Investors in People –
A preliminary assessment of competition effects of government subsidy

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2006

"Competition is the process of rivalry between firms that helps markets to function effectively, rewarding efficient firms that direct resources to the use most valued by consumers. If firms are not rewarded for making the right decisions, or are rewarded despite making the wrong decisions, then resources will be used inefficiently. This gives rise to a cost to the economy……

The provision of a subsidy to a firm will impact on the cost structure of the recipient and will usually be expected to alter firms' behaviours and affect overall market outcomes. In some cases, a subsidy will be designed to address a market failure and can lead to better functioning markets. However, in some situations there will be detrimental effects on competition and therefore also on consumers."

UK guidance on how to assess the competition effects of subsidies
Office of Fair Trading, January 2006

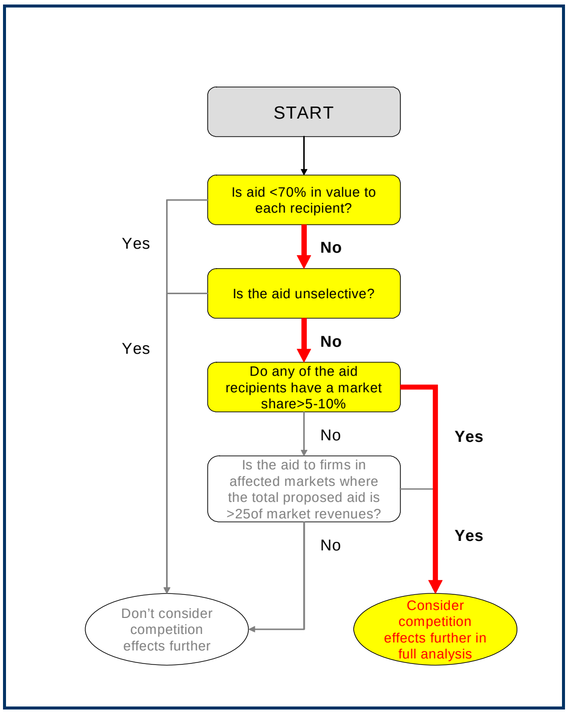
Overall conclusion of paper
The summary of this review is that, given the overwhelming evidence, the OFT should undertake a further 'full analysis' of the competition effects of the Investors in People subsidy.

Introduction

This paper undertakes a preliminary investigation into the likely competition effects of Investors in People UK receiving government subsidies, utilising the frameworks established by the Office of Fair Trading (OFT). It is divided into two parts: section I provides an introduction to the Investors in People UK and relevant context. Section II provides details of the preliminary assessment of competition effects.

In accordance with OFT guidance we have followed a number of key steps in the process of assessment. These include:

- Defining subsidy
- Defining the market
- Employing the SSNIP 'hypothetical monopolist test'[1]
- Factors of competition distortions[2]
- Allocative efficiency
- Productive efficiency
- Dynamic efficiency
- Filter process (see diagram below)



[1] Market definition: Understanding competition law, Office of Fair Trading, December 2004
[2] See www.oft.gov.uk/business/market+studies/subsidies.htm & UK guidance on how to assess the competition effects of subsidies, Office of Fair Trading, January 2006

In a previous paper[3], a review of available research regarding the Investors in People (IiP) Standard was undertaken. Included in the findings, were a number of issues and questions regarding its effectiveness against its remit, its operating model and the potential market distortion as a consequence of government funding.

For the purposes of this preliminary assessment relevant background information and review findings are reproduced here where appropriate.

Findings of the ISHCM review paper

The recent critical study undertaken by the International School of Human Capital Management[4] reached the following conclusions:

- Available research indicated that there was little evidence that Investors in People accreditation led to tangible commercial benefit, and therefore the claim that it is a business improvement tool is open to question and potentially without foundation

- It was difficult to substantiate IiP's claim that accreditation as an Investors in People organisation has any practical value for organisations

- The Standard was not a sufficiently robust vehicle for organisation development (and in fact can be misleading) though this was the prime marketing message to organisations

- Organisations attempting to comply with the Standard run the risk of misdirected investment and/or potential over-investment

[3] Investors in People: An emperor with no clothes? Higgins N J & Cohen G, International School of Human Capital Management, 2006

[4] Investors in People: A critical review and evaluation of the Standard with regard to its commercial application in organisations, Higgins N J & Cohen G, International School of Human Capital Management, 2006.

- The current iteration of the Investors in People Standard (10 indicators) does not appear to have any material business case and therefore casts doubt on the degree to which it links to business performance

- The process of assessment raises many questions around the degree of consistency, quality and 'badge value' of the Investors in People award, particularly around underlying assumptions, definitions and individual assessor interpretation

- Given the dynamic nature of organisations and people management, the 3-year assessment cycle is overly long and inappropriate

- Investors in People as a private company receives c. £5m in direct grants and aid, of which £1.8m is spent on marketing, £1.6m on staff and £0.9m on administration

- Since 1997, the organisation has been supported by £32million of public funds, though funding is not assured after 2007[5]

Overall conclusion of the ISHCM review paper

The evidence points to the fact that the Investors in People Standard can be described as a quality standard which has questionable quality and which lacks a consistency of standard.

IiP UK is essentially a marketing agency fronting what amounts to a state-funded monopoly, which has major implications for the HR advisory market, and which we believe was never its original intent.

The evidence casts doubt on the value generated by the £32m of public funds received by IiP UK since 1997 (as an annual grant in excess of £5m); plus the additional funding that is used to subsidise the daily rates of Investors in People assessors and advisers.

[5] Source: Review of Investors in People UK annual reports

I Introduction to Investors in People UK

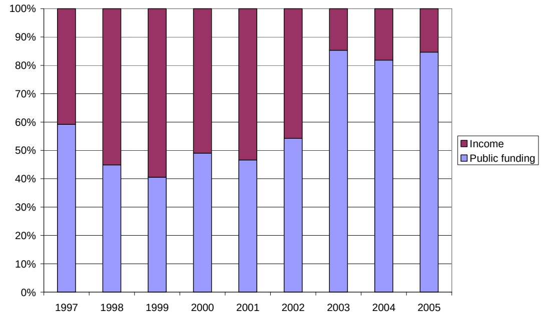
Background

Investors in People UK is a company limited by guarantee that receives funding through the Department for Education and Skills (DfES), which is now in excess of £5million annually. The organisation employs 43 people and has 14 Directors and 3 Observers.

Since 1997, the organisation has been supported by £32million of public funds[6]. This is in addition to any grants and financial incentives made available to companies applying for Investor in People status, through subsidised use of the consultants who assess and work with the organisations that implement the Standard.

This in itself raises several serious issues. Given the extent of the network[7] of IiP advisers, assessors and other associated personnel, IiP is effectively a state-funded monopoly which is distorting the HR advisory market. The Investors in People UK organisation has become increasingly reliant on taxpayer funding for its survival, as the table below shows.

Investors in People UK gross annual income



In the last three years, income from operations has sharply declined, now representing less than one fifth of the organisation's gross income.

This would suggest that the organisation is extremely reliant upon public funding, despite its proprietary status and efforts to license the Investors in People Standard internationally.

The advent of other Standards such as the HCMI[8] now brings into question the whole area of selective subsidised funding. From a competitive standpoint, the subsidised network artificially lowers expectations, within the market-place for similar advice, even where it is demonstrated as superior ('competition effect').

Inspection of the latest accounts (2004-5) provides some interesting findings. Of the c. £5m received in grants and aid, £1.8m is spent on marketing, £1.6m on staff and £0.9m on administration.

This would suggest that IiP is primarily a marketing agency, rather than a standard setter, and creates a large 'barrier to entry' for firms who wish to provide a 'competitor product'.

Investors in People UK delivers the Investors in People Standard and assessment through a regional network of sub-contractors who are largely independent. This structure creates certain issues around quality and consistency.

An independent observer may raise an eyebrow and ask a valid question: is the Standard there to assist employer organisations or to subsidise the large associated network of independent IiP assessors and practitioners, many of whom are 'one-man bands'?

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[6] Source: Investors in People UK annual reports

[7] Over 1500 as stated in the Investors in People UK annual report 2004-5

[8] see www.hcmiglobal.org and www.vbhr.com

Original intention

The original driver for the establishment of the Investors in People standard was a government concern that the UK lagged internationally in terms of both competitiveness, and training & development expenditure.

Following the 1985 report 'Training in Britain', the Investors in People standard was developed during 1990 by the National Training Task Force in partnership with the Confederation of British Industry and The Trade Union Congress.

It was managed by the Department for Education and Employment (now the Department for Education and Skills), and subsequently tested by regional Training and Enterprise Councils, and Local Enterprise Councils.

Investors in People UK remit

The remit of the Investors in People UK organisation, therefore, includes promoting the IiP Standard within the UK and abroad, with the explicit target of ensuring that 45% of the UK workforce is employed by organisations with or working towards the Investors in People Standard by December 2007 (by definition a 'monopoly position').

A document released by the Office of the Deputy Prime Minister in 2005 put coverage of the UK workforce at 29%, implying considerable shortfall against the 2007 target[9] (and still a monopoly position).

Other figures of workforce coverage, however, further complicate assessment and raise concerns.

Given the nature of Investors in People's workforce coverage target as the apparent justification for its existence, its 2005-06 business plan identified issues around the data maintained, leading to Investors in People downgrading their actual workforce coverage from 39.4% in December 2003 to 37.4% in March 2005[10].

In addition to the issues of data quality, external analysis of the degree of take-up of the Investors in People Standard raises further issues:

1. Business units, directorates or even branches within the same organisation can hold Investors in People status individually, thus exaggerating the total number of recognitions, and/or worse duplicating unnecessary process.
    a. For example, one NFP[11] organisation has over **50** 'recognitions', a County Council has **11** separate recognitions, whilst a private sector organisation has **24** related to different branches/units.
    b. Further analysis of the total 'recognitions', indicates there are c.10% duplicated organisational entries[12]out of the total of 39,126.
2. The headline number often presented relates to "committed organisations" – i.e. those who have indicated a (non-binding) commitment to achieving the Investors in People standard within two years. This is not the same figure as "recognised organisations" – i.e. organisations holding Investors in People status. To illustrate this, 35,000 commitments were acknowledged in 1998 but only 8,825 organisations were recognised as holding Investors in People status[13].

[9] Transforming the organisation, improving performance: the local government pay and workforce strategy 2005, paragraph 79. Office of the Deputy Prime Minister

[10] Investors in People UK 2005/06 Business Plan, FINAL, April 2005

[11] Stands for 'Not for profit' organisation such as a charity

[12] Based on sample of 2500 organisational entries - as IIP database does not automatically register multiple entries of same organisation name

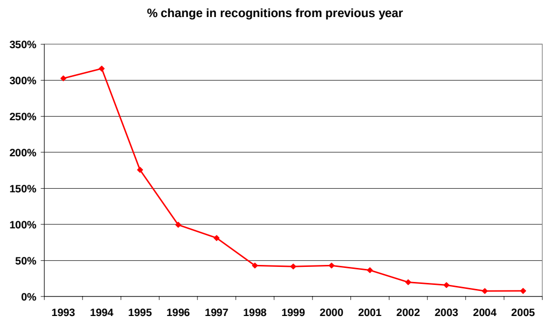
[13] Source: Investors in People Annual Reports

Take-up of the Standard and implications for Investors in People UK

Review of the historic levels of take-up of the Standard sheds light on the potential rationale for recent changes in the Standard and increasing efforts on the part of Investors in People UK to position it not just as a training process assessment but as a business performance tool.

The graph below demonstrates how, from this period, the percentage change in recognitions from the previous year declined (following a steady and consistent downward trend), suggesting that the Standard effectively reached saturation within the market.[14]

Annual change in take-up



This steady decline, representing the characteristics of a typical product 'maturity curve', is problematic for the Investors in People organisation, with the remit of ensuring that, by December 2007, 45% of the UK's workforce is employed by organisations that possess or are working towards Investors in People standard.

As further context on the implications of this decline, an independent academic study concluded that obtaining the Standard became significantly easier between 1991 and 2001[15].

[14] Source: VaLUENTiS analysis and calculations based on data available within Investors in People UK annual reports

[15] How long until we get there? A survival analysis of the Investors in People initiative 1991-2001. Fernandez, R.M., Taylor, S. and Bell, E. SKOPE Research Paper No. 56 July 2005.

Changes to the Standard

Following high levels of consistency over the first decade, since 2000 there have been several wholesale revisions and apparently unwarranted 'extension' of the initial Standard into areas unrelated to training, raising questions both around the ongoing relevance of the Standard, and, indeed, whether the Standard represents a 'standard'.

Given the three years that organisations can take between accreditation periods, it is now possible for two current Investors in People organisations to have been legitimately assessed under different 'versions' of the Standard, calling into question the uniformity of approach and devaluing the nature of any accreditation.

This sustained level of change, both to the Indicators used in assessment for the Standard, and the offering provided by Investors in People, suggests two key themes.

Firstly, whilst it might seem reasonable to review a Standard over a ten or fifteen year time-frame, the pace of activity, with two wholesale changes to the Standard itself within four years, suggests some deeper underlying issue with the validity or usefulness of the construct.

In light of the decline in take-up already identified and collapse of Investors in People UK's commercial income from 2002, this level of activity suggests a reaction to market indifference in the Standard.

Secondly, the evolution of the offering has now moved significantly beyond the training and development arena.

Review of the indicators shows that the original indicators simply assessed the presence of 'best practice' approaches towards training. As an example, "Objectives are set for training and development actions at the organisation, team and individual level".

The 2000 and 2004 indicators and assessment regime have moved away from this factual approach and into the broader arena of HR management. We observe that the underlying theoretical and practical underpinning for such a change is not clear, and accordingly have concerns that the Standard is now described as providing "good practice" in broad areas of people management without any apparent evidence in support of its application in this area.

It would therefore appear that Investors in People UK have arbitrarily changed the Standard to stimulate additional demand in the marketplace.

An independent study into Investors in People accreditation across the 120 local councils holding the award by August 2001 found that 74% of the respondents introduced Investors in People as a result of a corporate policy initiative[16].

This could be interpreted as being an outcome, not of any commercial decision, but of policy guidance and/or indirect governmental influence or suggestion.

As the Standard is not evaluative, but rather a process quality tool (which engenders a 'tick the box' mindset), it becomes difficult to ascribe value to its implementation, questioning the extent to which it should penetrate a particular sector.

> "Perception [exists] that the standard is for smaller organisations, less developed organisations who need basic guidance in people development and public sector organisations with productivity issues (that the standard is seen as 'government controlled' merely adds to the latter perception)."
>
> *Source: Investors in People UK 2004-5 Business Plan, paragraph 4.3.1*

Is there an ongoing justification for the organisation, Investors in People? Why market a standard that the public sector will adopt through policy, and small businesses through grants? If these are the 'users', is the Profile tool necessary? Given current issues around national skill gaps and the questions raised around the organisational relevance of aspects of the current Standard, attempts to promote the Standard as a 'business performance tool' are highly questionable and there is a strong argument for it to be curtailed.

Other, more scientific tools exist to evaluate the linkages between people management practice and organisational performance[17].

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[16] Berry, C. and Grieves, J. '"To change the way we do things is more important than the certificate on the wall": Does Investors in People represent an effective intervention strategy for organisational learning?' *The Learning Organization* Vol. 10 No. 5, 294-304 (2003)

[17] For example see www.vbhr.com and www.hcmiglobal.org

II The preliminary assessment of competition effects

Introductory guidelines on competition

The Office for Fair Trading ('OFT') has recently issued a series of recommendations to guide providers of subsidies in assessing their effects on competition[18].

This builds on an earlier report issued on the same subject[19], incorporating additional research. The report sets out the benefits of competition to the economy:

"Competition, through efficient market, delivers lower prices, more choice and more popular products to consumers ....Moreover, through a constant churn of innovation, competition drives economic growth."

We would interpret this as government acceptance that a healthy and productive economy is based upon appropriate principles of competition.

Subsidies, however, are generally utilised to influence the behaviour of firms and in some cases may be designed to improve the operation of a market, but may also have an adverse impact on competition.

Lack of competition, as stated by the OFT, will reduce choice for consumers and damage the efficiency of the economy as a whole.

Market definition

The purpose of market definition in this context is to be a 'key step in identifying the competitive constraints acting on a supplier of a given product or service[20].'

The market definition provides a framework for competition analysis, particularly with regard to carrying out the 'hypothetical monopolist test' (also known as the SSNIP test).

Technical note on the test:
The monopolist test has been designed from one particular perspective in that it assumes that market monopoly power results in 'supra-competitive' prices, i.e. prices significantly above competitive levels for the purposes of definition.

This test perspective is not adequate for the purposes of this paper, where the converse is more appropriate, i.e. subsidies cause significant 'sub-competitive' prices to occur.

Focal products and focal areas

The 'product' under discussion is the obtaining of a 'people management Standard' which is recognised as an award. To this end the 'product' has several components:

- Advisory services relating to obtaining the Standard
- Assessment services relating to attaining the Standard
- Various support materials
- Supporting infrastructure such as workshops, seminars etc
- More than one version of the Standard and add-on modules

The focal area can be thought of in two ways:

- Geographic
- Organisation/industry sectors/segments

In geographic terms, it is primarily UK though there is an international dimension to this.

In terms of organisation/industry sectors, the Standard is targeted at **all** segments.

For the purposes of this preliminary assessment, there is no further analysis required as it is obvious that market definition is easily determinable (even though the 'test' in itself is limiting).

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[18] UK guidance on how to assess the competition effects of subsidies, OFT829, Jan 2006.
[19] Public subsidies, OFT750, Nov 2004
[20] Market definition: understanding competition law, Office of Fair Trading, December 2004

Factors of competition distortions

Three ways are identified in which subsidies reduce the efficiency of the market. These are set out below with corresponding definitional text. The next section then outlines how these distortions apply to the current subsidy context of Investors in People UK.

- **Allocative efficiency**: where resources are not used in the best way possible. A subsidy which affects an organisation's costs (e.g. by providing cheaper access to a key input) and impacts on the organisation's pricing and output decisions will affect allocative efficiency. Given imperfect markets, the issue here is potentially the exacerbating effect of subsidy.

- **Productive efficiency**: where products may not be produced/ delivered as efficiently as possible.

  This can happen in two ways:

  - Incentives for efficiency are blunted in terms of repeat subsidies which can create a scenario of repeated 'bail out' of organisation failure
  - Encouraging/discouraging market entry/exit in the sense that barriers are strengthened for incumbents who may be inefficient

- **Dynamic efficiency:** subsidies may alter the extent to which innovation is rewarded by the market

Specifically, a subsidy may allow an inefficient organisation to stay in the market despite the fact that is it unprofitable, or reduce the incentive for firms to act efficiently, if they anticipate that poor performance will be compensated for by subsidies.

Investor in People context review

Review of Investors in People UK's annual reports shows that commercial income has formed roughly one fifth of its total income for the last three years, with 80% of its income made up through grants-in-aid.

- **Allocative efficiency**
  - There is certainly evidence that resources are not used in the best way possible in a number of ways, e.g. given evidence earlier, the amount spent on marketing would appear excessive which arguably may have been better spent on other activities.
  - The use of a vast subsidised assessor/advisor network given the overall process raises questions of efficiency and the alternate use of money direct to recipient firms.

- **Productive efficiency**
  - The fact that IiP has had to receive emergency funding in the past is an example of the 'bail out' scenario.
  - The annual subsidy perpetuates the continued delivery infrastructure that may be viewed as inefficient.
  - Further, the subsidy allows IiP to create artificial barriers to entry in terms of high marketing spend and the associated further subsidies. This means that market expectations in terms of HR advice is lower than it should be, effectively creating a barrier to entry from a pricing perspective.
    Repeated annual subsidy for the Investors in People Standard, it can be argued, is resulting in excessive numbers of people being involved in its delivery structure – This last point could also be interpreted as an 'allocative efficiency' effect.

- **Dynamic efficiency**
  - Subsidies may alter the extent to which innovation is rewarded by the market, e.g. if a particular Standard is available at reduced rates through subsidies, any organisation wishing to develop an alternative enhanced Standard will be forced to bear the costs of any research and development, whilst not being able to charge an appropriate rate for the 'Standard' product.

Additionally, the provision of subsidies to organisations adopting the Standard, would appear to be reducing the efficiency of the market, thus resulting in an HR industry that has had its access to leading-edge and innovative products restricted.

Summary of factors affecting the size of the competition effect in relation to Investors in People (IiP)

To gauge the size of 'competition effects' as provided under the allocative, productive and dynamic efficiency tests, the OFT provides a CE factor framework[21].

This framework asks questions specifically around market entry/exit decisions, pricing and output decisions, and R&D output decisions.

The table to the right provides illustration of the potential competition effects of the Investors in People subsidy.

The conclusions raise a number of concerns regarding the competition effect.

Summary of 'competition effect' factors in relation to Investors in People (IiP)

Factor	Competition effect
Magnitude	IiP receives a large subsidy in comparison (£5m direct funds with less than £1m revenue generated). **Result: large competition effect**
Structure of subsidy payments	IiP receives annual payments which effectively keeps the recipient in the market. **Result: large competition effect**
Concentration and product differentiation (symmetric firms)	Given the small number of firms operating in this space, the pricing effects are magnified **Result: Large effect**
Asymmetric firm size	As a direct result of subsidy, the Investors in people dwarfs other competitors and as such continual subsidising provides more advantage and assists in deterring competition. **Result: Large effect**
R&D competition	IiP subsidy does not appear to have been used for R&D apart from a very limited product extension exercise. There has been no attempt to use subsidy to galvanise innovation. **Result: Probable (though hidden) large effect**
Barriers to entry	As already alluded to, the high subsidy that Investors in People receives annually and its carte blanche to spend large sums on marketing provides a large entry barrier for competitive firms. Also, the additional sunk cost and continuing receipt of funds to provide for the support infrastructure creates a big entry barrier to new firms forcing them to spend heavily on R&D as a means to innovate around this barrier. **Result: Large effect**

[21] Annexe C – The effects of public subsidies on competition, Office of Fair Trading, November 2004

Conclusion
We therefore conclude that, on the basis of the distortion effects, Investors in People subsidy is causing a large competition effect.

Subsidy definition

"At the simplest level, any intervention by government that provides assistance to a firm or group of firms is a subsidy."
Public Subsidies, OFT November 2004

However, the OFT point out that this can be interpreted broadly and that there are certain funding provisions which would be excluded on the basis that there are no competition effects.

Thus from a subsidy perspective, Investors in People UK receives funds from the DfES as both direct[22] (grant) and indirect (additional assistance) subsidies

The Market Economy Investor Principle (MEIP)[23] provides a further definition:

"Any public funds provided to public or private undertakings on terms that are more favourable than a private investor would have provided in a competitive environment."

Clearly this is the case for Investors in People.

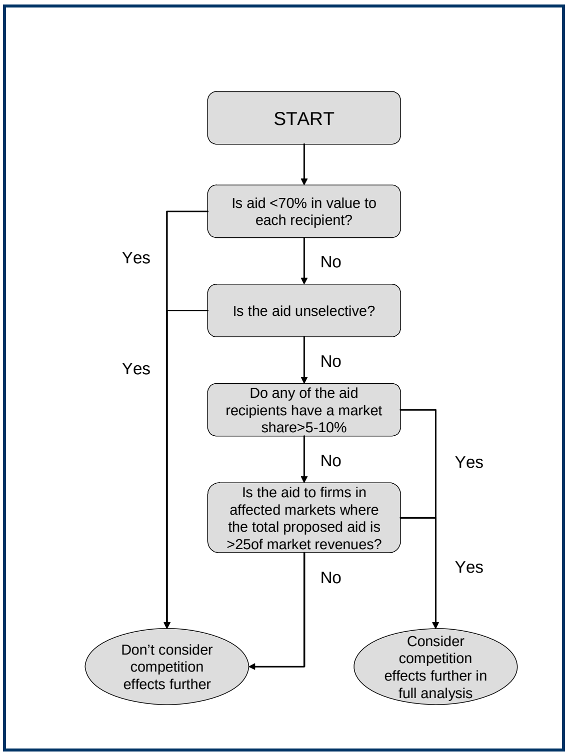
The filter process framework

Having determined the provision of grants and subsidies to the Investors in People UK organisation, the evidence so far suggests that competition effects are in force, and therefore, restricting competition.

Additional guidance is provided on whether the current scenario requires a more full investigation. To this end the OFT's filter process is used - a decision tree (shown below) that provides an assessment framework. The three key tests are:

- Relevant size of the subsidy,
- Selectivity of the subsidy (i.e. how many organisations receive it)
- The market share of the recipients.

Filter process framework



The failing of the three tests provides the OFT with a mandate to recommend a further review to assess the effects of the subsidy on competition in more detail.

A number of additional factors can help to determine whether a particular subsidy is likely to affect competition: for example, a subsidy that is highly selective (provided to certain participants in the market but not others) is more likely to damage competition than one that is not.

[22] Annexe C – The effects of public subsidies on competition, Office of Fair Trading, November 2004
[23] Statement of Requirement For An Academic Study into the Effects of Public Subsidies on Competition, Office of Fair Trading, 2004

Applying the criteria to Investors in People

We are now in a position to assess whether the public subsidy granted to Investors in People UK may be considered to damage competition in the way set out by the OFT, creating artificial 'barriers' to the introduction of any competing or alternate people management Standards or similar products.

The three test application

The tests are applied as follows:

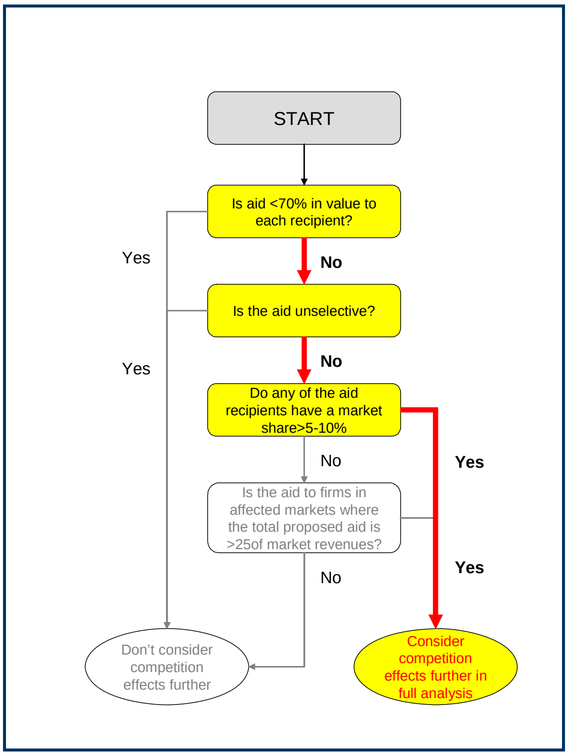
1) **Is aid less than £70,000 in value to each recipient?** The answer is no. According to review of Investors in People UK's annual reports, it receives in the order of £5m each year in direct grants and aid.

2) **Is the aid unselective?** The answer is no. Investors in People is the only recipient of the funding, suggesting a highly selective subsidy process.

   It is possible to envisage a situation where the DfES makes grants available to a number of competing bodies who had each developed relevant Standards, or a tender was held to determine who should receive the grant[24]. However, that is not the current scenario.

3) **Do any of the aid recipients have a market share above 5-10%?** The answer is yes, as Investors in People has been until recently the sole provider of accredited Standards for people management practices[25].

Investors in People – filter process test



On the basis of these tests, we conclude that Investors in People UK, as a commercial entity, meets the proposed criteria laid down by the OFT for further analysis of the effect of its subsidy on competition.

[24] Similar to the franchising/licensing approach adopted to rail operators and the lottery
[25] The size of the market is defined in the same way as for competition law, utilising the SSNIP test.

Reference to the State Aid rules[26]

Under certain European guidelines, there are cases for block exemptions of certain aid as described that, at first sight, may come to the defence of the Investors in People subsidy.

"Three further block exemptions exist, covering SMEs, training and employment on the basis that benefits are seen to outweigh any potential costs from the loss of competition. Each exemption has a specific set of characteristics, in terms of the form of aid that is permitted."

Paragraph B26

TABLE B.1: FORMS OF AID PERMITTED UNDER BLOCK EXEMPTIONS

	Region specific	Sector specific	Firm specific	Unlimited time period	Aid to large enterprises (in all circumstances)	Uncapped intensity[7]	Uncapped total value	Aid to non-assisted areas[8]	Aid to all sectors
Training	✓	✓	✓	✓	✓	X	X	✓	✓
SME[9]	✓	✓	✓	✓	✓	X	X	✓	X
Employment	✓	X	X	X	X	X	✓	✓	X

Source: OFT analysis

For the purposes of State Aid, the Commission defines an SME as a firm that:

- Has fewer than 250 employees
- Has an annual turnover of less than 40m euros (~ £25m); or annual balance sheet total not exceeding 27m euros (£17m)
- Is less than 25% owned by one or more companies not falling within this definition

Quite clearly, this raises some important questions regarding Investors in People, should these exemptions be used as a defence.

- The issue of potential cost against loss of competition is still there and has been answered elsewhere in this paper

- The exemption quite clearly refers to subsidies direct to firms themselves rather than a 'broker' firm such as Investors in People

- There may be mitigating effects if Investors in People is solely based on Training. However, this is not how Investors in People markets itself or the Standard

- The exemption does not cover large organisations - though Investors in People does target these and provides subsidised services for them

- Uncapped intensity – i.e. the proportion of cost that can be subsidised is **not** exempt

- Even if the argument that people management Standards were somehow granted exemption, it still does **not** answer the question of potential tendering for subsidies where there is more than one supplier other than Investors in People

- State Aid is subject to a De minimis clause which stipulates that aid cannot be granted for export related activities[27]. Since Investors in People grant international licenses and a significant part of income for 2004-2005 was generated from South Africa, this also questions the State Aid defence

Thus, the conclusion here is that even given possible grounds of exemption provided by State Aid guidelines, central issues raised regarding competition effects are not satisfactorily answered, and therefore cannot be used as a blanket exemption of the concerns raised in this paper.

[26] Annexe B, Public subsidies, A report of the Office of Fair Trading, November 2004

[27] Source: Annexe B, Public subsidies, A report of the Office of Fair Trading, November 2004. Exceptions include 'attendance at trade fairs, transport, agriculture and fisheries or aid favouring domestic goods over imports'

Conclusions

Through review of OFT guidance, we are led to conclude that that the existence of an incumbent, state-funded monopoly in people management Standards has created a large competition effect.

Our findings are:

- Public funding for Investors in People UK meets the tests set out by the OFT to determine whether a given subsidy has an effect on competition[28]
- Possible exemption under State Aid rules does not provide sufficient defence
- We would conclude that these facts justify further review of the competitive distortion created by Investors in People UK's subsidy
- We would further suggest that public funding of a monopoly provider in this area has stifled the development of a competitive market and innovative approaches in the field of HR and people management standards, (which would ultimately bring significant benefits to companies using these services)
- Should the Government aim to enhance UK productivity through providing funding in support of advisory services and use of a people management standard, a more competitive and efficient approach would be to conduct a tender for all organisations willing to supply this service, rather than directly fund a monopoly
- Equally, if an accreditation tool is seen to add value to organisations, one could assume that they will be willing to pay a commercial rate for the tool, calling into question the need for any state subsidy, and in the process enhancing any effects of state aid, either through more judicious targeting and/or efficiency.

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[28] UK guidance on how to assess the competition effects of subsidies, OFT829, Jan 2006, p.22