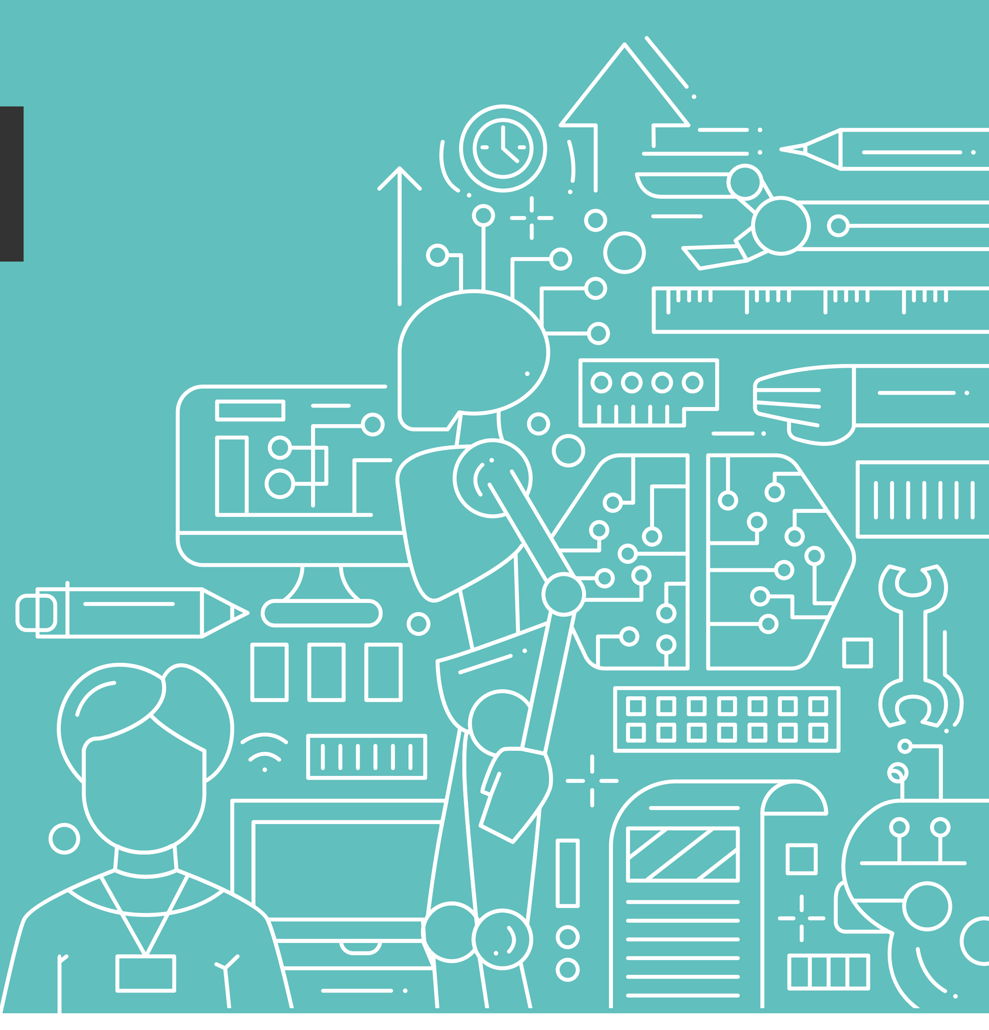
THE ADECCO GROUP

Bridging the skills gap: Rethinking Workforce Investment



Changes in the workforce are transforming how businesses operate. Yet the initiative for employers to invest in their staff is low, resulting in a depletion of qualified labour and a widening skills gap.

The challenge for individuals, business and society

Impending industry-wide demand for niche skillsets will be met with the grave inadequacy of existing internal training programmes.

There is rarely money set aside for training. Recognising underinvestment does not reduce the growing difficulty that businesses face if their current or prospective workforce does not have relevant skills.

It is almost impossible within traditional financial reporting to attribute human-capital investment and its impact or long-term value to the company.

Through effective reskilling and upskilling ('re-/upskilling'), employers can construct their own talent base while giving staff the capabilities they need to keep their jobs for longer.

The big question is how companies can overcome the barriers to skill investment, while protecting themselves and their stakeholders.

Three Accounting and Investment models to drive change

The Adecco Group has identified three alternative models, each with its own benefits and challenges, to help companies rethink how they invest in re-/upskilling and how they treat it during the accounting process.

Of these, the option we recommend – for the benefits it affords to companies as well as to society more broadly – is the second, the **Employability Account** model.

Model 1: Training Fund

Description

Employers set up a separate fund exclusively for re-/upskilling. The employer and (potentially) the employee can contribute.

Accounting approach

Contributions to the fund by the employer are treated as an investment, which is amortised according to the difference between the total funds contributed and the total value of the fund at year end. Payments for re-/upskilling are made by the fund, while retaining income from investment.

What needs to change

Contributions into a fund for re-/upskilling must be recognised as an investment.

Model 2: Employability Account

Description

Businesses contribute to each employee's personal, transferable training account, as established on the national level.

Accounting approach

N/A

What needs to change

Government-led, nationwide scheme. Minimum investment requirement for businesses.

Model 3: Amortisation

Description

Employers pay for re-/upskilling during the term of employment, in return for which employees commit to that employer for a set period (or repay).

Accounting approach

The initial cost is capitalised as an asset and amortised over the benefit period. If the employee resigns, the remaining unamortised cost will be repaid.

What needs to change

Re-/upskilling must be recognised as an investment in an intangible asset.

A call to action

Companies and policymakers have an obligation to pursue solutions that counter the concerns of shareholders, ease the risk of unemployment and empower workers with value-adding skills:

Business leaders and policymakers must explore feasible tax incentives and the adoption of new accounting and investment models

Companies must lobby for change in the legislative treatment of human-capital investments/assets

It is our view that the **Employability Account** model holds the most promise for individual companies as well as society as a whole – by virtue of its significant reduction of severance costs and its ability to finance re-/upskilling initiatives.

More weight must be given to value creation in reporting to stakeholders, in relation to training expenditure

As well as highlighting the business advantages of human-capital investment, companies should publicly promote its social benefits