

# Companies in dual VET: Do Financial Incentives Matter?

## Nexus Financial Incentives and SMEs

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 Austrian  
Development  
Agency

 Federal Ministry  
for Economic Cooperation  
and Development

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DEVELOPMENT  
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Swiss Agency for Development  
and Cooperation SDC

**Basically,**

**Pros and Cons of Financial Incentives apply to SMEs too!**

# Pros and Cons of Financial Incentives (1)

## ❖ If there is massive underinvestment in training due to market failures...

... incentives may be justified to favorably change cost-benefit ratio

- YET, its very hard to find robust ex ante indicators / criteria to filter out training companies with investment motives that should by subsidized (training companies that break-even at the end of training time will not be subsidized at all).

## ❖ Risk of distortion of company's self-interest in training investment

- „training due to future skilled staff and not due to public money“.
- negative system consequences: qualification demand and supply drift apart; undermining quality of training.
- potential dilemma of criteria-based / targeted incentives: incentives shall induce behavioral change as well as not distort basic training motive.

# Pros and Cons of Financial Incentives (2)

- ❏ ALL subsidies entail windfall gains
- ❏ Trade-off between accuracy, criteria complexity and administration as well as information costs
- ❏ Once established, subsidies are very hard to overcome
- ❏ Subsidies may trigger companies to train – YET...
  - How to define a first-time training company / additional training places?
- ❏ Non-financial aspects of incentives
  - Positive social signal
  - Re-distribution between training and non-training companies may be fair
- ❏ Evidence on limited relevance of free-rider problems (i.e. poaching) in dual VET

**Are there SME-specific problems, challenges, shortcomings?**

**And will money (i.e. financial incentives/support) matter –  
i.e. being the right “answer” to tackle these challenges?**

# SME-specific problems, challenges, shortcomings

- ❑ **Attractiveness as company / training provider with respect to ...**

- ... career options
- ... wage levels
- ... (additional) training options

- ❑ **Fulfillment of the occupational profile / “curriculum”**

- ❑ **Productive work-loss of instructors/mentors due to ...**

- ... training time and supervision devoted for apprentice/s
- ... kick-off instructor qualification and experience sharing

- ❑ **Liquidity constraints ...**

- ... undermine investment-potential for dual VET
- ... aggravate information and accreditation costs

**YET, SMEs as a group / on aggregate level entail these problems => not every single SME shares these problems!**

Are these problems really SME-specific, i.e. apply for and only for SMEs or are SMEs a good indicator for companies having these problems?

If so, differentiating financial incentives between SMEs and larger companies might be justified...

# BUT, will money matter?

## ❖ Attractiveness as company / training provider with respect to ...

... career options

... wage levels

... (additional) training options  ✓ if means-tested & (partially) reimbursed

## ❖ Fulfillment of the occupational profile / “curriculum” **NO**

=> training alliances / supra-company 3<sup>rd</sup> learning site

## ❖ Productive work-loss of instructors/mentors due to ...

... training time and supervision devoted for apprentice/s

... kick-off instructor qualification and experience sharing



=> (online)-modules, sequencing of trainer qualification

## ❖ Liquidity constraints ...

... might undermine investment-potential for dual VET

... might aggravate information and accreditation costs



=> in-kind support/tools on how to foster training quality

=> if means-tested & (partially) reimbursed?



=> in-kind support for & simplifying of accreditation process



# Thank you for your attention!

Schmid Kurt (2019): Companies Engaging in Dual VET: Do Financial Incentives Matter? Approaches in Austria, Germany, Liechtenstein and Switzerland Options, Pros and Cons for Reform Processes. ibw-report for DC dVET, Zürich, 2019.

[DC-dVET Discussion-Note-Financial-Incentives.pdf \(dcdualvet.org\)](https://www.dcdualvet.org/DC-dVET_Discussion-Note-Financial-Incentives.pdf)