

# Is there a size-induced market failure in skills training?

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A skilled and educated workforce can support the competitiveness of enterprises of all sizes. However, smaller firms may face greater challenges in developing human capital. This report explores the differences between smaller and larger firms in offering skills training and in hiring workers with more formal education. Drawing on a dataset of enterprises in five Asian countries, the report finds major size-based differences in education and training. While smaller firms train less, they also are less inclined to view an inadequately skilled workforce as a major constraint on their operations. It may be that smaller firms are content to occupy niches in a low-skills equilibrium. The empirical results do offer the possibility, however, that a size-induced market failure in skills training may coexist with a lower regard for skills. The policy implications are not only that governments can reduce the costs for firms to train, but also that micro and small firms need to be sensitized to the benefits of skills upgrading.

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