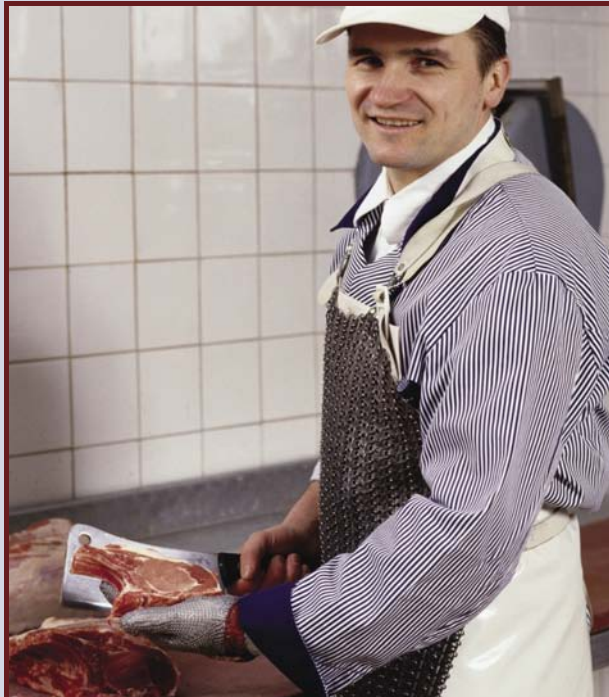


## At a glance



**Ann Blythe and Kaye Bowman**

**Over the past decade, the Australian vocational education and training (VET) sector has focused on the outcomes of training in terms of qualifications and competencies. Up until this time there had been little information available on the value that employers place on qualifications and how they use them to contribute to the success of their business.**

**This publication summarises a body of recent research analysing how employers view and use vocational qualifications.**

### Key messages

- Employers have a different view of qualifications from that of those working in the VET sector, particularly regarding what actually constitutes a qualification. To employers, a qualification not only includes school, vocational and university credentials, but also documentation such as tickets and licences.
- Employers value qualifications, but they value skills more highly. They will use accredited training leading to qualifications only under certain circumstances. Employers believe that qualifications provide three main benefits.
  - *In the recruitment process:* qualifications are used as a ‘screening’ tool but are not the determining factor in choosing a candidate. Employers give more weight to personal qualities and direct industry experience as signs of immediate competence, especially in lower-level occupations.

- *In meeting compliance requirements:* qualifications are particularly important for jobs where certain credentials are mandatory. For example, formal qualifications are required in many jobs in the occupational health and safety area, and the trades.
- *In providing career development for existing workers:* some employers encourage the pursuit of further skills through qualifications to increase morale, and promote a learning culture within the workplace.

- Employers use and value qualifications differently according to occupation, and enterprise type and size. Employers value qualifications most in those people working in higher-level occupations. Big businesses or enterprises in traditional industry areas (such as manufacturing) value qualifications more than employers in small businesses and enterprises in new, emerging industries (such as information technology), or those undergoing major structural change.
- Research using data from the Australian Bureau of Statistics (ABS) shows a difference between employers’ beliefs and their actual practices. Although they may indicate that qualifications are not important to them, evidence reveals that employers are not only more likely to take on employees with qualifications, but also tend to pay them higher wages. This research also shows that those with a certificate level I or II qualification do not seem to experience these same advantages as those with higher-level qualifications.
- The following measures are likely to encourage employers to view qualifications more favourably.
  - VET providers need to show employers that existing training packages contain most of the competencies that employers identify as important for performing jobs well. In addition, VET providers need to be aware that employers place more value on some competencies than others in terms of whether they need to be assessed formally.
  - Providers also need to find a way of linking qualifications with actual skills gained through work experience, to enable employers to recognise that candidates who hold qualifications have skills and abilities which will be valuable in the workplace.

## What are qualifications?

The term 'qualification' can be interpreted in many different ways. Those working in the VET sector, employers, and individual workers have varying views on what constitutes a qualification. A widely accepted, although broad definition of a qualification is that it is 'a quality or accomplishment attached to a person ... generally considered a condition that must also be fulfilled before an "office" can be acquired or held' (Ridoutt et al. 2005b, p.22).

People working in the VET sector focus on vocational qualifications within the Australian Qualifications Framework (AQF). This framework links qualifications obtained in all the educational sectors, and orders them in a hierarchy which includes schools, registered vocational education and training organisations, and universities. Vocational qualifications in the framework include certificates, ranging from levels I to IV, as well as diplomas and advanced diplomas.

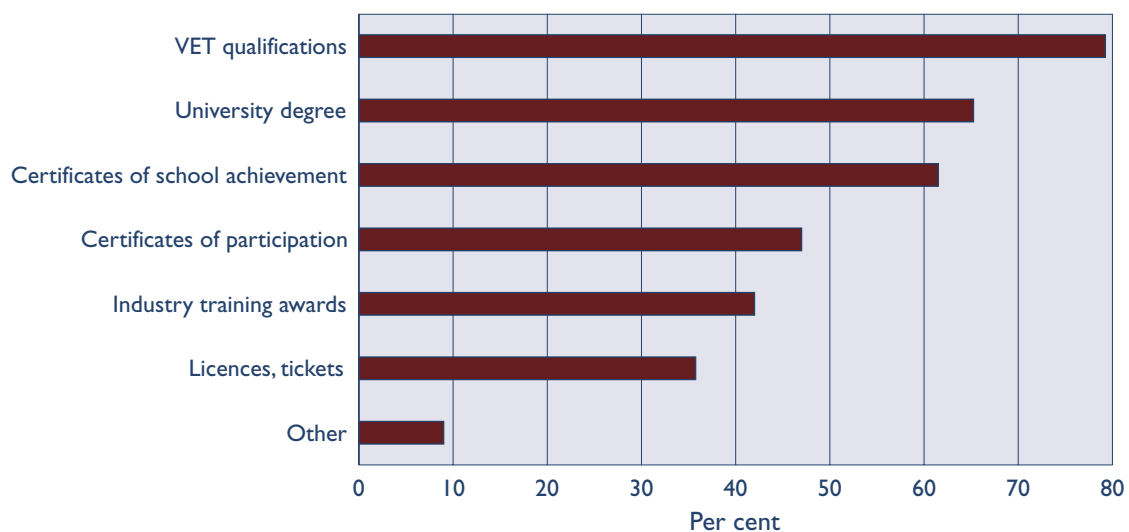
VET providers use qualifications to maintain educational standards and often see them as having what is called 'intrinsic' value. This means that having a qualification gives a person status, and the higher the level of qualification, the more status they are seen to have in terms of knowledge and skills.

Employees invariably view qualifications in terms of the 'extrinsic' value or anticipated financial worth, with the expectation that a qualification will give them a better chance of finding employment. They also consider qualifications beneficial in improving their chances of promotion, increasing job satisfaction, and reducing their chances of unemployment.

Although employers recognise the importance of vocational qualifications, they also recognise other forms of documentation—such as licences or tickets—which are not part of the AQF (see figure 1).

In their study of the use of qualifications by employers in recruitment processes, Keating et al. (forthcoming) found that when asked to nominate what qualifications are, employers most frequently cited AQF VET qualifications (80%). In contrast, employers less frequently accorded as qualifications school certificates and university degrees, as shown in figure 1. Overall, the research found that an employer will value qualifications which are relevant to them and the skill needs of their organisation. Thus, an employer's concept of, and need for, qualifications is actually quite subjective.

Figure 1: What employers consider qualifications to be, percentage responding 'yes'



Source: Keating et al. (forthcoming)

## How do employers use qualifications?

The research consistently finds that employers value qualifications, but they value learning and skills acquisition even more highly. Employers will use accredited training and qualifications only where they are seen as relevant to them in enhancing the skills required in the workplace. The research indicates that employers find qualifications offer benefits in three main ways:

- in the recruitment process
- in meeting compliance requirements
- in providing career development for existing workers.

A common finding from all the research is that employers use qualifications to sort and screen candidates when recruiting for jobs. Employers see qualifications as a sign of an applicant's ability to learn and acquire new skills. Further, qualifications may also indicate to employers those most likely to be the most productive among a group of applicants (Cully 2005).

Employers do not use qualifications to measure an employee's current ability to do a job. Rather, they consistently indicated that they rely on personal attributes and previous work experience as indicators of current competence. Thus, employers use qualifications in recruitment as a 'sorting' device, but not as the determining factor in their decision-making, except when a specific qualification is necessary for a job (Keating et al. forthcoming; Ridoutt et al. 2005a, 2005b; Cully 2005; Townsend, Waterhouse & Malloch 2005).

Employers also recruit individuals with qualifications if the position is one for which a specific qualification is required. Examples in this category include occupations such as forklift driving, where licences are essential, and jobs in many of the trades areas. Other examples cited include training to address hygiene, food handling, occupational health and safety requirements, and those involved in training and assessment. Employers see qualifications as less important in managing business risks such as loss of profit, believing that these areas require approaches other than skills development and qualifications.

In addition, some employers use qualifications as a development tool for existing workers. In these instances, employers recognise that enhancing the competency and capability of individuals through accredited training has a positive impact on the productivity of their business. By allowing existing employees to develop career paths through achieving new qualifications, employers encourage an enterprise-wide culture of learning as well as increasing morale. They thus use accredited training and qualifications to indicate an organisational commitment to quality and improved business practices.

Some employers also stated that they engage in qualification-related training because the government offers them a financial incentive.

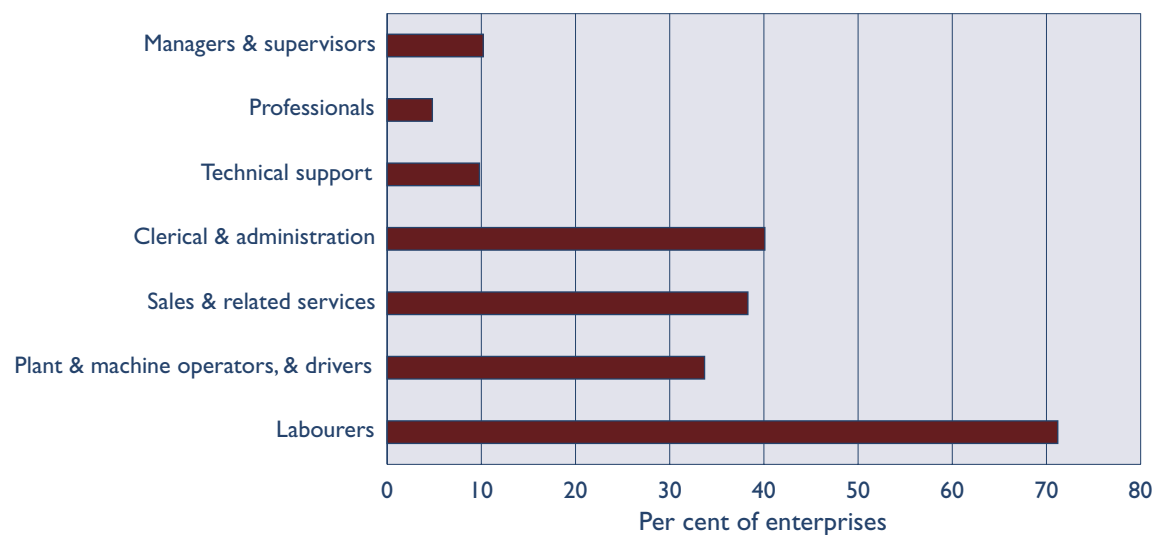
## Are there variations in the ways that employers use qualifications?

There are differences by occupation, and enterprise type and size, in how employers value and use qualifications.

### By category of employee

The research consistently found that employers view qualifications differently for various categories of worker. Both Cully (2005) and Ridoutt et al. (2005a) found that employers considered formal qualifications important or essential for management, professions, trades, and technical occupations. However, they viewed qualifications as less important in the clerical, sales and service, and plant and machine operator occupations. Qualifications were seen as virtually non-existent in labouring and related occupations. Figure 2 shows, for example, that over 50% of employers indicate that formal qualifications were not important in the labouring occupations, and about 10% or less indicate the same for the managerial, professional and technical occupations.

Figure 2: Proportion (%) of enterprises who do not see qualifications as important for different employee categories



Source: Ridoutt et al. (2005b, p.26)

### By type of business

The use of qualifications by employers also varies by enterprise size and industry sector. According to Keating et al. (forthcoming), larger private enterprises and government enterprises tend to seek higher levels of qualifications and attach greater importance to them within selection processes than do smaller businesses. Ridoutt et al. (2005b) also found that larger enterprises support workers having qualifications more than small business owners do, who are more discriminating in assigning worth to qualifications.

Ridoutt et al. (2005b) divided businesses into two classifications: 'old economy' and 'new economy'. Enterprises in 'old' industry areas, such as manufacturing, are those which maintain a traditional way of operating, with processes of production likely to have remained unchanged for many years. 'New economy' enterprises are usually more innovative, with processes of production still evolving. These businesses are likely to be found in the information technology area. Perhaps surprisingly, they found that in 'new economy' businesses high levels of enterprise change and innovation are associated with less support for qualifications and strategic long-term planning, instead requiring 'just-in-time' skills development. On the other hand, 'old economy' enterprises take a long-term view in planning and tend to value qualifications more highly.

## Are employers prepared to pay for qualifications?

So far we have focused on the intrinsic or academic value of qualifications to employers, but a study by Cully (2005) looks at their 'extrinsic' or economic and exchange value. Cully sets out to show what employment and wage benefits (if any) are paid to qualification holders to clearly indicate the added value of vocational qualifications. The study reveals that qualifications are valuable to employers because they are prepared to pay for them.

In 2001, 49% of the Australian population had achieved some kind of non-school qualification (for example, those issued by registered training providers and higher education providers). Just over half the population (51%) had no non-school qualification (or, for a small percentage, their educational attainment was unable to be determined).

It is evident that individuals with qualifications have superior labour market outcomes. Cully (2005) found that those with non-school qualifications are more likely to be employed, and more likely to be working in a full-time job. This is true for both men and women, and for any age group. However, much is dependent on the level of qualification. Individuals with university degrees or higher qualifications had the best employment outcomes, followed by those with a certificate level III or IV qualification. Those with a certificate level I or II qualification generally did better than those who had no non-school qualifications, although differences were small.

In relation to earnings, Cully found that those holding degrees earn the highest wages (see table 1). There are also considerable gains for diploma holders and those who have completed a certificate level III or IV qualification. In contrast, lower-level vocational qualifications have no discernible effect on earnings for men, although they earn a small return for women. In fact, the results show that some people are worse off if they go on to complete a certificate level I or II after having completed Year 12. High school Year 12 levels appear to matter more in terms of wage premiums than lower-level vocational qualifications.

**Table 1: Wage premium of qualification holders relative to non-school completers, controlling for level of schooling completed**

Highest non-school qualification	Men		Women	
	Year 12	Year 11 or lower	Year 12	Year 11 or lower
Diploma	29.8***	25.6***	22.6***	16.9***
Certificate III/IV	18.5***	11.2***	12.7***	4.1**
Certificate I/II	10.4	5.6	7.0***	4.0**
Certificate nfd	4.8	5.7	13.2***	7.2**
No non-school qualification	14.0***	na	9.3***	na

Notes: \*\*\*, \*\* and \* indicate probability of a zero wage premium less than 1%, less than 5% and less than 10% respectively.  
nfd = not further defined.  
na = not applicable.

Source: Cully (2005, p.48)

In summary, qualifications apparently play a more important part in employers' recruitment decisions than they may be aware. Their views on the value and use of qualifications do not actually match the statistical data on the value of qualifications in the labour market.

## How might VET qualifications be made more relevant to employers?

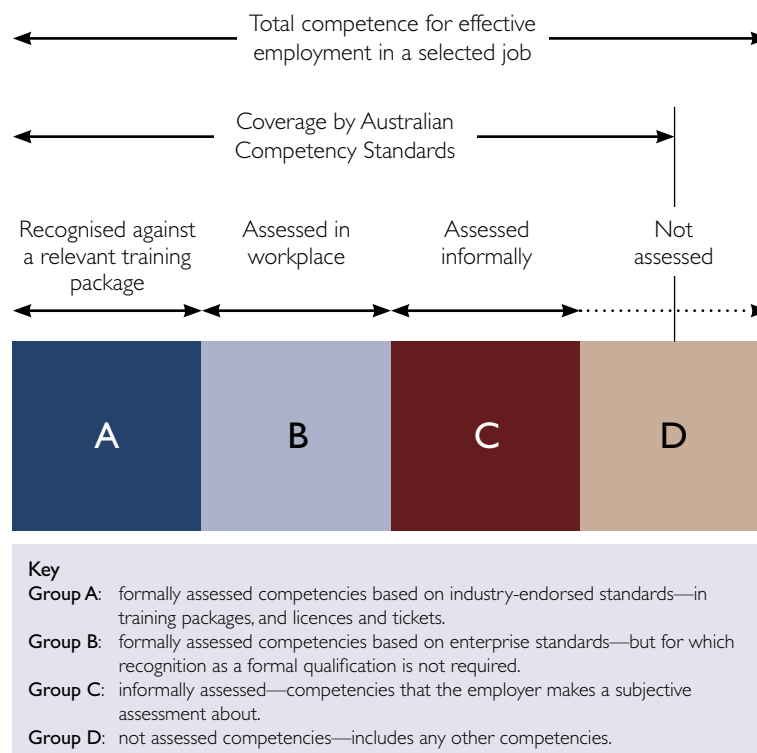
Ridoutt et al. (2005a) set out to determine the relationship between the performance requirements of particular jobs, and the specific part of the competency needed (in the opinion of employers) to be formally recognised. What they found across five different industry sectors is that employers identified a large number of competencies as necessary for jobs to be performed well. Generally, they identified even more competencies than those needed to obtain a qualification at the AQF level appropriate to the job as defined in training packages. There were very few required competencies which were not covered by training packages used by the VET sector:

Thus VET providers need to show employers that existing training packages contain most of the competencies required to perform a job well, to achieve better awareness of the value of a nationally recognised qualification. Providers also need to recognise that many employers believe that only certain competencies require formal assessment and recognition.

Ridoutt et al. (2005a) also found that employers place more value on some competencies than others in terms of whether they need to be assessed. It appears that employers apply a 'risk management' approach, whereby the financial, legal and human consequences of incompetence are weighed against the cost of assessing that unit of competency. The higher the risk appears to be if the particular task is not carried out competently, the greater the assessment effort likely to be committed.

In total, the researchers identified four types of assessment to test for competence but, significantly, only one level actually required formal assessment such as a qualification recognised by the AQF (see group A in figure 3). Although employers endorsed this model, the categories remain arbitrary in many respects, and show that assessment effort in the workplace is continually evolving and being redefined.

**Figure 3: Assessment model**



Source: Ridoutt et al. (2005a, p.57)

As figure 3 shows, only group A competencies are judged by employers as requiring formal recognition. Ridoutt et al. (2005a) estimated these accounted for 16% of all competencies among the 70 jobs considered by the employers included in their study. Group B competencies that are also considered by employers as needing assessment in a structured manner but within their enterprise only comprised a further 43% of all competencies. A further 26% of competencies were assigned to group C: requiring informal, subjective assessment only. Finally, about 16% of competencies that employers identified as being required to do jobs well were considered by employers in need of no assessment.

These researchers also found that, according to employers, competencies could be allocated to two main groups: 'defining' competencies (or those specific to a particular job); and 'supporting' or 'enabling' competencies (for example, more generic, cross-industry, soft skills competencies such as 'provide service to customers' and 'apply quality principles'). Employers specified far fewer defining competencies than supporting competencies as necessary to perform a job.

The size of a business did affect how competencies were assessed in the workplace, with small organisations having higher levels of assessment for enabling competencies, and large organisations assessing more defining competencies.

Keating et al. (forthcoming) also found that employers doubt the usefulness of the specific information provided by qualifications, such as the descriptions of content and skills, and assessment grades. However, they do value other qualities that a qualification seems to imply: the capacity to learn, personal skills and attributes, and important general skills. Therefore, Keating et al. concluded that 'qualifications that can strengthen their signalling capacity for these attributes are likely to be more highly valued by employers'. They also suggest that linking education and training with work and industry experience would seem an obvious way of strengthening the relevance of qualifications.

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An *At a glance* is a synthesis of research focused on a particular topic of interest, drawing on information from various sources.

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