



THE ADECCO GROUP

Bridging the skills gap: Rethinking workforce investment



In association with:

 **GENERAL ASSEMBLY**

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“It’s getting more and more difficult to find and recruit good people. It’s absolutely critical to retain your staff, because, when you lose them, you lose the knowledge, and that can halt a business.”



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Executive Summary

The skills gap is widening as the battle for talent intensifies

It is becoming harder and harder to find talent with key skills, while redundancies and severance expenses are mounting. Investment in internal training can help tackle these issues, but companies often do not prioritise such initiatives owing to cost, time, the unclear return on investment, and the risk that employees will leave.

Accounting frameworks are a barrier

United States Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) do not allow businesses to estimate the value that human capital investments have on the company or recoup any expected returns. If training can only be listed as a cost, businesses wishing to appease shareholders lack incentives to invest in the long term.

Making intangible value real

Alternative reporting frameworks, which show the connection between intangible value investments – such as human capital – and profit, are gaining ground with companies and stakeholders. Yet these do not yet sway corporate decisions.

Accounting and related taxation changes are a key part of the solution

Alternative accounting and investment models can help change how expenses for human capital investments are capitalised over time. Three models are discussed in this report to inform and inspire change, including considerations around implementation, with the recommendation that the Employability Account represents the greatest potential benefit. However, making a change to official accounting standards – which extends to rethinking related tax incentives – is a laborious affair, and is best driven by political and business action.

Foreword

There is a pressing need for businesses, and employees themselves, to invest in the internal creation of new skillsets.

The idea that a school or tertiary qualification, together with some informal on-the-job training, will provide an individual with the skills they need for a lifetime of employment has become obsolete.

To stay relevant in a labour market that is being and will be disrupted by technology, workers must continuously develop their capabilities – just as, to thrive in an uncertain economy, employers need a steady supply of trained, productive and multi-skilled workers.¹

It is in the interest of both parties to ensure these requirements are urgently met by changes in corporate policy, and this must be driven by national legislation.

A recent OECD report puts in stark terms the potential damage that would be caused by an industrial failure to address the skills mismatch in a manner that is advantageous to both employer and employee:

“For individuals, skills mismatch has a negative impact on job satisfaction and wages. For firms, it reduces productivity and increases on-the-job search and turnover, while shortages increase the cost of hiring and hinder the adoption of new technologies. At the macroeconomic level, mismatch increases equilibrium unemployment and reduces GDP growth via misallocation of human capital and/or the reduction in productivity it generates, while skills shortages have equally adverse effects on labour productivity.”²

Impending industry-wide demand for niche skillsets will be met with the grave inadequacy of existing internal training programmes. The mobility industries alone expect employment growth accompanied by a situation where nearly 40% of the skills required by key jobs in the industry are not yet part of the core skillset of these roles today.³

Challenging assumptions

A logical suggestion might be that businesses and their employees help each other here. Through effective reskilling and upskilling ('re-/upskilling'), employers can construct their own talent base while giving their staff the capabilities they need to keep their jobs for longer.

There is currently a temptation, however, for employers to lay off workers who do not have the required skillsets and replace them with new recruits who have those skillsets already in place. Moreover, younger employees often have a very different perception of their career prospects, away from the traditional view of developing a role with one company over a working lifetime. Company culture also typically discourages inter-departmental “poaching”, meaning that employees must look outside the business for new opportunities.⁴

Companies cannot, therefore, assume that employees will stay for the long term and, concerned that newly trained employees might leave, do not see retraining as risk-free. From a short-term financial perspective, many treat re-/upskilling as a sunk cost, rather than a long-term investment in value creation. And, owing to the way severance payments are reported, it can seem preferable on a tactical level to make redundancies instead.

Rethinking investment

Such attitudes may seem intractable, but this report argues that the benefits of re-/upskilling outweigh the costs to such an extent that companies should pursue it all the same. To do so more effectively, however, they may need to approach it differently.

How? We believe one solution, to justify a focus on employee development, is for companies to rethink how they invest in re-/upskilling and treat it during the accounting process. More specifically, we propose three alternative approaches for consideration, identified by the Adecco Group and supported by CFOs, senior finance professionals, public-sector executives, auditors, skill-development industry leaders and more.

In parallel, we urge for a reconsideration of how taxation incentives for re-/upskilling are applied, so that the credit to companies is not linked to corporation tax – as it is in many existing programmes – but instead recognised as a grant against cost, effectively making it visible above the tax line.

On a high level, the three approaches we discuss in this paper are:

Training fund model

Employers set up a foundation exclusively for re-/upskilling, financed through a percentage of payroll costs, with no set final benefit per employee. When employees leave, they can take their share with them to support continuous learning.

Employability Account

As part of a nationwide approach to re-/upskilling, individuals are allocated a personal, portable and transferable training account, out of which they can pay for re-/upskilling-related training. From an accounting perspective, companies pay a percentage of employment costs into the Employability Account using money that would otherwise be used for severance costs.

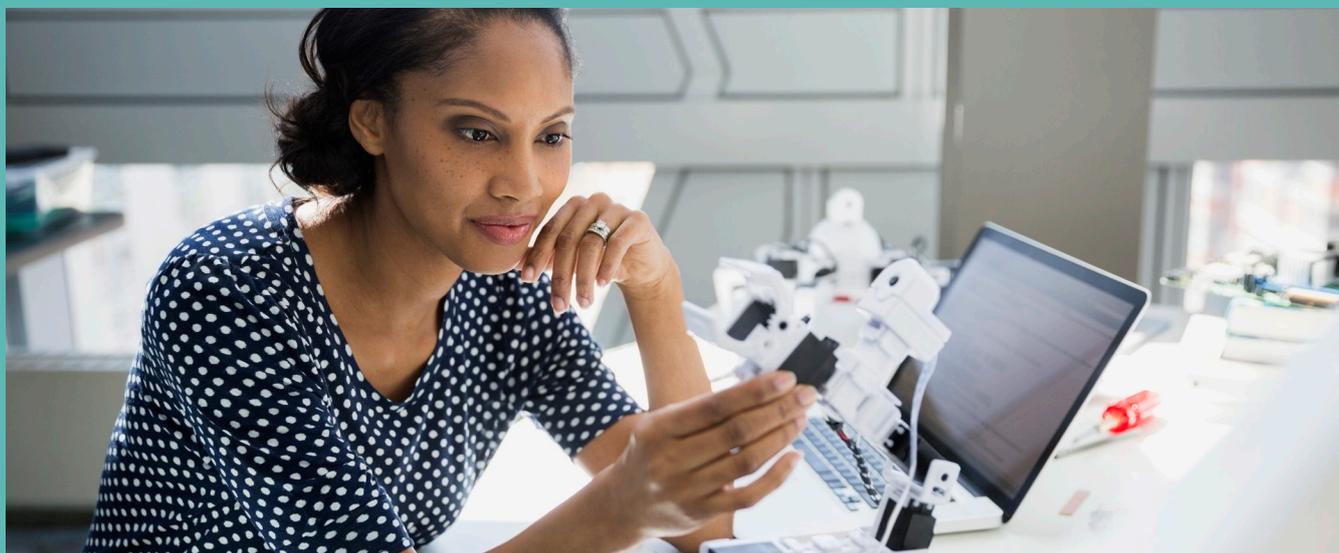
Amortisation model

Employers pay for an employee's re-/upskilling, capitalising it as an asset, after which he or she is required to stay for a set number of years, reflecting the amortisation period of the asset.

It is our view that the second of these models – the Employability Account – holds the most promise for individual companies as well as society as a whole, though we certainly do not regard it as a silver bullet to solve the skills problem. The adoption of the model is also not without its challenges. For it to work, companies need to reset how they perceive investment in training and skills development – less as a cost and more as an enabler of long-term success – and this requires commitment to change on a governmental level. Nonetheless, in the face of a widening skills gap and increasing job-market polarization, the need for action is growing fast.



The re/up-skilling imperative: Five burning issues



Technology is transforming how we live, think and work. Recent advances have created a plethora of new jobs and repurposed traditional roles to such an extent that they require a completely different mix of competencies.

Businesses understand that they will not thrive – and may disappear altogether – if they do not adjust their strategies to seize the advantages afforded by digital technologies. In preparation, firms are reorganising their teams for a digital future, implementing automation and hiring specialist employees.

As this reorganisation continues, the trend is for relatively few legacy workers to be kept in place and upskilled. In turn, the newly unemployed must look for work in a job market that has moved on without them. And, as a result, we see growing structural unemployment – the mismatch between the skills that businesses are looking for, and the skills that workers in the economy can offer.

When companies face critical skill shortages, as they increasingly do^{5,6} it is a worrying sign for economic growth and productivity.⁷ A workforce that is ageing and marked by the growth in untraditional

“gig economy” jobs – which place the responsibility for training upon the individual – exacerbates the challenge.

Would this situation be improved if businesses looked less to external hires, and focused instead on re-/upskilling their existing workforce? It’s hard to calculate the extent of the benefits that would ensue, and how that would impact the bottom line of corporate expenditure, but we believe that the shift in focus would help address five of the most burning issues in skills and employment today.

1. Delivering new skills for new jobs

Digital-savvy employees with creative, numeracy and problem-solving skills are valued highly across all sectors today.

According to a recent survey by the Adecco Group and the Boston Consulting Group (BCG), of nearly 5,000 global white-collar workers, one-third are concerned about losing their jobs because of technological advances such as artificial intelligence (AI) and automation, and two-thirds expect the nature of their job to change significantly as a result of these

advances.⁸

New jobs are being created by technological changes, but it’s becoming harder to find people who can do them. If employers invest in on-the-job training and skill development, they can reduce workers’ obsolescence and consequent risk of redundancy, while guaranteeing access to the skills they need most.

“There are a lot of studies that suggest that internal people perform quicker and better over the long term than outside hires,” says Murielle Antille, Senior Vice President, Government and Industry Affairs, Lee Hecht Harrison (LHH), the career transition and development business. “Saving time and money on your external recruitment is something that you can counterbalance with the investments you’re making in training and development.”

Ranjit de Sousa, President at LHH, says that “it’s getting more and more difficult to find and recruit good people. It’s absolutely critical to retain your staff, because when you lose them, you lose the knowledge, productivity falls, revenue drops, and that can halt a business.”

Does everyone need to retrain? In a word, yes

A mass reorganisation and retrofitting of job functions is under way. The need to re- and upskill is a growing reality for employees at every level and across industry, role-specialisation and geography.

Evidence suggests that the highest degree of disruption and automation is taking place across lower- and mid-level skill job functions. According to the Adecco Group and BCG white-collar worker survey, 77% of workers at middle-management level expect their job to be significantly disrupted at least every five years, as do 53% of unskilled office workers.

Even mid-level, creative and strategic job functions such as marketing and sales are evolving. Charlie Schilling, General

Manager, Enterprise Business of training firm General Assembly, shares his experience in up-skilling the marketing sector during recent years: “We’re talking about people who used to spend their time thinking about the coupons that might end up in a Sunday circular,” he says. “Now we’re teaching them the data science around customer acquisition and retention so they can then operate in a more data-rich environment and provide insights.”

Even the most highly skilled workers will not be shielded from the technology evolution. The automation of complex tasks and a sophisticated new generation of AI and machine-learning solutions have already nudged into areas where humans were previously thought indispensable, including medicine, financial planning and law.

2. Resolving structural challenges in the workforce

As the labour force grows older, pressure on state pensions is growing and, as a result, people increasingly need – and want – to work for longer to maintain their lifestyles. The ageing workforce will need to evolve their skills to remain employable, competitive and productive.

Inconveniently, this trend is happening while greater value is being placed on the digital skills associated with younger demographics, and while job tenure as a whole is reducing. The average Millennial is expected to have 15-20 jobs in their lifetime, including four in the first decade out of college.⁹ And, according to The Adecco Group and BCG white-collar worker survey, 72% of younger people expect the nature of their job to change at least every five years, compared to 58% of their older peers.¹⁰

Today, many employers believe that the return on investment for older workers is lower than that gained by investing in younger employees. Such an attitude inevitably diminishes older people’s enthusiasm for learning new skills. Studies show a link between ageing and reduced

participation in continuous learning programmes, particularly among low-skill level workers.^{11, 12}

Yet investing in young people is, in itself, not enough. These workers may have technical skills, but might not be ready to jump into the workforce, lack practical experience and soft workplace skills, and likely graduated from education systems whose training programmes have not kept pace with advances in technology. This is why companies are investing more in on-boarding inexperienced workers and waiting longer for a profitable return. However, if employers dedicated more investment to re-/upskilling more seasoned workers – many of whom already have the soft skills and have adapted to company culture – it would help these workers to remain productive members of the workforce.

The ageing population is not the only structural workforce challenge that re-/upskilling can help address. Take, for example, the growing trend for outsourcing non-core functions.^{13, 14} These typically encompass lower- and mid-wage workers such as catering workers, or back-office functions such as accounting staff, who are then left out of their clients’ corporate benefit schemes, including minimum-wage pay rises and training programmes

that boost productivity and corporate cultural alignment. Although outsourced employees can retrain independently, the gap between their work and clients could still widen. If their jobs are made redundant without their having had opportunities to develop skills in tandem with client needs, they are in a poor position to apply for new roles.

In some markets, we also see gig economy or alternative work arrangements growing faster than traditional job creation, a situation that generates its own challenges.^{15, 16} Across many legal and socio-political systems, access to and funding of benefits and social safety nets, such as welfare and affordable healthcare, are still tied to traditional employment structures.

Gig-economy workers are also solely responsible for their skill development. “There are lots of different ways of putting careers together now,” says Jimmy Greer, Head of Sustainability at Association of Chartered Certified Accountants. “In the gig economy, there’s a lot more risk on the individual. Part of this is going to be about retraining, or certainly development, which may have originally been an employer’s responsibility. Now the onus is on people’s own shoulders.”

3. Reducing the worldwide decline in training

It is not entirely clear who carries the burden of responsibility for re-/upskilling. A majority (62%) of employees see themselves as primarily responsible for acquiring the right skills, according to the Adecco group and BCG survey. However, workers are often deterred from self-training due to the time and cost commitments involved. Companies ideally see themselves as playing a role in helping workers re/upskill - they know of course that their competitive advantage may depend on it - but they are also deterred by the necessary cost, time and effort.

The debate among companies and individuals about their obligation to re/upskill may help explain why investment in training has been on the decline in OECD countries since 2014. Moreover, research by McKinsey suggests that corporate training budgets are not increasing.¹⁷

John Morgan, Global Chief of Operations at LHH, believes that retraining is not often a priority in business investments. "If an organization has a limited budget, they allocate it first to develop new products - typically to IT development, to support the launch of a new product, or to answer customer needs. After that, it may be training and development of the sales team, but the highest priority is rarely on-the-job development or training towards certifications of higher education."

A common perception among budget holders, Morgan adds, is that training does not have a direct return and takes employees away from their responsibilities. "I find that managers are less reluctant to offer training to selected employees at the senior level," he says. "They know that these people are their best, most productive employees, and they want them focused on getting stuff done."

Ultimately, from a budgetary perspective, there is rarely money set aside for training. It is unlikely that businesses will dedicate any significant amount of money to this unless forced to do so by an event or by a change in the environment. And so, employees and managers alike have to make the case each time, one by one, or group by group.

Understanding the cause of underinvestment does not reduce the growing difficulty that businesses face if their current or prospective workforce does not have the skills required for today's business. "Businesses will begin to prioritize retraining as it becomes more difficult to hire and they struggle to achieve goals," asserts de Sousa. "HR leaders need to make a clear case for people investment that demonstrates how developing their people will unlock business opportunities."

4. Recouping the costs of severance

Displaced workers are more likely to receive severance payments. As more skills and jobs become obsolete, the total cost of severance inevitably becomes higher.

"CEOs don't always care about the cost of severance because they can take it below the bottom line," says the Adecco Group's CFO, Hans Ploos van Amstel. Management can position lay-offs as a reorganisation or restructuring, reporting costs as an exceptional item. "It actually represents the costs of not managing the workforce," he adds. "But when asked about it, CEOs will often say, 'it wasn't me, it was my predecessor who had a big restructuring cost.'"

In reality, however, severance costs are real and material - and not an effective use of shareholder funds.

There is also a growing trend for "boomerang employees" - employees laid off then rehired for a different job by the same company. These individuals account for an average of 15% (and as high as 25%) of laid-off employees, and cost millions in severance and recruitment/re-engagement.¹⁸

To reduce this wasteful expenditure, costs could be better redistributed with a weighting towards employee training. "There has been more acknowledgement recently that displacement is the result of skills imbalances; varying by sectors, our clients consider up to 50% of their staff made redundant" says Ms Antille. "Providing training can reduce the need to displace them in the first place."

Mr Ploos van Amstel explains that it's more cost effective to invest in skills than to pay severance. "A greater portion of the labour force will become obsolete, whereas the need for new skills will grow faster and faster," he says. "One could argue that the cost of lay-offs will become a more societal issue and is too expensive."

For 2-10% of severance costs, Mr Ploos van Amstel estimates, people can be put into new jobs, noting that he would rather see a portion of severance money funnelled into an Employability Account that allows workers and companies to invest in future capabilities, and which we explore in the 'Three models to drive change' section.

"A greater portion of the labour force will become obsolete, whereas the need for new skills will grow faster and faster."



Severance by numbers

Just how high is the direct cost of employee turnover? Severance costs vary by geography and sector and are partly driven by the outdated and unsustainable belief that financial compensation fulfils the corporate social responsibility of supporting the reintegration of displaced workers into the job market. LHH estimates global severance costs to be approximately €550 billion per year, €20 billion of which is attributed to the laying off of workers.

Meanwhile, according to General Assembly data and analysis, severance costs companies an average of \$20k per employee. Compare these losses to \$15k to re-skill existing talent, or

upskilling courses that range from \$500 to \$5k per person.

And severance is usually only the start of company expenses. The Center for American Progress estimates that it costs 20% of an employee's salary to replace that employee.¹⁹ And General Assembly calculates a \$25,500 average recruitment cost, \$37,500 for on-boarding costs (training, systems and HR time), and \$44,700 in indirect employee-retention costs, varying depending on salary and function.**

**GA estimates assume an average salary of \$150,000 per employee, and total onboarding costs equalling 25% of salary.

5. Improving transparency around long-term value

Traditional financial reporting is, arguably, inadequate at capturing long-term value. A cycle of quarterly reports and short-term shareholder interests puts pressure on businesses to deliver immediate results that come at the detriment of long-term performance.

The creation of human capital and societal and consumer value should be a core motivation for a business, but these are intangible drivers and, therefore, not on the balance sheet. At worst, this creates frustration as investors lack sufficient information about the long-term viability of business models, and leaders are hard pressed to allocate budget to value-drivers, as that hurt profits in the near term. Investment in employee skills falls squarely into this group of intangibles.

"It's a huge topic," notes Mr Ploos van Amstel. "There should be a real drive to ensure companies are held accountable for their governance and how that is reported. It's not a stretch to include investment in training as part of that governance."

Elizabeth Falcone, Legislative Director for US Senator Mark Warner (D-VA), who was one of the architects of the US' Investing in American Workers Act, agrees that a great deal of time is dedicated to investment in physical assets and R&D, while investment in people is primarily restricted to discussions about salaries. "We don't talk about training the workforce," she says, "we don't talk about what the value of the workers is to the company. There has to be a better way of managing that."

Efforts are under way, however. The Embankment Project, a global project initiated by the Coalition for Inclusive Capitalism, is developing a framework that will help companies report more transparently on their long-term strategies, governance and performance.²⁰ According to a recent report by the Coalition, "talent, innovation and consumer trends, society and the environment and governance fall into three broader categories of value that companies create outside of pure financial value: human value, consumer value and societal value."

The framework recognises human value as "the value a company creates through the employment and development of people, in terms of its culture, engagement,

leadership, know-how and skills".

Jan-Menko Grummer, Partner and Lead Long Term Value Program GSA at EY, is a team member of the global Embankment Project. "The framework is a long-term value model that describes the connection between the purpose of a company, its context and strategy, and its governance structures to execute the strategy," he explains.

"Companies can be measured by the value they create and protect, making them more transparent," he says. "And if companies are required to report more transparently about the value of their human capital, then the pressure to invest in the workforce becomes much higher."

Challenges persist as organisations struggle to find a reliable, comparable, structured and systematic metric that measures the value of outcomes. The Coalition report adds that progress is being made towards creating metrics for these value areas, but more work remains to be done to define additional metrics. Until a solution is agreed, it is only the input - money spent - that is easily quantified.

A solid, innovative solution: Accounting as an incentive to invest



For all the potential benefits of investing in re-/upskilling, its risks remain glaring. It is costly and time-consuming. Newly trained employees could move to a rival, do something to warrant their dismissal, become ill, die. Moreover, they may only show a lacklustre improvement despite all the money spent on their skills development. And, just as importantly, showing return on investment for an intangible value-driver is challenging, to say the least.

Rethinking the assets

The big question is how companies can overcome the barriers to skill investment, while protecting themselves and their stakeholders. Many assert that changes to current accounting standards – while not an outright solution – could make an important contribution.

At the heart of the current accounting issue is that, even under best-case scenarios, where re-/upskilling investment results in widespread efficiency and booming profits, it is almost impossible within traditional financial reporting to

attribute human-capital investment and its impact or long-term value to the company. In fact, traditional accounting models disincentivise investment by not treating skill investment as an asset.

Instead, as it stands under IFRS and US GAAP, and even from a statutory perspective, related costs go into profit and loss. This is because – as Jolanda Dolente, Head of Financial Accounting Advisory Services Corporates at EY Switzerland explains – it does not meet relevant criteria. “The employer does not control the employee and that’s a fundamental prerequisite under the current accounting model to record an asset,” she says.

Without systems to show revenue associated with historical cost to the business, there is little incentive to invest in the future. As LHH’s de Sousa points out, companies want to publish their earnings and don’t want to set aside a significant amount of money for training and development unless forced to do so. “It’s hard to explain to your investors that one percentage point of margin has been

used towards training your workforce, because investors could say, ‘Training them for what?’” he says. “You’re in this grey and intangible world if you say, ‘well, maybe we avoided future issues, or maybe the team works faster now.’”

Companies will be challenged to explain why their gross profit is lower as a percentage of sales, and why their EBIT percentage is lower when they release their earnings. “It hits you twice in your KPI,” explains de Sousa. “Until the mindset of investors is changed to recognise long-term value, they just think about cost associated with the product, not the human capital investment.”

LHH’s de Sousa adds that there are a number of considerations in how future value is calculated, and how often that calculation can be revised: “Companies may want to change the percent every year or even every quarter,” he says. “Do they have to announce a year in advance, or retrospectively? It also gives companies the freedom to decide what percent to set aside.”

It should be noted, of course, that achieving accounting change in the near and mid-term is challenging. Small changes to the rules happen regularly, but traditional accounting standards change slowly.

“We are not an accounting standards setter but we deal a lot with them and, in our experience, standards setters only consider changing a particular standard if there is a clear case to do so based on robust evidence,” says Olivier Boutellis-Taft, CEO at Accountancy Europe. “It is easy to be convinced that the skills gap is a critically important issue that deserves action – but they will also need to be convinced that changing accounting standards would be part of the solution, which is more difficult to argue.”

The idea that sits behind accounting

Policymakers and business leaders have repeatedly called for more investment in value-adding learning. And, although accounting is not the principal underlying cause of underinvestment in skills, introducing changes to existing models

around cost of training can incentivise companies to increase investment.

One way to do this would be to treat re-/upskilling costs as an investment in the technical sense of the word. But changing the long-established framework to do so would be a hard-won result.

“My experience of accounting standards is they don’t move very fast,” laments Mr Ploos van Amstel. “Fixing the basis of what people believed since they started studying has got to be very difficult for them.”

EY’s Ms Dolente agrees. “The accounting specialists and the technical specialists will always look at it from a very strict accounting-definition perspective,” she says.

Smaller, subtler shifts are more achievable in the near- and mid-term, but even these must be accompanied by a cultural and behavioural shift, which may also need to precede any accounting changes altogether.

“Businesses need to start thinking of training as an investment in the future,

much like when buying assets,” says Mr Ploos van Amstel. “They have to believe first and act as if training and investment in the future are not just a cost of employment.” It is then, he says, that accounting can follow.

“It cannot be down to accounting alone”, adds Ms Dolente. “It has to be society that changes and recognises that we need to continuously invest in ourselves. Accounting shouldn’t matter, it’s the idea behind it that really counts. The fundamental acknowledgement that learning and investing in the workforce ultimately benefits society as it empowers the individual to grow and contribute to societal evolution – especially in current times of digital disruption.”



Recent game-changers

How often do accounting rules change? On a small scale, fairly regularly. But fundamental shifts are rare.

Perhaps the most notable recent example is the implementation of the leasing standard. From 2019, all leases have to be recorded on the balance sheet. Before, some lease arrangements would only have been seen as a current-year expense and an obligation in the financial statement's footnotes.[1] "This is a fundamental change, one of the most fundamental that have happened for a very long time," says Ms Dolente. "The result will be companies recording hundreds of millions, or more, of assets and liabilities on the books."

It is worth noting that achieving this change has required a change in legislation. Governments have introduced laws that have made it mandatory for any corporation to adopt the model, just as they have done with retirement pensions. If it is not embedded in a legal framework or a legal obligation, then it is by default voluntary.

"It took them 35 years to develop a standard for leasing, which is consistent for companies irrespective of the financing models that they are using," says Ms Dolente. "But this is why accounting is accounting. In five years from now, it's going to look different. Regulators and accounting bodies will look at how society evolved and draw their own conclusions and then develop appropriate accounting policy."

Change is needed, but there is no one-size-fits-all

Changes to accounting rules create blanket obligations to which all companies must adhere. But national and regional requirements vary, as do the needs of large corporations and SMEs. "The beauty of Europe is its diversity, but it's also pretty complicated at times. We need to realise that IFRS only applies to the top segment of the market and leaves out most SMEs that are using national GAAPs," says Accountancy Europe's Boutellis-Taft.

It could be argued, therefore, that regulation may be a quicker and easier route to encompass all businesses. A national body enforcing a requirement of,

for example, 2% of net sales invested in training, creates widespread impact and access regardless of industry, company size or accounting rules.

Tax incentives are also a more tried and tested, as well as simpler, pathway to change. "Many countries are already looking at and are concerned about the skills gap and are providing tax incentives, which usually work reasonably well," says Boutellis-Taft.

These approaches are not mutually exclusive. A combination, alongside efforts to update accounting models, could be used to achieve the desired change. In the next section, we set out three alternative accounting models for consideration.

"Many countries are already looking at and are concerned about the skills gap and are providing tax incentives which usually work reasonably well."



Tax incentives: A key part of the solution

In addition to the accounting and investment models outlined in this report, we believe tax incentives represent another means by which governments can encourage companies to increase their investments in re-/upskilling.

In itself, this is not an entirely new idea: there is already plenty of support for the use of tax credits as an incentive for investment. We would, however, point to inefficiencies in the design of several existing programmes, which could be improved for the future. “The principle of credits in itself is not new,” says André Van der Toorn, Head of Treasury, Adecco Group. “We have seen initiatives in France, in Spain and in Italy and they represent a viable part of the solution. But many of these are set up so that companies are entitled to a credit that only comes through in their corporation tax bill.”

Under these existing programmes, businesses are spending money on training as a business expense but any tax credit that they are entitled to, under GAAP as well as IFRS, is only reported within the tax line of their financial statements, and is

therefore much less visible. Furthermore, companies that are not paying corporation tax are unable to benefit in the same way.

Governments have encountered, and overcome, issues like these before. When the UK government developed its Research and Development Expenditure Credit system to promote spending in R&D, for example, the credits were not linked to the company’s corporation tax, so businesses could recognise the benefit as a grant against cost.

“This worked much better because companies were saying ‘Okay, I’m spending \$100, but I get a credit of 30% and it goes all into my profit and loss,” says Estefania Rodriguez, Vice President International Tax, Adecco. “It’s an important component to incentivise companies to spend in training.”

Our view is that governments should take a similar approach when considering how to use tax incentives to drive re-/upskilling. And, for this to happen, companies need to advocate for the changes they would like to see.



Three models to drive change



The Adecco Group has identified three alternative models to help companies rethink how they invest in re-/upskilling and treat it during the accounting process. Of these, the option we recommend - for the benefits it affords to companies as well as society more broadly - is the second, the Employability Account.

In the words of the Adecco Group's CFO, Hans Ploos van Amstel, one of the architects of our thinking around this issue: "At the heart of this exercise is to see how we could move companies to an incentive structure, to not just lay people off, but also to train them so that they can move continuously throughout their career."

Mr Ploos van Amstel adds that these models strive for a countrywide shift in mind-set. "The hope is to change the focus

of training, from a cost of employment to a necessity for an entire country - ultimately improving its efficiency and making sure that everyone is in meaningful employment."

It is worth noting that none of these models is intended as a single fix to the challenge of business' underinvestment in re-/upskilling, nor are they mutually exclusive. Each presents opportunities and benefits to business and society, and each comes with its own logistical and ideological challenges.

In this section, we provide an overview of each model, highlighting their pros and cons and outlining the aspects of current accounting standards that would need to change in order for them to become a reality.

"The hope is to change the focus of training, from a cost of employment to a necessity for an entire country - ultimately improving its efficiency and making sure that everyone is in meaningful employment."

Model 1: Training Fund Model

Description	Approach	What needs to change
<p>Employers set up a separate foundation, which is used exclusively for re-/upskilling. The fund is financed through a percentage of the payroll cost with the employee (potentially) and the employer contributing to the fund. The employer can contribute an initial lump sum on start-up.</p>	<p>Employer contributions to the fund are treated as an investment. This investment will be 'written down' whenever the carrying amount exceeds the available funds in the foundation. Payments are made monthly and not linked to an individual employee, although each employee will know that they can obtain (but not are entitled to) a certain amount of re-/upskilling when a fixed amount is contributed. Payments for re-/upskilling would be made directly by the fund, which would also retain any income from investment. Any payments would be subject to a floor in the foundation funds to limit income-statement exposure.</p>	<p>There needs to be recognition that contributions into a fund for re-/upskilling are an investment that can qualify as a financial asset, and only be seen as an expense when the available funds in the foundation are less than its carrying value. Other aspects of the fund need to remain unrecognised and off-balance-sheet.</p>

Principles

Through the Training Fund model, employers set up a foundation exclusively for re-/upskilling, financed through a percentage of payroll cost, with the employee also given the option to contribute. The company sets the parameters of investment, but the individual is entitled to take their share of the fund with them when they leave.

The company takes on a liability for each employee. Companies are held accountable by employees and by accounting rules to keep that liability funded. As long as the company grows, employers must also grow that fund. Contributions could be made tax-deductible for employers and employees.

Funds can only be used for re-skilling and upskilling purposes and may be used at the discretion of the individual. The funds could be linked to income measures (not full-time equivalent cost

to avoid dis-incentivising labour) and should have a floor, so that sufficient funds are set aside in difficult years.

This model is equitable and the most appropriate to facilitating continuous learning and development, in that it applies to workers at all levels of seniority, all of whom are entitled to training. It puts power in the hands of the employee. Those that take the most responsible position towards his or her own job will benefit the most.

The gig economy also aligns with this model, in that people with multiple employers and assignments can take the investment with them.

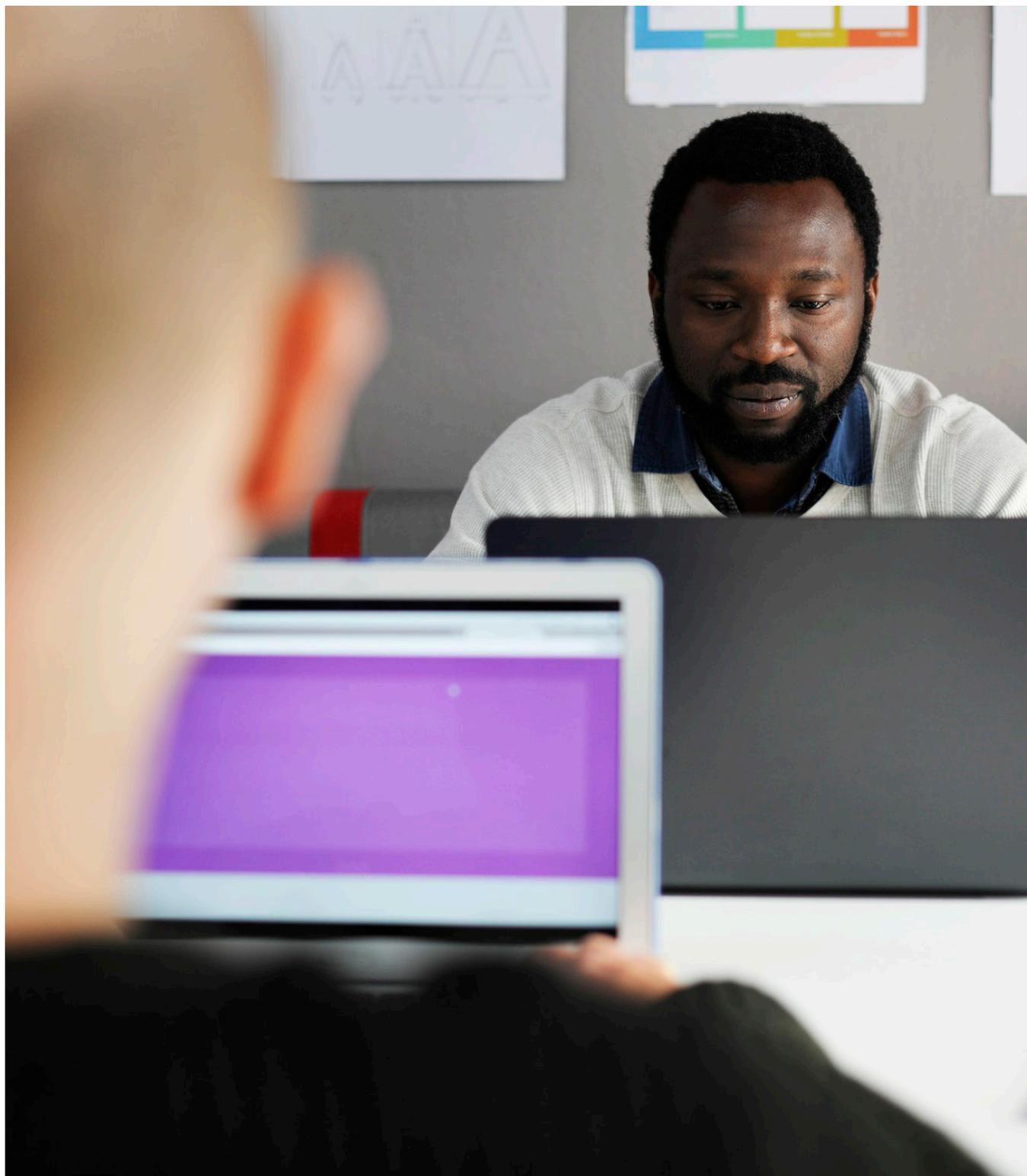
Further considerations

Fundamentally, the Training Fund model would require significant amendments to be made to basic accounting rules. Neither the ISB nor the US standard setters currently allow capitalisation of investments in the workforce.

People are free and independent bodies and cannot be 'owned' or 'controlled' by corporations in the way that they can claim land,

machines and animals, for example. And if you have no control over your investment asset, you are not allowed to capitalise it.

The experts interviewed for this report also acknowledge that this model presents challenges for SMEs, especially fast-growing start-ups, as complex new legislation could place less-well-resourced businesses at a disadvantage.



Model 2: Employability Account

Description	Approach	What needs to change
As part of a national approach to re-/upskilling, individuals are provided with a personal, portable and transferable training account that finances their re-/upskilling-related training. Businesses pay into the account using money that would otherwise be dedicated to covering severance costs.	N/A	This would form part of a government-led, nationwide commitment to establishing training accounts for each individual. A national body, enforcing a requirement of, for example, 2% of net sales invested in training accounts needs to be created as part of this.

Principles

The Employability Account would form part of a national initiative, through which each individual is given a personal, portable and transferable training account that finances their skills training and which they take with them throughout their career.

The funding model is analogous to that of a pension fund, but the employee must take responsibility for using the funding to improve their own employability.

Another important and differentiating element of this model, as we envision it, is that companies pay into the account using expenses that they would otherwise have put aside to cover severance costs – which may, in countries where statutory severance regulation is in place, require a revision to the existing rules. If businesses make a set contribution to their employees' training accounts, they can reduce the average \$20k per employee²¹ that they currently dedicate to this expense.

The game-changer here is not the accounting itself. Rather, the potential of the model is in its solution to severance costs and, from a public-policy standpoint, the creation of regulation and safety nets for each individual.

In fact, a number of countries have already adopted similar models. France, Italy and Singapore have created training accounts for individuals and have regulation that requires companies to accrue a percentage of salary for future training.^{22, 23}

In Singapore, the SkillsFuture Credit initiative gives Singaporeans aged 25 and above an opening credit of \$500 that goes into an account dedicated to skills development and lifelong learning. In the French model, the government has rolled out a national approach to upskilling with the stated aim of reducing unemployment and increasing business competitiveness. This *compte personnel d'activité* (CPA) programme obliges French companies with more than 10 employees to contribute 1% of payroll costs through an earmarked tax contribution.

As part of the system, private-sector workers accumulate time credits that can be put towards any of the 40,000 eligible training courses available to them, each of which is designed to meet the need of the economy and employers in the short and mid term. The accounts are tied to the individual, meaning they can use credits as they please until retirement.²⁴



Further considerations

In our view, the Employability Account exemplifies what could be achieved if governments, policy and businesses align on social protection, and democratise training as a personal right.

It is also an effective way for companies to eliminate the expenses linked to severance - which, as outlined above - represents a substantial cost to businesses.

“The Employability Account would make the biggest positive impact to the workforce and enables individuals to tap into the skills they need for the future in good time,” explains Adecco’s Estefania Rodriguez. “Businesses get employees with the skills they need, whereas the employee is more prepared to re-enter the labour market if they are made redundant. This is good for the company, good for the employee and also good for society and the skills shortage it faces.”

We would note that the Employability Account model represents a significant amount of activity in order to be realised on a national scale, and would require consistent and assertive advocacy on the part of business

“Businesses get employees with the skills they need, whereas the employee is more prepared to re-enter the labour market if they are made redundant. This is good for the company, good for the employee and also good for society and the skills shortage it faces.”





Model 3: Amortisation Model

Description	Approach	What needs to change
Employers pay for re-/upskilling during the term of employment, after which the employee commits to remain for a set number of years (the benefit period). Failing this, re-/upskilling costs need to be repaid by the employee unless the employer itself triggers the termination.	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, ensuring that the asset is never subject to impairment.	There needs to be recognition that re-/upskilling is an investment that can qualify for recognition as an intangible asset, i.e. capitalised and amortised.

Principles

Under the Amortisation model, the employer pays re/upskilling costs on the condition that the employee stays at the company for a fixed period, with various considerations around early departure or termination.

The model requires companies to capitalise the investment as an intangible asset on the balance sheet, which is then amortised over a predetermined benefit period.

If the employee decides to resign prior to the end of the benefit period, he or she is obliged to repay the unamortised training costs - with the upside that this may result in a higher retention rate for employees. If the employee's position is terminated by the employer, however, the company bears the costs by recording an impairment of any unamortised costs related to that employee.

Setting an appropriate benefit period would require some careful thought. "Within the Amortization model, there's a question about how much time you can allocate to your investment from today, and measuring investments with incurred expenses have no indication of the value increase (outcome) from the investment,"

notes EY's Grummer. An investment into IT skills would have a shorter life than an investment in learning a new language, for example.

Variations of the amortisation model are already in place and, therefore, would be easier to square with traditional accounting rules. The key difference with existing models is that 'Amortisation' shows future revenues for up-skilled employees.

"Because revenues may come in later, you can defer the amortisation. So, it's a step further than current models where businesses just expense the training cost as it's incurred," says Mr Cameron.

"This model creates a direct link to the employee through a contract," explains Ms Dolente. "The employer gives the employee money for training, and the employee commits to stay longer. As long as there is a contract in place, there is control over that money. It's not control over the employee itself, which allows the company to record it as an asset."

Further considerations

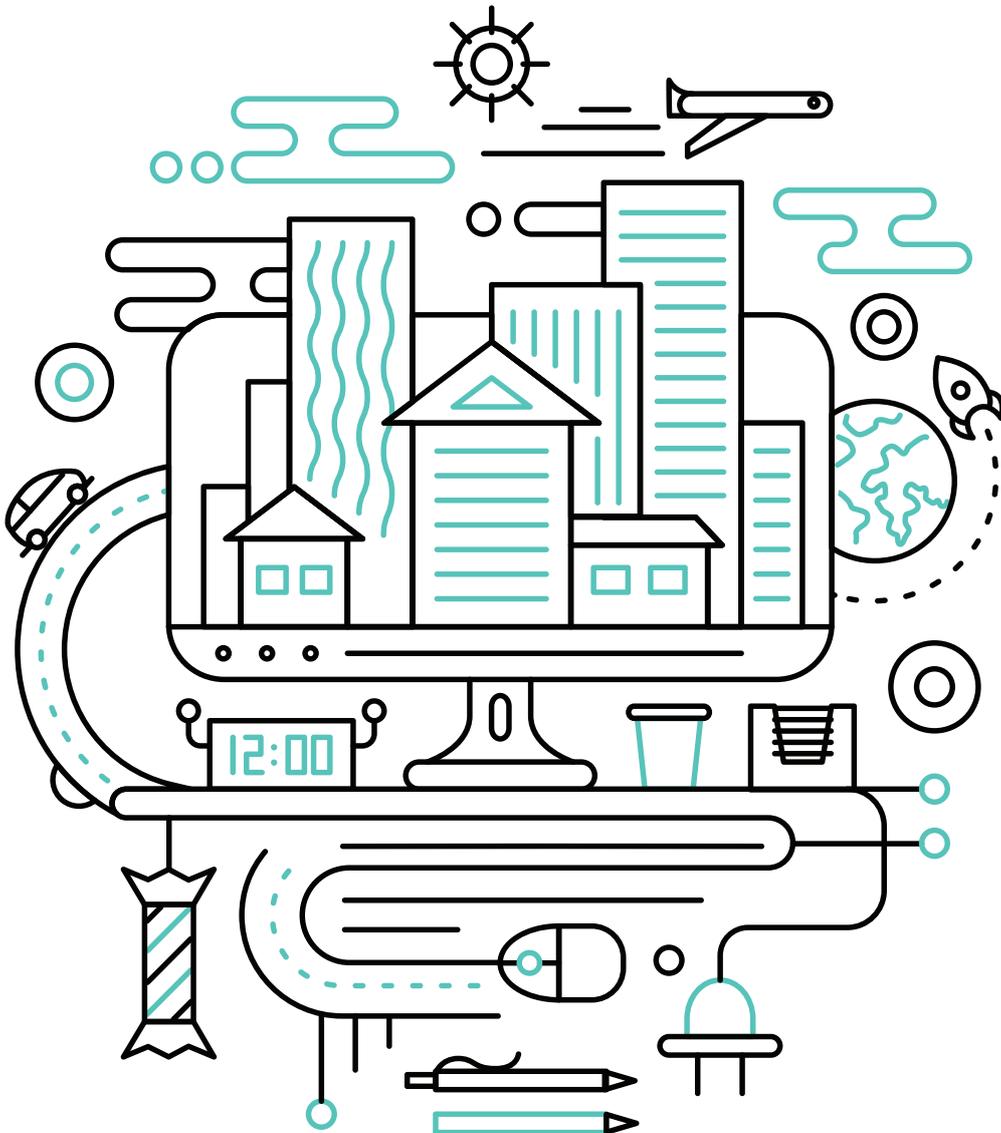
This is an easily scalable model, although the experts interviewed suggest that amortisation of training and education expenses does not create a much bigger incentive for companies to invest.

The model also does not fit with the freelancers that make up a growing proportion of the workforce: it only works if employees stay with a company for a significant period of time.

Logistically, other challenges arise. There are a number of jurisdictions where it would be possible to require an employee

to stay for a number of years on, for example, a contractual basis, but this could present legal issues on a global basis. It could also restrict the dynamism of the labour market.

Accountancy Europe's Boutellis-Taft adds that some employers would prefer to expense training costs immediately for accounting and tax purposes. He also cautions against complex models that would exclude certain businesses - particularly SMEs and start-ups - that can't afford to deal with too much complexity.





Conclusion: A call to action

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.

Workers and employers alike see the cost and time of re-/upskilling as a disincentive, and businesses are especially concerned about return on investment and provoking the ire of investors. But these aversions are exacerbating macroeconomic trends of significant structural unemployment and income inequality. They are also costing businesses and society billions in unnecessary severance and recruitment costs.

With this in mind, companies and – crucially – policymakers have an obligation to pursue solutions that counter the concerns of stakeholders, ease the risk of unemployment and empower workers with value-adding skills. It is not sufficient to rely on industry sentiment to lead a change in corporate culture at the level of the individual entity; government legislators must work with business leaders to construct training frameworks that both support the rights of the worker and protect the future of individual industries as they develop in the digital era.

Accounting is only part of the problem, but it's a key part of the solution. If accounting rules were to recognise staff training as an investment in an asset, allowing companies to treat it as a capital cost, the perception of re-/upskilling would be given a powerful boost from the corporate perspective. Changes to accounting rules, such as those proposed in this report, can help change behaviour around training across markets. However, this is a long and winding road.

Arguably, companies are obliged to drive change in how intangible value assets are recognised. Doing so helps free them from shareholder constraints, increases competitive advantage, benefits the workforce and strengthens national economies. These efforts should be supported by cultural, political and economic incentives and include:

- Companies, together with special-interest groups, must address standard-setting bodies for change in the way human-capital investments are constricted and assets are recorded.
- CFOs and business leaders must become more forward-looking and actively promote creative solutions to training costs and mitigating associated risks.
- More weight must be given to value creation and value reporting to stakeholders, particularly in relation to training expenditure, in order to make the most of accounting possibilities.
- Companies should publicly and politically stress the benefits that human-capital investments are creating for society especially in the context of rising skills-motivated redundancies. This includes addressing the ageing population and widespread shortage of new hires. Companies should motivate peers to push for similar change and statements.
- Policymakers must explore feasible tax incentives or the foundation of value-add employability fund accounts. They should look to similar programmes like those in France and those proposed in the US, as a mechanism to reduce national unemployment and increase productivity.

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