

https://dspace.org/

The Transaction Costs of the South African Levy Grant System for Skills Development

Gregory Lee

https://hdl.handle.net/10539/39822
DHET

Downloaded from a DSpace repository. https://dspace.org/

The Transaction Costs of the South African Levy–Grant System for Skills Development

Gregory Lee
https://orcid.org/0000-0002-2518-3515
Wits Business School, South Africa
Gregory.Lee@wits.ac.za

Abstract

In this article, I seek to explore the ratio between the administrative transaction costs faced by organisations in South Africa for claiming skills development grants and the grants that they achieve. This simple trade-off of costs versus gains is a key factor in whether firms choose to participate in the training-related activities targeted by this system. Anecdotal sources have claimed that excessive administrative costs have led firms to under-claim grants available to them. However, no prior empirical research exists on such costs, presenting a gap in the literature. Accordingly, in this article, I explore the proportion of administrative transaction costs to direct gains in 14 case studies of South African organisations regarding their 2016 activities and expenditures. The results found half of the firms studied to have costs in excess of direct gains from grants. The remaining firms exhibited extreme variability in the cost–gain ratio from very low to near parity. Some evidence suggests that larger firms may enjoy a slight cost–benefit advantage. This research provides some support for the claim that the levy–grant system for skills development may present many organisations with excessive costs compared to gains. The high levels of variability suggest that policymakers should consider cost structures carefully and mitigate policy instruments.

Keywords: levy–grant systems; payroll tax; South Africa; training; skills development

UNISA university of south africa PRESS
African Journal of Employee Relations
https://unisapressjournals.co.za/index.php/AJER
Volume 47 | 2023 | #6736 | 17 pages
https://doi.org/10.25159/2664-3731/6736
ISSN 2664-3731 (Online), ISSN 2709-0426 (Print)
© Unisa Press 2023

Introduction

The South African levy–grant system is a typical example of a targeted payroll tax with the intention of stimulating and financing training within the economy. Such systems, including that in South Africa, usually impose a levy based on a percentage of the payroll. They offer firms incentives for undertaking training-related activities by offering portions of the levy back in repayments (grants in South Africa) or tax exemptions for undertaking defined training activities (Almeida, Behrman, & Robalino, 2012; Dougherty & Tan, 1997; Dunbar, 2013; Gasskov, 1994; Johanson, 2009; Lynham & Cunningham, 2004; Middleton, Ziderman, & Van Adams, 1993; Müller & Behringer, 2012; Stone, 2012; Whalley & Ziderman, 1990). The South African system also includes another element in that it retains a part of the levy for financing the broad industry or national training.

With regard to firms, such systems clearly add administrative costs largely related to the data gathering, recording and reporting required to claim grants which are given for skills development activities, including for instance the costs of hiring staff dedicated to claiming grants, reporting costs such as printing, required equipment such as hardware and software, and the like (for example, Dar, Canagarajah, & Murphy, 2003; Johanson, 2009). It is practically taken for granted that such costs are a substantial factor in firms' decisions regarding whether and how much levy to recapture through grants, however, as discussed below, not much more than this is known about the issue.

Accordingly, in this article, I seek to explore the quantum of the administrative transaction costs that firms in South Africa face for claiming skills development grants, relative to the gain that they achieve. As discussed further below, this trade-off of costs versus gains is a key factor in whether firms choose to participate in the training-related activities targeted by this system. The lack of direct estimation of these cost–gain ratios presents an important gap in the literature.

In the article, I proceed first by describing the South African levy–grant system in more detail and then discuss major issues with this system, notably administrative costs. In the second part of the article, I report the results of 14 case studies in which organisations' administrative costs are studied in a comparative way, with comparison to grant amounts achieved in a specific year. In the final section, I discuss these findings in the light of implications for the system.

Specific Features of the South African Levy–Grant System

The South African levy–grant system for skills development is an important part of the organisational training and development landscape in the country. It has stood legislatively since the late 1990s as a key mechanism designed to incentivise firms to increase their training levels, as well as to raise funding for broader training initiatives such as the National Skills Fund.

The levy–grant system extracts 1% of eligible firms' annual wage bills as an upfront payroll tax, and then offers various classes of grants during the year if the firm proves to its sectoral education and training authority (SETA) that it has fulfilled various prescribed types of training-related activities. These activities include (a) designing and submitting workplace skills plans and skills facilitator assignations (a 20% mandatory grant for proof that these elements have been put in place for the year), and (b) implementing discretionary training activities: 49.5% of the levy is currently reserved for funding such activities, the bulk of which at present is dedicated to the provision of formal qualifications to employees. Some portions of the payroll levy are also given to the National Skills Fund for broader allocation (currently 20%), and the SETA for administrative expenses (10.5% at present). It would therefore be usual for a firm to reclaim less than its levy in grants, although discretionary grants are not necessarily linked to the size of the firm's levy and can therefore hypothetically drive the grants higher than the levy should a firm gain many such grants.

Challenges in the Levy–Grant System

Various challenges have hampered the levy–grant system for skills development since its initial introduction. These include the following two major issues: the transaction costs of the system and the failures of the SETAs. However, in this article, I will focus on the first issue, namely, the transaction costs of the system.

Transaction Costs of the Levy–Grant System for Skills Development

The levy system involves various costs for firms in addition to the potential benefits that policymakers hope will incentivise participation. These costs include costs of paying the levy itself, the administrative transaction costs of claiming grants—which form the focus of this article—and costs associated with any training done in response to the grant incentives (for example, Dar, Canagarajah, & Murphy, 2003; Johanson, 2009).

The levy itself and any associated administrative costs of paying it are essentially sunk costs for firms, as they are compulsory and legally enforced. Of course, the imposition of extra, incremental taxes may have the potential to reduce profits for firms and drive marginal organisations out of the market, but this facet of the levy may be countered by the overall advantages of a more skilled workforce and has not been well studied.

On the other side of the system, the grant reclamation system is optional and potentially deeply affected by the transaction costs of the system. It is these costs that form the focus of this article. These costs include the expenses of facilitator teams for skills development and their activities, such as the labour, time, documentary production, equipment and use of facilities that are dedicated to the task of claiming grants.

Firms that find such costs to be excessive may simply elect not to claim grants at all, therefore not producing the required skills plans and training at whatever levels they

would normally have chosen, or they may choose to claim modest amounts of grants. Largely anecdotal sources have suggested this is indeed happening in South Africa (for instance, Archer, 2010; Field, Musset, & Álvarez-Galván, 2014; Hatting, 2013; Hess & Rust, 2010; James, 2012; Müller & Behringer, 2012) and elsewhere (for example, Gospel & Casey, 2012; Johanson, 2009). From the point of view of the system, the complete or relative non-participation of firms may be suboptimal. The levy–grant system for skills development is designed under the premise that firms provide suboptimal levels of training from a societal point of view, and that the overall externalities of extra training are worth the costs of the system.

To further explore the issue of administrative transaction costs, consider any firm that, having paid its skills development levy, is faced with the decision of whether to participate in claiming grants and to what extent to participate. What are the major decision elements that will drive such decisions?

Note first that the current mandatory grant of 20% for simply producing and registering a skills development plan may in many cases be a straightforward trade-off between the transaction costs of planning, documenting, and submitting the plan and the quantum of the grant. In this regard Field et al. (2014, p. 84) assert the following:

> Bureaucracy may reduce take-up of the mandatory grant. For a company to receive the 'mandatory' grant (20% of the total levy) they need to provide a workplace skills plan and an annual training report. The workplace skills plan is a comprehensive document that should indicate how companies are addressing their training needs, and should be prepared in consultation with employees. SETAs advise that a facilitator should be hired for this task or alternatively the SETAs might assist directly. The annual training report must meet the standards dictated by each SETA. As the procedures are burdensome, about two thirds of eligible companies do not take up the offer. Only 16% of employers were claiming grants out of the 51% of all employers that are eligible.

Having said this, some firms may already have been generating training plans, therefore providing at least a starting point for the requirements of the system, reducing effective incremental costs.

The discretionary grants are more complex, as these involve implementing training activities which have various nuances. Here, the transaction costs also involve planning, often pre-engagement with the SETAs, implementing and documenting activities, and submitting documentation to the SETAs for grants. Once again, at a basic level one may investigate whether at least the grants achieved or expected from the discretionary portion exceed the transaction costs, as an initial guide to whether or not firms will participate. Once again, available but broadly construed evidence suggests that the administrative costs are high (Field et al., 2014).

However, various factors complicate this analysis. Notably, it is to be assumed that training is seen as an investment capable of producing long-term benefits. To the extent

that the training involved is naturally productive, such gains may offset the administrative costs to some extent. However, it is also to be noted that some grant-attracting training may be that which firms would have engaged in without a grant being necessary, in which case the incentive was unnecessary (Archer, 2010; Marock, 2010). In such "repackaging" cases, the trade-off is truly that of grant versus transaction costs. It is only incremental new training stimulated by the system that enjoys the possibility of productive gains that offset the transaction costs. However, again it may not be so simple. The classic economic theory would argue that if such activities were productive many firms would probably have been engaging in them already without the need for external incentives. As a corollary of this point, neo-classical economics would then suggest that training beyond the point that firms would already have chosen naturally creates marginal losses: the incremental productive gain becomes less than the marginal loss such as having workers away from jobs to train. In this case, any incremental training stemming from the levy–grant system is actually loss-making for the firm and the grant-to-cost ratio must compensate for this as well. Arguments therefore exist on both sides of the productivity-offset "isle".

There are several additional complicating factors in the implicit decision equation. One of these is that the levy–grant system is premised on economy-wide externalities of raised skills levels that benefit employers into the future through higher aggregate skills levels, which may also offset costs. Second, participation in the system may garner firms—especially larger organisations—reputational, political or wider benefits aside from sheer productivity issues. For example, black economic empowerment points accrue to certain skills development initiatives (South African Department of Trade and Industry, 2017).

As can be seen, the elements involved in the decision as to whether to claim grants can be a complex and even contradictory mix. In this article, I will seek to explore the simplest question, namely what the proportion is between administrative transaction costs and grants actually claimed by firms. In cases where the transaction costs exceed the grants, the training involved would have to offset such losses with increasingly substantial productive gains or other gains such as BEE points. The lower the proportion of costs to grants falls below parity, the more benefit the system is rendering firms quite aside from other considerations. In usual cases, policymakers would hope the cost-to-grant proportion to be between zero and one without approaching either extreme in most cases, allowing for costs to comprise a portion of the grant gains without being overly trivial or excessively large. However, in the light of the many sources that have anecdotally suggested high costs, in this article, I expect more variability and the possibility of some firms facing adverse cost–benefit ratios. Two research propositions are therefore discussed below.

Research proposition 1: The proportion of administrative costs for skills development to grants claimed will be variable with high proportions for some South African organisations.

The quantum of these proportions has not been studied before, and given its likely importance in the ultimate decisions of firms the contribution of this knowledge may be valuable to policymakers.

The Empirical Importance of Estimating Transaction Costs

A related challenge with not possessing empirical evidence on the quantum of the levy–grant transaction costs is the commensurate inability of policymakers to design incentives capable of stimulating new training, as noted above. For instance, Lee and Davison (2018) present a model capable of empirically guiding policymakers as to minimal grant amounts required to stimulate substantial new training, based on existing knowledge of training levels in firms. However, they note that knowledge of transaction cost proportions in the system would substantially improve the ability of policymakers to "fine-tune" the design of levy–grant systems. The current article, therefore, has a specific empirical contribution over and above the mere presentation of proof regarding transaction cost levels being high or variable.

The Role of Firm Size

One further factor exists in the trade-off of gain and cost, namely firm size. It is widely acknowledged that size-related factors such as scales of economy render larger firms more able to harness the efficiencies of both training and systems such as the levy–grant framework for skills development (for example, Dar, Canagarajah, & Murphy, 2003; Lee, 2012; Johanson, 2009). For instance, bigger organisations are more likely to have had dedicated training officers who can naturally assume the positions of skills development facilitators, more likely to have needed training needs analyses and plans which could be harnessed as raw material for the documentation needed for the mandatory grant, and more likely to have extant training programmes that could be adapted to qualify for discretionary grants. It is therefore expected that the proportion of administrative costs to grants may be better for larger firms:

Research proposition 2: Larger firms will have lower cost–benefit ratios in the claiming of skills development grants

The investigation of the quantum of administrative transaction costs and the proportion of such costs to grant claimed is achieved through 14 case studies, as reported in the field study section below. Before this, however, one further set of issues with the skills development levy–grant system merits mention.

Failures of the SETAs

A further set of problems with the skills development system which have been identified by many commentators (for example, Field et al., 2014; Marock, 2010) involves failures

of the SETAs. Although not part of this article, these are important to mention. The SETAs are responsible for receiving the lion's share of skills development levies, overseeing sectoral training standards and overall aims, receiving the workplace skills plans of firms, assessing progress in the light of these plans, and disbursing grant monies accordingly. They also design sectoral-sensitive discretionary training plans, offering and disbursing additional discretionary grants according to these aims.

Alleged SETA failures have ranged from outright fraud and plundering of the levy monies (Kabizokwakhe, 2012; Mail & Guardian, 2007; Phakathi, 2017; Tech Central, 2017) to more mundane accusations of poor administration and failure to proactively identify and drive appropriate and cutting-edge skills requirements (Allais, 2012; Erasmus, 2009; Kraak, 2004; Marock, 2010). One example is a complaint by Business Unity South Africa that the SETAs were not paying mandatory grants in accordance with legislative requirements, as reported on the website of the South African Department of Higher Education and Training on 29 September 2016. As noted above, these issues do not form the focus of this article, although to the extent that they are true such failures will also reduce the efficacy of and buy-in in the levy–grant system for skills development. If the ability of the SETAs to pay grants is seen as compromised or the like then firms would be less likely to participate and would potentially count such risks as a cost element.

Methodology

Respondents

The selection of the case sites was achieved on a purposive, non-probability basis. I performed a LinkedIn search for all South Africans identifying their current roles as skills development facilitator for an organisation. These individuals were then contacted through the LinkedIn app to request their participation in the study. A total of 267 individuals were initially identified and contacted, and 24 responded to the request and initially agreed to participate in the study. Of these, 10 decided not to complete participation upon further consideration of the types of data requested. As noted above, 14 organisations finally agreed to participate. Participation involved providing a list of standardised data pertaining to the 2016 tax year and being invited to comment on costs associated with the grant system for skills development that fall outside of the standardised list. The respondents were offered the option of giving data pertaining to the entire organisation or a part (division or business unit) thereof, if desired.

Purposive sampling has the advantage of directly targeting the most relevant individuals. As discussed further in the limitations section, the specific reliance on LinkedIn does create the potential for sample bias, as it narrows eligible respondents to those using this platform and with access to the internet. However, purposive sampling of this nature allows for deliberative sampling that reaches the relevant group in an efficient manner, whereas few other centralised databases for skills development

facilitators exist aside from SETA registrations, which are not made available to the public.

The profile of the organisations with regard to industry and size (by employee numbers) is presented in Table 1. Note that when providing figures such as employment numbers, the respondents were offered the option of rounding to the nearest thousand or other sensible unit for ease: many respondents took this option, accounting for the round number seen in Table 1.

Table 1: Respondent profiles

Broad Description of Organisation	**Number of Employees Reported On**
A banking group	3 800
A hospitality and gaming company	3 600
A financial services company	3 000
A logistics company	1 500
A private training institute	698
A hotel chain	600
A legal services firm	390
An aluminium producer and supplier	340
A facilities management company	300
A local municipality	49
An automotive supplier	18
A private training institute	11
A governmental agency in the higher education sector	9
A representative organisation for the building industry	4

The respondents were offered anonymity within the study, which most affirmed as highly desirable. Subsequent references to the results will therefore anonymise organisations such that the results are not linked to the descriptions above, which in some cases could be used to deconstruct the identity of the organisation.

Measures

The essential measures for this study involve the grants received by organisations and the total administrative transaction costs associated with the claiming of those grants. In addition, as noted earlier in the article, firm size is studied as a factor. As noted above, the respondents were offered the option of rounding to the nearest sensible unit for ease; many respondents took this option.

Grants Received

The skills development facilitators were asked to give a single financial figure for grants received, although some stipulated the split between mandatory and discretionary grants, in which case these figures are summed.

Administrative Transaction Costs

Multiple categories of administrative transaction costs were measured as follows:

- Costs of skills development facilitators. The respondents were asked to provide the number of staff directly involved in skills development facilitation, the average salaries of skills development facilitators in their context, and the percentage of time the average skills development facilitator spent on grant claiming activities (given that such staff may also undertake other activities such as training design or evaluation, which are not directly germane to grant claiming). The product of these terms is then used as an approximation of the salaried costs relating to claiming grants.

- Equipment. The respondents were asked to estimate the total value of the equipment used by the skills facilitator team, which was again multiplied by the percentage of time spent by the team on claiming grants.

- Report production. The report production costs were also studied. In one question, the respondents were asked to estimate the total number of reams of printing paper used in the documentary production related to grant claims.

- Office space (abandoned). I originally intended to estimate the institutional costs of office space used by the skills facilitation team as part of the administrative transaction costs. However, in the first round of interviews the respondents indicated difficulty answering this question, and initial investigations suggested that firms were not generally able to give per-meter-squared office space costs as expected. Accordingly, this line of questioning was abandoned.

- Respondent-led cost items. A final set of questions first invited the respondents to list any other cost items they associated with grant claiming activities, and then asked the facilitator to estimate the annual costs for each. Only some respondents added items, which included travel and accommodation, catering for related meetings, and telephone use. Where these costs were listed, they were included in the total function cost.

Generation of Cost–Benefit Ratio

The cost–benefit ratio was thereafter estimated as net costs divided by the grant amounts received in the 2016 year.

Firm Size

The respondents were asked to indicate their firm size as a function of the numbers of employees (full-time equivalents (FTEs)), the total annual wage bill. The wages per FTE was then also calculated as a possible factor.

Analysis of Data

The analysis strategy for the data is simple: cost–benefit ratios will be reported as descriptive statistics and the distribution assessed. The relationship between the cost–gain ration and firm size is analysed with Pearson and Spearman correlations, which for such as small sample can only be thought of as exploratory at best.

Results

Quantum and Distribution of Levy Transaction Costs for Skills Development

Table 2 presents the results of the basic analysis of cost–benefit ratios for the 14 organisations assessed.

Table 2: Cost–benefit ratios for case organisations

Organisation	Approximate Grants Claimed, R	Total Function Cost, R	Cost p. Rand Claimed, R (%)
A	53,000	134,000	2.53 (253)
B	75,000,000	3,724,000	0.05 (5)
C	340,000	300,000	0.88 (88)
D	1,000,000	1,238,760	1.24 (124)
E	370,000	250,000	0.68 (68)
F	342,324	322,000	0.94 (94)
G	144,851	395,500	2.73 (273)
H	750,000	183,750	0.25 (25)
I	2,000,000	253,500	0.13 (13)
J	12,000,000	275,000	0.02 (2)
K	1,766,969	2,018,000	1.14 (114)
L	50,000	510,400	10.21 (1021)
M	60,153	190,850	3.17 (317)
N	260,000	464,533	1.79 (179)

Note: The respondents from organisations A, B, C, D, E, H, I, J, L and N elected to round their figures to the nearest large number for ease of calculation.

As can be seen in Table 2, of the 14 organisations studied, half (seven) reported annual transaction costs in excess of total grants claimed. One (firm L) reported administrative costs 10 times that of grants claimed. A further organisation (F) reported costs near parity with grants, with expenses at 94% of grants. In contrast, organisations B, I and J reported costs at a low percentage of grants (at 5%, 13% and 2%, respectively). The minority of organisations reported costs at a mid-range of grants, and these three organisations also reported wide ranges from 25% to 88%.

These results seemingly provide support for Proposition 1, because the cost–gain ratios are variable and in many cases in fact prima facie unprofitable for firms.

Association between Firm Size and Transaction Costs

Correlations were assessed between the size of the firm (as indicated by both FTEs and the wage bill) and the transaction cost amounts. Because the cost–gain ratios and firm sizes contain extreme outliers, both the natural log and ranked results are also included for comparison. Table 3 contains the correlation matrix.

As can be seen in Table 3, there is some evidence for association between size of the firm and cost–gain ratios in the skills development function, although correlations in this regard are moderate or modest. As expected, the correlations are negative so that bigger firms enjoy somewhat better cost to gain ratios. With regard to the FTEs, the bulk of the correlations are in the −.20 to −.30 range, with the largest being $r = -.30$ between the FTEs and the logged cost–gain ratio. With regard to the wage bill, somewhat more correlations lie in the .30 to .39 range, with the highest being that between the log of the wage bill and the raw cost–gain ratio ($r = -.38$). This would seem to provide tentative moderate support for a negative association and therefore for Proposition 2.

Table 3: Correlations between the cost-to-benefit ratio and firm size variables (raw, logged and ranked data)

Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1 Total function cost	1.00											
2 Cost–gain ratio	−.17	1.00										
3 FTEs	.17	**−.24**	1.00									
4 Wage bill	.15	*−.22*	.73	1.00								
5 Wages per FTE	−.17	−.30	−.28	.12	1.00							
6 Log FTEs	.09	**−.10**	.79	.42	−.58	1.00						
7 Log wage bill	−.11	*−.38*	.64	.78	.29	.49	1.00					
8 Log cost–gain ratio	−.32	.71	**−.30**	*−.22*	−.27	**−.17**	*−.31*	1.00				

Variables	1	2	3	4	5	6	7	8	9	10	11	12
9 Log wages per FTE	−.08	−.24	−.22	.33	.87	−.55	.46	−.33	1.00			
10 Rank FTEs	.13	**−.14**	.86	.53	−.54	.98	.50	**−.20**	−.51	1.00		
11 Rank wage bill	−.17	*−.30*	.57	.81	.30	.43	.98	*−.28*	.51	.44	1.00	
12 Rank cost–gain ratio	−.27	.75	**−.27**	−.18	−.29	**−.26**	−.30	.95	−.30	**−.28**	−.26	1.00
13 Rank wages per FTE	−.09	.11	−.10	−.61	−.51	.19	−.64	.29	−.81	.19	−.69	.19

Note: Correlations pertaining to FTE and cost-gain ratio combinations are in bold, those with wage bill are in italics, and those with wages per FTE are underlined.

Finally, the wage bill per FTE also has largely negative correlations with cost benefit ratios, with quanta similar to that of FTEs and the largest effect being $r = -.30$ in two cases. This again suggests some, albeit modest and tentative, support for Proposition 2.

Discussion

In payroll levy systems designed to boost organisational training, the ratio of administrative transaction costs to potential benefits is a critical determinant of the willingness of firms to engage in the process of claiming benefits (for example, Dar, Canagarajah, & Murphy, 2003; Johanson, 2009). In this article, I sought to explore this ratio in a small sample of South African case studies.

The results indicate a surprisingly wide variety of findings from the year under review, in which half of the cases had cost–benefit ratios higher than one, indicating prima facie unprofitable skills development functions. It is possible that other benefits discussed in the literature offset such initial losses, including the productive benefits of training done or reputational and potential gains from participating. However, there are several arguments suggesting why offsetting benefits will compensate for basic losses. As discussed in the literature review, firms may be essentially repackaging existing training for grants (Archer, 2010; Marock, 2010), in which case there is no further productivity benefit. Even in cases where firms undertake new training they would not have naturally chosen to do in the absence of an incentive, in many cases the classic economic theory may argue that the very fact that organisations were not choosing to do this training suggests that it was not marginally productive in the first place, although policymakers may argue the opposite based on arguments of market failure (Gospel & Casey, 2012).

The other half of the firms had ratios in the expected range between zero and one, although two were high at near to 90% cost-to-grant ratio making them essentially similar to the prior cases. In addition, some firms reported very low cost-to-grant ratios. Perhaps the most important point in this regard is to note the sheer variability in the findings, with little similarity. Such variability perhaps speaks to uncertainty by

organisations regarding the ways in which to best arrange and organise their skills development administration; this may also be affected by relatively frequent tinkering in the system by government.

A further question investigated the proposed negative association between the cost–benefit ratio and firm size, as suggested by many sources (for example, Dar, Canagarajah, & Murphy, 2003; Johanson, 2009; Lee, 2012). Correlational analysis does tentatively suggest such a negative correlation, although this conclusion cannot be definitely made with such a small sample size. In sum, however, it does seem that to some extent larger firms, and those paying larger wages per FTE enjoy somewhat lower cost–benefit ratios. As discussed, larger firms may enjoy scales of economy, prior organisational structures that can be adapted, and the like.

Implications and Limitations

Implications for Policy

Were these results to be indicative of broader organisational activity then they should have profound consequences for policy. Systems such as the levy–grant structures for skills development rely on organisations facing a feasible incentive structure including their basic administrative costs versus gains. If it is indeed the case that a good many organisations face prohibitive ratios in this simple regard and if it were a trend to that is repeated, then we would expect to see either declining organisational interest in claiming grants or the system would have to manufacture or offer additional incentives, such as future discretionary grants of a sizable quantum or reputational benefits. In the cases indicating adverse cost–gain ratios in this study, it is perhaps the promise of these other benefits that keeps such organisations in the system.

Certainly, this research suggests that policymakers should rethink the administrative costs facing participating organisations. One feasible response could be to reduce such costs, for instance by streamlining and automating the reporting systems (for example by creating online reporting systems capable of inputting and processing claims on an ongoing basis and using training supplier inputs to reduce trainee organisation requirements to obtain information from suppliers). Another option would be to ensure that grants, especially mandatory grants, are capable of covering the basic administrative costs of firms. Unfortunately, this research suggests that this tactic would require either a rise in the levy or a reallocation from other uses for the levy money.

In addition, the advantages faced by larger organisations suggests that policymakers may consider special concessions for smaller firms, such as waiving certain reporting requirements or adding to the help small firms can access in the process of claiming.

Limitations and Implications for Further Research

With regard to the study design, several limitations exist that could be dealt with by future research. The research here was cross-sectional, focusing on only one year of organisational activity. Although informative, it therefore lacks a sense of the flows of gains and costs over time in firms, which future research could include. In addition, the study was designed as a self-report exercise by skills development facilitators, opening the reporting to risks such as poor recall. This methodology provided relative ease to the respondents and allowed for flexibility in the reporting (for example, where the respondents could include associated costs if they wished). However, future research in this area could consider attempting to gather actual receipts of grant and cost categories.

The sample for this study relied on a social media source (LinkedIn) for its sampling frame, which limits the respondents to those who have created such sites. This design does not therefore promise a representative sample. Instead, future researchers could consider attempting to contact registered skills development facilitators with the SETAs; however this information may not be released by these organisations.

Finally, the focus of the research was on grant, cost and size variables only. The study did not attempt to include outcome variables such as organisational trust in the skills development levy system, or intentions to keep claiming, and also did not measure antecedents such as general capabilities of the organisation's HR system or attitudes towards staff training in general. Future research could conceive of a nomological network to test in this regard.

Conclusion

Incentive programmes such as the levy–grant system for skills development rely on design that does not deter participation by targeted organisations. Unfortunately, this research suggests tentatively that too many organisations may suffer from higher administrative costs relative to grants than is perhaps desirable. Although based on a small number of cases, the stark findings here suggest that more work needs to be done in the design of the skills development system.

References

Allais, S. (2012). Will skills save us? Rethinking the relationships between vocational education, skills development policies, and social policy in South Africa. *International Journal of Educational Development*, *32*(5), 632–642. https://doi.org/10.1016/j.ijedudev.2012.01.001

Almeida, R., Behrman, J., & Robalino, D. (Eds.). (2012). The right skills for the job? Rethinking training policies for workers. The World Bank. Retrieved from https://doi.org/10.1596/978-0-8213-8714-6

Archer, S. (2010). Key issues in the assessment of SETA performance in South Africa's national skills development strategy (Working Paper 52). Cape Town: Southern Africa Labour and Development Research Unit, University of Cape Town. Retrieved from http://opensaldru.uct.ac.za/handle/11090/65

Dar, A., Canagarajah, S., & Murphy, P. (2003). Training levies: Rationale and evidence from evaluations. Washington, DC: World Bank. Retrieved from http://siteresources.worldbank.org/INTLM/Resources/TrainingLevies.pdf

Dougherty, C., & Tan, J. P. (1997). Financing training: Issues and options. *International Journal of Manpower*, *18*(1/2), 29–62. https://doi.org/10.1108/01437729710169283

Dunbar, M. (2013). Engaging the private sector in skills development. Health & Education Advice and Resource Team. Oxford: Oxford Policy Management. Retrieved from https://educationinnovations.org/sites/default/files/Private%20Sector%20Skills%20Development%20Final%20draft.pdf

Erasmus, J. (2009). The identification of scarce and critical skills in the South African labour market. In J. Erasmus & M. Breier (Eds.). *Skills Shortages in South Africa. Case Studies of Key Professions* (pp. 22–33). Cape Town: HSRC Press.

Field, S., Musset, P., & Álvarez-Galván, J. L. (2014). *A skills beyond school review of South Africa*. OECD. https://www.oecd.org/education/skills-beyond-school/ASkillsBeyondSchoolReviewOfSouthAfrica.pdf

Gasskov, V. (1994). *Alternative schemes of financing training*. Geneva: International Labour Office.

Gospel, H., & Casey. P. (2012). Understanding training levies: Evidence report 47. Rotherham, UK: UK Commission for Employment and Skills. Retrieved from https://dera.ioe.ac.uk/15033/1/evidence-report-47-understanding-levies.pdf

Hatting, S. (2013, January 14). New SETA grant regulations cause for concern. *The Skills Portal*. https://www.skillsportal.co.za/content/new-seta-grant-regulations-cause-concern

Hess, A. A., & Rust, A. A. (2010). The constraints SMMES experience whilst attempting to recover skills levies from the W&RSETA in South Africa. *African Journal of Business Management*, *4*(17), 3691–3696. Retrieved from http://digitalknowledge.cput.ac.za/bitstream/11189/5500/1/Rust%20AAB%207%20The%20constraints%20SMMES....%20South%20Africa%2027022017.pdf

James, S. (2012). The skills training levy in South Africa: Skilling the workforce or just another tax? Skope Issues Paper 19. Cardiff, Wales: Cardiff University. Retrieved from http://www.skope.ox.ac.uk/?person=the-skills-training-levy-in-south-africa-skilling-the-workforce-or-just-another-tax

Johanson, R. (2009). *A review of national training funds*. Washington, DC: The World Bank. Retrieved from http://documents.worldbank.org/curated/en/893311468178131914/A-review-of-national-training-funds

Kabizokwakhe, M. (2012, September 17). Coffers looted—SETA millions lost to misspending, fraud. *Sunday World*. Retrieved from https://www.pressreader.com/south-africa/sunday-world-8839/20120916/281565172956898

Kraak, A. (2004). The national skills development strategy: A new institutional regime for skills formation in post-apartheid South Africa. In S. McGrath (Ed.). *Shifting understandings of skills in South Africa: Overcoming the historical imprint of a low skills regime* (pp. 116–157). Cape Town: HSRC Press.

Lee, G. J. (2012). Firm size and the effectiveness of training for customer service. *International Journal of Human Resource Management*, *23*(12), 2597–2613. https://doi.org/10.1080/09585192.2011.637065

Lee, G. J., & Davison, A. (2018). Designing payroll levies for firm training. *International Journal of Manpower*, *39*(6), 766–781. https://doi.org/10.1108/IJM-01-2017-0009

Lynham, S. A., & Cunningham, P. W. (2004). Human resource development: The South African case. *Advances in Developing Human Resources*, *6*(3), 315–325. https://doi.org/10.1177/1523422304266079

Mail & Guardian. (2007, April 24). Mismanagement of funds plagues many of SA's SETAs. *Mail & Guardian*. Retrieved from https://mg.co.za/article/2007-04-24-mismanagement-of-funds-plagues-many-sas-setas

Marock, C. (2010). Thinking "out the box" by thinking "in the box": Considering skills development: Challenges and recommendations. Johannesburg: Development Bank of Southern Africa. Retrieved from https://www.dbsa.org/EN/About-Us/Publications/Documents/Thinking%20out%20the%20box%20by%20thinking%20in%20the%20box-%20Considering%20skills%20development-%20Challenges%20and%20recommendations%20by%20Carmel.pdf

Middleton, J., Ziderman, A., & Van Adams, A. (1993). *Skills for productivity: Vocational education and EPT in developing countries*. Oxford: Oxford University Press.

Müller, N., & Behringer, F. (2012). Subsidies and levies as policy instruments to encourage employer-provided training. OECD Education Working Papers, No. 80. OECD Publishing (NJ1). https://doi.org/10.1787/19939019

Phakathi, B. (2017, April 28). Protector targets suspected fraud at AgriSeta. *Business Day*. Retrieved from https://www.businesslive.co.za/bd/national/2017-04-28-protector-targets-suspected-fraud-at-agriseta/

South African Department of Trade and Industry. (2017). Broad based black economic empowerment act. Pretoria: South African Government Gazette. Retrieved from http://www.dti.gov.za/economic_empowerment/docs/BEE-SECTOR_CHARTERS/40407.pdf

Stone, I. (2012). Upgrading workforce skills in small businesses: Reviewing international policy and experience. Copenhagen: Danish Business Authority & OECD. Retrieved from http://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report_Stone.pdf

Tech Central. (2017, August 7). Probe into alleged corruption at ICT SETA. *Tech Central*. Retrieved from https://techcentral.co.za/probe-alleged-corruption-ict-seta/76172/

Whalley, J., & Ziderman, A. (1990). Financing training in developing countries: The role of payroll taxes. *Economics of Education Review*, *9*(4), 377–387. https://doi.org/10.1016/0272-7757(90)90019-2