareness of training led employees to see more of the instruction they received as formal training.

Assuming the trend is genuine, it disproves the common allegation that the growth in formal training over recent years simply represents a substitution of structured for on-the-job training. On the contrary, the evidence from this survey suggests that insofar as formal and on-the-job training are substitutes, the substitution occurred in the opposite direction: the two occupational groups which experienced the greatest declines in access to formal employer-supported training also had the second- and third-highest increases in the incidence of on-the-job training\textsuperscript{55}.

On the other hand, the data might also be seen as lending support to the opposing view that formal and informal training are complementary. The incidence of on-the-job training was generally highest (in both years) for those occupational categories which were most likely to receive formal training. Interestingly, the largest increase in informal training was recorded by managers, who were also the least adversely affected of all the occupational groups in terms of access to formal training\textsuperscript{56}.

\textsuperscript{54}Employer Training Expenditure, 1993, Graph 8
\textsuperscript{55}HWGTT, Table 2; Training and Education Experience, Table 1.3
\textsuperscript{56}Ibid.
Not all informal learning is training

It is difficult to be conclusive on this subject in the absence of any estimate of the amount of informal training received by each group. Unfortunately, such data have proved impossible to collect reliably by survey methods, in Australia or elsewhere. However, some interesting indications appear when responses are disaggregated on the basis of the most important form of informal training received by respondents.

Of the four possible response categories, "teaching self" was cited as the most important by 47% of employed respondents. The next most commonly cited (15%) was "asking questions of fellow-workers". By most people's definition, neither of these would probably count as training at all. The commonsense definition of on-the-job training - "being shown how to do the job" - was cited as the most important by only 13%, and only 42% (half of those who reported any kind of informal training) included it at all among the training they had received. Respondents who had undertaken some formal training during the reference period were significantly more likely than others to cite "teaching self" as the most important kind of informal training they received.

Once these distinctions are made, some important implications arise. It could well prove, for example, that on-the-job training, as colloquially understood, was much less common, and much less evenly distributed, than the raw statistics would suggest. Relying solely on the aggregate statistics probably also leads to a gross overestimate of the effort put into training by some employers, particularly those who undertook little or no formal training. This last consideration is highly relevant to questions of the necessity or appropriateness of the Training Guarantee.

Outside the immediate context of this evaluation, it is clear that informal learning, in all its modalities, requires more research, and more consideration in the formulation of future training policies. Consultants in several of the case studies emphasised the crucial importance of coordinating formal and on-the-job training. As a beginning, further disaggregation and cross-tabulation of the survey responses on informal training would probably provide interesting insights into the nature of the complementarities that exist between formal training and different kinds of informal learning.

Quality and relevance of training

Along with the basic issues of how much training occurred, what was taught and who benefited from it, the fourth major issue of concern is whether that training was likely to lead to the desired outcomes. As noted earlier in Chapter 4, there is some reason to suspect that the real difference between Australia and the more skill-based overseas economies in the 1980s lay not so much in the amount employers were prepared to spend, as in the effectiveness with which this expenditure translated into sustained increases in the level of skill available, and actually used, in the workplace.

This question raises important issues of work organisation, industry restructuring, industrial relations and the other prerequisites of a high skill equilibrium, as described in Chapter 2. It is also central to the question of whether the Training Guarantee has made a sustained difference. For

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57 ABS, special SOTE tables prepared for DEET. Comparable tables have not yet been obtained from HWGTT.
58 It should be borne in mind (See Chapter 1, Appendix) that on-the-job training which was in any way structured was classified as formal training for survey purposes, and in most cases could be counted as eligible training for the purposes of the Training Guarantee.
these reasons it will be discussed in detail in Chapter 10. However, for the sake of rounding out the general picture in this chapter, some broad indicators - or more accurately, proxies - should be mentioned.

Structured

One of the more commonly accepted indicators of the quality of training is the degree to which it is "structured". It is believed that training, other things being equal, is more likely to be effective if it is integrated into enterprise and individual training plans and linked to staff appraisal systems, training needs assessments, etc.

The TPS sought data on these aspects of structuring for the first time. The responses reveal a strong growth in the use of training plans during the 1990s. Almost 30% of all employers now have a training plan of some kind, and of these, nearly 70% adopted the practice within the last three years. Predictably, large employers were around three times as likely as small employers, and half as likely again as medium ones, to have a training plan59.

Over half the large employers who trained used formal training needs analysis, as did around 30% of the medium-sized organisations and 15% of small ones. Individual performance appraisal was used by 28% of all employers who trained, and was more commonly used by small and medium employers than training needs analysis. By contrast, 66% of all employers who trained used informal methods to determine some or all of their training needs, and 52% used them more often than formal methods. On this last count, there was relatively little difference between the size categories60.

Collins and Hackmann provide further evidence of a trend towards more structured training. Of the 800 employers in their 1991 survey, 61% had a written training policy, while 84% had some means of systematic assessment of training needs (up from 70% in 1982 and 75% in 1986). The use of corporate or business plans as a basis for training needs assessment grew from 35% of respondents in 1986 to 48% in 1991, and that of individual training plans based on performance assessment from 58% to 71%61.

On this basis, there seems to be some cause for confidence in the quality of much of the additional training undertaken since 1990. Once again, however, the promising aggregate trend needs to be qualified by the suspicion that its benefits were not uniformly shared. For example, only 22% of the training plans recorded in TPS (17% of those operated by large employers) covered all the firm's employees. Three out of every eight covered fewer than half the employees in the organisation62. The average training expenditure for firms which had training plans was 30% higher than for those which did not, but the difference in terms of average hours per employee came to only 8% - suggesting that most of the additional expenditure went into more expensive training for a limited section of the workforce63. Of those organisations which employed more casual than permanent workers, only 6% had a training plan64.

59 Employer Training Practices, Table 22
60 Ibid., Table 20
61 Collins and Hackmann, op. cit., Table 3
62 Employer Training Practices, Table 22
63 Ibid., Table 23
64 Ibid., Table 31
Employee perceptions

A different perspective can be gained from the responses of individual employees who were asked in the household survey about the adequacy and relevance of the training they had received in the last 12 months. Almost 74% said they had received adequate training, while 13.5% said it had been inadequate. As these questions were not asked in 1989, it is not clear whether perceptions had changed over the period. However, the response is likely to have been heavily conditioned by the expectations of each group - which in turn, would partly reflect the amount of training they were used to getting in the past. The most likely occupational groups to report that their training had been inadequate were professionals and para-professionals, the very groups who received most training. This seems ironic until one realises that their access to training had dropped quite significantly over the last four years. Possibly for the same reason, public sector employees were 60% more likely than those in the private sector to believe that they had received inadequate training. Conversely, tradespeople, labourers and plant operators, who reported least dissatisfaction with their training, were also the most likely to respond that they had not needed any training.

On the issue of whether the training they had undertaken had improved their work performance, respondents reported marginally greater levels of satisfaction with in-house (84%) than with external courses (81%). The fields of training least likely to be seen as relevant to work performance were occupational health and safety, "other" and clerical and office training; external courses in the last received a remarkable 37% dissatisfaction rating.

Productivity

It is commonly argued that the best measure of the effectiveness of training is its impact on productivity. In a number of cases encountered in the course of the evaluation, changed training practices led to spectacular increases in labour productivity in individual enterprises. At the aggregate level, however, economists generally agree that the barriers to establishing an unequivocal link between training and productivity are all but insuperable.

In the first place, the number of factors that could influence productivity - even within an individual industry - is so great that sophisticated econometric modelling is needed to isolate the contribution of changes in training behaviour. This in turn requires data of a quality that is generally not available, particularly in Australia where the conventions and legal safeguards of commercial privacy restrict the level of information which governments can collect from industry. In the second place, the impact of training on productivity takes effect at varying rates and often over very long time-scales, so that it is virtually impossible at any given time to be certain that one is capturing the full long-term productivity impact of any given change in training behaviour.

A further consideration is that in many of today's most dynamic industries, competitive success depends to an increasing degree on factors (e.g. customer responsiveness, product innovation,
service quality) which are not productivity-related, or at any rate not captured by raw productivity indicators. In such industries, training often adds value primarily through these sources of competitive advantage rather than by simply enhancing productivity\(^68\).

Given these severe qualifications, there is probably limited value in looking at the productivity statistics over such a short period. However, they do serve, if nothing else, to provide additional context for the changes in training activity.

Overall labour productivity (output per hour worked) showed a fairly constant rising trend over the calendar years 1990-1993, finishing the period some 6% higher in constant dollar terms\(^69\). This overall trend showed surprisingly little effect of either the recession or the subsequent recovery. When disaggregated by industry, however, it is much less even, with individual industries also generally showing much less pronounced trends.

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\(^68\)In theory, it is possible to include such factors in input-output statements as intangible outputs. Unfortunately, intangible outputs, like externalities, are easier defined than quantified; hence, like externalities, they tend to be overlooked, assumed away, or covered by a wholly notional adjustment.

\(^69\)ABS, National Accounts (labour productivity). Data supplied by Economic Analysis Branch, DEETYA.
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As a general rule, industries which were strong trainers (communications, mining, electricity gas & water) showed the most consistent growth trends, while those which trained least (wholesale/retail, recreational and other services, and especially construction) registered static growth or declines overall, albeit with strong fluctuations. Figures 5.2 and 5.3 show movements in labour productivity for three high training and three low training industries respectively, before and after the introduction of the Training Guarantee. These demonstrate the sharp contrast between the long-term productivity trend lines. However, these figures show no evidence of significant change in the trend lines since 1990.

Figure 5.3

Productivity in the Construction, Wholesale and Retail Trade, and Recreation, Personal and Other Services Industries from 1984 to 1993

Source: ABS, National Accounts

Strong and fairly consistent rises were also recorded in manufacturing and transport & storage, both industries which fell into the middle range of training effort.

On the other hand, there appears to be no significant association (at least at the level of broad industry classifications) between growth in training effort over the four years and growth in labour productivity. In fact, two of the industries with the best records for sustained productivity growth (mining and communications) actually trained significantly less on a per-capita basis in 1993 than in 1990.

It is possible that clearer trends might emerge if the data were available by more disaggregated industry classifications. The very broad groupings used for statistical purposes probably often conceal different or even opposing trends in different industries within each group (e.g. storage and sea transport), both in productivity and in training activity.
However, even if the data were available at a satisfactory level of disaggregation, and even if a clearer association were to emerge from such data, it might still show only that industries which are under competitive pressure to improve their productivity have a greater propensity to train than those which are not. In other words, even the most convincing association between training and productivity would not necessarily demonstrate, by itself, that increased training was the sole or principal cause - or indeed, a cause at all - of increased productivity. It would be even less admissible to conclude that a greater productivity growth over the period 1990-1993 indicated more effective training, since many other factors are likely to have explained the different changes in productivity between industries since 1990 - most notably the potential for productivity improvement in each industry at the start of the period, and the changes in its competitive environment over the period.

Accreditation

Formal accreditation of a course by the relevant State or territory authority is a commonly used proxy for quality, and is also important in gauging progress towards implementation of the Training Reform Agenda. No time-series data are available to indicate what change took place in this indicator between 1990 and 1993. However, the published data for 1994 from the ABS Commercial Training Providers survey suggest that accreditation was still uncommon so far as commercially provided courses were concerned.

Only 13% of all trainers covered by the survey offered any accredited courses during the year. Those whose primary business was training were more likely to do so (22%) than industry or professional associations or equipment suppliers. However, of those who offered some accredited courses, only a third had all their courses accredited. It was estimated that of all the courses offered by the commercial training industry in 1994, only 6.4% had accreditation.

In the absence of data on the situation in earlier years, it would be imprudent to build too much on these figures. With most of the accrediting authorities still in the process of modifying their requirements to meet the new competency-based standards, it is probable that a high proportion of courses remained unaccredited simply because there was no accreditation standard for the area and level of training that they covered. The reasons most commonly cited for not obtaining accreditation were cost, time required, lack of awareness of the procedures, and lack of interest.

Cost

A final possibility is that a growth in total training cost per employee/hour could indicate a higher quality of training. This would be the case if, for example, more planning and evaluation was carried out for each hour of training, or better facilities or learning materials were provided, or professional in-house trainers or consultants were used instead of other employees taken temporarily off the job to do the training.

As noted in Table 5.2 below, the hourly cost of training rose over the three years to a degree that could not be explained either by inflation or by changes in the composition of the workforce or of

\footnotesize{\begin{itemize}
\item[70]ABS, Commercial Training Providers, Tables 18, 19
\item[71]Ibid., Table 20
\end{itemize}}
industry. It is difficult to tell how much of this rise is attributable to better quality, and how much to demand-induced cost inflation. However, general indications (discussed below) are that a significant component was quality-related.

To sum up, the statistical evidence does not indicate conclusively whether training in 1993 was of a higher standard overall, or more relevant to the strategic requirements of industry, than in 1990. However, the general impression - particularly as regards the trend to greater structuring - is positive. For a clearer picture of what was happening in this regard, it is necessarily to examine the qualitative and anecdotal evidence. This is discussed in later chapters.

Cost of training

The average hourly cost of training rose in unadjusted terms from $27.49 in 1990 to $34.63 in 1993. This rise is well above the overall rate of inflation, however defined, and is more than could be accounted for by changes in the profile of employees who received training, or by the balance of training effort between industries. Growth in average weekly earnings appears to be the most significant of these factors in explaining the rise in costs, but still leaves a net difference of just under $3.50 an hour (around 13%) when all other factors have been adjusted for.

Table 5.2 illustrates this by using two different methods of standardisation, both based on State, Sector, Industry and Size, but using different methods of weighting and different indices of inflation. These methods are explained in detail in an Appendix to this chapter.

The surveys do not clarify unambiguously where this growth originated. However, a breakdown of training expenditure in the two years provides some guidance. The largest single component - wages and salaries for persons receiving training - fell slightly as a proportion, from 50% to 46%. The non-wage component remained virtually static as a proportion of total expenditure (down from 15% to 13%), with "Travel, Accommodation and Meals" (one of the obvious areas in which to look for any evidence of "padding") actually falling in unadjusted dollar terms. However, wages and fees for trainers grew by 37% in unadjusted dollar terms, rising from 37% to 41% of the total. This growth was shared evenly between wages for internal trainers and fees paid to external consultants and institutions.

It would seem logical to conclude that this last category is responsible for the unexplained element of the average hourly cost increase. In terms of relating cost increases to improvements in quality, this is at least partly positive evidence, since it suggests that industry is employing more trainers than in 1990. One business out of every three that train now employs qualified trainers, though only 4% employ full-time trainers. However, there are no base-year data to indicate how this has changed since 1990.

On the other hand, the corresponding growth in fees paid to external trainers - bearing in mind that the contribution of external training to total training activity actually fell - could be evidence of demand-induced price inflation. (Indeed, this may also have affected the wages paid to internal trainers, though there is no clear evidence to suggest this.) It could also mean that "padding" of course costs (through better standards of accommodation, more extra-curricular activities, etc.)

72Employer Training Expenditure, 1990 (Table 11), 1993 (Table 6, and additional special table prepared for DEETYA)
73Employer Training Practices, Table 24
occurred, but was absorbed into course fees for the purposes of survey (and Training Guarantee) reporting. Conversely, cost increases under this heading could also be quality-related insofar as they reflect better prepared, better tailored and/or better resourced external courses, or the contracting-in of professional trainers to conduct in-house training in place of staff without training skills.

### TABLE 5.2

**Movements in cost of training (adjusted), 1990 to 1993**

<table>
<thead>
<tr>
<th>Year</th>
<th>Type of Estimate</th>
<th>Cost per Hour Method 1 (a)</th>
<th>Cost per Hour Method 2 (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>Standard</td>
<td>$27.49</td>
<td>$27.49</td>
</tr>
<tr>
<td>1993</td>
<td>Standardised to 1990</td>
<td>$35.06</td>
<td>$34.82</td>
</tr>
<tr>
<td>1993</td>
<td>Standardised to 1990 and adjusted for CPI (c)</td>
<td>$32.98</td>
<td>$32.76</td>
</tr>
<tr>
<td>1993</td>
<td>Standardised to 1990 and adjusted for Average Weekly Earnings (d)</td>
<td>$31.36</td>
<td>$31.15</td>
</tr>
<tr>
<td>1993</td>
<td>Standardised to 1990 and adjusted for Award Pay Rates Index (e)</td>
<td>$33.05</td>
<td>$32.83</td>
</tr>
<tr>
<td>1993</td>
<td>Standard</td>
<td>$34.63</td>
<td>$34.63</td>
</tr>
</tbody>
</table>

(a) Standardised on distribution of employers (see Appendix)

(b) Standardised on distribution of time spent on training (see Appendix)

(c) Using CPI figures of 103.3 for the 1990 September Quarter and 109.8 for the 1993 September Quarter

(d) Using AWE figures of $541.00 for 1990 August 17 and $604.80 for 1993 August 20 (Full-time adults, ordinary time earnings)

(e) Using Award Pay Rates Index of 133.4 for 1990 September and 141.5 for the 1993 September

*Source: ABS, special analysis prepared for DEETYA*
The survey data do not make it possible to distinguish how much of the cost increase is attributable to each of these causes. However, the general opinion in the focus groups was that the price of training had not increased as a result of the increase in demand, and the training providers' focus group felt that it had actually fallen (at least temporarily) because of price competition from the new firms in the commercial training industry. Changes in the training industry are discussed further in Chapter 6.

Why employers train

TPS sought specific input from employers on the factors that motivated and inhibited their training activity. While there are no base-year data on this subject, one set of questions specifically covered the reasons for any increase or decrease in training activity in the 12 months to February 1994. A number of salient conclusions emerge from the response.

Practical considerations are the most important

The most commonly cited reason for an increase in training expenditure over the last 12 months was "technological change". Over 30% of those respondents whose training activity had increased over the period cited this as one of the reasons. Even more important was the introduction of major changes in a business's operations. This term covered new work practices, capital investment, restructuring and the development of new products or services. Of those respondents whose expenditure had grown in the last 12 months, over 90% had taken at least one of these initiatives over the period.

Neither of these figures gives an insight into the magnitude of the change in activity brought about by any of these factors. However, comparison with the actual expenditure figures shows that employers who had undertaken a significant change in operations spent considerably more than the average (over 3% of payroll) on training, while the average expenditure as a proportion of payroll for those who had not was half a percentage point below the overall average. Similarly, those who cited technological change as a reason for increased training expenditure spent on average 3.4% of payroll, half a percentage point above the overall average.

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74 One caution in particular needs to be observed in interpreting these data. A significant proportion of respondents who reported one or more factor as having increased their training expenditure over the year, subsequently reported, in response to a specific question on their training expenditure over this period, that no increase had in fact occurred. This proportion ran as high as 35% of those who cited competition as the sole or most important reason for an increase. Although this discrepancy provides a useful warning about the subjective nature of the responses to these questions, it does not necessarily vitiate the data on the factors which influenced training. One likely explanation is that respondents, in thinking of the influences on their training expenditure, were consciously or unconsciously thinking of a period somewhat longer than the specific one for which they were asked to report. Another is that the factors quoted did indeed tend to increase expenditure in their own right, but their effect was offset by other factors which reduced it.

75 Ibid., Table 12
76 Ibid., Table 32; special TES/TPS analysis carried out for DEETYA
77 Ibid., Graph 11
78 Ibid., Graph 2
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Flexibility is a major motive

Around 40% of employers now train their employees for the purpose of multiskilling, and around the same percentage do so to enable them to move to other positions within the organisation\textsuperscript{79}. Both these responses can be taken as indicators of a desire for greater workforce flexibility.

The responses to the household survey show that this motivation was shared by a high proportion of employees. Of those who did formal in-house training in 1992-93, over 40% did so in order to be able to do different kinds of work, either in their current job or in another\textsuperscript{80}; for external training, the figure was 54% (though 16% of those doing external training were not employed during the year)\textsuperscript{81}.

However, the importance of this motive was not consistent across industries. Significantly, it was lowest among employers in industries (construction, retailing and some areas of transport and storage) which have long been characterised by segmented labour markets and/or limited career paths - i.e. those where increasing workforce flexibility would be the most desirable as evidence that necessary reform was underway\textsuperscript{82}.

Downsizing had both positive and negative effects on training

Both flexibility and restructuring often translate in practice into a smaller workforce. Given the evidence that more training is going to fewer people than in 1990, it is important to examine how the growth of training interacts with pressures to employ fewer people.

The evidence from TPS is ambiguous in this regard. Of those respondents whose workforce had significantly diminished over the last 12 months, no fewer than 61% had spent more on training over the period; this compares with 79% of those whose employee numbers had grown. On the other hand, 17.4% of those who had downsized reported a decrease in training expenditure\textsuperscript{83}. This is considerably more important than any other factor - including decreased business activity - associated with decreases in training activity\textsuperscript{84}.

The most commonly cited impediment to training was "time constraints", followed closely by "cost constraints"\textsuperscript{85}. Both of these would be particularly important considerations for firms which were under pressure to contain their staff costs, or to maintain their previous level of business with reduced staff numbers. These were also the only impediments reported by a majority of large employers, and were more commonly reported by large and medium organisations than by small ones.

Competition was not a widespread influence for change

Industry organisations have often argued that increased competition is the only effective means of increasing training effort in the private sector. Given the conviction with which this belief has been

\textsuperscript{79}Ibid., Table 1
\textsuperscript{80}Training and Education Experience, Table 6.1
\textsuperscript{81}Ibid., Table 6.2
\textsuperscript{82}ABS, special TPS table prepared for DEETYA
\textsuperscript{83}Employer Training Practices, Table 36
\textsuperscript{84}Ibid., Table 11
\textsuperscript{85}Ibid., Table 6
expressed, it is perhaps surprising that competition was the least reported of all the suggested factors behind increased training expenditure, cited by fewer than 9% of respondents who reported training in the last year. Only 3% regarded it as the most important factor that increased their training expenditure.

The influence of competition on training expenditure was strongly related to the size of the organisation. Only 4.2% of those with fewer than ten employees cited it as a positive factor, whereas it was reported by nearly a quarter (24.1%) of those with 100 or more employees. Even for this latter group, however, it was still the third least commonly cited factor. Its influence also seems to have been related to the age of the firm, as those which had been in existence over ten years were more likely than average (10.4%) to report it as a positive factor.

Only two industries cited competition as a contributory factor for more than 15% of organisations - Transport & Storage (17.3%) and Communication (26.7%). Two others (Recreation, Personal & Other Services, and Finance, Property & Business Services) cited above-average incidences of this factor. The Manufacturing and Wholesale & Retail Trade industries reported it slightly less often than the overall average. In most other industries, too few respondents gave a positive response on this factor to allow reliable estimates to be made.

The high figure for the Communication industry is counterbalanced by the fact that 18.5% of employers in this industry cited competition as a factor that reduced their training expenditure. Although this was the only industry to report such an effect, it is an interesting indication that competition does not always have a positive impact on training.

This finding seems strangely at variance with common belief and the results of other research. To quote the most recent Australian example, Smith et al., reporting on thirty case studies, found that:

"The starting point for the explanation of the variability of training provision is competitive pressure. Explaining their reasons for increasing emphasis on training employees, most senior managers started by referring to competitive pressure."

However, the two findings are not necessarily incompatible. Further analysis indicates that where competition was cited as a factor, it was likely to be associated with a considerably better than average training performance. The small minority who cited it as the most important factor that increased their training spent on average 28% more than the average for all respondents. Their training effort exceeded the average by the same margin. They were more likely than average to offer training to all major ASCO categories except trades and plant and machine operators. (This possibly reflects the employment profile of the organisations in question.) They also rated well above average on qualitative criteria, e.g. the use of formal training plans and training needs analysis.

86Ibid., Table 11 and special tables.
871995, p.2
88ABS, special TES/TPS tables provided for DEETYA. Note also that the averages against which these figures are compared include the public as well as the private sector; had the performance of these employers (who would nearly all have been private) been compared with the corresponding private sector averages, the differences would have been much more marked.
On the other hand, the data suggest that the impact of competition, as an influence on training behaviour, has so far been highly localised. Although the standard errors make it impossible to determine from the TPS data precisely where it is localised, it seems that it is most likely to be an influence in industries (or specific segments of individual industries) that already place a high emphasis on training. The converse is illustrated by the small business study, where it was clear that competition (though universally perceived to be intense) was not commonly seen as an incentive to undertake more than the most ad-hoc training.

To some extent, therefore, the TPS findings actually confirm those of Smith et al. A credible explanation is that high-training firms compete with other high-training firms, and low-training firms with other low-training firms. In the absence of competitive pressure to train, the likelihood of a firm moving to an active training culture appears to be greatly reduced.

The fact that this incentive was so rarely reported has important policy implications, which will be drawn out in Chapters 8 and 10. However, it should be noted (as with many of the other factors discussed under this heading) that the TPS data refer only to how these factors affected changes in expenditure in the specific 12-month period to February 1994. There were probably many firms for which the competitive stimulus to change their behaviour, and hence to increase their expenditure, had come several years earlier. For them, the effect of competition may well have been to maintain their expenditure at the same (possibly quite high) level as in the previous year. The 90% of employers who said that competition had not changed their level of expenditure in 1993-4 could have included many whose expenditure would have fallen but for competitive pressure.

**Skills shortages were only a minor factor**

Difficulty in recruiting skilled labour was likewise cited as a reason for increased training expenditure by fewer than 10% of respondents who trained. However, in the aftermath of a recession which left many highly qualified people competing in the external labour market, this is probably more understandable. It would be useful to monitor whether this becomes a more significant motive for training as the recovery proceeds. It would also be very useful to know what proportion of those employers who find difficulty in recruiting appropriately skilled staff resort to training as a remedy, since this would be one of the most important tests of industry's sustained commitment to training reform.

**Quality assurance is an increasingly important influence**

A final factor which emerged as a very significant contributor to training activity was formal certification for quality assurance (i.e. Total Quality Management and related techniques). Australian and international standards exist for quality assurance, and a growing number of major industry customers (including some parts of government) will purchase only from suppliers who hold certification under one of these standards. All these standards require an articulated training strategy and documentation similar in concept to that required for the Training Guarantee, though somewhat more elaborate.

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89 Reports of skill shortages re-emerging in some industries have mostly come since the reference period for the surveys. Reliable data on the interaction between these skills shortages and present/past training activity in those industries will be not available until the 1996 survey results are published.
Among TPS respondents who had increased their training expenditure in the last 12 months, quality assurance was the second most commonly cited factor, reported by 26% of all employers who reported training\textsuperscript{90}. It was the most commonly cited factor in manufacturing and construction. While the former is predictable, the latter suggests that quality assurance has some potential as an instrument to spread training culture into low training industries. However, any optimism on this count needs to be tempered by the fact that only 20% of respondents in the construction industry mentioned quality assurance - the lowest proportion among any of the major industry groups\textsuperscript{91}.

In several of the case studies, quality assurance also emerged as one of the most robust influences for training reform. Its effect appeared to be broadly similar to that of the Training Guarantee - it generated management awareness of training as an issue in business planning, and provided an imperative to maintain the pace of training reform in the face of other pressures to make it a target for savings. Compared to the Training Guarantee, it enjoyed two powerful advantages: it was seen as something owned by industry rather than imposed from above; and it carried the much more compelling sanction of being a prerequisite for retaining essential customers.

\textsuperscript{90}Ibid., Table 11
\textsuperscript{91}Ibid., Table 13
APPENDIX TO CHAPTER 5

Explanation of standardisation methods (Table 5.3)

Method 1:

The overall cost per hour of training could have risen as a result of a group with high associated training costs increasing in size (i.e. more such groups) compared with other groups. Standardisation overcomes this by adjusting for the changing composition of the workforce over time. The estimate for 1993 standardised to 1990 represents the cost per hour using 1993 data and the 1990 group composition.

Method 2:

Whereas the first method standardises according to the employer distribution (number of employers in each standardisation cell), Method 2 standardises according to the time spent on training. The estimate for 1993 standardised to 1990 represents the cost per hour using 1993 data and the distribution of time spent on training in 1990.
CHAPTER 6

THE IMPACT OF THE TRAINING GUARANTEE

Over half the employers covered by the scheme reported that it had a positive effect on their training activity over the four years. Even in its fourth year of operation it remained a significant positive influence, though there were signs that part of its impact had become self-sustaining. Where it led to increased expenditure, it generally also had worthwhile effects on the qualitative aspects of training. Its effect, though most pronounced among medium-sized organisations, was widely distributed; indeed, it appears that the Training Guarantee was most likely to be effective where an employer had other motives to train. One of its most important achievements was to legitimise existing training activities and shield them from cost-cutting pressures; in this sense it was vitally important in maintaining the level of training through the recession. Compliance was initially very high, but there were indications of a serious level of non-compliance emerging in the fourth year. The scheme was clearly cost-effective from the government's point of view, generating between $20 and $100 in new investment for each dollar of Commonwealth expenditure. So far as industry is concerned, the compliance burden is impossible to quantify and appears to have varied widely between individual employers, but in general it appears to have created negative perceptions of the scheme rather than adverse consequences for competitiveness or employment. While some of the investment generated by the scheme was probably sub-optimal, outright "rorting" appears to have been less common than generally believed. However, the general success of the program should not conceal its failure to produce results on three critical objectives: changing the training culture in the major problem areas of industry; stimulating the development of a quality private training industry; and improving access to training opportunities for disadvantaged groups in the workforce.

Isolating the net contribution of the Training Guarantee to changes in training activity has been perhaps the most important challenge of this evaluation. In a period marked by significant changes in the competitive environment, industry structure, the industrial relations system and managerial culture (not to mention the intervention of a recession of proportions that were quite unforeseen in 1990), it has often seemed like a forlorn undertaking to pin down the effect of a single program - particularly one which, as shown in Chapter 3, was too general in its incidence and requirements, and too imprecise about its intended outcomes, to enable any useful modelling of its impact in advance.

In view of the difficulty, it was judged most productive to concentrate on identifying the cumulative impact of the program as close as possible to the end of the four-year evaluation period. The design and timing of the evaluation instruments reflected this choice. On the negative side, this decision meant that right up to the time the Training Guarantee was suspended, there was no really reliable or objective means of assessing its overall effectiveness. On the other hand, it has meant that the picture now emerging of its net effect - though still far from perfect - is considerably clearer than seemed achievable when the evaluation began.
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Employers' assessment of impact

The most direct evidence comes from the responses of employers themselves to TPS. Survey participants were asked whether the Training Guarantee had led to a large increase, a small increase, no change or a decrease in their training expenditure since its introduction. They were also asked to assess the impact of the program on various aspects of their training.

The results were unexpectedly positive. Over half the employers covered by the scheme (57%) believed that it had led to an increase in their training expenditure since 1990, with just under 20% reporting that it had led to a large increase. Almost half the eligible employers claimed that the actual amount of training they did had increased as a result of it. Even more remarkably, when employers below the payroll threshold are included, the percentage of all employers who reported an increase in their expenditure as a result of the Training Guarantee came to just under 45.

The reported impact on qualitative aspects of training was also generally more positive than anticipated. Improvements in the planning and methods of training, and in management attitudes to training, were reported by over 40% of eligible respondents who reported any training. The lowest recorded positive impact was on evaluation of training (28% of eligible respondents who reported training). On all the qualitative indicators, employers who reported an increase in expenditure as a result of the Training Guarantee were between three and six times more likely than others to report a positive impact; moreover, those who reported a large increase were significantly more likely than those reporting a small increase to have experienced positive effects on these qualitative indicators. This suggests that where the Training Guarantee had its greatest impact, it produced genuine changes in training culture rather than simple increases in spending.

Relatively few negative effects were reported. Only around 1% of eligible employers - virtually all of them large organisations - claimed that the scheme had led to a decrease in their training expenditure, while around 2.5% believed it had reduced the amount of training they undertook. On the qualitative side, the most reported negative effects - at around 7% of eligible respondents - were on budget planning, and on management attitudes. However, the latter also registered the second-highest positive impact.

Responses to ATO client research in April 1994 (which are less reliable than TPS because of the much smaller and less stratified sample) were slightly less favourable, but within the same broad range. Referring to past years, 19% of respondents reported that the Training Guarantee had led them to undertake "a lot more" training, and 25% "a little more". This total of 44% compares fairly closely with the corresponding figure in TPS of 49.9% for "amount of training provided to all employees", while the percentage of respondents who reported a large increase in training is virtually identical to the TPS figure. However, the ATO research produced a significantly higher reported negative effect, with 7% of respondents claiming to have trained less as a result of the scheme.

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92Employer Training Practices, Tables 14, 16
93ABS, special TPS tables prepared for DEETYA
94Employer Training Practices, Table 15. Note that these results refer only to those respondents above the threshold who reported training during the 12 months.
95ABS, special TPS tables prepared for DEETYA
The Training Guarantee: its Impact and Legacy

Given that 56% of eligible organisations were spending less than the (then) minimum obligation in 1990, and 40% claimed to be spending nothing at all (at least during the survey quarter)\(^96\), these figures appear at first sight to be not just credible but wholly predictable. As explained below, however, this effect does not seem to have been confined to those who were previously poor trainers. In some ways, indeed, the incidence of positive responses was the opposite of what might have been expected.

These responses obviously need to be treated with a certain amount of caution, as they reflect employers' subjective and retrospective impressions of the impact of the program, rather than its actual impact. Some of the other evidence suggests that the two did not always coincide. A good example of mutually inconsistent subjective perceptions comes from the ATO research. As already noted, 44% of employers covered by this research reported that the Training Guarantee had led to an increase in their training, while slightly under half said it had made no difference. Yet around three quarters of the same sample agreed with the statement that "The guarantee has meant that we are now simply formalising the training program we already have" - a figure that remained constant within 4% either way over seven surveys between April 1991 and April 1994, with no apparent trend over that period. Between 61% and 74% of respondents to these surveys - again, with no trend emerging over time - agreed with the statement that "The only effect the Training Guarantee will have on this company is to create more administrative work".

Nevertheless, given that attitudinal change was such an important objective of the scheme, the subjective perceptions have some value, since it can be seen as an achievement of sorts that so many employers believed that it had made them train more.

Threshold effect

One of the few methods of measuring the actual - as against the perceived - impact of the Training Guarantee is to compare changes in expenditure between the group of employers who fell just above the payroll threshold and those who fell just below it. For employers below the payroll threshold, average expenditure fell by 11%, whereas it grew by 15% for all those above the threshold.\(^97\)

Taking a band of $50,000 on each side of the payroll threshold in the respective years, it appears that the Training Guarantee had a marked effect at this point. Expenditure (proportional to payroll) among employers in the band just above the threshold rose by 130%, while for those in the lower band, it grew by 44%\(^98\).

Standard errors for this restricted population are too high to make this finding wholly reliable in its own right. A useful cross-check can be obtained by disaggregating the figures for small businesses into those with fewer than 10 employees (which would mostly have fallen below the payroll threshold) and those with 10-14 employees (which would nearly all have been subject to Training Guarantee obligations). For the former group, expenditure per employee fell from $58.30 to $57.30

\(^96\)Employer Training Expenditure, 1990, Table 10
\(^97\)Employer Training Expenditure, 1993, Table 2
\(^98\)ABS, special TES/TPS tables prepared for DEETYA. Expenditure rose from 0.9% to 1.3% GWS in the below-threshold group, and from 1% to 2.3% in the above-threshold group. Combined expenditure for both groups rose from 2.6% to 2.9%, exactly parallel to the growth in overall private sector expenditure.
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(a drop of almost 8% after accounting for inflation), and training effort from 3.82 hours per employee to 2.92 hours. Among the latter group, expenditure per employee grew from $83.90 to $100.70, and training effort from 3.9 to 4.3 hours.99

Looking specifically at the 10-14 group, it seems probable that most of the increase is attributable to the Training Guarantee. The proportion of employers in this group who reported any training expenditure in the quarter actually fell from 50% to 41%. Adjusting for this, the growth in minimum expenditure requirement from 1% to 1.5% would have been adequate in itself, when distributed over those who did train, to account for the entire growth in expenditure per employee.

In the 15-19 group, however, the growth was of a different order (see Figure 4.1), suggesting that additional factors and/or multipliers were involved. While the Training Guarantee was still a very important factor for this group (based on the TPS data which are cited in the next section), the movement in training activity seems here to reflect a catalytic effect as opposed to the pure compliance effect in the 10-14 bracket.

Distribution of impact

Since the primary stated purpose of the Training Guarantee was to "lift the tail" - to target the least active trainers - one might reasonably expect its effects to be concentrated in this area of industry. Specifically, one might expect it to have had a marked effect on small business and industries with little previous record of training, but to have passed largely unnoticed by larger firms and those industries which already trained well in 1990.

In fact, the Training Guarantee does seem to have had its greatest effect on relatively low spenders. By 1993, those who reported it as the cause of a large increase in training expenditure were spending an average 2.45% of payroll, while those who cited a small increase spent 2.72%100 - both well below the overall average of 2.9%, though closer to the private sector average of 2.6%. However, the TPS data show an effect which was much more widely distributed than might have been expected.

Looking only at eligible employers, large firms were more likely overall than small ones to attribute, not only any increase in training, but even large increases, to the Training Guarantee101. The proportion of respondents who reported increases in training since 1990 as a result of the Training Guarantee peaks predictably at 73% in the band around and just above the payroll threshold ($200,000-500,000), but does not fall below 50% until average payroll passes $5 million.

Moreover - and in contrast to the strong threshold effect in actual expenditure change since 1990 - a marked halo effect is evident in the reported impact of the program, with 70% of employers whose annual payroll fell between $100,000 and $200,000 (i.e. well below the threshold) claiming that it had increased their training expenditure102.

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99ABS, special TES tables prepared for DEETYA. See Chapter 4, Fig. 4.1
100ABS, special TES/TPS tables prepared for DEETYA. These figures are based on the proportion of all employers who claimed increases in spending as a result of the Training Guarantee, whether or not they were above the payroll threshold. For the purposes of comparison, average expenditure by those above the threshold in 1993 was 2.9% for the private sector, and 3.1% overall (Employer Training Expenditure, 1993, Table 2).
101ETP, Table 16
102ABS, special TES/TPS tables prepared for DEETYA
Once again, the outstanding feature is the prominence of medium-sized organisations. Over 63% of these reported increases in their expenditure since 1990 as a result of the Training Guarantee, 23% of them large increases\textsuperscript{103}. By 1994, nearly 40% of them still cited it as a factor that increased their training expenditure in the last year - over half as great again as the overall average\textsuperscript{104}.

At the industry level, on the other hand, the data follow no clear pattern. The ten industries with the lowest average training effort include those which reported both the highest and the lowest incidence of positive impacts of the Training Guarantee over the four years (respectively Textiles, Clothing and Footwear, at 77%, and food processing, at 20%). For the five best training industries, the reported positive impact is eight percentage points higher than for the five worst trainers. Furthermore, of the five industries with the highest reported incidence of positive impacts, three actually trained less on average in 1993 than in 1990\textsuperscript{105}.

It is possible that a finer disaggregation - by narrower industry classifications, or by industry and enterprise size - would reveal more meaningful patterns. Unfortunately, this option is once again precluded by the size of the standard errors in the data. For the present, these figures should serve as a further caution against automatically identifying the perceived impact of the Training Guarantee with its actual impact (in the context of all the other influences) on training activity.

\textit{State and regional variations}

The reported impact of the Training Guarantee varied widely by State. However, as Table 6.1 shows, there is no obvious relation between the proportion of employers positively affected in a State or Territory and the overall training performance of that State or Territory.

The reported impact in the 12 months to February 1994 varied even more widely, falling as low as 18% of all employers in Western Australia and 5% in Tasmania\textsuperscript{106}. Once again, no obvious relation emerged between these figures and either aggregate training expenditure or the proportion of employers who reported increases in training expenditure, or any training expenditure at all, in that year.

While a few explanations can be suggested (e.g the predominance in the ACT of Commonwealth agencies and companies providing specialised services to them, and the low level of business activity in Tasmania), it would require considerable further research to identify the full reasons for the variation. In all probability, specifically geographic factors are less important than the structure of industry in each State - in particular (since the figures in this table cover all employers and not simply those eligible for the Training Guarantee), the percentage of employers in each State who fell below the payroll threshold.

\textsuperscript{103}ETP, Table 16
\textsuperscript{104}Ibid., Table 12
\textsuperscript{105}ABS, special TES/TPS tables prepared for DEETYA using 29 industry classification. ETP, Table 13; Employer Training Expenditure, 1990 (Table 15), 1993 (Table 3) provide data at the 1-digit ASIC level.
\textsuperscript{106}ABS, special TPS analysis carried out for DEETYA
The statistical unit used in the employer surveys (all operations of an organisation within a single State or Territory) does not permit reliable distinctions to be made between metropolitan and country businesses. Because of this, it is not possible to determine whether the reported impact of the Training Guarantee was lower for non-metropolitan employers. For purposes of illustration, however, a sub-population of small and medium enterprises operating from a single site in their respective State was examined for variations in training activity between metropolitan and non-metropolitan sites. The latter proved to be significantly less active trainers (average 1.7% GWS, as against 2.3%). They spent a considerably higher proportion of their overall training budget on apprenticeship, induction and OH&S training, and considerably less on management, professional
and general supervision training. Surprisingly, no significant difference emerged between the
spending of the two groups on travel and accommodation, or on fees to consultants and
institutions.\textsuperscript{107}

Two case studies and a focus group were carried out in non-metropolitan locations. With the
reservation that all three sites were within half a day's travel of a major capital city, the expected
problems (travel cost, limited choice of training options) did not emerge from this limited research
as being substantially higher barriers to training activity for regional employers than for their
metropolitan counterparts.\textsuperscript{108} In particular, the employers in the regional focus group reported a
steady stream of unwanted solicitations from training consultants.

While the situation is likely to have been less favourable in remote locations, it seems probable once
again that any aggregate difference in response between city and country businesses owes at least as
much to structural factors (industry, enterprise size, presence or absence of structured labour
markets) as to strictly geographic causes. In this context, it is noteworthy that the records of the
1993 Taskforce on Regional Development show no instance of the Training Guarantee being raised
as an issue at any of the regional consultative meetings.\textsuperscript{109}

\section*{Sustainability of impact}

In assessing the effectiveness of the Training Guarantee as an instrument of change, it is important
to see how its impact evolved over the four years it was in force. Ideally, a program such as this
should eventually render itself redundant by bringing about self-sustaining behavioural change. It is
questionable whether four years was long enough to expect this change to have occurred in the areas
where it was most needed. However, some indication of the program's prospects of achieving this
change in the longer term can be drawn from experience within this period. To take the two limit
cases:

- if no evolution at all were apparent over the four years - i.e. if all employers had continued to
  respond to the Training Guarantee in 1994 exactly as they had in 1990 - it would be a reasonable
  conclusion that the behavioural changes it had brought about were pure artefacts which would
  not outlast the program itself;

- if, on the other hand, its impact had tailed off very quickly - say, within 18 months - there would
  be little reason to suppose that it had been strong enough to bring about any worthwhile
  permanent change.

\textsuperscript{107}ABS, special TES tables prepared for DEETYA based on postcode of respondent's location. ABS warn that the
standard errors on these data are too high to be worth calculating.

\textsuperscript{108}One site, a winery in the Hunter Valley, did report some problems of this nature - for example, that it had been
necessary to send shop-floor employees to Tamworth for a basic OH&S course, and that a member of the technical staff
had been forced to discontinue a TAFE course, partly because it involved commuting for two hours on five nights a
week, and partly because it was of limited relevance to her work. In this instance, however, the situation with basic
courses was seen as temporary, since the parent company was developing a set of training programs designed to be
offered on-site, while the commuting problem (largely a matter of inappropriate course design) was being addressed by
TAFE with plans to offer a relevant course at a local college. Such problems would in any case apply equally to
residents of the outer suburbs of Sydney who needed to take particular option only available at an inner-city campus.

\textsuperscript{109}Information supplied verbally by Taskforce secretariat staff, April 1994.
Respondents to TPS were therefore asked, in addition to reporting the effect the Training Guarantee had had on their training over the full period since its introduction, to estimate its effect over the last 12 months - i.e., effectively, in its fourth year of operation. They were asked to rate its effect over this period in comparison with the other change factors discussed in Chapter 5.

The responses indicate that it had declined in importance as an influence on training, but still played a useful role. Of those employers who reported training - including those not covered by the scheme - 23% claimed to have increased their training expenditure over the last 12 months as a result of the Training Guarantee. For private sector employers, it remained the third most commonly cited reason for an increase in training over this period, after technological change and quality assurance, and ahead of organisational restructuring, award restructuring, recruitment difficulties and competition.

Over half the respondents who claimed to have increased their expenditure over the year as a result of the Training Guarantee (12.6% of all employers who trained) cited it as the sole or most important reason for the increase. Nearly 30% of all employers who reported training during the year (including those whose expenditure had declined or remained static) gave the Training Guarantee as one of the reasons they trained. Both these figures suggest that training activity in 1993-94 would have been appreciably lower had the scheme not been in force at the time.

On the other hand, there are indications that some catalytic effect had already been achieved, resulting in other considerations taking over as the chief drivers of training. Only 6.4% of employers covered by the scheme still gave it as their only reason for providing formal training in 1994. Perhaps more significantly, given the well-publicised resentment towards the documentation requirements, only 26% still cited it as their sole reason for keeping training records.

With the possible exception of the last paragraph, none of this evidence indicates conclusively that the Training Guarantee had brought about self-sustaining change in the areas of industry where its incentive effect was necessary in the first place. Neither - as will be argued in detail later - does it necessarily prove that discontinuing the scheme would have only a trivial effect on industry's overall training effort.

It appears, however, that the continued impact of the Training Guarantee was still concentrated among relatively low spenders. The average proportion of payroll spent by employers who cited it as a cause of increased training expenditure in the 12 months to 1994 was 2.6%, well below the average for those citing all other causes, and almost a full percentage point below the average for those who cited technological change, restructuring or competition.

The ATO client research provides less reassuring evidence on the degree to which the scheme was bedding in at the enterprise level. In each of the seven surveys carried out over the period April

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10ETP, Table 12
11Ibid., Graph 1
12ABS, special TES/TPS analysis carried out for DEETYA
13ETP, Table 2
14Ibid., Table 17
15See Chapter 7
16ETP, Graph 2
1991-April 1994, three questions were asked which reflected how far respondents had adjusted to its requirements:

(i) whether they were finding it difficult to meet the 1.5% expenditure requirement in the current year;

(ii) whether they expected to have difficulty meeting it in future years; and

(iii) whether they believed they were being forced by the scheme to send staff to "irrelevant courses".

On all three questions, the response fluctuated without strong trends emerging. However, some increase was apparent in the first two from 1992 onwards, rising respectively to around 25% and 35% at the end of the period. No real trend is apparent on the third, with the response ranging from 13% to 22%. This is nonetheless hardly encouraging, as one might reasonably expect this attitude to become noticeably less evident over time if employers across the board were learning from experience the benefits of training.

These findings at first sight appear to contradict those from TPS, and are certainly far less dependable given the small sample size (around 200 in most cases). Mathematically, however, they are quite compatible, as the proportion of TPS respondents who reported no effect or a negative effect of the Training Guarantee could well have included a substantial element of very poor compliers. Perhaps more significant is the evidence (discussed below) that a growing number of eligible employers were spending less than the minimum requirement - or indeed, nothing at all - by 1994. Together, this evidence points to the possibility that there was a significant proportion of poor trainers - perhaps as many as 15-20% of all eligible employers - who remained poor trainers at the end of the period, and on whom the Training Guarantee had produced no positive effect.

Two other items of evidence support this finding. Special analysis carried out by ABS on the TES and TPS data showed that after accounting for the effect of all other variables, employers who claimed an increase in training over the four years as a result of the Training Guarantee were half as likely again as others to be spending within the 1.5-2.5% bracket. In the ATO research, around a quarter of respondents (over three surveys) claimed that the increase in the minimum expenditure requirement from the original 1% to 1.5% had meant "a significant increase" in their training activity.

**Synergistic effects**

Special multivariate analysis of the TPS data was carried out by ABS to determine whether there were any distinctive characteristics of employers who reported that the Training Guarantee had increased their training over the last 12 months. None of the expected variables (e.g. industry, changes in business activity, or workforce composition) proved to be a strong predictor. Apart from State (where the variation has no obvious explanation), the only strong predictor was whether the organisation had undergone "a significant change in business operations" over the last year.

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117It should also be borne in mind that the published statistics on the impact of the Training Guarantee do not cover those employers who reported no training expenditure in the last 12 months.
The Training Guarantee: its Impact and Legacy

As used in the TPS questionnaire, this term covers such things as introducing new work practices, restructuring, major capital upgrades, and introducing new products and services. It is distinct from changes in employment numbers and in the level of business activity (which were covered by separate questions). What it implies is that the respondent went through some kind of major change which would have made it virtually imperative for strategic or practical purposes to give some attention to the skills of the workforce. Logically, one would expect such businesses to be significantly less likely than others to see the Training Guarantee as an influence on their training.

Even more remarkably, this factor remained a significant predictor of whether an organisation reported the Training Guarantee as the sole or most important factor that increased its training expenditure over the year. Moreover, payroll size emerged as a significant predictor of this response - but took effect in the opposite direction to what might have been expected. The larger an organisation, the more likely it was - after allowing for the effect of all other variables - to report that the Training Guarantee had been the only reason, or the most important reason, it increased its training expenditure.

At first sight, neither of these findings seems to make sense. Given that the stated intent of the Training Guarantee was to "lift the tail", the reasonable expectation is that it would be most effective for those employers who lacked other immediate incentives to train - and in particular, for small businesses whose competitive environment (as argued in Chapter 5) was least likely to encourage the development of higher levels of formal skill in the workforce. Instead, the analysis suggests compellingly that the Training Guarantee acted synergistically - i.e. it was most likely to have had an effect where employers had other reasons to upgrade their training.

Once again, this explanation appears improbable at first sight. However, it is supported by the findings from the focus groups, where a strong impression emerged that the Training Guarantee had been most appreciated where it underpinned and added legitimacy to existing training reform initiatives. Moreover, it is compatible with two of the main arguments by which sceptics might seek to dismiss the correlation - or indeed, the whole issue of reported impact - as an artefact.

The first is that of respondent bias. It emerged clearly from the focus groups and the consultations that training professionals were more inclined than other managers to view the Training Guarantee favourably, and hence more likely to acknowledge it as a positive influence. It seems reasonable to assume that firms which were in the process of significant corporate change, imposing new demands on the skills of the workforce, would be more likely than others to employ training professionals in relevant management positions. Consequently, it could well be argued that the higher propensity of such firms to report positive impacts of the Training Guarantee was partly a reflection of the greater probability that their TPS questionnaire was filled out by a sympathetic professional.

The second possibility is that the impact of the Training Guarantee was even more randomly distributed than the scant statistical correlations suggest. As the small business study reported:

"The single most important finding was that the impact of the Training Guarantee has been highly varied both within and between industries. Employers from all industries reported
both positive and negative views on the Training Guarantee. By far the largest group, however, were indifferent about the legislation. \(^{118}\)

Without anticipating the more detailed analysis in Chapter 8, it should be pointed out that such randomness would be wholly consistent with the strong reliance which the Training Guarantee placed on the initiative, expertise and attitudes of management at the level of the individual enterprise. It is quite possible - at least in some places, and in some industries - that idiosyncratic differences between enterprises and managers accounted for a larger proportion of the variation in impact than any of the macro-level factors identified in the survey questionnaires or analysis. The less concentrated and less co-operative the industry, the more probable this hypothesis would be.\(^{119}\)

Either of these hypotheses, if proved to be true (and there is currently no convincing means of either verifying or falsifying them), could detract from the credibility of many of the conclusions drawn so far from the survey data. Neither, however, would invalidate the finding of a synergistic effect. For where managers were unwilling to acknowledge the legitimacy or influence of the program, or lacked the knowledge, resources or flexibility to be able to comply in a context of strategic business development, it is probably not realistic to suppose that they would have reacted to it in the spirit that was intended. In this event, the synergy could be defined in the converse sense from the way it was defined above: the Training Guarantee might not have had any significant long-term impact unless the employer had other motives or practical reasons to train.

It would be wrong to dismiss this synergistic effect as either trivial or superfluous. Many participants in the focus groups spoke strongly of the value of the Training Guarantee in shielding their area of the organisation from spending cuts, especially in the depths of the recession. Bearing in mind the evidence, cited in Chapter 4, that the recession had a marked negative impact on training activity in the only two other OECD countries for which reliable data are so far available, it might credibly be argued that this effect alone was enough to make the program worthwhile.

On the other hand, it adds to the accumulating body of evidence for concern about the effectiveness of the program in the areas of industry it was primarily intended to target.

**Level of compliance**

The initial audit carried out by the ATO for 1990-91 revealed a surprisingly high compliance rate, originally estimated at 97%. (ATO believed at the time that this figure might have somewhat overstated the true level of compliance because of the broad definition of compliance applied in this first year, but maintain that the real figure was well above 90%). Voluntary shortfall contributions amounting to $3 million were received from 1,219 employers, of whom 77% had payrolls in the range $200,000-500,000. Small employers also accounted for 75% of unmet obligations. The industries which recorded the highest incidence of unmet obligations were construction; finance and business services; wholesale and retail trade; and transport and storage.

No corresponding audit was carried out in the second year, when the audit program concentrated on industries identified in the first year as relatively low compliers. However, the audit for 1992-93 - the final one conducted before the scheme was suspended - used an identically structured sample to

\(^{118}\)ACIRRT, 1994a, p.13

\(^{119}\)As noted earlier, this interpretation is strongly supported by the findings of Smith et al.
that for 1990-91 in order to allow direct comparison. Estimated compliance remained at 93% despite a less elastic application of the guidelines than in the initial year. ATO consider that the true level of compliance for 1992-93 was very nearly the same as in 1990-91.

Over this period the number of employers submitting voluntary shortfall statements declined sharply from the initial year, falling to 623 in 1991-92 and rising again to 722 in the following year. This rise reflects the increase in the minimum expenditure requirement from 1% to 1.5% which took effect in that year, and which also led to an increase in the total amount of shortfall contributions from $1.5 million to $2.26 million - still well below the 1990-91 figure.

The major industry groupings with the highest estimated levels of non-compliance in 1992-93 were wholesale and retail trade (9.9%), transport and storage (8.5%) and manufacturing (7.6%). Employers in the band just above the threshold still accounted for the greatest number of unmet obligations (7.7%), but the gap between them and the next highest payroll band had narrowed appreciably since 1990-91.

Tasmania and the Northern Territory, the States where TPS respondents were least likely to report a positive impact in the last 12 months, also recorded the third lowest and lowest rates of compliance, at 87.6% and 81.4% respectively. The gap between them and the other States had widened considerably since the previous audit. On the other hand, South Australia, which reported the highest incidence of positive impacts in TPS over this period, actually scored a marginally lower level of compliance than Tasmania (87.5%).

The TES/TPS data reveal a less optimistic picture. In the September quarter of 1993, the reference period for TES, 25% of eligible organisations reported no training expenditure. This in itself is not necessarily cause for alarm, as this was the first quarter of the accounting year, and many employers (including, but not limited to, the more marginal compliers) would have delayed their expenditure until later in the year. The figure was in any case a strong improvement on 1990, when only 60% of eligible employers reported any expenditure in the corresponding quarter.

Less easily explained is the claim of 15% of eligible employers in TPS - including 25% of those with fewer than 20 employees - to have spent nothing on formal training over the full 12 months to February 1994. Not all of this can be construed as non-compliance. The definition of "formal training" for TPS was not identical to that of "eligible training" for the Training Guarantee; some of these employers could have acquitted their Training Guarantee obligations by making donations to training institutions or training other firms' employees; others might have paid a shortfall contribution; others again might have acquitted their 1992-93 obligations in the first two quarters of that year and planned to acquit their 1993-94 obligations in the final quarter. Nevertheless, experience from previous years suggests that none of these options (except perhaps the last) would have been sufficiently common to explain more than a very small fraction of the reported non-trainers.

Owing to the suspension of the scheme and the subsequent winding-down of the responsible area in ATO, no compliance audit was carried out for 1993-94. In any case, employers who did not meet their obligation in that year will not be required to submit shortfall statements until and unless the

120Employer Training Expenditure, 1993, Table 2
121ETP, Table 16
scheme is reactivated. In addition, amendments passed about two months before the program was suspended allowed employers who had recorded shortfalls to make them up over the next two years. Consequently, it is virtually impossible to estimate the level of compliance in that year.

It may be significant, however, that by the end of October 1994, $12.5 million in unmet obligations from 1600 employers was officially reported to the ATO as being held over for acquittal in later years. This is in addition to slightly under $300,000 in voluntarily lodged shortfall contributions, and probably a significant number of eligible employers who saw no need to advise the ATO of their underspending. As the total amount reported as unspent was nearly double the total collected in shortfall contributions over the previous three years of the scheme, it seems reasonable to conclude that a substantially higher proportion of employers than in previous years would have found, at the very least, some difficulty in spending the required minimum amount by the end of 1993-94.

This conclusion would seem to be reinforced by the client research data already cited, indicating that 23% of respondents were experiencing trouble in fulfilling their obligations for the current year, and 34% expected difficulty in future years. The TPS data suggest - as does the ATO research - that this is a problem so far confined almost entirely to small employers. Nevertheless, it does add weight to the evidence already quoted that a growing proportion of the original "problem" employers were gaining no benefit from the scheme, and were in fact starting to drop out of it altogether.

Burden of compliance

Several attempts were made in the course of the evaluation to find some means of quantifying the burden of compliance. However, it became obvious in field testing that only the most impressionistic of survey questions were feasible.

TPS respondents were asked whether the Training Guarantee had increased the time and/or cost involved in keeping their training records. Almost three quarters reported an increase in the time requirements, with around 65% reporting an increase in cost. A less expected finding was that large employers were more likely than either small or medium ones to report an increase in both areas. For example, 82% of large employers reported an increase in time required, as against only 67% of small ones.122

In the ATO market research survey in April 1994, 16% of employers claimed an increase in their documentation costs of more than 30% since the scheme came into effect (though this would presumably have included those who previously kept no records at all). For 17% of respondents, there had been no increase, while of those whose costs had increased, three out of every five put the increase at 10% or less.

Beyond this point it is necessary to rely on qualitative research. As with the other qualitative research, this was chiefly characterised by a remarkable absence of consistency. The consultants who carried out the focus groups were asked to press participants for estimates. Few were prepared to commit themselves to a figure. Among those who were, the estimates varied widely:

122ETP, Graph 3
"one additional person to keep records;"
"say, $30,000 a year;"
"it probably took about 2.5 days per year, about 1% of the costs of one employee for the year;"
"additional costs were often more perceptual than real" (this last from one of the major accountancy firms).

From the combined evidence of the focus groups, both rounds of industry consultation, and the persistent questioning of managers and line administrative staff undertaken earlier in the case studies and small business study, it appears that this range of variation was genuine. How much it cost an employer to comply depended very much on how the individual employer approached it. Where substantial compliance costs were identified, it was usually because the firm needed or chose to set up a new set of records, separate from its internal recording system (and often wholly paper-based), solely for Training Guarantee purposes. This often seemed to reflect a real and significant error in the design of the program, which will be discussed further in the next chapter.

Generally speaking, however, it is much easier to describe the nature of the compliance burden than to quantify it. As with the positive effects of the Training Guarantee, it was largely a problem of isolating the net impact:

- managers (especially those not directly involved in training) often found it difficult to distinguish the effort involved in creating documentation for the Training Guarantee from the increased record-keeping which would have been required in any case for a more strategic approach to training;

- because the Training Guarantee was such a publicly visible program, employers tended to attribute to it subjectively the burden created by a wide range of other government-initiated documentation requirements. Focus groups to which this proposition was specifically put mostly agreed with it; most participants also felt on consideration that the actual reporting burden was minor in comparison with those imposed on them by various other government bodies.

On balance, and despite determined efforts to find hard evidence, none was found to suggest that the compliance requirements of the scheme were imposing a significant net economic burden on industry. Moreover, no participant in the focus groups or the small business study was directly aware of any instance where the compliance burden of the Training Guarantee had led to a decrease in the number of people employed by an organisation.

The real impact of the compliance burden appears to have been on industry's perception of the Training Guarantee, and on the willingness of individual employers to accept its legitimacy and attempt to comply constructively. In this regard it does appear to have been sufficiently important to warrant detailed discussion in the next chapter.
The Training Guarantee: its Impact and Legacy

Costs and benefits

In principle, cost-benefit analysis is not possible for a program like the Training Guarantee, where the net benefits cannot be accurately quantified even in simple expenditure terms, and where the expenditure outcomes in any case tell only a minor part of the story. The real benefits of the Training Guarantee will be those that emerge in the long term through a more competitive economy and better employment prospects for individuals. Needless to say, both quantifying these and isolating the contribution of the Training Guarantee would be several orders of magnitude more difficult than estimating its impact on industry spending. On the cost side, the difficulties already discussed in quantifying the net cost to industry mean that it is only possible to compare the benefits (however estimated) with the costs incurred by the Commonwealth.

Nevertheless, a number of stakeholders - notably the Australian National Audit Office in its 1993 Budget Session report\(^1\) - have expressed a requirement for some kind of quantitative assessment of the costs and benefits of the program. On the understanding that any estimate will necessarily be inconclusive and is highly likely to be inaccurate, there is still some point in quantifying the net incentive effect of the program - i.e. how effective the Commonwealth's expenditure was in creating new private expenditure on training.

Net cost to the Commonwealth

The administrative costs of the scheme fell into three categories:

- operation of a Training Guarantee unit in ATO, which was responsible for administration, compliance auditing, publicity and first-line client advice. This was the largest component, employing up to 32 staff for all or part of the year (a maximum of 18-20 full-time) and generating running costs of between $2 million and $3.5 million a year;

- policy development, evaluation of the program and operation of the Outstanding Trainer Scheme within DEET, involving an average of 4-5 staff and annual expenditures that varied between $200,000 and $750,000; and

- administration of the Registered Industry Training Agent (RITA) scheme by the National Training Board, at a cost that fell steadily from $177,000 in the first year to $55,000 in the fourth.\(^2\)

Total administrative costs amounted to $13.4 million for the four years, of which just under $7 million was recovered from shortfall contributions. This left a net cost of $6.4 million, or $1.6 million a year, up to the time the program was suspended.

Net contribution to industry spending

The actual magnitude of the change in expenditure resulting from the Training Guarantee is difficult to estimate, especially given that it appeared to be most effective in conjunction with other

\(^1\)ANA0, 1993, para. 1.95 (p.18): "The ANAO considers that DEET should ensure that the question of the Training Guarantee's overall cost-effectiveness is conclusively addressed in the major evaluation to be conducted in 1994."

\(^2\)Data supplied by DEETYA to the Department of Finance for purposes of the administration of the Training Guarantee Fund. Employment figures for the ATO have been checked with that Office.
incentives (notably a significant change in the firm’s operations). Any attempt to quantify its contribution must necessarily be crude. Nevertheless, some order-of-magnitude estimates can be made for the purposes of comparison, both with estimates made of the scheme's potential contribution before its introduction, and with its administrative costs.

As a first step, the change in overall expenditure over the period the Training Guarantee was in effect can be calculated from the TES statistics (Table 6.2).

This calculation indicates that eligible employers were spending around $650 million a year more in 1993 than in 1990, and $1,110 million more than in 1989, in each case unadjusted for inflation. In constant 1993 values (based on CPI), the difference works out to $420 million and $710 million respectively. For the private sector alone (where the Training Guarantee is likely to have had its greatest effect), the adjusted differences come out to approximately $405 million and $670 million.

| TABLE 6.2 |

| Training expenditure, September quarter |
| (employers above Training Guarantee payroll threshold) |

<table>
<thead>
<tr>
<th></th>
<th>1989</th>
<th>1990</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL EMPLOYERS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenditure ($m)</td>
<td>785.1</td>
<td>901.9</td>
<td>1063.6</td>
</tr>
<tr>
<td>Expenditure per employee ($)</td>
<td>149.3</td>
<td>180.5</td>
<td>223.0</td>
</tr>
<tr>
<td>Expenditure (%GWS)</td>
<td>2.4</td>
<td>2.7</td>
<td>3.1</td>
</tr>
<tr>
<td>PRIVATE SECTOR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenditure ($m)</td>
<td>397.7</td>
<td>484.2</td>
<td>615.8</td>
</tr>
<tr>
<td>Expenditure per employee ($)</td>
<td>113.1</td>
<td>152.1</td>
<td>200.0</td>
</tr>
<tr>
<td>Expenditure (%GWS)</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: ABS, Employer Training Expenditure, 1989 (Table 3 and unpublished data), 1990 (Table 3), 1993 (Table 2)

Leaving aside the limited reliability of the 1989 figures, the problem remains that only part of this growth is attributable to the Training Guarantee. To complicate matters further, the other influences on training activity over the four years included negative as well as positive ones. This is clear from the fall since 1990 in training expenditure among employers below the payroll threshold, where expenditure per employee fell by 13.5% unadjusted, and 18.4% in constant 1993 values. Had this fall been repeated among the 10-14 group (i.e. those just above the Training Guarantee threshold, where for reasons noted earlier in this chapter, the rise in expenditure appears to be due mainly to
the Training Guarantee effect), expenditure in this group alone would have been $27 million lower over the full year 1993-94.

An alternative estimate can be derived from the expenditure statistics for employers who reported an increase in their expenditure over the four years as a result of the Training Guarantee. Total expenditure by this group over the September quarter of 1993 came to just under $400 million, of which $109 million was spent by those who attributed a "large increase" to the Training Guarantee125. Obviously the definition of a "large increase" is too flexible to be informative, ranging from those who previously spent nothing on formal training (40% of all eligible employers in 1990) to those for whom the increase in spending attributed to the Training Guarantee might all have come about for other reasons anyway. However, rule-of-thumb calculations can be made, of which two possible examples follow.

The first method is simply to place a notional average figure on what is meant by a "large increase" and a "small increase", in each case allowing for a reasonable range of variation. For example, a fairly conservative estimate would be that those who reported a "large increase" were spending on average 20% more in 1993 than they would have without the Training Guarantee, and those who reported a "small increase" 5% more. On this basis, the net contribution of the Training Guarantee to industry's training expenditure over the full year would be in the neighbourhood of $145 million. Even if one were to err considerably on the side of caution and reduce the averages to 5% and 1% respectively, it would still mean a net contribution of $33 million for the full year.

The second method works from the proportion of payroll spent by each group. In 1993, this came to 2.45% for the "large increase" group and 2.72% for the "small increase" group. Since 56% of eligible employers were spending less than the then minimum of 1% in 1990, it would seem reasonable to conclude that these make up a high proportion of the "large increase" group127. For the sake of convenience - and to allow for an increase in expenditure from other causes - it might be assumed that the Training Guarantee effect for the "large increase" group was equivalent to the difference between the minimum expenditure requirement in 1993 and their actual average expenditure. Without any allowance at all for the "small increase" group, this would mean around $168 million over the full year, a figure reasonably close to the higher estimate under the first method - i.e. between a quarter and a third of the total increase in expenditure (in constant dollars) since 1990.

Neither of these methods appears especially compelling, but in a sense their strength lies in their evident crudeness. More sophisticated analyses could be devised, but it is unlikely that the increase in complexity would be accompanied by any worthwhile increase in accuracy or reliability. What this sketch of the evidence has established is the rough magnitude of the upper and lower limits that can reasonably be placed on the contribution of the Training Guarantee to the growth in industry's training expenditure since 1990.

125ABS, special TES/TPS tables prepared for DEETYA
126Employer Training Expenditure, 1990, Table 10
127Although, as indicated above, as many as half of the non-spenders in 1990 may still not have undertaken any training expenditure in the corresponding quarter of 1993.
The Training Guarantee was clearly cost-effective for government

Before the scheme was implemented, there were estimates that it would add between $600 million and $700 million to industry's expenditure on training\textsuperscript{128}. The foregoing analysis shows fairly conclusively that these predictions were optimistic. In a sense, they could better be seen as pessimistic, since they failed to allow for the many other factors that would encourage training activity over the period. These other factors made the Training Guarantee less critical as a driver of change, and mean that the proportion of overall investment growth attributable to it is less than would have been the case if it had been the sole positive influence.

On the other hand, it seems virtually irrefutable that the Training Guarantee was cost-effective from the Commonwealth's point of view as an incentive program. On the most conservative estimate that can reasonably be derived from the survey data, it generated at least $20 in private investment for every dollar of Commonwealth expenditure.

Perverse effects

A scheme such as this, which operates simply by compulsion to spend without detailed or context-specific guidelines on the nature of the spending, runs the risk of provoking suboptimal investment. In the worst case, it could cause a business to spend its training budget less efficiently than it might have in the absence of the incentive - for example, because a particular training option is more readily available within the accounting period, or because it fits more easily into the reporting guidelines.

The qualitative evidence discussed in the next two chapters revealed a widespread concern in industry that perverse effects of this kind had occurred. However, the surveys produced only circumstantial evidence, since it proved impossible to develop a question which would provide accurate and consistent data on this precise issue.

Various behavioural indicators have been examined for the groups of employers who reported increases in their training expenditure as a result of the Training Guarantee. These include the level of training expenditure, the types of training they offered, and the composition of their training budgets. Surprisingly few differences emerge, either between the "large increase" and "small increase" groups, or between either group and all respondents.

Total expenditure per employee is actually higher for both "increase" groups than the overall private sector average. For the "small increase" group it is only marginally below the average for all employers. Both "increase" groups incurred higher than average wages costs on induction and OH&S training, and both spent slightly more than the average on fees to outside trainers. The "large increase" group spent significantly less than the average on computing, technical and para-professional, clerical and sales, and "other" training. Management and professional training expenditure for both groups was slightly less than the overall average. In general, however, the patterns of expenditure are very similar\textsuperscript{129}.

\textsuperscript{128}Hon J. Dawkins MP, "Face to Face", Ten Network, 10 September 1989
\textsuperscript{129}ABS, special TES/TPS tables prepared for DEETYA
This should not be seen as conclusive evidence that perverse effects were uncommon. As already pointed out several times, an effect of this kind might have been quite widespread in practice but failed to show up in the data because it cut across the statistical categories, being relatively under-represented in individual categories or cancelled out by other factors.

One positive indication is that employers whose training expenditure increased as a result of the Training Guarantee were more likely than others to report a positive influence on qualitative aspects of training. On this count, the "large increase" group performed consistently much better than the "small increase" group. While part of this correspondence may be the result of respondent bias, it does suggest that where the Training Guarantee brought about increased training expenditure, it led to actual improvements in attitudes and practices rather than simply an enforced compliance effect.

"Rorts"

Numerous reports gained currency about businesses "rorting" the scheme by running recreational activities for their executives with only the scantest veneer of training content, and claiming them as eligible expenditure. While there appears to have been an element of truth in this belief, the available evidence suggests that the practice was less widespread, and less spectacular, than commonly believed.

The guidelines did allow some latitude for recreational content in eligible training programs, so long as recreation was not a "significant object". Within this somewhat imprecise guideline (which was a source of some confusion to industry), the ATO uncovered 60 cases in 850 field audits undertaken over the first two years where a claimed expenditure had to be ruled ineligible because of excessive recreational content. Not all of these seem to have been deliberate fraud, and in most cases they were claimed by businesses which were already spending the required amount on legitimate training. Only 12 of these cases resulted in the taxpayer recording a shortfall for the year.

This area was specifically targeted in the 1992-93 audit, but no evidence emerged that it was still a serious problem. This could indicate that many of the "rorts" in the initial period were part of industry's learning process - e.g. instances where employers genuinely did not understand the allowable limits, and cases of employers "trying it on" to see just how much the ATO would let them get away with. However, the ATO client research into problem industries in that year indicated that it was still common in the entertainment industry to resort to "creative" practices when it came to providing training for the many casual and part-time employees in the industry.

It is more likely that unreasonable claims were made through the practice of "padding", i.e. increasing the attractiveness of legitimate training activities through more exotic locations, higher standards of accommodation and more extra-curricular activities. Focus group participants generally felt that this practice had been gaining ground for quite some time before the Training Guarantee was introduced; most large firms now saw such "padding" as a normal and expected part of their staff incentive programs, and had been claiming income tax deductions on the strength of it for many years.

Impact on training market

Statistical information on the training industry (other than TAFE) was not available during the period the Training Guarantee was in effect. The ABS publication Commercial Training Providers
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appeared for the first time in January 1996, just as the final edits were being made on this report. Consequently there has been no opportunity to analyse the data from this survey in detail, and those statistics which follow are drawn from the publication.

Respondents to this survey were not asked whether the Training Guarantee, or its suspension, had been a factor that influenced their level of training activity."Implementation of government legislation", which would have included the Training Guarantee, was cited by 40% of respondents as a factor that increased their training activity during 1994. However, it seems logical to suppose (even leaving aside any possible negative effect of the suspension) that most of the increase in activity resulting directly from the introduction of the scheme would have been concentrated in earlier years. The data on growth in the industry appear to support this view.

The period from 1990 to 1992 saw a large increase in the number of private sector organisations providing training on a commercial basis. Of those firms whose primary business in 1994 was training, 28% had come into operation during this period, and a further 11% since 1992. Of the other organisations which provided commercial training (e.g. industry and professional associations), 22% had entered the market in 1990-92, and 13% since 1992.

However, the Training Guarantee appears to have been only part of the reason for the growth in their numbers over this period. Participants in the training providers focus group suggested another major contributing factor: many highly skilled and experienced managers and professionals had lost their jobs as a result of the recession, and saw training as an avenue of establishing themselves in independent businesses.

By 1994, half of all commercial training providers were classified by ABS as "small", i.e. with a total output of less than 4,000 participant hours over the full calendar year. This category included 41% of those organisations whose primary business was training. This is consistent with the subjective perception of the focus groups that growth in the training industry had been strongly concentrated among small firms, though without further analysis it is impossible to establish this clearly from the published data.

There was general agreement among participants in the qualitative research that many of these new providers had been of dubious quality. Whether this was seen as a problem by consumers depended largely on the size of the consumer.

The focus groups, where most participants were training professionals employed by larger organisations with established training records, were inclined to play down its significance, believing that the market had sorted out the most undeserving of the new entrants within as little as the first two years. Few of the participants appeared to have had any direct experience with such new entrants: the impression which emerged was that larger firms tend to find one or a handful of (usually private) providers which have proved their ability to understand and meet their specific needs, and stay loyal to them for an extended period. (Interestingly, this lack of active search behaviour seemed to extend to TAFE as well as the private training industry. Few of the

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130 The reference period ran from January to December 1994, and hence should have covered any initial impact of the suspension on demand for training services.
131 Commercial Training Providers, Table 4
132 Ibid., Table 3
133 Ibid., Table 2
unfavourable comments made about TAFE in the focus groups seemed to owe much to either recent or first-hand experience.)

For the small business sector, where there was less experience to draw on and less capability to discriminate in advance, the quality of providers emerged as a problem of sufficient proportions to undermine the effectiveness of the Training Guarantee, as the following extracts from the small business study illustrate:

"Views on training providers were uniform: all industry representatives had major concerns about the number of sub-standard training providers that have gained official recognition for Training Guarantee purposes. In vehicle repairs they appear to have been particularly damaging. First, these organisations claim to provide people with the capacity to be 'vehicle repairers' after completing courses of only several weeks' length... The subsequent excess supply of semi-skilled labour is demoralising for course participants and gets training a bad name."134

"The inadequacy of the hospitality industry's training arrangements has been highlighted by strong labour demand in recent years... As a result there has been a proliferation of external institutions, particularly in the private sector, purporting to meet the demand for skilled labour. One of the major issues confronting the industry is the growing number of below standard private training providers. Many of these are preying on the insecurities of the unemployed and are discrediting training by issuing credentials of questionable worth..."135

Some cause for concern also emerges from the findings of the survey that only 13% of all commercial providers (5% of all small providers) offered any courses at all which were accredited by the relevant State or Territory authorities136. Only 7% had more than half their courses accredited. However, those whose primary business was training performed somewhat better, with 22% providing at least some accredited courses137.

But perhaps the more disturbing finding is that there seems to be so little evidence of the private training industry responding to the opportunities provided by Training Guarantee in a truly entrepreneurial or innovative way. The consultancy team carrying out the small business study was explicitly instructed to seek out innovative training organisations that had arisen as a result of the Training Guarantee. In the whole of western Sydney, they found only two. Interestingly, the more genuinely inventive of these had been set up not by professional trainers or managers, but by retrenched skilled workers138.

In general, the evidence suggests that much of the private training industry, presented with what amounted to a demand subsidy, reacted as the more cynical Public Choice theorists might expect: opportunistically and in a purely rent-seeking fashion, treating the newly created demand as a relief from competitive pressures rather than an opportunity to build new market segments. In this there are parallels with what happened several years earlier, in response to a similar large increase in

134ACIRRT, 1994a, p.16
135Ibid., p.10
136Commercial Training Providers, Table 18
137Ibid., Table 19
138ACIRRT, 1994A, pp. 23-24
demand brought about by new government policies, among private institutions providing English language courses for overseas students.

As a result, the scheme seems to have produced little new effective competition to TAFE except on price. Some TAFE providers in the focus group even complained of the number of private training consultancies which were constantly on the phone seeking to poach their ideas and experience.

TAFE, by contrast, seems to have reacted positively to the stimulus in many areas, offering new courses and assistance to businesses in developing strategies, and showing increasing willingness to mount tailored in-house courses to replace previous off-site standard offerings. The Commercial Training Providers survey suggests that by 1994, public training providers were strongly improving their competitive position, with 45% of private providers citing "competition from TAFE and universities" as a factor that led to a decrease in their training activity.139

However, perhaps the most interesting development in the market, which emerged clearly from TPS, is the rising importance of professional and industry associations as training providers. Many of these profited demonstrably from the Training Guarantee, because their status as RITAs and their representational activities on behalf of their members put them in a favourable position to identify unmet training needs in their area and develop offerings acceptable to their members.

Predictions that the demand subsidy effect of the Training Guarantee would push up prices have not been substantiated. Indeed, the general feeling in the focus groups was that the increased competition in some areas at least had forced prices down. The training providers focus group estimated that the proliferation of firms in the training industry had reduced prices overall by some 10%, though this effect was beginning to wear off, presumably as the less satisfactory of the low-priced competitors went out of business.

**Equity effects**

Little evidence emerges from any of the research undertaken for this evaluation to suggest that the Training Guarantee led to any worthwhile increase in the availability of training to disadvantaged groups in the workforce. While the case studies revealed a number of firms where serious efforts were being made to increase the skill profile of the lowest skill categories, in all these cases the change was clearly driven by factors other than the Training Guarantee - primarily award restructuring, quality assurance requirements, and changes in the competitive environment of the industries in question.

A comment frequently raised in the focus groups, industry consultation, the small business study and feedback to ABS researchers, was that where additional training occurred solely as a result of the Training Guarantee, there was an incentive to direct it towards highly-paid workers, since their higher salary costs made it easier for a marginal complier to meet the 1.5% expenditure requirement.

In response to the TPS question on the qualitative impacts of the Training Guarantee, 36% of eligible employers claimed to have increased the amount of training offered to lower-skilled

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139 Commercial Training Providers, Table 5
workers as a result of the scheme\textsuperscript{140}. However, there is no way of telling how significant this increase was. Given the evidence in Chapter 4 that the availability of training to lower-skilled workers declined overall, it certainly cannot have been sufficient to offset the other factors behind this reduction. Conversely, this aspect of training also received the third-highest "no impact" rating (55%). In what may well be a further reflection of the lack of progress made by shop-floor workers, the second-highest "no impact" rating went to "consultation with employees on training issues".

Perhaps surprisingly, small employers were marginally more likely (38%) to report a positive effect on the training of lower-skilled workers. However, this group also provided the least training for such employees: only 10% of them gave any training to labourers and plant operators, as against 70% of large organisations\textsuperscript{141}.

Given the evidence on the synergistic effect of the Training Guarantee, one should not dismiss the possibility that it provided useful reinforcement to positive moves that had originated for other reasons. Overall, however, the equity outcomes have to be judged the least successful aspect of the program.

\textsuperscript{140}Employer Training Practices, Table 15
\textsuperscript{141}Ibid., Table 27
The Training Guarantee was initially received favourably by most individual employers, but lost support over time. Main reasons for its deteriorating image included the paper burden, the perceived inflexibility of the guidelines on eligible training, the failure of the scheme to screen out unscrupulous training providers, lack of guidance on suitable options for compliance, and the fact that it was administered by the ATO, thereby creating the impression that it was a tax rather than an incentive program. On the other hand, industry organisations, which initially opposed the scheme strongly, had mostly come to believe by the time of its suspension that it had brought some benefits. The payroll threshold appears to have been set below the actual level at which compliance became difficult. The guidelines on eligible training were often misunderstood, but also resented by some employers as not being sufficiently explicit. The burden created by the documentation requirements was greater than envisaged, partly because they were incompatible with the way many large organisations kept their internal training records. Certain features of the scheme such as the Outstanding Trainer Awards, Registered Industry Training Agents and the provision for alternative industry-based levy schemes had only limited success. The main problem lay in the lack of support mechanisms, especially for smaller firms which had no relevant models of enterprise-based training to guide them. Initial views from industry were that the suspension of the scheme would have some negative impact on training activity.

This and the following chapter analyse the causes behind the patterns shown up by the surveys in the impact of the Training Guarantee. This chapter attempts to identify what made the program work, and how various features of its design contributed to its operation in practice.

This and the next chapter rely mainly on the large body of qualitative evidence drawn from:

- an initial round of consultation with industry organisation, unions, training providers and major accountancy firms in 1992;
- a follow-up round of consultation with the same parties after the suspension of the scheme;
- thirteen case studies undertaken in 1992 and 1993;
- a composite study of small businesses in the greater Sydney area undertaken in the latter half of 1993;
- a series of 8 focus groups in Sydney, Melbourne and Lithgow in August-September 1994;
- feedback to ABS field staff from respondents to TES and TPS; and
- attitude surveys conducted for the ATO between June 1991 and April 1994.
The surveys, as has been noted, conveyed the impression that there was little consistency in the response to the program. The same impression emerged starkly from the qualitative evidence. A good example comes from representatives of two of the industries covered by the small business study:

"These indicated that when it came to training, there were three types of employers: 'good' trainers, 'hopeless' trainers, and those in the middle. They felt the Training Guarantee typically had little effect on the first. As for the second, they believed it did not affect their training but caused administrative, especially documentation, problems. Finally the third group felt it did make a definite difference, improving workplace training and documentation practices. From our phone survey and other consultations we would estimate that 25% of employers fall into each of the extreme categories with 50% in the middle."

(ACIRRT, 1994a, p. 14)

At first sight, it might seem remarkable that such a high proportion of employers were susceptible to a marginal incentive. Such an assessment, though based on a survey of over 100 employers, could not be taken at its face value in isolation. However, the evidence from the ABS surveys that the perceived effect of the Training Guarantee was so widespread, and so widely distributed among different industries and enterprise types, lends itself to such an explanation. (Indeed, it appears to have been more widespread than the consultants believed, since they go on to estimate that only 20% of this "middle" category would have actually increased their training as a result of it.) This in turn suggests that its effectiveness was largely a result of its timing; it cannot be safely concluded that a similar program would work equally well in another time or place, or in different circumstances.

The qualitative data are, of course, subjective - but in a program aimed primarily at changing attitudes, subjectivity matters. Perceptions of the scheme, even where they may have been irrational and had no basis in fact, were crucial to the way employers responded. They cannot be ignored as indicators of the effectiveness of the program's design.

Limitations of the program

The Training Guarantee, as explained in Chapter 3, reflects a number of significant tradeoffs in its design. Above all, it is a very simple program addressing a complex problem. It was explicitly not targeted, either at particular categories of employers or training, or at specific behavioural changes. This makes it difficult to assess a priori how it was expected to work, and what results it might reasonably have been expected to achieve within four years.

The mechanisms underlying the Training Guarantee must be understood in the light of its design philosophy: that it should operate not through pure compulsion, as part of an overall directive process of economic planning, but rather as a catalyst in bringing about a change of behaviour which employers would find, once they had made it, to be in their continuing interest.

An equally important constraint lies in its emphasis on individual learning and behavioural change. Unlike comparable overseas programs, it made no attempt to harness the collective learning resources of industry, or to impose collective solutions - it certainly left the opportunity open for industry to take this course if it chose, but as has been seen, industry generally chose not to. Neither did it set up any special mechanisms or institutions by which individual employers could pass on
their experience to others facing the same problems. On the surface, it would appear to imply unusual faith in the learning capacities and openness to change of Australian businesses to expect that they should arrive, through the cumulation of many enterprise-level decisions taken in relative isolation, at a process of change that will take effect uniformly across the whole economy.

Indeed, given what has been said in Chapter 2 about the complex preconditions for a high-skill equilibrium, a program which operates by simple compulsion on one party - particularly a program as unprescriptive as this - might appear at first sight like pushing on a piece of string. But since the evidence of the surveys shows conclusively that it did have an effect - however uneven - it is necessary to identify the mechanisms by which this effect came about.

The prerequisites for change

A program of this type, if it is going to contribute to a sustained transition to a high-skill equilibrium, ought logically to fulfil three requirements at the minimum:

- it must be consistent with changes taking place elsewhere in the economy, especially on the demand side;

- it must create or feed into a pattern of sustained incentives for change; and

- it must fill a gap in the pre-existing incentive structure.

By the late 1980s, most of the leading firms in Australia had already recognised the value of a serious commitment to workforce training. The problem was more that there appeared to be cultural impediments to the spread of this cultural change to all areas of industry. Thus, the Training Guarantee needs to be understood, in large measure, as a cultural change program.

As already discussed in Chapter 2, the most important of the cultural impediments to change were:

- a legacy of complacency and risk-aversion on the part of industry, resulting from decades of circumscribed competition;

- a lack of tangible short-term incentives for skill acquisition on the part of workers, and for human capital development on the part of employers;

- the persistence of traditional forms of workplace organisation which did not permit the effective use of higher levels of skill, particularly among shop-floor employees;

- the growing importance within the Australian economy of industries which had little tradition of formal training; and

- the fear of poaching.
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Mechanisms for change

The Training Guarantee explicitly addressed only the last of these impediments. However, the 1988 discussion papers clearly show that the other issues were equally in the government's mind at the time it was developed - albeit some of them were targeted primarily by other elements of the Training Reform Agenda. With the benefit of some hindsight, it is possible to construct a theoretical argument showing how the Training Guarantee might have been expected to address the disincentives which were thought to be inhibiting the spread of training reform.

This argument predicts five effects, all of them essentially catalytic:

1. **kickstarting workplace reform**: it was reasonable to expect that once employers had made the initial investment in training, they would have an incentive to confront the issues of work organisation and management style in order to get the full benefit from their (initially enforced) investment. Once they had begun to make these changes, a virtuous circle should set in, leading to sustained growth in the willingness of the workforce to acquire new skills and the ability of the enterprise to profit from them;

2. **overcoming short-term cost disincentives**: many employers may have realised that there were potential benefits for their business in taking the high-skill path, but been discouraged from making the initial investment by pressure (e.g. from shareholders, or from the threat of hostile takeover) to maintain existing levels of profit. A legal obligation to make this initial investment might be sufficient, if properly calculated, to overcome this marginal cost disincentive without jeopardising the viability of the enterprise in the medium or longer term. In addition, if future cyclical pressures on the business should force a trade-off between maintaining the training effort and maintaining current-year profitability, the statutory minimum expenditure requirement should tip the balance in most cases towards continuing with the training strategy;

3. **overcoming risk aversion**: a business might have been attracted to a high-skill strategy but, realising that it involved much more than simply spending money on some training, have been deterred by the element of risk, uncertainty and disruption involved in such a major change of focus. If its present organisation was bringing reasonable profitability for the time being, and if few of its competitors showed signs of changing strategy, it would probably prefer to stay with its present business organisation and strategy. However, if it were to be obliged to spend money on training, and if all its competitors were to be subjected to the same obligation, it might be more inclined to take the punt on a change of corporate strategy;

4. **learning-by-doing**: many employers appear to have been discouraged from starting to train because they did not know where to begin. They did not know what the options were, or where the resources were, and were reluctant to spend time doing the necessary research. But if they were forced to start training, they would have no choice but to examine the options and, over time, develop a training strategy that best suited their individual needs. If they had to work out this strategy for themselves, rather than having it imposed on them by another party, they should in theory feel more ownership of it, and thus be more motivated to persevere with it;

5. **overcoming the free-rider problem**: so long as one firm trains and another does not, and provided labour is fully mobile and the skills are transferable, the firm which does not train can use the savings to poach trained staff from the firm that does, by offering them a higher salary.
than the training firm can afford to pay. Thus, the firm which does train effectively subsidises its competitor. This is a classic prisoner’s dilemma in which, from the individual viewpoint of either firm, it is always better not to train. The Training Guarantee aimed to overcome this by ensuring that each firm either directly bore some share of the costs of training, or contributed through its shortfall contribution to the costs of training undertaken by others.

This list is probably representative rather than exhaustive of the economic mechanisms through which the Training Guarantee could operate. However, it should serve as an indication that the scheme had an economically rational basis - given certain assumptions which, as will be clear from the foregoing, are more readily acceptable for some of the mechanisms than for others. It also provides a convenient framework for assessing whether reality coincided with the expectations.

**The Training Guarantee was most likely to work at the margin**

These economic arguments explain the evidence in Chapter 6 that the Training Guarantee was most effective at the margin - in other words, where the choice between moving to a high-skill strategy and staying with a low-skill one was genuinely close. In circumstances where there was no prospect of an employer seeing tangible short-term gains in profitability from an increased training effort, or where the short-term costs greatly exceeded the minimum expenditure requirement, these arguments demonstrate why the Training Guarantee by itself would seldom have led to any sustained change in behaviour.

This is the most likely reason why the program was considered most effective by employers who already trained well, or had immediate practical incentives to train, and seems to have had a relatively limited impact on the real problem areas. It equally suggests that in these problem areas, any improvement in training activity that resulted from the scheme would probably not be sustained once the program was withdrawn.

The first four mechanisms also explain why structured training - viewed as strategic process, rather than simply physical documentation - was so crucial to the effectiveness of the Training Guarantee. The assumption in all cases is that the initial compulsion should lead to a self-sustaining change in enterprise culture which the employer will continue to pursue out of self-interest. This is only likely to have happened where training was undertaken from the start as part of a consciously co-ordinated shift of corporate strategy aimed at making workforce skills a major element in the firm’s competitiveness. If the only training provided as a result of the scheme has been in the form of ad-hoc, stand-alone short courses that do not form part of a skill enhancement strategy, then the enforced training effort is unlikely either to improve the competitiveness of the enterprise or to outlast the Training Guarantee itself.

**The image of the program**

Employers’ attitudes towards the Training Guarantee appear initially to have been more sympathetic than those of their organised representative bodies. Over the four years, however, the views of individual employers grew steadily less favourable, as did those of the unions, whereas industry associations moved towards a grudging support for the program.

When the ATO conducted its first round of client research in April 1991, 69% of employers considered it to be an "excellent" or "reasonable" idea. Only 21% expressed clearly negative
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attitudes. By contrast, the industry bodies consulted in 1992 were almost without exception not only negative, but openly hostile in their attitudes. Unions at that stage were generally supportive, at least of the principle, though some already felt it to be ineffective so far as their members were concerned.

By 1994, all but one of the major employer associations believed that the Training Guarantee had brought about some benefits. However, the unions had generally become much more sceptical. Among the individual employers surveyed by the ATO, the proportion regarding the scheme as "excellent" or "reasonable" fell as low as 42% in February 1994. Negative perceptions of the scheme among this group had grown to 37%, though the overall attitude had improved markedly by the final survey in April.

The reasons for negative attitudes cited in the ATO research related predominantly to the paper burden. The second most common category of complaints concerned the irrelevance or insensitivity of the program to the circumstances of their particular business or industry. On average, fewer than 10% of employers over the full three years said that it was no business of the government to tell them what to do - an indicator that basic support for the principle behind the program remained stronger than industry's public stance suggested.

The other qualitative research confirmed the burden of paperwork and administration as one of the two main reasons for negative attitudes. The other, which appeared to be getting more common, was the guidelines on eligible expenditure. Objections to the guidelines fell into two classes:

- serious trainers, who saw them as denigrating their own training effort by appearing to give equal legitimacy to dubious practices;

- employers with little knowledge of training, who saw them as constraints on their freedom to choose the most appropriate training option.

The third and clearly growing source of resentment was the phenomenon of "hitting the wall". Employers with little interest in developing the skills of their workforce - or little concept of how they might benefit from it - generally managed to meet their obligations in the first two years by sending staff to a variety of generic stand-alone courses (health and safety, Train-the-Trainer, etc.). By the fourth year, many of them had run out of these options and anticipated major difficulties in complying in future. They felt they had done their best and could not see why the government was keeping the pressure on them when they had more important things to worry about.

A further source of ill-will which emerged at the focus groups lay in the administration of the scheme by the ATO. Even people who were sympathetic to the Training Guarantee in principle, and were well aware that hardly anyone paid the levy, still felt that the involvement of the ATO made it look unnecessarily authoritarian and encouraged employers to think of it as a tax, and therefore as something to be evaded or minimised. This attitude did not seem to stem from any problems in dealing with ATO staff; there were virtually no complaints about them, except occasionally that they had not been as helpful as the inquirer expected.

Despite constant pressure from industry lobbies over the four years to have the scheme abolished, few industry associations or focus group participants had actually expected it to be. There was little support even for the idea that it might be intended to stay in place only for as long as it took to bring
about the desired cultural change. Most employers apparently saw it as a permanent part of their regulatory environment, at least for as long as the Labor government remained in office.

Targeting

The Training Guarantee was not an intentionally targeted program. In practice, however, it is virtually impossible for a program to be absolutely uniform in its effect. Some parties and interests will inevitably be more strongly affected than others, and this differential impact can serve as a very effective targeting mechanism - sometimes even in the opposite direction to the intent of the program\textsuperscript{142}. For this reason it is especially important in the case of an untargeted program to examine how accurately its actual incentive effect falls on the population whose behaviour was most in need of change.

Payroll threshold

In the case of the Training Guarantee, the most obvious limit on its impact - and the one element of conscious targeting - was the payroll threshold. As mentioned in Chapter 3, a decision was made in the design stages to exclude very small employers, in recognition of the absence of an adequate training infrastructure for businesses of this size. The $200,000 threshold was set partly on the basis of feedback to the ESFC consultation, but essentially represented a guess at the minimum size of organisation that would be capable of complying constructively with the Training Guarantee. The figure was not entirely arbitrary, as it derived in essence from the French scheme, where the threshold lies at 10 employees.

The survey data strongly suggest that there was in fact a "natural" size threshold below which it became much less common for employers to develop a training culture. However, this natural threshold did not correspond precisely to the Training Guarantee threshold. From the evidence so far, it can be tentatively set at around 15 employees. Above this size, average expenditure grew faster than for all other size categories; below, it showed little improvement or fell.

This suggests that if a differential incentive were required for organisations of different sizes, the dividing line might more appropriately have been placed closer to the natural threshold - perhaps around $350,000-400,000, corresponding to around 13-15 employees. To judge from the experience of the first four years, the Training Guarantee was not wholly effective in isolation below this point, suggesting that alternative or supplementary approaches might have been more appropriate for employers in this size range. Such alternative measures might also have been profitably extended to at least some employers well below the Training Guarantee threshold - notably those with fewer than five employees, whose training activity in the aggregate fell faster over the four years than in any other size category.

Above the natural threshold, the Training Guarantee appears to have been a much more effective mechanism, at least at this stage in the evolution of Australian industry. The decision not to apply a payroll ceiling is vindicated by the TPS data, which show that it had a widespread positive effect

\textsuperscript{142}A common case in point is that of unconditional subsidies (e.g. tax concessions or artificial reductions in factor costs) provided to encourage risk-taking investments by industry. If the same subsidy is in fact extended to risk-taking and risk-averse firms, the net effect is often a greater incentive to risk-aversion than would exist in the absence of the subsidy.
well above the size range where it was expected to be needed. However, it is increasingly questionable whether this was where the greatest need for government intervention lay. This is especially so given the growing representation in the Australian economy of small and very small businesses, a factor which will be discussed further in Chapter 10.

**Adequacy of the minimum expenditure requirement**

The figure of 1.5%, like the payroll threshold, seems to have fallen between two stools. On the one hand, most serious trainers spent well above this level even before the Training Guarantee came into effect, and even the average expenditure by employers who still saw it as an influence after four years was nearly twice the minimum. For poor trainers, on the other hand, a significant amount of real or perceived wasteful expenditure was required to reach even this modest level, especially after the first two years.

Conversely, the reported impact of the scheme did not appear to be closely linked to the amount an employer was spending. Except in the identified problem industries, where average expenditure in 1993 hovered significantly just above the minimum, growth in training activity continued among firms already spending considerably more than was required - and was attributed at least in part to the Training Guarantee. The beneficial effect on structuring was mainly reported among enterprises spending well above the minimum, as was its effect of shielding training activity from internal cost-cutting measures. All this suggests that in some cases at least, the actual level of the obligation was immaterial compared with the fact than an obligation existed.

Despite common allegations that the scheme had led some managers to reduce their firm’s training expenditure to the statutory minimum, there was scarcely any hard evidence of this happening. Even among large employers, fewer than 1% claimed in TPS to have reduced their expenditure as a result of the Training Guarantee. Anecdotal evidence suggests that many of these cases would have involved genuine savings resulting from more careful recording, planning and/or evaluation of training.

**Definition of eligible training**

Participants who were sympathetic to training reform generally approved the intent behind the scheme to encourage more structured training. Many of them reported that it had affected their own workplaces positively in this way, though a large number also suggested that the guidelines were inadequate to give effect to the good intentions.

For inexperienced trainers, however, the definition of eligible training remained a source of confusion right up to the time the program was suspended. There was particular unease (among experienced and inexperienced trainers alike) over the fact that eligibility was defined in terms of documentation rather than content. There was a widespread and reasonable expectation that the guidelines should serve as some kind of control on the quality of training providers; this led to general resentment when it was discovered how easily their intent could be circumvented by the unscrupulous.

An impression that emerged from the small business study and several of the case studies was that while small employers in non-training industries objected strongly to the principle of governments forcing them to train, they would have preferred, if such a compulsion was going to be imposed, to
have been told exactly what they had to do. That the government on the one hand demanded that they spend money on something for which they had never seen (and still did not see) a need, and on the other left them effectively to guess what was expected of them, seemed to them a kind of double jeopardy.

It is arguable that the government had little option but to impose very flexible guidelines - partly to allow businesses the maximum freedom to choose the most appropriate training option, and partly because of sensitivities about the Commonwealth being seen to stray into the field of course accreditation. Their looseness was a price that had to be paid for a universal scheme. Nonetheless, they appear to have had an adverse impact on acceptance of the scheme across the board. If the anecdotal and subjective evidence is to be trusted, they also led to a significant amount of money (usually out of already limited quanta of expenditure) being diverted into unproductive “soft” options.

**Reporting and documentation requirements**

Only 8% of all respondents to the ATO research claimed to have incurred no additional expense in meeting the reporting requirements. Even organisations which already trained well and kept training records generally had to enhance, redesign or supplement their existing record-keeping systems.

As noted in the last chapter, the most surprising finding was that large organisations were more likely than small ones to report increased documentation costs. While the full reasons for this are not clear, at least two became apparent from the research program. One was simply that most businesses did not record the wage costs of staff receiving training as part of their training expenses. The other was the prevalence of a divisionalised or profit-centre structure in large, diversified enterprises, which meant that each regional office or functional subdivision had its own "pot" of money and was given discretion in how it spent it. Such firms often had no central training budget, with the result that the training manager in head office needed to collect and maintain a cumbersome and very time-consuming system of paper records for the sole purpose of Training Guarantee reporting.

There is some evidence that these difficulties would have eventually disappeared as business adjusted to the scheme. ABS field staff working on the pilot TPS in 1993 had many reports of firms having to keep a duplicate system of records for the purposes of the Training Guarantee and the ABS surveys. By the time the main survey was run a year later, this practice seemed to be relatively uncommon. Another encouraging finding of the survey was that by 1994, only 26% of respondents above the Training Guarantee threshold claimed to be keeping records solely because of the Training Guarantee.

At the bottom end of the scale, as with other aspects of the Training Guarantee, the record-keeping requirements were a source of confusion. When the ATO released a standard pro-forma for reporting at the beginning of 1994, the response was overwhelmingly favourable. Over 50% of respondents to the April 1994 survey thought it would be either "quite useful" or "very useful", and 61% said they were likely to use it. Among those who had not previously heard of its existence, the favourable response reached nearly 80%.
Train-the-Trainer courses

Responses to these were mixed. In the first round of consultations, it was reported that some employers had sent large numbers of staff to such courses purely as a means of meeting their Training Guarantee obligation, and had not given them any training work when they returned. This had damaged the reputation of both the courses and the Training Guarantee.

On the other hand, some very useful outcomes were recorded when this kind of training had been given to experienced workers who had previously been used to deliver training because of their practical skills, but lacked any knowledge of effective training techniques.

The main source of complaint about short Train-the-Trainer courses was that they were used by poor-quality new entrants to the training industry to gain an air of legitimacy. There was general agreement that short courses of this nature were not acceptable as a practitioner’s qualification for someone setting up in the business of training, and ought not to be recognised as such.

Information and support mechanisms

This area emerged as one of the main shortcomings of the scheme. Once again, the effect varied widely, with the greatest deficiencies appearing in the areas of greatest need.

Larger firms were generally well served by the major accounting firms and employer organisations - principally ACCI and VECCI - who issued comprehensive advice on how to gain the maximum benefits from compliance.

Small business was often at a loss to find useful advice. The majority relied in the first instance on their local accountants, and many complained that their advice had been unhelpful or inaccurate. Some claimed to have been misled by their accountants into unnecessary expenditures, as a result of incorrect advice that their preferred training options did not fit the guidelines.

A common complaint was that these small accountancy practices saw the Training Guarantee as simply another tax to be minimised by the most expedient means, and had no understanding of how training could contribute to their clients’ profitability.

The ATO found that its client advisory role expanded well beyond what was originally envisaged. Officers who operated the telephone help line were regularly asked not just for clarification of the compliance requirements, but for detailed advice on training options. (Such inquiries were referred wherever possible to the appropriate industry training board.)

Conversely, TAFE regularly found itself giving advice on compliance requirements, which often led to the development of training strategies for the inquirer. Many of these inquirers were apparently unaware that this kind of service was available until they contacted the local TAFE to offer a donation as a last resort to avoid paying the levy.

The RITA scheme, which was introduced after the passage of the original legislation to carry out this kind of advisory role, proved unsuccessful. Awareness of RITAs was very low even among the professional trainers in the focus groups. A survey of RITAs undertaken by the NTB after the first year of the scheme found that several of them had received only a handful of inquiries or, in at least
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one case, none at all. The only ones to play an active advisory role were industry associations and training boards which would probably have been approached by their constituents for advice in any case. The main weakness in the scheme appears to stem once again from sensitivity about Commonwealth and State jurisdictions, which meant that RITAs could not be given an official accreditation function under the Training Guarantee.

Recognised alternative schemes

Although the Training Guarantee did not actively encourage co-operative industry-based training schemes, it did make special provision for them where industries chose to put them into effect. Exemption from the reporting requirements was granted to employers who participated in an approved alternative training levy scheme organised by their industry.

Only three such schemes were approved by DEET in the four years. Despite the effort put into their establishment, they encountered numerous difficulties, especially in terms of resistance from employers who would have fallen below the normal Training Guarantee threshold. In two of the three, expenditure in the final year, when averaged out among the participating employers, came out well below the normal minimum requirement.

Participants in the focus groups and the second round of consultation were asked why this option was not more popular. Some industry associations and training boards had in fact set up voluntary schemes, with donations being assessed as eligible expenditure on the part of the individual contributors. Generally, however, the idea found little sympathy. The reasons appeared to be mainly cultural, reflecting a strongly individualistic attitude that ran through a range of industries. It was noticeable that poaching appeared to be a greater concern in the context of non-compulsory co-operative schemes than in relation to training expenditure by individual employers.

The individualistic perspective was shared even by industry associations. They were anxious to have a role in the development of training, but seemed uncomfortable with the idea of being seen to exercise any authority over their members.

An interesting variation on the co-operative scheme was being developed by a newly established private training firm, Industrial Skills and Training Providers. This involved paying businesses who had bought training from the firm to provide places for structured on-the-job training on their premises for unemployed trainees, or even employees of other customers, under the overall supervision of the training provider. Since the relationships involved all remained strictly commercial, this approach seemed to offer the potential for allowing the exchange of know-how and work styles between enterprises, while overcoming the cultural resistance to a co-operative approach.

The Outstanding Trainer Award scheme

Employers whose annual expenditure on eligible training exceeded 5% of payroll were entitled to apply for an Outstanding Trainer Award. The practical effect of this was to exempt them from audit under the Training Guarantee for three years, meaning that they did not need to keep records in a form acceptable for Training Guarantee purposes during this period.
Once again, awareness of this scheme remained fairly low. Several of the people consulted in the course of the research program spontaneously mentioned that an exemption of this nature was desirable, while others criticised the Training Guarantee for not rewarding good trainers - in both cases, apparently without being aware that the provision already existed.

Among those who were aware of the scheme, the main objection was that it did not offer enough in the way of tangible benefits to repay the effort involved in demonstrating eligibility for the award.

**Would a subsidy have worked better?**

In view of the frequently expressed opinion of industry representatives that the government would do better to subsidise good trainers than to penalise bad ones\(^{143}\), focus groups were asked to discuss the type and level of subsidy that might be needed to produce a significant change in employers' training behaviour.

(NB the word "subsidy" is used here to cover all four main types of subsidy: cash subsidies, input subsidies, demand subsidies and tax concessions. The term preferred by most focus group participants was "incentive".)

In virtually all cases, the initial response was that they would indeed like another subsidy. Some actually advocated one before the issue was even raised with them. On further discussion, however, hardly any seemed able to nominate a level of subsidy that would be sufficient to make a real difference. When pressed for an answer, the usual response was along the lines that businesses knew how much training they needed and could not be induced to do any more.

There was fairly widespread agreement that the existing tax deduction had long since lost any incentive effect it might originally have had. It was generally felt that it had been "rorted" at least as much as the Training Guarantee, and for a far longer time.

**Impact of suspension**

"There was widespread concern that the suspension of the Training Guarantee may cause a reduction in training expenditure and decreased emphasis on training. Among the industry focus groups, this concern was directed towards those companies which were not training organisations...

ACCI felt small firms may downgrade the importance accorded to training; however, they also reported that in a recent survey 85% of respondents... reported that training led to increased productivity... By contrast, 2 of the 3 industry associations expected an unspecified decline in training activity, largely because a training culture had not become an entrenched feature of their industries."

(Teicher & Atkin, 1994, p.9)

\(^{143}\)See, for example, Beresford (1993), p.18
The focus groups and second round of consultation were carried out around two months after the suspension came into effect. At this early stage, there was little hard evidence on its impact, so the discussion was largely speculative.

Opinion was fairly evenly divided on whether the suspension would make any difference. If there was a common view in the focus groups, it was that the participant’s own firm would not be reducing its training activity, but other firms (especially small businesses) probably would. Representatives of smaller businesses expressed the view that the suspension would be greeted with "relief" - and that some, indeed, saw it as a direct gesture of tax relief. Such responses give little confidence that existing levels of activity will be maintained in the areas concerned.

At one of the focus groups, it emerged that two of the training managers present had not yet told their senior management about the suspension. In one of these cases, a senior accounts executive from the same organisation was also a participant. This executive, who had been warmly endorsing the value of training up to that point, expressed some regret, but indicated that training would be the logical place to look for savings next time he was pressed to find any. The ensuing discussion led to a broad agreement that training in most cases was unlikely to suffer immediately, but would probably become a target for cost reductions in future years.

In one case which was brought directly to the attention of the evaluation team, a firm that had previously been promoted by the ATO as one of the success stories of the Training Guarantee froze its training budget immediately the suspension was announced. Other employers, by contrast, remained uncertain about the future of the scheme, especially on the question of whether to maintain their records over the two years in case it should be reactivated. Many seemed to be playing safe and keeping them in place, despite the cost and inconvenience. This uncertainty was reported to be a source of widespread resentment.

As with the other aspects of the scheme, the effects of its suspension seem likely to vary according to firm size and industry. At least two industry training bodies expected a large fall in activity because their industries had never had a training culture, and had still not developed one after four years. One union ventured the estimate that it would have taken at least ten years to bring about the required transformation in its industry. On the other hand, where firms were already actively engaged in training reform through such mechanisms as quality assurance, enterprise bargaining and implementation of the Training Reform Agenda, the absence of the Training Guarantee was expected to make little if any difference.
CHAPTER 8
WHERE REFORM FAILED

This chapter attempts to explain why the Training Guarantee was not uniformly effective. Where training reform failed to eventuate, the crucial factors included the absence of internal or occupational labour markets; labour market segmentation; the limited impact of award restructuring; unpredictable pressures on individual businesses arising from the advent of a recession in the midst of a process of major structural adjustment; information gaps; and the failure of many industries to develop mechanisms for shared learning and mutual support in the reform process. A comparison with the impact of enterprise bargaining suggests that many of these obstacles were not specific to the Training Guarantee. Since most of these impediments were contextual rather than within the control of the individual firm, it appears that future interventions might better be aimed at changing the pattern of incentives in the firm's trading environment rather than the behaviour of the firm in isolation.

This chapter sets out to analyse the most common factors that prevented the Training Guarantee from working as intended in some areas of industry. While these failures may be viewed as shortcomings in the design of the scheme, it is equally possible to see them as successes, in that one of the most useful outcomes of the program was to provide more information on the precise factors that were stopping industry from adjusting to the new global competitive environment.

Labour use strategies

"It is impossible to consider enterprise training independently of employers' labour use strategies, for these strategies set the context in which enterprise level approaches to training occur."

(ACIRRT, 1994a, p.7)

As described in Chapter 3, the government's 1988 discussion papers began from the realisation that it was not enough simply to address the input side: the value of training, and the creation of a sustainable demand for training, depended critically on whether enterprises were capable of making constructive use of the skills that resulted.

One important aspect of this, which was found by the small business study to be a determining factor on the quality of response to the Training Guarantee, was the nature of the labour market in which a business operated. The study identified three types of labour market:

- **internal labour markets** which operate within a single firm, generally with a fairly low-skilled point of entry, and allowing the individual worker to move up through a hierarchy of roles, acquiring a partly or wholly firm-specific mixture of skills along the way;

- **structured external (occupational) labour markets**, which workers enter already equipped with transferable formal qualifications, validated and usually acquired in institutions external to their employers, and where career paths regularly involve moving from one employer to another; and
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- **unstructured external labour markets**, characterised by easy entry, low skills, lack of formally recognised qualifications, considerable volatility and little attachment of workers to employers.

The first two types require particular kinds of organisation in the industry concerned. Internal labour markets generally presuppose some degree of concentration, i.e. a limited number of relatively large, diversified firms sufficiently stable and self-sufficient to be able to perform efficiently over a long period with a fixed pool of employees. Occupational labour markets require a fairly high level of consensus among employers on their common need for particular competencies, and a willingness on their part to trust some external or co-operative institution (e.g. a university or a professional association) to define, develop and certify them. Where an industry is not concentrated and does not act co-operatively, unstructured external labour markets are likely to account for the majority of employment.

The small business study found a clear divide between those industries which were characterised by internal or occupational labour markets and those where unstructured external labour markets were the norm. (Internal labour markets are uncommon in small business, for obvious reasons, but did appear to exist in a limited guise among some of the medium-sized firms.)

Vehicle repairs, which are heavily craft-based, and metals manufacturing, where the traditional apprenticeship system has been supplemented in recent years by new occupational training systems at the sub-trade level (e.g. the Engineering Production Certificate), had generally adjusted with little trouble to the Training Guarantee, or saw it as superfluous. Their major concern was that it has encouraged a proliferation of new types of ad-hoc training, which had muddied the waters of the established occupational labour markets.

On the other hand, hospitality and retailing, where occupational labour markets had traditionally been non-existent except for managers in larger firms, had been able to comply only by resorting to ad-hoc stand-alone courses (the value of which was generally seen as dubious) or additional management training.

The difference appears to be a matter of returns to investment in training:

- where an internal labour market exists, an employer can be confident of appropriating virtually the entire benefit of an investment in the skill of employees;

- in an occupational labour market, one employer's investments in skills development will flow on to other firms in the industry though labour mobility, but the employer who provided the training is reasonably assured of benefiting sooner or later, through the same mechanism, from other employers' investments. Reciprocity is assisted by the existence of an agreed common range of skills requirements, and by a common basic training which takes place at no discretionary cost to the individual employer;

- where neither of these mechanisms exists, an employer is discouraged from making any serious investment in developing the skills of employees, since a high proportion of current employees are likely to be lost to other employers, who may actually gain some competitive advantage from the original employer's investment. Conversely, the lack of commonly agreed skills requirements means that an business cannot count on benefiting from any skills that come with
an employee newly hired from elsewhere in the same industry, since they might not be relevant
to the way that business works.

**Segmentation and core-periphery divisions**

Few industries operate purely on the basis of one kind of labour market. For example, in
collection, well-established occupational labour markets for architects, structural engineers,
surveyors and tradespeople exist alongside a large unstructured external market for labourers. In
most industries, irrespective of their labour use patterns, an occupational labour market now exists
for managers, often displacing the internal labour markets that previously existed; this results partly
from the growth of formal management training, partly from the major restructuring of industry in
the last decade, and partly from the belief which became current from the late 1980s onwards that
"re-engineering" a company necessarily implied displacing many of its current executives.

Within one firm, moreover, it is common for the labour force to be segmented, with different kinds
of labour market applying for different categories of staff. In one large retail firm which was the
subject of a case study, a highly structured internal labour market existed for managers and head
office administrative staff, but virtually ceased to operate below the assistant manager level in the
retail outlets.

An increasingly common type of segmentation is the core-periphery model, where a firm relies on a
relatively small, highly-skilled workforce which is strongly attached to the firm, while the
remainder of the workforce consists of a mixture of contractors and low-skilled transient employees
who are taken on and laid off in accordance with seasonal factors and fluctuations in demand. The
growth in the proportion of casual employees in the workforce since 1989 suggests that this form of
organisation - which has always been the norm in the agricultural sector - is becoming more
common in other industries which previously enjoyed more stable and homogeneous forms of
organisation.

A core-periphery model does not always imply less training in the aggregate, since the peripheral
workforce could consist at least in part of professionals or skilled workers (e.g. contract
programmers) working in an occupational labour market. However, even these are likely to be left
with greater responsibility for their own professional development as employers concentrate more
of their internal training activity on the core workforce, where they are more certain of
appropriating the payoff.

Over time, this would show up in the statistics as a reduction in the share of employers' training
expenditure going to such highly mobile professionals, and individuals in these categories bearing a
larger share of their training costs. The latter trend at least is apparent for professionals overall
between the 1989 and 1993 household surveys. However, it cannot be linked with any confidence
to this factor, as the statistics do not distinguish professionals who were core employees from those
who worked on contract. The same applies to the statistics on employers' training expenditure,
where the share of management and professional training (in terms of paid hours) remained fairly
stable overall. This is a clear example of how movements (or stability) in an aggregate data
category could well disguise much more instructive changes affecting sub-categories.
Labour use strategies do not account for all of the variation in response to the Training Guarantee, but they do appear to have been a very important factor. In particular, they seem to offer at least a partial explanation for some of the trends in training activity since 1989-90, namely:

- the clear evidence that more money is being spent to train fewer people;
- the higher relative wages paid to people receiving training, across virtually all occupational categories, in 1993;
- the persistence of poor trainers in industries with a low degree of concentration and limited or no occupational labour markets;
- the deteriorating position of casuals and the lowest skill categories in terms of access to employer-supported training; and
- the "step" in training activity where the number of employees in a business passes approximately 15, above which point it may become more feasible to operate at least a limited internal labour market.

It should be noted in passing that the same dichotomies are likely to affect the reactions of different industries to competency-based standards. Where there is no established consensus on a common profile for occupational skills at the trade or higher level, there is likely to be greater resistance to the idea that new sets of standards can be developed which will be equally relevant to all employers in the industry. On the other hand, where an industry is dominated by larger firms with internal labour markets, the development of competency standards is likely to occur first on an enterprise-specific basis. Both these trends were evident to some extent in the focus groups and the second round of industry consultation.

This discussion also suggests that sustainable training reform in the remaining problem areas could well depend, at least in part, on establishing either internal or occupational labour markets where none currently exist.

**Impact of award restructuring and enterprise bargaining**

If the type of labour market in which a firm operates is important in determining its propensity to train, one would expect those industries where award restructuring took effect over the period between the surveys to have shown greater progress in training reform than those where it did not. This is because one of the main purposes of award restructuring was precisely to create both new internal labour markets (through its emphasis on internal career paths) and new occupational labour markets (by developing a structure of portable formal qualifications at the sub-trade level).

In the case studies (especially the earlier ones), award restructuring emerged along with quality assurance as the most clearly effective influence for sustained training reform at the enterprise level. However, statistical data on its impact are available only for the twelve months to February 1994. By that time, its influence had declined, and it was the equal second least commonly cited factor resulting in increases in training expenditure. This reflects the fact that it had been almost completely superseded by a new agenda of industrial relations reform based on enterprise bargaining.
Enterprise bargaining was conceived largely as a means of spreading the reform process beyond the relatively few industries where award restructuring had taken hold. In this sense it makes an interesting parallel to the Training Guarantee, as a generic incentive intended to have the flexibility to apply to a wide range of individual workplaces. It is useful to compare the impact of the two to see whether one has proved more effective than the other in addressing the impediments to change.

To allow direct comparison, an analysis of 300 enterprise agreements in the Commonwealth and NSW jurisdictions was carried out in July 1993, coinciding with the reference periods for TES and TPS. At this stage, enterprise agreements covered approximately 12% of all employees in Australia and 1% of business units with more than five employees. The detailed results are shown in Appendix 1 at the end of this volume.

While nearly two thirds of these agreements made some sort of provision related to training, the nature and incidence of these provisions varied considerably. Some patterns are relatively clear in these data. Both references to training in general, and specification of individual aspects of HRD, appear to be

- more common in agreements covering large units;
- most common in manufacturing, and significantly less common in agreements covering the private service sector than in all other industries;
- more common in agreements negotiated under the more comprehensive Commonwealth guidelines; and
- considerably more common in collectively negotiated agreements (i.e. where a union or other co-ordinating body is involved) than in individually negotiated ones.

In broad terms at least, these patterns appear to reproduce those which have emerged from the survey data as affecting training activity in general. It is not clear, at least at the time this analysis was carried out, that enterprise bargaining had so far been very effective in altering the distribution of training effort between industries. *A priori*, this is not surprising: the enterprise-by-enterprise approach could not be expected to offer the same opportunities for shared learning or common definition of needs as a co-ordinated industry-wide approach, unless the guidelines within which bargaining occurs are fairly prescriptive, or some industry-wide co-ordinating body (e.g. a union or an employer association) intervenes as a mechanism of transmission.

Moreover, the impact of enterprise bargaining in putting training on the agenda appears very similar in its distribution to that of the Training Guarantee. Obviously one cannot build too much on this finding, as enterprise bargaining is a more complicated process, could be expected to take effect over a longer time-scale, and was in its very early stages at the time the analysis was undertaken. However, it does appear to support the survey findings, discussed in Chapter 5, of a fairly clear split between those industries where a number of important factors for change were at work simultaneously (and apparently reinforced one another), and those where few if any of them had any significant effect.
This in turn suggests that the failures of the Training Guarantee are not entirely a consequence of its concept, design or implementation. Rather, it appears that there may be impediments to the spread of a training culture which are so robust that they have defied all the policy tactics tried so far to overcome them.

The role of organisational stress

As seen in Chapter 4, the impact of the recession on the level of training activity was much less marked overall than previous experience would suggest. A number of factors, among which the Training Guarantee was prominent, appear to have prevented the expected drop in expenditure. However, the qualitative research shows that the recession did affect the pattern of incentives to train at the enterprise level, albeit in differing ways.

One reason for the inconsistency in its impact was that several other forces for organisational change were operating simultaneously in both public and private sectors. The most important were:

- the continuation of the restructuring of Australian industry that began in the 1980s;
- the consequences of under-financed corporate takeovers and buyouts during the 1980s;
- the dominance of a productivity ethos that focussed primarily on reducing inputs rather than increasing outputs;
- a trend towards flatter, more flexible management structures and greater executive mobility both within and between firms;
- the growing popularity of divesting and contracting out non-core activities; and
- a growing belief that corporations needed to be totally "re-engineered" or "reinvented" to adapt to future market imperatives.

The combined effect of such forces, especially in the context of a recession, could be expected to manifest itself at the enterprise level in a sudden and radical loss of continuity, strong uncertainty about future needs, lack of internal consensus about corporate directions, and pressures for adaptation that came and changed faster than the organisation's planning processes were capable of anticipating or adapting proactively to them. This phenomenon, which can be captured under the general term of organisational stress, was in fact clearly visible - albeit in different ways - in the qualitative research. As a single element, it appears to have had a more significant effect on human resources strategy than more obvious predictors such as changes in employee numbers or declines in business activity.

To a greater or lesser degree, organisational stress was a factor in the dynamics of most businesses studied in the case studies program. Three studies in particular looked at workplaces where the process was so advanced that they could be regarded as in survival mode:

- a foreign-owned wholesale distribution company which had been severely affected by recession-induced market changes, but lacked freedom to respond because of the level of control exercised
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by its overseas owners, who seemed (at least from the perspective of the local managers) determined to press whatever returns they could out of it without any new investment;

- a stevedoring company which was being forced to cope simultaneously with the need for very large productivity improvements, competitive and policy-induced pressures for rationalisation of the industry, a new State government, industrial disputation, and reduced traffic resulting variously from the recession, the growth in competition from alternative ports, and traditional users moving to alternative forms of transport. This company went through two merger processes while the case study was in progress, and has since been absorbed by one of its competitors;

- a medium-sized (around 40 employees) electronic components supplier which was trading its way out of receivership, due mainly to the intense level of competition in its industry segment rather than to any decrease in demand.

In the first two companies, the pressures had a marked negative impact on the progress of training reform. Similar effects were visible in many of the other case study workplaces, including some that emerged overall as success stories of training reform. Three significant factors emerged which were common to most if not all cases:

- The initiation and maintenance of training reform depended heavily on a small number of individual "sponsors" in influential management positions. The precise position they held seemed to be less important than their continuing occupancy of the same position. When changes in the management structure forced them to move to different jobs (or to take on those of other managers who had been retrenched), the staff development initiatives for which they had been responsible tended to stall.

- New training programs take time to implement. Where organisational stress was a factor, pressures to economise or changes in corporate priorities often meant that a new training initiative had to be abandoned when it was only partly implemented. This had an adverse effect on the morale of the staff involved and on their motivation to participate in future developmental activities.

- The closer a business came to survival mode, the more likely it was to retreat into organisational conservatism. Especially in those cases where there was little or no established training culture, straitened circumstances appeared to increase the influence of those in management who had yet to be convinced of the value of training and were determined to keep on doing things the way they always had been done.

The third firm, though arguably in the most precarious position of the three, reacted quite differently. In many respects it was the most impressive performer of all those studied in terms of the seriousness of its commitment to workforce development. The main reason for this different reaction seems to have been the nature of competition in its industry, where constant innovation was an absolute prerequisite of survival. Another practical reason was the commercial imperative to retain quality assurance certification. A third, perhaps ironically, was the very smallness of the firm, which meant that there was no scope for an opposing conservative faction in the management team, since the owner-manager carried out virtually all the management functions by himself. It
should also be borne in mind that despite its commendably strategic response to its trading difficulties, there was no assurance at the time of the study that the business would indeed survive.

It would appear from this evidence that a degree of stability, allowing a reasonable planning horizon, is a prerequisite for successful training reform - at least in industries where there is no established training culture. This needs to be a consideration in both the design and the timing of any future policies to improve industry's training performance. The financial press in recent years has popularised the belief that a "shake-up" is a necessary preliminary to improvements in organisational efficiency. The case studies show that too intense a "shake-up" is likely, at least in some circumstances, to provoke a maladaptive response.

The learning process

The evidence is mixed on the question of whether the Training Guarantee brought about effective learning-by-doing to make up for the lack of more formal guidance. Where firms already trained, there is some evidence that the need to structure and document their training had some value as a learning mechanism. The following comment made by a large newspaper publisher to ABS field staff is fairly typical of the positive reports received:

"The Training Guarantee has made management look long and hard at training and now we have a more structured approach. We actually spend less because we have identified large savings in wasteful training practices, but we still exceed the Training Guarantee by miles."

On the other hand, in those cases where employers were effectively starting from scratch, the evidence is overwhelming that no such process occurred. It has been noted in Chapter 7 that one reason many employers did not train before the Training Guarantee came into effect was simply that they had no idea where to begin. At the end of four years, there is good reason to believe that many of them were little if any wiser. This is clear from the weight of opinion in the small business study that a lack of satisfactory guidance was undermining the objectives of the scheme, and in the growing phenomenon of "hitting the wall" mentioned in Chapter 7.

Accreditation of trainers

One of the most important information gaps lay in the fact that employers with little experience in training often could not discriminate effectively between good and bad training providers. This was widely perceived as a consequence of inadequate accreditation. While many of the experienced trainers in the focus groups regarded the existing accreditation systems as adequate, if not superfluous, they were almost unanimously regarded by participants in the small business study as unsatisfactory.

It appears that employers who are new to training, and have no clear appreciation of its benefits, are heavily conditioned by their first impressions of the training system. It needs only one course to turn out to be a waste of money, and they will conclude that the whole idea is futile and an imposition. Employers at this early stage in the learning process are usually not in a position to define their needs accurately in advance - especially in competency terms. They are still, in effect, testing the water, waiting to see just what comes out of their initial investment before they can work out what they really want.
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The requirement here is for something different from - or rather, supplementary to - the new approach to accreditation based on competency standards. This outcomes-based approach, though clearly the more appropriate in the long term, needs to be separated from the immediate demand for better accreditation based on inputs - qualifications of staff, rigour, appropriateness of teaching methods to the target audience, relevance and currency of content, etc. For employers at the start of the learning curve, such information appears to be of more immediate value than information on competency outcomes which may mean little to them. A better system of input-based consumer information would almost certainly help the development of competency-based accreditation in the longer term, because it would encourage earlier and more informed input from those sections of industry which are not yet actively involved in defining their competency requirements.

Peer learning

A more fundamental reason for the failure of the learning-by-doing strategy was the lack in some industries of relevant models of occupational or internal labour markets to provide a framework in which employers could conceptualise the uses of training. Related to this was the failure to realise that a business might need to change the way it did things - and more particularly, to look at how its jobs were structured - before it could benefit from training.

This was especially apparent where the majority of employees in a business had a single, closely defined job - e.g. driver or ticket collector. The remarks of a small concrete trucking firm to the ABS field staff illustrate this:

"Training just adds to the burden of small business. We have only on-the-job training - what else could you give to a fully trained truck driver? We are running out of things to train them in under the Training Guarantee. Now everything is structured training, but in a couple of years the Training Guarantee money will have to be spent God knows how."

Significantly, there were businesses even in the most commonly cited "impossible" areas - cleaning, truck driving - which developed useful and apparently sustainable structured training programs in response to the Training Guarantee. The problem was that these innovations seldom went any further than the originating enterprise. Neither market forces nor any other mechanism seemed to have any effect in spreading them elsewhere in the industry, and other businesses employing the same kind of staff remained as perplexed as before about their training options.

This suggests a more fundamental point - that individual learning, in the broader economic picture, could do little good unless it eventually became shared learning. The cost of individual mistakes was immensely magnified because each employer had to make and learn from them in isolation, duplicating many hundred times over what could have been a single learning process.

The factors that inhibited an industry-wide learning process were the same ones already repeatedly cited: industries dominated by very small, fiercely independent operators, and a lack of coordinating institutions at the industry level. The consultants carrying out the research reported that several employers, who had previously believed almost as a matter of faith that the skill requirements of their businesses were unique, found once they were brought together in a focus group that they were indeed on common ground with others in their industry, and had something to learn from their experience. Without the artificial intervention of the research program, they might never have realised this.
This in turn suggests another important reason for the difference in responses to the Training Guarantee between larger and smaller firms. For those that are large enough to afford a qualified training manager, the active network that exists between training professionals in different companies (complemented, in many cases, by professional journals and professional upgrading courses) provides a rapid and automatic mechanism for spreading innovation and good practice. For the small employers, the lack of this transmission channel only compounds the disadvantage they suffer from a lack of expert in-house advice on workforce development options.

Here would seem to lie a major conceptual flaw in the design of the Training Guarantee. The kind of learning-by-doing on which the success of the individualistic approach was premised could and did take place very successfully in those organisations that were already some way along the road to training reform. For those which were not yet embarked on the process - those, in other words, for whom the program was primarily intended - the fundamental problem was often precisely the absence of the conditions that would make this kind of learning possible.

The limits of market transmission

The Training Guarantee began from the assumption that normal market processes - given an initial catalytic stimulus and some support through mechanisms such as award restructuring - would be effective in spreading change through those sectors of industry that had yet to recognise the benefits of training. This in turn presupposes that competition will be an effective mechanism for transmitting new sources of efficiency through an industry.

At the level of theory, this argument is persuasive. Industries that are relatively concentrated, compete in largely coextensive markets, and exchange ideas and personnel as a matter of course through occupational labour markets, probably behave very much as the theory suggests. The difficulty so far as the Training Guarantee is concerned is that its failures seem to have occurred mainly in industries characterised by a low degree of concentration, fairly discrete local or regional clienteles, and underdeveloped or non-existent occupational labour markets. Retailing is the most obvious (and clearly the most problematical) example, though other good examples exist, particularly in the personal services field.

In industries such as these, competition looks very different at the enterprise level from the way it looks from an economist's perspective. Competition for such enterprises tends to be both specialised and highly localised. Theory and common sense suggest that bookshops compete with cake shops for the consumer's dollar; but this competition is unlikely to be perceptible either the cake shop or the bookshop, even if they are next door to each other. More importantly, there is no intuitively meaningful sense in which a bookshop in Penrith competes with a bookshop in Gosford, or a cake shop in Gawler with a cake shop in Glenelg - to say nothing of the broader national market. Any one shop which successfully innovates in any aspect of its business does not immediately transmit that innovation to other shops through the increased competitive threat it poses to them. Neither - since innovation in business implies changed behaviour on the part of consumers as well as providers - does consumer acceptance of one business's innovation translate in the short term into changed preferences among the consumers of other businesses in the same industry.
In the long term, and in the broader perspective, this insularity is of course an illusion: these competitive forces do ultimately help to determine the fortune of every bookshop, and every other shop in the industry. Undoubtedly, too, there are circumstances where they do provide a strong incentive for strategic adaptation. For example, in the case just cited, a large supermarket or department store with a marketing strategy targeting specific high-value consumer segments might enter the territory previously occupied by a number of specialist shops which did not see themselves as competing directly with one another, thus forcing all of them into a strategic reappraisal of their market position. Failing such exogenous shocks, however, the problem of competition as a transmitter of innovation is that its imperatives are often not readily perceptible to those who make the decisions at the enterprise level; and what is not easily perceived cannot be effective as a source of learning.

The need for an institutional response

This is why - as Finegold argues - the market often needs to be supplemented by institutions specifically designed to spread innovation and best practice through an industry. Such co-operative institutions are commonly found in actively training industries. They include proactive industry associations, joint training schemes, industry publications, and higher education courses and research programs sponsored by the industry. Perhaps ironically, they appear to be most common in the very industries that enjoy the preconditions for effective market transmission of new ideas - those that are highly concentrated, operate in a transparent, globalised competitive environment, and have active occupational labour markets. The lack of such institutions in the "problem" areas for training emerged as one of the most important reasons for their failure to respond positively to the Training Guarantee.

It is not just the learning process that benefits from co-operative institutions. For smaller employers, training options are usually curtailed by practical considerations which they are simply not capable of overcoming as individuals. One of the most commonly reported is the difficulty of releasing staff for any protracted period of training - whereas a large firm often has enough "slack" to backfill, share out employees' duties during their absence, or postpone their work until they return. One solution to this problem which has been implemented in France is a joint fund to cover the salary costs of training leave for individual employees of the participating companies.

More generally, the French training levy scheme relies heavily for its effectiveness on co-operative training funds, which are jointly administered by employers and unions under industry agreements. In addition to the training leave funds (OPACIF), these include training insurance funds (FAF) and joint funds to cover the costs of the work-based component of entry-level training (OMA). Together, these co-operative funds accounted in 1991 for just over 12% of eligible expenditure, 26% of the training places and nearly 60% of training hours under the scheme.

The competitive advantage enjoyed by many other successful exporting nations owes much to the high profile of co-operative institutions such as the German Chambers of Industry, which among other things play a leading role in the training system. In many of the newly industrialised Asian economies, government intervention plays an important part in brokering communication between

144 See Chapter 2, box 2
145 Bentabet and Santoni, Table 1.4, p.18
146 See Crouch, p.36, for a good explanation of the role of these institutions.
otherwise strongly competing firms. In the much-publicised case of northern Italy in the 1980s, the co-operative element was provided not by formal institutions, but by informal, quasi-organic networks between small and medium-sized enterprises, often based on long-established family, regional or supplier-customer links.

In Australia, a strong culture of individualism, particularly among the smaller businesses, still seems to present a barrier to this kind of co-operation. Even here, however, some of the more effective forms of traditional government assistance to the established export industries - e.g. industry-specific research facilities and co-operative marketing schemes - achieved perhaps their most useful impact by creating the means for all enterprises within the industry to share information of common commercial value.

The skills equilibrium revisited

Most of the impediments described in this chapter do not originate within the individual enterprise. They are contextual. Whether a firm moves from a non-training culture to a training culture is not primarily a matter of its own internal resolve and expertise: it derives mainly from the pattern of incentives exercised on the firm by the environment within which it trades. Unless these incentives can be altered, it is difficult to achieve change by working at the firm level.

This conclusion illustrates the relevance of the concept, first raised in Chapter 2, of a high-skill or low-skill equilibrium. From the viewpoint of a given firm, the balance of incentives often comes down firmly on one side or the other. This explains the observation in Chapter 5 that high-training firms compete with other high-training firms, and low-training firms compete with other low-training firms. It explains why there are some industries in which the full range of incentives covered in TPS appear to have had a widespread positive influence, and others in which all of them appear to have been equally absent or ineffective. It explains why managers in some industries or industry segments see the need for training as self-evident, while in others nobody can see any point in it.

This further explains why a scheme like the Training Guarantee, which worked best at the margin, could be only a part of the solution. The mechanisms described at the beginning of Chapter 7 all work from the premise that a firm is poised between the two equilibria, with the incentives so evenly balanced that it could fall either way. As suggested in chapter 2, this was arguably the situation for the Australian economy as a whole in the late 1980s (and might still be today). Viewed from this level, therefore, the Training Guarantee was a wholly rational response. For many individual firms, however, the situation that presented itself was very different.

Here the need may arise to modify the original model. The authors who have so far developed the concept of the high skill equilibrium have seen it as operating at the level of the whole economy, or at its most specific, at the industry level. The data for Australia do suggest the existence of such an effect at the broad industry level, at least for some industries. From a behavioural point of view, however, the incentives often appear to come from a much more specific level.

When it comes to affecting the behaviour of individual firms, therefore, it might be more useful to see the economy as being made up of many micro-equilibria. The scope and extent of these micro-equilibria will vary widely. In highly concentrated, capital-intensive industries that draw on very scarce resources and compete in global markets, the relevant equilibrium may well be found at the
level with which most such theories deal: the international competitiveness of the industry, and national comparative advantage. Elsewhere, its scope could be limited to half a dozen enterprises competing in the same line of business within a five-kilometre radius. Some of these micro-equilibria might involve highly specific combinations of incentives; others could simply duplicate combinations of factors that recur widely throughout the industry or the economy, but are imperceptible to the individual firm in their macro-level manifestation.

These considerations imply a new agenda for research and policy intervention. Where a firm or an industry has failed to lift its training effort, despite four years of the Training Guarantee and a range of other encouragements and inducements, it would seem reasonable to expect that it is subject to a combination of incentives in its trading environment which work strongly together against the development of a training culture. In order to remove these complex impediments, four things need to be known:

- what is the most relevant unit of the economy (e.g. industry, region, firm size category, or a combination) from which these disincentives arise?

- what are they?

- which are the crucial ones that need to be changed in order to reverse the equilibrium? and

- are they specific to that environment, or part of a broader pattern that can be addressed by more widely applied interventions?

The answers to these questions, when set against an assessment of the economic and social importance of the area in question, should in turn make it possible to reach a judgement on the cost-effectiveness, the priority and the necessity of intervention in each problem area.
CHAPTER 9

WAS THE PROGRAM WORTHWHILE?

Although uneven, the effect of the Training Guarantee was positive. Its main successes were its contribution to maintaining industry's training effort through the recession, and to the remarkable increase in training activity among medium-sized businesses. Overall, the program can be regarded as a success, especially given its low cost. However, it did not generally meet its objective of creating a viable training culture in those areas of industry with no tradition of training, and it failed to bring about any net increase in training opportunities for disadvantaged groups. Its principal weaknesses lay in the looseness of its guidelines, and in its reliance on decision-making at the individual enterprise level.

The finding that stands out most unequivocally about the Training Guarantee is the remarkable unevenness of its effect. By the standards of most program evaluations, it has proved unusually difficult to reach robust generalisations about any aspect of its performance, simply because reactions to it varied so widely, and because much of that variation seemed to stem from factors at a level too microscopic to be captured by large-scale surveys.

This confusion was shared by focus group participants, and even by groups such as peak employer councils and TAFE officials, who were in a position to exercise a comprehensive overview of the scheme's effects throughout the four years. Inconsistent and even mutually contradictory statements about its effectiveness were encountered throughout the qualitative research program. All that can be said in this regard is that the balance of retrospective opinion, at least at this level of industry, was more favourable towards the program after its suspension than it had been when the initial consultations were carried out in 1992.

Given these continuing uncertainties, there remain some questions about the Training Guarantee that cannot yet be answered. A final reckoning will not be possible until reliable data become available on two vital issues:

- what happened to industry-based training in comparable overseas countries over the four years the Training Guarantee was in effect; and

- how (if at all) training in Australia has changed in its absence.

In addition, the body of survey evidence which is publicly available from ABS offers the potential for years of further research, some of which could well shed a better light on how the program actually worked.

With these reservations, the Training Guarantee emerges on balance as a reasonably successful and clearly cost-effective program - albeit its contribution to the development of a training culture in
Australia, so far as can be estimated, was probably more modest than intended, and occurred mainly in places where it had not been anticipated.

Main successes and failures

In two respects it can be regarded as an unqualified success. The first is the unexpected growth of training activity since 1990 in medium-sized businesses, and at the top end of the small business category. It will take much more research to identify the full reasons for this change. However, businesses with 15-100 employees showed a markedly higher propensity than all others to cite the Training Guarantee as a factor that increased their training expenditure - both over the full period, and in the year leading up to its suspension. This clearly indicates that it contributed significantly.

The second clear achievement lies in maintaining activity through the recession. There were many other government initiatives and developments within industry that kept interest in training alive even through the deepest part of the downturn, but the responses of the focus groups made it clear that the Training Guarantee played a unique role in protecting the training capability of many enterprises from cost-cutting pressures. That this influence was mainly catalytic rather than coercive - a defining characteristic of successful interventionist policy - is shown by the fact that it was most commonly reported by firms which, so far as can be judged, could have substantially cut their training expenditure and still met the minimum requirements of the Act.

Against these two salient successes must be put two salient failures. The first of these is its apparent lack of impact on the real problem areas. Of the industries, and industry segments, which trained poorly before its introduction, virtually all remained poor trainers at the time of its suspension. Not only was the volume of training in these areas still very low, but they were also the least likely to have made any progress towards developing a training culture or an appreciation of the benefits of a trained workforce. (These areas are listed in Chapter 10.)

The second lies in its failure to remedy the deficit in training opportunities for the least skilled and most disadvantaged members of the workforce. Arguably, this is not something the Training Guarantee was ever designed to do. Nevertheless, it is a subject that the government specifically directed this review to address. Even if the Training Guarantee did not significantly advance the opportunities for disadvantaged workers to get training, one might at least have expected it to prevent things from getting any worse. In fact, their relative and absolute access to formal employer-supported training deteriorated significantly over the four years the scheme was in effect, and in some areas there is clear evidence that the Training Guarantee provided an incentive to direct new training investment away from the lowest skilled.

Lessons for policy design

The detailed design strengths and weaknesses of the Training Guarantee have already been analysed in Chapters 7 and 8. This section summarises the general points raised by the evaluation which might be relevant to the design of future regulatory and incentive policies, not necessarily confined to the training area.

On the positive side, the experience with the Training Guarantee shows that provided the circumstances are right and no exaggerated expectations are held, there is still a place in the policy
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armoury for simple interventions. Until the survey data began to come in, there was widespread concern even within the policy community that the Training Guarantee was a sledgehammer approach that might end up doing more harm than good. Whether it would have made much difference in isolation, or in an environment that was otherwise uniformly hostile to training reform, is open to doubt. But in the circumstances that actually existed between 1990 and 1994, the simple expedient of putting a legislated floor under training expenditure brought about an improvement which, though probably modest overall, was greater and certainly more widespread than most people had envisaged. Indeed, given the unexpected course which the economy took from 1990 to the end of 1993, it is possible that the very simplicity and flexibility of the Training Guarantee made it more effective in the aggregate than any more targeted program that might have been designed in 1990.

On the negative side, the Training Guarantee demonstrates the risks that can arise from making a regulatory program too unprescriptive. The looseness that was built into the guidelines, largely in an attempt to avoid giving the impression that government was telling business what was good for it, caused unnecessary confusion in those areas of industry where the incentive was most needed, and thereby often undermined any good the program might have done. Far from making such employers more sympathetic to the scheme, the lack of clarity about what was required actually created more resentment than an unambiguously prescriptive program might have done. Even among good trainers, it probably did little to reduce the nuisance element of compliance, while at the same time creating the impression that the government lacked conviction about the demands it was placing on industry.

The other main negative lesson to be drawn from the scheme concerns what has been identified as its central underlying weakness: the individualistic basis on which it was meant to operate. This atomistic approach failed to create the necessary opportunities for businesses with no prior experience in training to pool their ideas and resources, learn from one another's mistakes, and benefit from the experience of those who had already been through the same process. In this sense it actually worked against the development of industry-owned collective learning which was one of the more obvious arguments for a non-prescriptive program. This failure is the more noteworthy in that the underlying problem had been explicitly identified in the government's own 1988 discussion papers as one of collective action. Individualistic remedies to problems of collective action are irrational; the experience with the Training Guarantee suggests that they also do not work.

How did the scheme perform against its legislated objectives?

This section summarises the conclusions that can be drawn about the Training Guarantee with regard to each of the objects set out in section 3 of the Training Guarantee (Administration) Act 1990.

Objective 1: the principal objects of this Act are to increase, and improve the quality of, the employment related skills of the Australian workforce so that it works more productively, flexibly and safely, thereby increasing the efficiency and competitiveness of Australian industry."

The Training Guarantee appears to have led to a significant increase in training expenditure that would not have occurred otherwise. How substantially it affected the skill profile of the workforce,
discounting the influence of other factors, is virtually impossible to judge. However, the evidence is that it was most effective when it worked synergistically, i.e. as a reinforcement to other reasons for training. This suggests that a higher proportion of its effect than generally believed translated into useful skills rather than training for its own sake.

To attempt to identify a precise effect of the Training Guarantee on any of the secondary indicators would be even more rash. The available data simply do not permit reliable inferences from training behaviour to such outcomes. What can be said is that most of these indicators showed an improvement over the four years, and the identifiable impact of the Training Guarantee was generally consistent with that improvement.

The true significance of this objective lies in emphasising that the government's aims for the scheme went beyond simply increasing the amount and quality of training. The flow-on effects on the profile of the workforce, work practices and the performance of the economy are central to a final assessment, and are discussed in detail in the next chapter.

**Objective 2:** "improving the quality of employment related training provided by employers by encouraging the adoption of structured training..."

The evidence on structured training suggests a very mixed outcome. On the one hand, there has been a widespread, statistically documented and worthwhile increase in the use of formal training plans, training needs assessment, etc., accompanied by greater interest on the part of senior managers in the budgeting, evaluation and strategic aspects of training. This change was widely and readily attributed to the Training Guarantee, even by some employer associations who were opposed to the program in principle. On the other hand, it seems to have been confined mainly to employers who already trained in 1990.

Among those who were starting from scratch, the structuring requirements were in general poorly understood and often became barriers to useful compliance. Many such employers overestimated their stringency and saw them as constraints forcing them to resort to forms of training which were not the most appropriate to their needs. Others saw them as nothing more than a documentary formality, and took advantage of the latitude they offered to comply by simply "structuring" their existing on-the-job training, without increasing their actual training effort.

**Objective 3:** "encouraging further employer investment in employment-related training..."

On this point the achievement of the Training Guarantee is reasonably clear. Over half the employers covered by the scheme said that it had led to an increase in their training expenditure since 1990, with just under 20% reporting that it had led to a large increase. For almost half the eligible employers, the actual amount of training they did had increased as a result of it.

**Objective 4:** "ensuring a more equitable distribution of employment related training among employers..."

The share of training expenditure borne by small and medium enterprises grew significantly over the period when the Training Guarantee was in force. A significant proportion of this change appears to be directly attributable to the scheme. In addition, the private sector share grew from 55.6% to 59.6%, a growth roughly double that which occurred in its share of all employment. On
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the other hand, the distribution of training effort between industries did not change significantly -
either because of the Training Guarantee, or from any other cause.

On the underlying issue of whether the Training Guarantee provided an effective solution to
poaching, it may be too early to tell. The recession resulted in a large increase in the numbers of
qualified and experienced people seeking work, and employers were able to fill most of their
vacancies without resorting to direct poaching of already employed workers. Anecdotal evidence
suggests that the practice may be gaining ground again now that demand has revived for some of
the more specialised skills.

Objective 5: "accelerating change in industry perceptions of the value of employment
related training."

There is convincing evidence from all the evaluation instruments that the strongest impact of the
Training Guarantee lay in increasing the awareness of training issues among senior managers, and
giving added legitimacy to the training activities that were already in place or under development.
The survey evidence indicates that it had a positive effect on the attitudes of nearly half of all
eligible businesses. On the other hand, the reaction of owners and managers seems to have been
somewhat polarised, and there is evidence (especially in the small business study) that the scheme
has actually discredited the concept of training in some of the problem areas where it has been badly
or unsuccessfully applied. Much of this negative effect seems to have been due to a lack of advice,
or to low-quality or irrelevant external training options.

Objective 6: "It is the intention of Parliament that this Act should be implemented in a
manner that, as far as is consistent with the achievement of its objects, minimises the
administrative burden on employers."

As already noted in the first part of this chapter, the Training Guarantee cannot be judged a success
on this count. On the one hand, the apparent simplicity of its reporting requirements proved illusory
in many instances, even for firms which trained well and had systems in place for recording their
training. On the other hand, the lack of clarity in the guidelines and reporting requirements
undermined both the effectiveness and the reputation of the program. Although both the actual
compliance burden and the ease with which the scheme could be "sorted" were greatly
overestimated in the public mind, there is no doubt that its design contributed to these damaging
misapprehensions, and that clearer and more stringent guidelines might have actually improved its
chances of acceptance by many parts of industry.
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CHAPTER 10

THE NEXT STEPS

The experience of the Training Guarantee has made it possible to redefine the obstacles to training reform in Australian industry. In place of a generic problem, there now appears to be a finite range of structural and environmental impediments, and a small number of well-defined areas and occupations where further reform is needed. However, these problem areas remain important for policy because of the contribution they make to employment growth. Following the strong emphasis on entry-level training reform over the last five years, there is also arguably scope for a new look at policy on recurrent training. A new agenda of reform could include three elements: lifelong learning for the individual, organisational learning for the enterprise, and a shift from interventions aimed at the individual firm back towards an industry or regional focus. Given the changed circumstances, the need for a Training Guarantee has largely disappeared, and the resources that would be needed to reactivate it might better be spent on further research and specific intervention (if it proves to be necessary) to address the identified problem areas.

An evaluation report does not normally recommend detailed policy options, but it can, where appropriate, identify the needs that remain unmet after the program has taken effect. This chapter looks at the ways in which the policy agenda might be affected by the findings of the evaluation.

Quite apart from its actual impact on training activity, the Training Guarantee has provided valuable new information on the dynamics of enterprise training. By forcing the pace of training reform in areas of industry with little tradition of skills development, it has revealed new perspectives that have not been evident in much of the policy discussion to date.

The research for this evaluation was concluded around the same time that the Working Nation White Paper was released. It describes the situation as it existed before the major training reforms in that package came into effect, and as such provides a baseline against which the impact of Working Nation can be measured. Pending the availability of reliable data on developments since Working Nation, it also represents the only basis on which a decision can be made on the continuing need for a Training Guarantee.

The conclusions that follow may therefore need to be revisited once better information comes to hand on developments in industry training since 1994. However, they have been framed to build on the evidence already to hand in a conservative way which does not pre-empt the findings of subsequent data collections.

The remaining problem areas

There remain a number of significant areas where neither the Training Guarantee nor the other influences for change up to 1994 resulted in any significant progress towards the development of a training culture. In many of these areas, indeed, less formal training went on in 1993 than was recorded at the time the Training Guarantee was introduced. The most important of these are listed below.
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Industries:
- wholesale and retail
- storage
- road transport
- personal services
- private health
- food processing
- entertainment and recreation
- hospitality
- construction

Enterprise types:
- businesses with fewer than ten employees
- independent businesses located outside major population centres

Employee categories:
- labourers and plant operators
- sales employees
- casual workers
- women in traditionally female industries

Obviously, some of these categories intersect and many of them interact. For instance, really poor trainers in the construction and food processing industries are concentrated almost entirely among the smaller employers. The fact that a category stands out is often a reflection of these interactions in its structure - e.g. very small enterprises dominate most parts of the construction industry, most traditional women’s work takes place in industries which are poor trainers overall, and much of the food processing industry is located in regional areas.

For policy purposes, however, it is useful to record the outcomes in these separate categories, since each of them has its own potential implications for the development of the Australian economy and the Australian labour market. They remain distinct topics of interest in their own right, irrespective of the extent to which they reflect common underlying processes.

This list could be seen as the unfinished business left at the end of four years of the Training Guarantee. It provides a framework for deciding whether a continuation of the Training Guarantee in some form, or new policies appropriate to the changed circumstances, might need to be considered.

Is there still a need for intervention?

A combination of the Training Guarantee, other Commonwealth and State policy initiatives, and the evolution of managerial culture within business and industry has remedied many of the deficiencies in Australia’s training effort that were evident in 1988. However, the gap which remains is an important one in policy terms, primarily because many of the problem areas just listed are significant sources of employment growth.

One of the outstanding trends of the last decade has been the general decline in the number of large firms in Australia and the growing importance of small and medium enterprises. By 1991-92, over half of all employment in the private sector took place in small business. Organisations with fewer
than ten employees accounted for over a quarter of all employees. Around 80% of employment in the Construction industry, 57% in Transport & Storage, 55% in Entertainment, Recreation & Personal Services, and 53% in Retail takes place in small business.

The recently published ESFC report *The Shape of Things to Come*, from which these figures are taken, stresses that small businesses as a class have little in common besides being small. Even before the Training Guarantee came into effect, those small businesses that did train spent on average a far higher proportion of payroll than medium or large firms. However, as their contribution to both employment and economic activity grows, changes in the pattern of training have to be anticipated.

This evaluation has found that small business overall not only continued to train much less than the other size categories, but also proved most resistant to the incentive effect of the Training Guarantee. More precisely, the aggregate statistics suggest that there may be a critical size - probably around 15 employees - above which it becomes feasible and/or attractive for organisations to offer significant amounts of training to their employees. More research is needed to establish the determinants of this critical mass (if, indeed, it is a critical-mass effect). However, it suggests that the needs of enterprises below this threshold are a logical priority of any new policies on enterprise-based training.

Equally critical is the balance of employment between industries and occupations. To show why this is a matter of concern, it is useful to look at the patterns of change that occurred in the downturn and in the first 18 months of the recovery.

In the period of the downturn, from August 1990 to February 1993 (roughly the period between the two runs of TES), only four industries recorded more than 1% annual employment growth: Accommodation, Cafes & Restaurants (2.53%), Personal & Other Services (1.63%), Education (1.56%) and Government Administration & Defence (1.28%). Among the industries which lost the most jobs were Communication Services (9.77%), Mining (6.27%) and Finance & Insurance (6.08%).

The following 18 months, covering the first stage of the recovery (and coinciding closely with the reference period for TPS), saw sharp changes in this pattern. The greatest annual growth occurred in Cultural & Recreational Services (12.53%), Communication Services (11%), Property & Business Services (9.83%), Accommodation, Cafes & Restaurants (6.15%) and Construction (5.19%). Of these, Communication had the highest incidence of reported decreases in training expenditure over the TPS reference period (18.5%), while the other three had the three lowest percentages of respondents reporting growth in training expenditure. By contrast, Electricity, Gas & Water and Public Administration & Defence, the two industries in which the highest proportion of employers reported growth in training expenditure over the period, experienced declines in employment.

The impression that jobs are being created in low-training industries, and lost in high-training ones, is reinforced by the aggregate growth figures over the full business cycle from May 1986 to August 1994. Growth was led by the hospitality industry, followed by Property & Business Services and Recreational, Personal & Other Services. In other words, two out of the three leading industries for long-term growth were among the worst trainers identified by both the surveys and the qualitative research for this evaluation. On the other hand, industries which trained actively over the whole

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147 These figures are drawn from *DEET Quarterly Labour Market Review*, October 1994. Employment growth figures by industry are compound, annualised and seasonally adjusted.
period from 1989 onwards (Mining, Communications, Public Administration, Electricity, Gas & Water) generally experienced low or negative long-term growth.

In occupational terms, the largest growth occurred among professionals (3.53%), but these were closely followed by salespersons (3.69%). In the first 12 months of the recovery (August 1993-August 1994), the growth in low-skilled occupations became marked: the percentage increase in employment for sales staff and plant operators was around twice that for the next highest category (professionals). Two of the categories in which most training has traditionally been concentrated are clearly declining in their contribution to total employment: tradespeople experienced an absolute decline in employment over the eight years, and para-professionals over the first 12 months of recovery.

It is obviously impossible to draw firm conclusions from trends over such a short period, especially when so much of the change results from the impacts of one-off structural changes (most evident in the Communications industry) which have yet to settle into long-term trends. Moreover, the fact that growth occupations currently receive a relatively small share of industry’s total training effort does not mean that they will necessarily remain low-skilled in the longer term, especially if their growing contribution to the economy leads to their exposure to greater competitive pressures.

However, it does indicate a clear need to continue monitoring the performance of these industries in the area of human resources development, as many of the employment gains of recent years could be undone if these industries become vulnerable to more sophisticated overseas competition.

**Entry-level and recurrent training**

From the late 1980s onward, the development of training policy was based on the premise that the Commonwealth should direct its attention primarily to developing and implementing a new comprehensive system of entry-level training, while industry should increasingly take responsibility for the training of workers already in jobs. Hence, as noted in Chapter 3, the Training Guarantee was focussed primarily on the development of recurrent training.

As the entry-level training system came closer to implementation, the role of industry in that area too became more prominent. A primary objective of *Working Nation* was that industry should now assume chief responsibility for the direction of entry-level training, much as it was expected to do for recurrent training at the end of the 1980s.

As an indication of where the balance currently lies, TPS respondents in all size categories were more likely (by around 10 percentage points) to offer “on-going” than “initial” training. Perhaps surprisingly, in view of what was said in Chapter 5 about the disproportionate contribution of apprenticeship to training activity in the small business sector, the discrepancy in favour of “on-going” training was slightly greater for small organisations than for larger ones. Respondents were also more likely to offer “on-going” training to all major occupational groups except (predictably) apprentices and tradespersons. Just as predictably, the margin was greatest for the highest-skilled categories.

These data require some qualification for three reasons:

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148 *Employer Training Practices*, Graph 8, p.32
The distinction between “initial” and “on-going” training does not correspond precisely to that between entry-level and recurrent, especially since the Working Nation reforms;

- many respondents had a poor understanding of what the terms meant, resulting in an estimated error rate of over 20% in what was classified as “initial training”149;

- the data reveal nothing about the amount of each kind of training that was undertaken.

The balance between the two at the time of the surveys was probably neither optimal nor spontaneous. As seen in previous chapters, there were cases where the Training Guarantee itself provided a net incentive to offer recurrent training to already highly skilled employees, where base-level training might have produced a better commercial outcome for the employer. Conversely, the lack of structured entry-level training arrangements in some industries probably presented an obstacle to many employers who would have found it useful to do more training at this level. Indeed, there are two good reasons to suppose that the entry-level reforms will also have a positive flow-on effect on recurrent training:

- Australia’s new system of entry-level training differs from most traditional systems, here and overseas, in that it is designed to be accessible to prime-age adults as well as to first-time entrants to the workforce. As training becomes fully modular and competency-based standards become the norm, it seems likely that entry-level and recurrent training will become much closer substitutes than they have been in the past;

- the qualitative research undertaken for this evaluation shows that one of the main barriers to training of the existing low-skilled workforce is a commonly encountered lack of interest in seeking training opportunities. This usually stems either from numeracy and language problems, or from unhappy past experience with the education system. The research has shown that once such people have received sensitively designed, relevant training, their resistance is usually overcome and they begin to demand more. Thus, once enough people have passed through the new entry-level arrangements - and provided the training involved is of suitable quality and perceived to be relevant to the workplace - pressure from employees may be enough to keep recurrent training going.

On this basis, the new entry-level training initiatives could prove to be just the catalytic stimulus that is required in some of the problem areas. In retailing and hospitality, for example, comparative studies of the UK, France and Germany in the 1980s150 showed the difference that could be made, both in productivity and in acceptance of a training culture, by the existence of a properly articulated entry-level training system.

On the other hand, it could turn out - as other countries have discovered - that the German experience is not easily transferred. Factors peculiar to these industries in Australia could mean that the gains achieved in Europe cannot be reproduced here. Indeed, the same factors might conceivably even impede the development of effective entry-level training, just as they impeded a positive response to the more generic incentive of the Training Guarantee.

149TPS Post-enumeration Survey, p.14
150Jarvis and Prais, 1989; Prais, Jarvis and Wagner, 1989
Hence, irrespective of changes that may be implemented at the entry level, some need will remain for policies to address recurrent training. Since the Commonwealth currently has no programs other than the Training Guarantee which specifically encourage the spread of recurrent training, this is an area that will require attention if the Training Guarantee is not reactivated.

**Is there still a need for a universal scheme?**

Even before the Training Guarantee was designed, there was considerable dispute about the need for a program to which all employers would be subject. Most of the parties to the initial consultation process in 1988 - and indeed, the government itself in its initial sketches of how such a program might appear - saw the requirements as varying, at the least, from industry to industry.

Some of the reasons for eventually choosing a universal scheme were practical - notably the difficulty of defining watertight boundaries between industries. Others revolved around the need to avoid making invidious distinctions - being seen to penalise one industry over another without proper cause. In hindsight, however, the greatest advantage of having a universal scheme lay in the opportunity to find out empirically where the problem areas were, rather than have the government assume in advance where they were.

At the end of four years, this goal at least would appear to have been achieved. With the survey evidence now available, it is much clearer which areas of industry might warrant continued or different interventions to bring their training activity up to leading world standards. It is equally clear where the Training Guarantee has not proved (at least within that timeframe) to be an effective intervention.

These areas are limited to a manageable number, and their boundaries are probably more easily defined than would have been possible if it were a matter of subdividing a universal scheme into appropriate functional segments. The reasons for these areas remaining poor trainers may be distinctive to each area; alternatively, they could stem from a range of common factors which cut across the industry and size categories, affecting only some employers in each, but cumulatively have caused these areas of industry in particular to be left behind in the general move towards a more active training culture. In either case, the solutions are unlikely to be straightforward, and further research will be needed to define the problems precisely enough to form a basis for effective program design. But at least that research can now be targeted more closely than would have been possible in 1989, or indeed, over most of the period this evaluation was in progress.

By the time the Training Guarantee was suspended, those firms which were active trainers had mostly accommodated themselves to its presence, to the extent that though still resented in principle, it was seen as little more than a passing irritant. The real and growing resentment, and the real compliance problems, came from those remaining poor trainers for whom it had proved to be an inadequate remedy.

This might well have been an argument for maintaining the Training Guarantee in its originally intended role as a backstop, while developing better targeted programs to address the identified problem areas. It is doubtful whether that argument would still apply to reinstating it after a two-year pause.
If the Training Guarantee were to be restored in 1996, it would need changes to accommodate developments since its suspension. In particular, it would need a much more extensive support infrastructure and an audit program that presented a more effective deterrent to non-compliers. Experience in the later years of the program suggests strongly that without more effective enforcement, its continuing contribution would probably not be worth the cost and effort (however modest relative to other programs) of maintaining it.

This would involve a fundamental departure from the original concept of a minimally interventionist program designed to be simple and inexpensive to administer. Given the nature and intractability of the problems that remain, it would probably be much less cost-effective than in its original form. Since cost-effectiveness has emerged as one of the strengths of the Training Guarantee, the argument for its continuation would be considerably weaker once it lost this advantage.

If a generic incentive is still needed, governments could probably now achieve much the same results as the Training Guarantee, less obtrusively, by encouraging the wider adoption of Quality Assurance - for example, by giving preference in its purchasing of equipment and services to suppliers with Quality Assurance certification. On balance, however, it would seem more efficient to define the remaining problems specifically through further research, and address them directly through targeted interventions.

Towards a new agenda

The limitations of the Training Guarantee can be encapsulated in three features which were central to its design:

- it aimed to change behaviour directly, rather than through working on the pattern of incentives;
- it worked at the level of the individual enterprise rather than of broader groupings; and
- it focussed on increasing the supply of inputs, and of one input in particular: formal training.

As shown in Chapter 7, this kind of program could still reasonably be expected to achieve fairly widespread behavioural change, given the right circumstances, and the evidence in Chapter 6 shows that it did. The important qualification is that it was only really likely to work at the margin. By 1994, it appeared as though most of these marginal situations had already been addressed, and the problems that remained were such that something more than a marginal incentive would be needed to achieve change.

If the government is to address these remaining challenges, it will need to develop policies of a different kind that address situations where the disincentives to train are more than marginal. While the details of such a new agenda lie outside the scope of this report, a number of issues arising out of the findings could be included among a revised set of priorities for future policy.

Beyond the supply side

The Training Reform Agenda, in its original form, sought to influence the demand as well as the supply side of the training market, not only through the Training Guarantee - which worked
primarily to create new demand - but also through award restructuring, which aimed to create new career paths, reward systems, forms of work organisation, and other incentives for both employees and businesses to increase their demand for training.

With the emphasis in recent years on entry-level training and the creation of a training market, the balance of priorities has tended to shift back towards the supply side. In some places there has even been a return to the traditional way of thinking (See Chapter 2), in which the current level and pattern of demand from industry is assumed to be given, optimal and perfectly informed, and the role of policy is seen as facilitating the adjustment of the training industry to meet this given demand.

This attitude is exemplified by the frequently quoted consultants' report Successful Reform, where the authors begin by lamenting the lack of "demand side focus" in the Training Reform Agenda, but then go on to define such a focus as

"the key importance of enterprise skill needs in determining the types of training for all clients;" 151

implying precisely that the demand side is out of bounds to governments when it comes to influencing behaviour, and that the only failures which matter are failures of supply.

To begin with, this is an inadequate account of the way real markets work. In any market beyond the level of basic commodities, the interaction between supply and demand is an iterative negotiating process in which consumers cannot always fully articulate their wants, producers try new products on the market with a view to creating demands that did not previously exist, and each side adjusts to meet the other through successive approximations. Critical innovations can be driven by either side, and from the government perspective, the critical influence could be exerted on either side, depending on the circumstances.

But more importantly, it contradicts the evidence from this evaluation that the critical failure, where an industry or a class of firms fails to develop a training culture, is usually a failure of demand. Employers do not want to train, or else do not know what training they want, because they cannot conceive what good would come of it; because the way they organise their work is premised on low levels of skill; and because their immediate trading environment does not send them any signal that they need to upgrade the skills of their workforce.

If governments do want to force the pace of adjustment in such areas, it is this kind of impediment that they have to address first. Builders, suburban retailers, small trucking firms, pubs and entertainment providers will not begin to train seriously until they see a good reason to. Casual and short-term employees, migrant workers with poor English and young workers without formal qualifications will not get a better deal in training from their employers until their employers want to train them - and until they themselves begin to feel that they are not getting a fair deal.

The factors that block the emergence of demand will vary from case to case. In some cases it may be nothing worse than an information gap which governments are well placed to fill - e.g. through best-practice programs, through subsidised management training, through assistance in drawing up

151 Allen Consulting Group, Successful Reform, p. 54
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enterprise training strategies, or by providing better consumer information on training options or training providers. In other cases, the reasons may be much more complex. The value of the skills equilibrium model lies in demonstrating how the critical points for intervention or influence in such cases are often far removed from the individual enterprise and immediate questions of skill needs or training provision, and how the critical impediments are often of such proportions that only governments can adequately address them.

Beyond the input focus

As the policy focus shifts beyond entry-level training to the skills of workers already in employment, it will be increasingly inadequate to concentrate on training in isolation. For employees who have been working for an organisation, perhaps for ten years or longer, their willingness to be trained and their ability to benefit from training are embedded in their past experience of work within that organisation, and in how they see that experience changing. In several of the workplaces that were studied in the course of this evaluation, the reactions of existing long-term employees emerged as one of the more difficult hurdles that had to be overcome before the firm could adopt a training strategy.

From the broader policy perspective, it is also important to look beyond simple growth in measured inputs of training. More training does not necessarily imply a high-skill strategy.

Training can be for high or low skills. It can involve short, discrete packages, directed at immediate needs and single operations, with a limited useful life and few links to learning undertaken, in the past or in the future, by the participants (Type 1 training). Alternatively, it can involve a sequence or progression of learning, some parts of it more directly and immediately applicable than others, but collectively intended to build up a diversely, adaptively skilled individual or work team with the capability, beyond a certain stage in the process, to maintain their own skills and do their own learning, often without new formal training (Type 2 training).

Only Type 2 training implies progression towards a high-skill equilibrium. Type 1 is quite compatible with a low-skilled workforce, and in some ways characteristic of what has always been done with low-skilled workforces. To the extent that it is formalised and "structured" it simply represents a more easily documented and perhaps more efficient replacement for the on-the-job training previously offered.

Type 2 training can, of course, take place within a low-skill equilibrium as well. It is the kind of training that has traditionally been given to tradespeople and professionals while they remained an isolated elite within a generally unskilled workforce. However, some indication of progress towards a high-skill equilibrium can be gained from seeing how far Type 2 training is spreading among groups in the workforce which previously got only Type 1, or none at all.

What is true for individuals applies equally to organisations. A firm can also choose to carry out Type 1 training focussed on single operations or aspects of its business. For example, if it has just bought a new accounting package, people need to be trained to use it before it can be put into operation; but that training does not necessarily result in their doing kinds of work they were not doing with the old system, or in any reallocation of roles in the organisation. Type 2 training becomes relevant only when the organisation decides to do things a new way, using its people more creatively and in more diverse and versatile roles.
This distinction might seem too intuitively obvious to be worth mentioning. Its relevance to the issue at stake lies in the fact that both types of training (and all the gradations that lie in between) are indiscriminately captured by statistics on training expenditure or training hours. Moreover, both can equally be defined in terms of "competencies", and both can be "structured" in the terms of the Training Guarantee (since both cover defined skills, with defined productivity outcomes). Indeed, Type 1 is often easier to describe in such terms, because the skills involved are more discrete and immediately applicable. Even the more reliable proxies commonly used for "quality" training can mislead: for example, even the best-structured training plan or the most formalised system of training needs assessment can still cover mainly Type 1 training, if its only purpose is to ensure reliable maintenance of the organisational status quo.

In moving to a strategic outcomes focus, policy will need to look at more than just formal (or even formally structured) training. The case studies showed that formal training was only one element in a successful skilling strategy, and in many cases not even the most critical. At least as important was the opportunity for complementary informal learning, and the way learning (of both kinds) was integrated into the working experience of employees. The evidence from the household survey (see Chapter 5) illustrates the relative importance of informal training, and more particularly, of informal learning that is initiated by employees rather than imposed from above. Much more research is needed on the complementarities between these kinds of learning and formal, planned training.

In short, the more appropriate target for policy might be organisational learning. This means, from the viewpoint of the enterprise, that learning is not something discrete from production and confined to the training room, but a process that involves all aspects of the organisation, flowing out of the way it works and influencing the capability and adaptability of the organisation as whole. The case studies undertaken for this evaluation have shown clearly that the most important factor influencing the success of training reform in individual enterprises is not their training provision as such, but the ability of the enterprise to embrace, encourage and generate skill enhancement and turn it into a source of strategic advantage.

One of the more common examples of an approach based on organisational learning is the Quality Assurance movement. Quality Assurance standards provide a generic incentive very similar in its effect to the Training Guarantee, but with the advantage that industry is involved in the standard-setting process and feels ownership of the processes and outcomes. One of the reasons for the widespread effectiveness of Quality Assurance in raising the standards of training is that instead of focussing solely on the training inputs, it places them in a whole-enterprise perspective that begins with competitive strategy.

There is another perspective on this global approach to human resource development: that of the individual worker. It has been given relatively little attention in this evaluation, because the incentive effect of the Training Guarantee was targeted at employers. But from the point of view of government it is just as important in both a social and an economic sense.

For the individual citizen, and for the workforce collectively, the counterpart to organisational learning is lifelong learning. A recent speech by the Director-General of the OECD shows how this concept affects training policy:
"Continuing to expand education and training systems that rely upon learning opportunities limited to early life - more of the same - will not suffice as a strategy for meeting today's challenges. Indeed, there is growing support for a strategy based on a flexible framework of life-long learning, extending from pre-schooling... through... to continuing vocational training in educational and labour-market institutions, informal learning on the job, and self-directed and co-operative learning at large in society... Failing to address this challenge now risks jeopardising the broader economic, social and cultural goals to which OECD countries are committed." 152

Organisational and lifelong learning are different parts of the same process, and the two approaches are probably best treated as complementary. Together they could define the goals of a more strategic approach to skills development that goes beyond simple incentives to increase the volume of training activity.

**Beyond the enterprise focus**

A third possible element in a new policy perspective would be to shift the focus back from the firm to the industry or region. As has been argued many times in this report, the fundamental weakness of the Training Guarantee lay in its reliance on individual employers changing their practices in isolation, a task that proved beyond most of those who most needed the incentive to change. The qualitative research for this evaluation has shown that small businesses - despite the diversity of their reactions to the Training Guarantee - face much more common problems and have much more common needs in training than they themselves realise. There may still be a crucial role for government in facilitating an institutional response to the challenge of training reform in those industries whose history, structure or culture has so far worked against collective action.

Alternatively, if cultural factors continue to impede the growth of co-operative institutions, the potential exists to create second-best solutions using market mechanisms. For example, franchising operations, which account for a growing proportion of "small" business, could (and in a few cases already do) provide an organisational and developmental infrastructure for their franchise-holders.

The example of the training firm Industrial Skills and Training Providers, discussed in Chapter 7, illustrates how some of the mechanisms of shared learning could be reproduced under a purely fee-for-service arrangement.

The important element in a strategy along these lines would be to determine the precise environment from which the crucial signals come for each firm. As explained in Chapter 8, this is likely to differ widely from case to case. Once again, there is a strong argument for identifying specific areas of industry for attention and researching their needs and circumstances from the ground up, rather than assuming that a single solution will apply to all cases.

None of these arguments should detract from the achievement of the Training Guarantee in its first four years. It is simply a matter of an evolving situation requiring new responses. In the manner of most effective regulatory interventions, the Training Guarantee by its very successes created the conditions for its obsolescence.

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(c) Commissioned research

The following research reports are covered by Commonwealth copyright, and in most cases by undertakings of confidentiality made to the organisations which hosted the research. They are not publicly available.


Australian Centre for Industrial Relations Research and Training (ACIRRT):
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## APPENDIX 1
### CITATION OF TRAINING-RELATED ISSUES IN ENTERPRISE AGREEMENTS

[Figures refer to the proportion of agreements (expressed as percentage) in each category which cover the matters listed at the head of each column]

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<td>6</td>
<td></td>
<td>31</td>
</tr>
</tbody>
</table>

*Source: ACIRRT, special analysis prepared for DEETYA from ADAM database*