

## DC dVET Webinar on Costs and Benefits for Companies in (Dual) VET (13 May 2020)

### Questions & Answers

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Please find below the questions raised by the participants during the webinar and the corresponding responses by Prof. Dr. Stefan C. Wolter (University of Bern).

#### Question 1

Cost-benefit analysis can play a role in convincing companies to host students during the formal VET education. Do you have any example of using this kind of analysis for short-term trainings? Usually the companies can get their return in investment, if dual (VET) is applied for longer time. Could you share experience from different countries related to application of dual (VET) in short term trainings?!

#### Answer:

Most dual training courses have a minimum length of two and more years, which is why these CB models are usually used for longer training periods. However, we have also used the model to evaluate a shorter training period (in Singapore). In principle, the CB model can be used for any duration of training. The question that arises is rather whether the training can be worthwhile for a company if the training period is too short. The answer to this question depends primarily on the duration required to achieve the desired level of competence. The higher this level is, the longer the duration of the training should be, because if it is too short, the whole training time is "only" used for training, i.e. it "only" causes costs and there is no time for the application of the acquired skills in productive work, which would be beneficial for the company - but also for the apprentice, because through work further competences are acquired. The CB model can therefore be applied to any form of training, but not every form of training will be worthwhile for a company.

#### Question 2

Is the CB model applicable only for initial VET or also for continuous employee (on job) training?

#### Answer:

The model has of course to be adapted to the training model, but the model could also be used for continuous training.

#### Question 3

I could imagine there is a major difference in high productivity vs low productivity economies in terms of costs for companies!?

#### Answer:

There will be differences, but they are similar as the differences we measure between companies with a high and those with a low productivity. In terms of the net-cost, however, it is not clear from the outset, whether they will be higher for low or for highly productive countries (or firms). The reason for this is, that the productivity is reflected in the cost and the benefit part of the model. While in low productive countries that value added of a trainee is lower than in a highly productive country, the training costs are also lower. Therefore, it could be that it is more costly in a highly productive country to reach acceptable productivity levels for trainees also in a net-cost perspective. What is relevant, for the company as well as the trainee, is the relative gain in productivity compared to the initial status with no training. This delta has to be sufficiently large, independent of the level you start from, to justify the training expenditures. In this respect it could be that in a low productive country, training is

not cost-effective in the short term, because even the productivity levels of trained workers are too low. Something we can also observe in certain industries in developed countries.

#### Question 4

How does the size of the companies influence the cost-benefit ratio? Interesting that saved induction costs are much higher for large companies - do these companies have the same benefits as small companies \*during\* training? Or are those lower and thus the net benefits are roughly the same for small and large companies?

#### Answer:

Company size influences the net costs of training mainly through three channels. Firstly, larger companies generally also have higher productivity levels and consequently higher wages. However, as in the answer to question 3, it is not clear here whether net costs increase or decrease because these higher wages increase both gross costs and benefits, and it is not known which of the two variables is more affected. Secondly, larger firms have so-called economies of scale, i.e. they can hire and train several apprentices at the same time. Because part of the training costs are fixed costs, the costs per apprentice can thus be reduced, which reduces the net costs of training or increases the net benefit. Thirdly, larger companies have so-called internal labour markets, i.e. they have greater opportunities to keep the apprentices they have trained themselves in the company after the training, which increases their training benefit after the training. However, this higher expected benefit after training also has a partial influence on the net costs during training. If a company knows that it can count on the benefits after the training, it is also more willing to make a high net investment during the apprenticeship. Conversely, especially small companies that have to expect that their apprentices will leave the company after the training are therefore not prepared to make a net investment during the training and therefore try to keep the training investment low.

#### Question 5

Does widespread overqualification affect these cost-benefit considerations?

#### Answer

This depends on the cause of the overqualification and how it is defined. In many countries there is so-called overqualification because the school systems (including universities) produce too many graduates. For example, a bank may "only" be looking for a counter clerk but does not have to train him or her because the overproduction of universities allows it to employ a graduate with a master's degree in business administration. One must be careful, however, when defining overqualification. In most cases, these are merely formal overqualifications, i.e. people have educational qualifications that are far above the level required for the job they are looking for. However, in many cases this does not mean that it is also overqualification in the sense of work skills. We have found some examples, e.g. in our work in Spain, where companies did not want to hire graduates with an engineering degree for a "lower" job as mechanics because the graduates of the universities did not have any practical work skills. Thus, despite high unemployment among engineers, companies preferred to train their own staff instead of hiring available "overqualified" engineers from the market.

#### Question 6

Can higher training costs also be an incentive for good training quality ensuring apprentice become productive faster?

#### Answer

To a certain extent certainly, but it is always important to maintain the right balance. High training costs, e.g. due to high demands on the quality of training, are certainly also a good way to discourage companies that would not offer good training. In other words, it is certainly not only an incentive mechanism to offer better training if one has already decided to train, but also a selection instrument to keep bad training companies away from training, which would only have used the apprentices as cheap labour. In order for the bet on good training quality to pay off, however, not only must the

requirements be high (and thus the costs), but there must also be good monitoring of training quality (external examinations, for example).

#### Question 7

In Kosovo, the Government has enforced a bylaw regarding loose apprentices' compensation. This was a decision in order to get the companies decide on their own and not get imposed. Due to such regulation some donors were criticizing the Government. Do you think that this is a good way forward, especially since Kosovo companies recently started to be interested to get engaged in dual education-work-based learning? (This question is related to formal VET)

#### Answer

A flexible approach to the determination of apprenticeship wages is basically a good thing (and, for example, the reality in Switzerland) under the condition - and this is essential - that the quality of training is externally verified. If an apprentice receives a very good training, the salary is secondary, but if the apprentice cannot rely on the quality of the training, he or she risks being exploited by the company at a low wage. Therefore it is more important to deal with the question of external verification of the quality of training than with apprenticeship wages.

#### Question 8

It is likely that apprenticeship models will undergo change owing to COVID19. How can the existing cost benefit models be used to inspire more private sector partners to invest and public institutions to repurpose investments in TVET?

#### Answer

The COVID crisis is indeed a threat to dual vocational training in many countries, because if companies have no orders and thus no work, they have no need for apprentices. If they were to employ apprentices anyway, they would only have the costs but no benefit. Of course, this is a very short-term idea and in the longer term it is certainly worthwhile to train apprentices despite the crisis, but there will be many companies that do not have a long horizon at all, but who will fight for their survival in the coming months. In these cases, it might also be good if they do not take on apprentices, who, because the company goes bankrupt, would have to be put on the street in three or four months. The faster the economy finds its way out of the crisis; the faster dual vocational training will also come out of it. But dual vocational training itself is not an instrument to overcome the crisis. Systemically, however, those countries that had already diversified dual VET into as many sectors of the economy as possible are now at an advantage. Since not all sectors of the economy will be affected by the crisis in the same way, these systems will succeed in limiting the crisis for dual vocational education and training. On the other hand, where dual VET is only in place in individual sectors and industries (e.g. construction or tourism), there the crisis risks destroying dual VET.

#### Question 9

Is the cost benefit analysis for firms equally applicable to highly informal economies, with lower levels of productivity and an easily available workforce (e.g. West Africa)? Does the state need to step in then to strengthen economic development?

#### Answer

Informal economies are special not only because of low productivity levels. Almost more important is the impossibility of issuing "official" training certificates in informal economies. However, such certificates are on the one hand important for monitoring and certifying the quality of the training and on the other hand they are essential for the trainees, who thereby gain labour market mobility. This mobility in turn forces companies to improve working conditions and thus to improve the quality of training, because the more mobile workers have a means of exerting pressure on employers. Training that is certified and thus allows mobility is in turn more attractive for motivated and talented people, which would support dual vocational training. In informal economies, on the other hand, these people

will try to get their degrees from colleges and schools, which would leave only the "inferior" workers for dual training, and thereby damage the reputation of dual training.